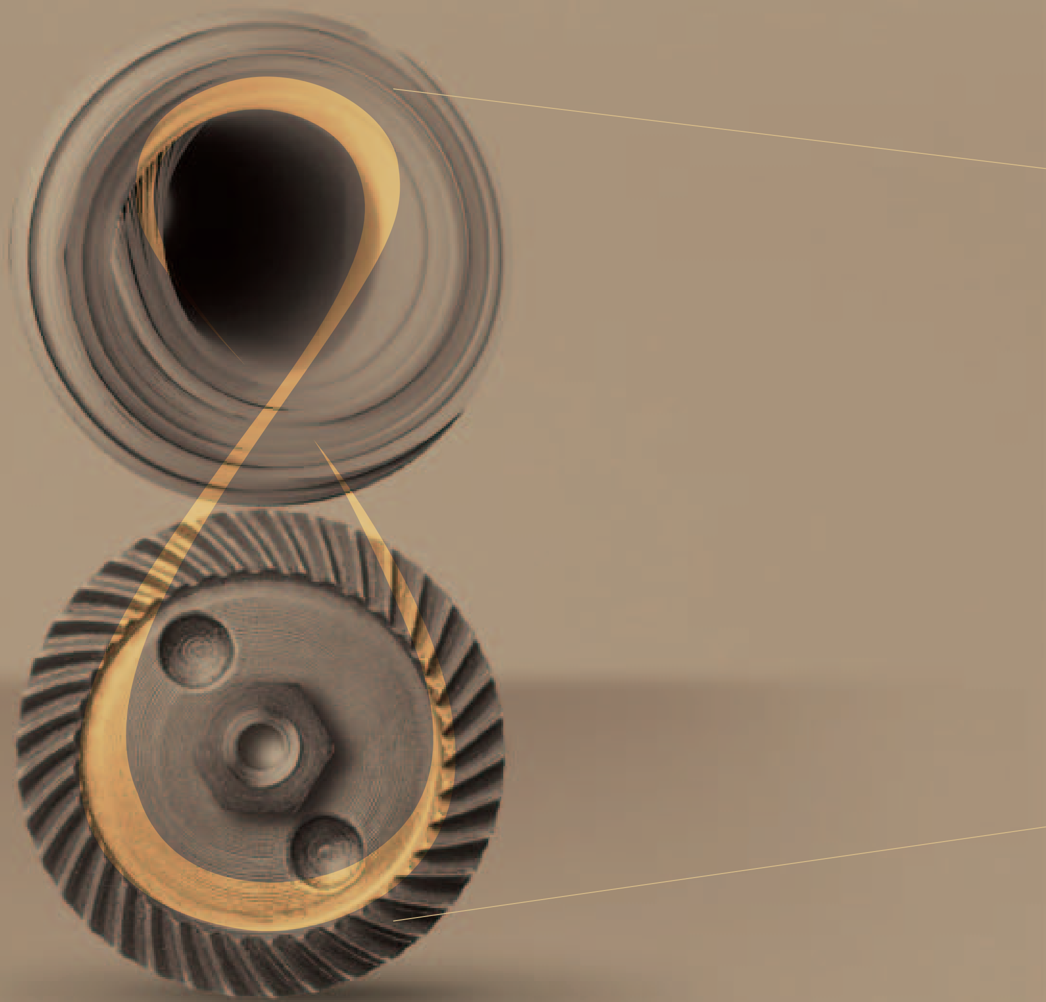
遠東宏信
FAR EAST HORIZON

2012 Annual Report

Incorporated in Hong Kong with limited liability Stock Code: 3360

Gather Global Resources, Share China's Promotion

We gather global resources, dedicate to the needs of our clients, and strive to meet their demand.
Driven by constant innovation, we continue to support our clients by all means.
We promote the development of key industries, to boost national renaissance.



On 20 December 2012, the eighth business segment of Far East Horizon, namely the electronic information business segment was established.
From then on, Far East Horizon has entered another new age.
We see far-flung prospects for our eight business sectors in the future.

Strategizing ahead and Carrying through

Eight industries steer us to

limitless great accomplishments

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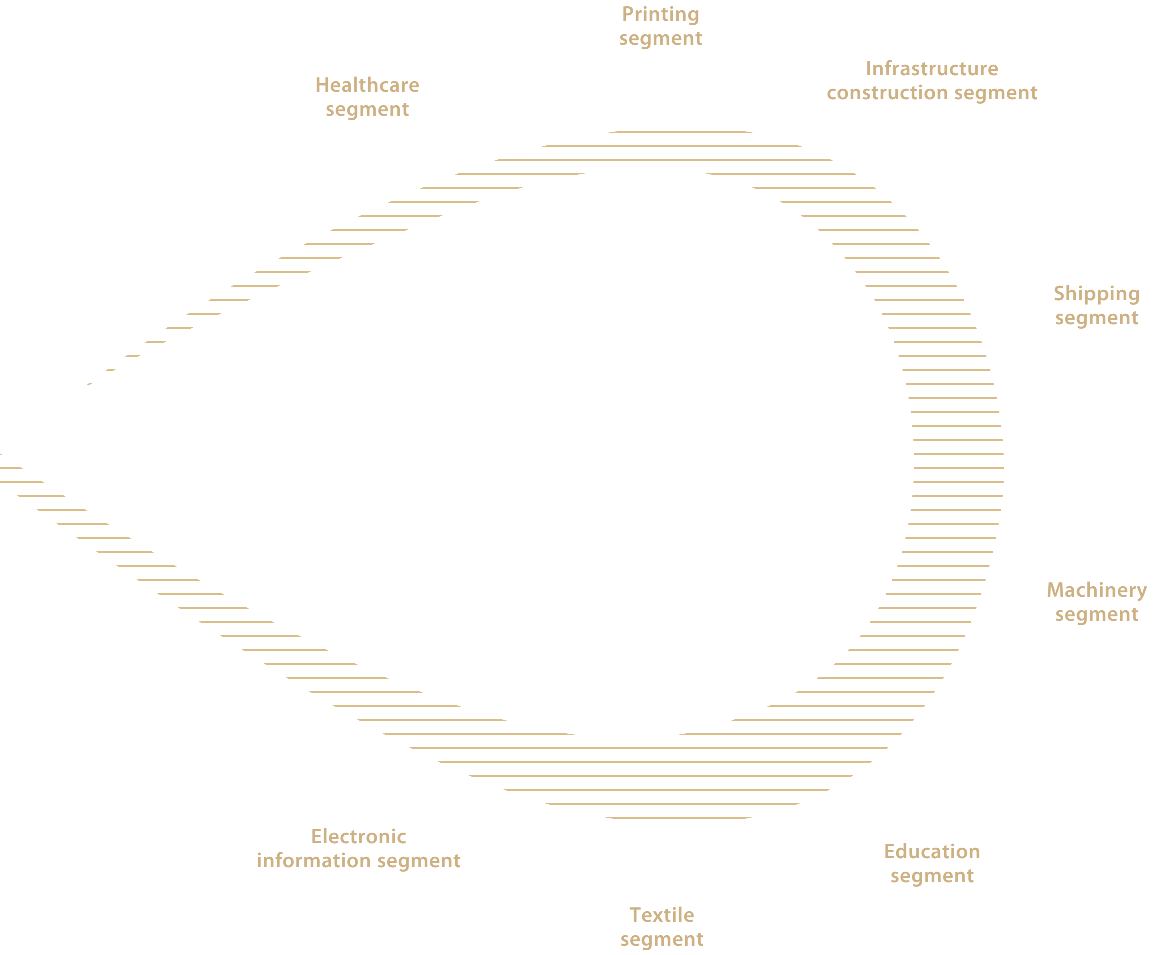

Printing segment
Infrastructure construction segment
Healthcare segment
Shipping segment
Machinery segment
Electronic information segment
Education segment
Textile segment

Corporate Information

Board of Directors

Chairman and Non-Executive Director

Mr. LIU Deshu *(Chairman)*

Executive Director

Mr. KONG Fanxing *(Vice Chairman, Chief Executive Officer)*

Mr. WANG Mingzhe *(Chief Financial Officer)*

Non-Executive Director

Mr. YANG Lin

Ms. SHI Dai (resigned on 18 March 2013)

Mr. LIU Haifeng David

Mr. KUO Ming-Jian (appointed on 18 March 2013)

Ms. SUN Xiaoning (resigned on 25 October 2012)

Mr. John LAW (appointed on 25 October 2012)

Independent Non-Executive Director

Mr. CAI Cunqiang

Mr. HAN Xiaojing

Mr. LIU Jialin

Mr. YIP Wai Ming

Composition of Committee

Audit Committee

Mr. YIP Wai Ming *(Chairman)*

Mr. HAN Xiaojing

Ms. SUN Xiaoning (resigned on 25 October 2012)

Mr. John LAW (appointed on 25 October 2012)

Remuneration and Nomination Committee

Mr. LIU Jialin *(Chairman)*

Mr. HAN Xiaojing

Ms. SHI Dai (resigned on 18 March 2013)

Mr. KUO Ming-Jian (appointed on 18 March 2013)

Strategy and Investment Committee

Mr. LIU Haifeng David *(Chairman)*

Mr. KONG Fanxing

Mr. CAI Cunqiang

Company Secretary

Ms. MAK Sze Man

Authorised Representatives

Mr. KONG Fanxing

Ms. MAK Sze Man

Registered Office

Room 4701, Office Tower,
Convention Plaza,
1 Harbour Road,
Wanchai, Hong Kong

Principal Place of Business in the PRC

35th Floor, Jin Mao Tower,
88 Century Avenue, Pudong,
Shanghai,
the People's Republic of China

Principal Place of Business in Hong Kong

Room 4706, Office Tower,
Convention Plaza,
1 Harbour Road,
Wanchai,
Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited

Principal Bankers

China Development Bank

Bank of China

Auditors

Ernst & Young

Legal Adviser

Paul Hastings

Company's Website

www.fehorizon.com

Stock Code

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code: 3360

Company Profile

Far East Horizon Limited ("the Company" or "Far East Horizon") and its subsidiaries ("The Group") is one of China's leading innovative financial companies focusing on the Chinese infrastructure industry and leveraging the business model of integrating finance and industry to serve enterprises of greatest vitality with the support of the fast-growing economy in China. We provide our target customers in specific industries in China with tailor-made financial services and solutions through financial leasing as well as value-added services covering advisory, trading and brokerage.

Over the past 20 years, the Group has evolved from a single financial service company into an integrated service provider with a global vision centered on China so as to facilitate sustainable economic and social development. With the creative integration of industrial capital and financial capital and with unique advantages in the organisation of resources and value added services, we provide integrated finance, trade, advisory and investment services in healthcare, printing, shipping, infrastructure construction, industrial machinery, education, textiles, information networks, as well as other sectors. The Group, headquartered in Hong Kong, has an operations center in Shanghai, and has offices in major cities throughout China such as Beijing, Shenyang, Ji'nan, Zhengzhou, Wuhan, Chengdu, Chongqing, Changsha, Shenzhen, Xi'an, Harbin and Xiamen, forming a client service network that covers the national market. The Group has been successfully operating its professional and dedicated business platforms in China and abroad in financial leasing, trade, medical engineering, ship leasing, etc.

The Company was officially listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 30 March 2011.

Chairman's Statement

Far East Horizon Limited

Chairman of the Board

LIU Deshu

Dear shareholders,

In 2012, China's economic growth experienced a noticeable slowdown and its economic structural adjustment stepped into a crucial stage as a result of the continued emergence of the far-reaching impact of the global financial crisis. During this time, China continued to open up its financial market. RMB internationalisation and market-based interest rate reform proceeded vigorously in tandem. Therefore, the resource allocation of the financial system gradually shifted to the real economy. Against the macroeconomic backdrop, the financial leasing industry in China grew rapidly, and gradually evolved as an important newly emerged force to serve the real economy. These changes not only brought opportunities for development but also difficulties and challenges to Far East Horizon.

In face of external challenges such as the downturn of the real economy, more intense industry competition and uncertain macroeconomic policies, Far East Horizon always adhered to its operating strategy of "servicing the domestic market, leveraging the real economy, building on the basic industries and focusing on high quality customers" and firmly stuck to the guiding principle of "seeking growth while maintaining stability and further upgrading the inherent quality" in a proactive and innovative manner. For the operation, the Company strived to promote the implementation of its development strategy of "integrated industry operation services". For the management, it actively optimised its internal management system to conduct "integrated operation with authority under control". The Company made significant achievements with record high operating results, thereby fulfilling its promise to all shareholders.

As at the end of 2012, total assets of the Group surpassed US$9.6 billion, up more than 28% from the beginning of the year, thereby further consolidating its development foundation. Net profit surpassed US$240 million, up more than 40% year on year, thereby reflecting sound growth. Apart from the rapid growth, the asset quality was basically stable and the provision coverage ratio was kept steady at a solid level of over 210%, which enabled the Company to fulfill its annual target, i.e. the overall sustained, stable and healthy development. Far East Horizon made remarkable achievements thanks to the hard work of all staff and strong support from shareholders, customers and partners. I, hereby, extend our sincere appreciation on behalf of the Board of Far East Horizon.

Over the past one year, with the consistent target of maximising shareholders' interests, the Board of Far East Horizon continuously optimised the corporate governance level and improved its capability of operation and management. In accordance with the requirements of Code on Corporate Governance Practices of The Stock Exchange of Hong Kong, the Group convened four regular Board meetings in total in 2012 to consider and approve the issues on the annual report, the interim report and the development strategy of the Company. Meanwhile, the Board considered matters relating to the major business development and connected transactions at meetings held from time to time. The Strategy and Investment Committee, the Audit Committee and the Remuneration and Nomination Committee under the Board all fulfilled their rights and responsibilities authorised by the Board in respect of enhancement on internal control level, optimisation of compensation incentives and improvement of corporate governance.

We are entrusted with the great mission of the times and our diligence will create resplendence. In a new year, Far East Horizon, by leveraging its business operation capability gained in the past and adhering to the innovative service mode that "dynamically and efficiently combines industry and finance", will focus on improving the comprehensive operation service capability aiming at specific industries and specific customers and devote itself to fulfilling its ambition of "sparing no effort to be an excellent enterprise" so as to reward its shareholders, business partners and all sectors of community with outstanding operating performance.

Far East Horizon Limited
LIU Deshu
Chairman of the Board

27 March 2013

CEO's Statement

Far East Horizon Limited
Vice Chairman of the Board
and Chief Executive Officer
Kong Fanxing

Dear shareholders,

In 2012, the global economic environment was complicated and volatile, China's economy rapidly slowed down and the external market challenges increased. Under these difficult circumstances, Far East Horizon adhered to its business strategy of "advancing business prudently, improving the inherent quality for development, optimising the revenue structure and preventing and controlling various risks". We generally maintained good development momentum. In accordance with the working principles of "seeking growth while maintaining stability and further upgrading the inherent quality" formulated at the beginning of the year and in pursuit of the development strategy of "organically and effectively blending finance and industry together" as before, the Company was not only realistic and innovative but also determined and aggressive. We kept our promises to the shareholders by recording steady growth in our operating results and continuously enhancing our internal management through scientific organisation and effective implementation.

Hitting a new record in profit scale and maintaining good asset quality

The Group's total assets increased to US$9,637 million as at 31 December 2012, representing an increase of 28.9% from last year. The net profit attributed to shareholders was US$241 million for the year, representing a year on year increase of 40.5%. Total assets continued to expand and profit scale continued to improve. At the same time, asset quality remained relatively stable. The balance of non-performing assets was US$66.03 million and the non-performing loan ratio was 0.73%. The provision coverage ratio continued to remain at a healthy level of 214%. Our ability of resisting risk was further improved.

More optimised industry layout and steadily promoted industrial service

In 2012, we introduced the selective structural advances in our operations. According to the different attributes and development features of the industries we were serving, we focused on advancing the stable industries with weak cyclicity, such as healthcare, education and infrastructure construction and conservatively promoted the relatively cyclical industries, such as machinery, printing, shipping and textiles. The Group formally established the electronic information business at the end of 2012 as we inherited the original industries' operation and management experience and had made in-depth study and exploration nearly two years. The business focuses on developing financial leasing and other value-added services for customers in the domestic information industries, which becomes a new engine for the Group's continuous and steady growth in the future. In general, the Company's assets were more balanced in terms of industry distribution and its revenue structure was more diversified and our ability of resisting the influence of single industry grew stronger.

While concentrating on the industries, the Group met the needs of customers and continued to innovate its products and services by depending on our many years' achievements in the field of traditional financial services. We proceeded to strive to make the existing integrated service of consulting and medical engineering much stronger. Meanwhile, according to customers' needs of working capital in short-term operation, we would provide factoring business for clients after obtaining the qualification of commercial factoring business approved by Ministry of Commerce. This service was a complement to the existing financial leasing products in financing maturity and use of funds. Besides, at the end of 2012, our Group founded a medical management company – 上海宏信醫院管理有限公司, providing consulting services such as financial structure planning, strategic management enhancement and operating efficiency improvement. We improved the ability of comprehensive service to lay a good foundation for the Group's continuous, stable and healthy growth.

Continually optimising customer structure and effectively controlling operational risk

In 2012, we continued to improve the system of risk control. We were strict with industry access, chose industry fragmentation carefully, improved the threshold of the customers and optimised the customer structure. Furthermore, we minimised the risk at the beginning of the asset incorporation. In consideration of the fluctuations of the real economy and severe challenges facing our business operations, the Group increased the degree of monitoring and screening the stock assets, which controlled the operational risk effectively. At the same time, we gradually changed the credit model of the original individual projects into credit control mode for overall customers at asset incorporation in 2012, which effectively improved the efficiency of permission to individual projects of financing lease and the ability of controlling the customer's overall risk.

The increasingly capital strength and more diversified financing channels

We completed the placing and the issue of new shares successfully on 27 March 2012, supplementing the equity capital for the Group's long-term development and strengthening the Company's capital strength. We also constantly improved and expanded the financing channels and financing products. We successfully established a US$1,000,000,000 medium term note ("MTN") program in April 2012 and made withdrawals several times subsequently. We completed a US$200,000,000 financing project of syndicated loan in Taiwan in June, which is a major breakthrough of US Dollar funding in this area. Currently, our company has initially built a compound system of financing of a dual platform home and overseas, across many markets with a variety of financing methods. This can effectively guarantee the Company's development in the future and reduce the Company's financing cost as a whole.

2013 is a turnaround year. We will still adhere to the business strategy of "concentrating on industries with integrated operation" and a prudent risk control policy. We will improve the inherent quality of growth, optimise the customer structure and enhance the integrated services to ensure the continuous, healthy and stable growth of business performance. We will provide all shareholders, our clients and cooperation partners with excellent returns.

Finally, on behalf of all colleagues in the management, I would like to thank the staff for their efforts and contributions in the past year. And I also appreciate the support of every shareholder, client and partner for Far East Horizon.

Far East Horizon Limited
KONG Fanxing
Vice Chairman of the Board and Chief Executive Officer

Business Overview

	Year ended 31 December				
	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Operating results					
Total revenue	**1,030,699**	729,895	326,909	211,362	155,119
Finance leasing and factoring (interest income)	**688,615**	474,028	178,361	107,537	96,791
Advisory services (fee income)	**242,439**	170,199	119,768	89,965	43,441
Cost of sales	**(462,144)**	(342,641)	(117,864)	(74,527)	(65,689)
Interest expense	**(350,919)**	(250,007)	(87,656)	(57,989)	(51,198)
Profit before tax	**329,884**	228,854	133,328	89,365	62,968
Profit for the year attributable to owners of the parent	**241,305**	171,412	103,749	69,073	50,321
Basic and diluted earnings per share (US cents)	**7.59**	6.56	5.45	3.63	N/A
Profitability indicators					
Return on average assets(1)	**2.82%**	3.04%	3.50%	3.96%	4.24%
Return on average equity(2)	**13.69%**	17.13%	25.75%	28.82%	26.45%
Net interest margin(3)	**4.30%**	4.33%	3.18%	2.97%	4.09%
Net interest spread(4)	**3.16%**	2.95%	1.65%	1.21%	2.14%
Service fee income ratio (%)(5)	**40.71%**	41.74%	54.68%	62.60%	46.20%
Cost to income ratio(6)	**33.98%**	32.56%	31.31%	29.40%	34.37%
Cost of credit(7)	**0.71%**	0.77%	0.59%	0.54%	0.42%

Business Overview

	31 December 2012 US$'000	31 December 2011 US$'000	31 December 2010 US$'000	31 December 2009 US$'000	31 December 2008 US$'000
Assets and liabilities					
Total assets	**9,636,509**	7,474,702	3,824,164	2,084,037	1,404,688
Net lease receivables	**9,038,257**	6,524,480	3,657,678	1,971,192	1,350,541
Total liabilities	**7,591,255**	5,998,442	3,296,832	1,808,201	1,201,148
Interest-bearing bank and other borrowings	**5,847,102**	4,705,588	2,569,939	1,247,293	966,452
Total equity	**2,045,254**	1,476,260	527,332	275,836	203,540
Equity attributable to owners of the parent	**2,043,510**	1,475,622	526,916	275,836	203,278
Net asset value per share (US cents)	**0.62**	0.52	0.28	0.14	N/A
Duration Matching of Assets and Liabilities					
Financial assets	**10,937,266**	8,522,538	4,311,798	2,301,339	1,542,845
Financial liabilities	**7,996,654**	6,437,117	3,459,411	1,948,385	1,304,406
Asset quality					
Non-performing asset ratio[8]	**0.73%**	0.60%	0.99%	1.20%	1.90%
Provision coverage ratio[9]	**213.60%**	214.34%	116.38%	109.38%	66.39%
Write-off of non-performing assets[10]	**0.00%**	0.00%	0.15%	0.92%	0.00%
Overdue lease receivables (over 30 days) ratio[11]	**0.30%**	0.08%	0.14%	0.38%	0.39%

Notes:

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

(2) Return on average equity = profit for the year/average balance of equity at the beginning and the end of the year;

(3) Net interest margin = net interest income/average total balance of interest-earning assets;

(4) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities;

(5) Service fee income ratio = service fee income/(interest income – interest expense + service fee income + income from trading and others segment – cost from trading and others segment), income is before business taxes and surcharges;

(6) Cost to income ratio = (selling and distribution costs + administrative expense – provision for loans and accounts receivable)/gross profit;

(7) Cost of credit = provision for loans and accounts receivable/average balance of interest-earning assets at the beginning and the end of the year;

(8) Non-performing asset ratio = balance of non-performing assets/net lease receivables;

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

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

(11) Overdue lease receivables (over 30 days) ratio = overdue lease receivables (over 30 days)/net lease receivables.

Management Discussion and Analysis

1. Economic Environment

1.1 Macro Environment

Looking back over 2012, the China economy was faced with challenges arising from the delay in the oversea economic recovery and the transformation of the domestic growth model. The gross domestic product ("GDP") growth went down to 7.8%, the lowest level in 13 years, after two consecutive years of decline. According to the analysis from the perspective on the aggregate demand, the final consumption made a contribution of 51.8% to GDP growth, which was higher than the contribution of the investment. However, the higher contribution was due to the slowdown in investment growth and negative growth of net exports, as well as the steady final consumption growth. In particular, for consumption, although the growth rate of total social consumption indicators reached 14.3%, it was still down by 2.8 percentage points as compared to last year, and it was the lowest point since 2007. Suffering from the impact of the weak economies of major trading partners such as European Union and Japan, the imports and exports only increased by 6.2%, representing a decrease of 16.3 percentage points as compared with the growth rate for 2011. Under the circumstances of absence of significant growth in consumption, the momentum of business investment slowed down due to a significant decrease in the export growth. In 2012, the fixed asset investment in China grew by 20.6% year on year, representing a decrease of 3.4 percentage points as compared to 2011. In particular, the growth of manufacturing fixed asset investment decreased by approximately 10 percentage points.

For the financial environment, governments had to take stimulus measures to cope with the pressure of economic growth. The United States, European Union, Japan and other countries continued to pursue accommodative monetary policies. Meanwhile, in response to the continued slowdown in the domestic economic growth in the first half, the central bank twice made a timely adjustment to the growth by cutting the benchmark interest rate for deposits and loans and the reserve requirement ratio, respectively. The cumulative interest cut reached 50 basis points and the cumulative reserve requirement ratio cut was 100 basis points. The domestic monetary policy was more accommodative as compared to 2011. At the same time, the market-based financial reform continued to move forward and the development of non-bank financial institutions was rapid. As the floating band between the benchmark interest rates for deposits and loans expanded, the impact of the market-based interest rate change on banks gradually became more significant and the competition among financial institutions became more intense.

Management Discussion and Analysis

1.2 Industrial environments

Suffering from the macroeconomic change, the growth of the secondary industry in China retreated in 2012. The excess capacity problem began to surface in a number of industries due to weak market demand. At the same time, environmental issues increasingly became a public concern. As a result, a series of industrial policies relating to energy conservation and environmental protection were issued to ensure a balance between environmental protection and economic growth.

In such a context, eight industries which were related to the Far Eastern Group were affected by the external factors in different degrees. The two industries, namely healthcare and education, were less affected by the economy and maintained steady growth thanks to the continuous financial support from the government. However, as basic healthcare and educational resources coverage gradually expanded in China, the infrastructure construction and equipment acquisition will slow down in the future. The development of the industries will gradually shift from scale expansion into upgrading. The industries such as infrastructure construction, printing, machinery and textiles slowed down in growth and decline in profitability, leading to the overall decline of investment growth and relatively weaker demand for financing as compared to last year. The shipping industry remained in the doldrums. The container market rebounded to a certain extent but the growth of dry bulk demand was still unable to meet the growth of transport capacity. The excess capacity in transportation further aggravated, which continued to have negative effect on the upstream shipbuilding industry.

1.3 The Leasing Industry

In 2012, the leasing industry in China had a rapid expansion. According to data from China Leasing Alliance, 274 leasing companies were newly established and the total number of domestic financial leasing companies reached 560 as at the end of the year. At the same time, the annual finance lease value of new business was estimated at RMB850.0 billion, representing an increase of approximately 30% as compared to 2011. The expansion of bank-affiliated leasing and the rapid increase of the independent third-party leasing companies resulted in a gradual higher industry penetration rate. The competition in the industry became more intense.

Management Discussion and Analysis

1.4 Company's Solutions

Against a backdrop of the declining economy growth and the gradual opening up of the financial market, the expansion of the scale of various industries slowed down and the competition in the financial market escalated, the Group took "adherence to the strategic direction with moderate adjustments" as its guideline to promote its business, aiming to ensure the operation quality while achieving record breaking results.

In particular, for the financial business, the Group continued to expand its market of traditional business, consolidate the foundation of its existing business, and develop in new industries and fragmented markets where the risk was under control and the returns were relatively higher. For example, the Company expanded into the textiles sector in 2011 and the electronic information sector, a new business, in 2012. At the same time, the Company actively promoted business innovation. It obtained the commercial factoring license and promoted the pilot projects so as to meet customers' demand for various financial service products.

For the non-financial businesses, following the market trends and catering to customers' demand, the Group provided various consulting services for clients to help them achieve technological upgrade, M&A and reorganisation.

1.5 Future Outlook

Looking to the future, the recovery of the global economy will be a slow process with many uncertainties in relation to improvement of external demand. China will usher in the transformation of economy growth mode; instead of expanding the production scale, the industrial upgrade will be achieved by improving the production efficiency. The government will increase its investment in people's livelihood to strengthen the social security and raise the public's consumption power, so as to draw out the potential of consumption to boost economic growth. Therefore, we expect the China economy will enter into a moderate growth phase, and the growth in 2013 will rebound slightly as compared to 2012.

For the financial environment, with the advance of market-based financial reform, the financial market will gradually feature diversification and market-oriented pricing. Various financial institutions, including finance leasing companies, will continue to expand and the market competition will become more intense.

Based on the major industries in which the Group has a presence, the healthcare and education industries will have steady growth thanks to the government's continued investment, but the large-scale investment in fixed assets which are mainly related to the infrastructure construction investment and equipment investment will slow down. Other industries such as printing, shipping and machinery are facing the external pressure such as reduced demand, excess capacity and declining profit margins. A trend of large-scale and intensive production and technology upgrade will develop across those industries. In general, various industries will gradually shift from external expansion into internal upgrade. The enterprises will achieve the transformation of growth through technological upgrade, M&A and reorganisation.

Management Discussion and Analysis

In face of the challenges in the external environment, the Group will seize the opportunities of industrial restructuring to select industry fragments and to identify target customers that can represent the development trend, and then to help those companies achieve sustainable development by providing them with professional and integrated services. For the specific business strategies, the Group will strengthen traditional financial services, while also come up with innovative industrial operations. In the sector of financial services, the Company will seek more customers that the existing industries can cover; taking full advantage of the industrial transformation, the Company will continue to cultivate more customers in existing industries and further expanding the coverage of customer groups and actively look for and hatch more new industries; furthermore, it will continue to strengthen the financial innovation, and enhance the ability of offering financial services with a view to meeting customers' demand at different stages of development and their needs for a wider range of financial services. In the sector of non-financial services, the Company will build up the ability of offering different services which the banks or other similar products providers can offer. Centering on customers' specific needs at different stages, the Company will provide diversified and comprehensive services and help forming a business situation of differentiated competition in order to enhance the Company's overall value.

For further development in future, we will unswervingly follow the trend of financial industry amalgamation and promote its growth by leaps and bounds, so as to establish a foundation of the Group for sustainable development.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In 2012, the Group achieved healthy and rapid growth in its results with the growth in revenue being in line with the growth in costs and various expenses. The Group realised a profit before tax of US$329,884,000, representing growth of 44.15% from the previous year and the profit attributable to owners of the parent was US$241,305,000, representing growth of 40.77% from the previous year. The following table sets forth the figures for the year ended 31 December 2011 for comparison.

	For the year ended 31 December		
	2012	2011	
	US$'000	US$'000	change %
Revenue	**1,030,699**	729,895	41.21%
Cost of sales	**(462,144)**	(342,641)	34.88%
Gross profit	**568,555**	387,254	46.82%
Other income and gains	**19,044**	11,627	63.79%
Selling and distribution costs	**(111,731)**	(69,531)	60.69%
Administrative expenses	**(137,233)**	(96,647)	41.99%
Other expenses	**(8,411)**	(3,849)	118.52%
Finance costs	**(340)**	–	N/A
Profit before tax from continuing operations	**329,884**	228,854	44.15%
Income tax expense	**(88,771)**	(57,251)	55.06%
Profit for the year from continuing operations	**241,113**	171,603	40.51%
Attributable to:			
Owners of the parent	**241,305**	171,412	40.77%
Non-controlling interests	**(192)**	191	-200.52%

Management Discussion and Analysis

2.2. Revenue

In 2012, the Group realised revenue of US$1,030,699,000, representing growth of 41.21% from US$729,895,000 as recorded in the previous year, and was mainly attributable to the growth of income in leasing and advisory segment. In 2012, income (before business taxes and surcharges) of the leasing and advisory segment was US$931,054,000, accounting for 88.02% of the total income (before business taxes and surcharges), and representing growth of 44.52% from the previous year. Income from trading and others segment rose by 19.29%, representing lower growth as compared to the leasing and advisory segment and making its share in the total income (before business taxes and surcharges) decrease to 11.98% from 14.15% in the previous year mainly due to slowdown in the growth of revenue from trading and brokerage and the negative growth of revenue from engineering business in the healthcare industry during the period. Revenue of the Group remained diversified.

In addition, in June 2012, International Far Eastern Leasing Co., Ltd., a subsidiary of the Group, obtained approval from the Ministry of Commerce of PRC to expand its scope of business to include commercial factoring and related advisory services. The business scope expansion marked a solid step forward for the industry integrated operation services strategy of the Group. In 2012, the Group realised revenue in factoring business of US$165,000 in total for the year as it prudently promoted factoring business among the existing customer base in the industry. As at 31 December 2012, factoring receivables amounted to US$34,553,000.

Management Discussion and Analysis

The table below sets forth the composition and the changes of Group's revenue by business segment in the indicated period.

	For the year ended 31 December				
	2012		2011		
	US$'000	**% of total**	US$'000	% of total	Change (%)
Leasing and advisory segment	**931,054**	**88.02%**	644,227	85.85%	44.52%
Financial leasing and factoring (interest income)	**688,615**	**65.10%**	474,028	63.17%	45.27%
Advisory services (fee income)	**242,439**	**22.92%**	170,199	22.68%	42.44%
Trading and others segment	**126,662**	**11.98%**	106,178	14.15%	19.29%
Total	**1,057,716**		750,405		40.95%
Business taxes and surcharges	**(27,017)**		(20,510)		31.73%
Revenue (after business taxes and surcharges)	**1,030,699**		729,895		41.21%

The Group also categorised income by industry, and the Group was mainly engaged in eight industries, namely healthcare, printing, infrastructure construction, education, machinery, shipping, textiles and electronic information industries in 2012. In 2012, the share of each industry in total income tended to be more balanced, and the share of the total income by the printing industry decreased year-on-year as the Group prudently promoted its trading business in that industry given the impact of the surrounding market environment while its growth slightly slowed down. The Group established its business in the textiles industry at the end of November 2011. In April 2012, the Group consolidated the electronic information business and incorporated the electronic business in the machinery industry into other industries. The Group incubated its new business in the electronic information industry in December 2012.

Management Discussion and Analysis

The table below sets forth the composition and the change of the Group's income (before business taxes and surcharges) in the indicated period.

	For the year ended 31 December				
	2012		2011		
	US$'000	% of total	US$'000	% of total	change %
Healthcare	**213,156**	**20.15%**	155,774	20.76%	36.84%
Education	**160,509**	**15.18%**	103,001	13.73%	55.83%
Infrastructure construction	**155,114**	**14.66%**	103,827	13.84%	49.40%
Shipping	**100,213**	**9.47%**	67,492	8.99%	48.48%
Printing	**180,984**	**17.11%**	153,326	20.43%	18.04%
Machinery[(1)]	**120,222**	**11.37%**	87,828	11.70%	36.88%
Textiles	**19,339**	**1.83%**	8,380	1.12%	130.78%
Electronic information[(1)]	**51,217**	**4.84%**	21,494	2.86%	138.29%
Others[(1)]	**56,962**	**5.39%**	49,283	6.57%	15.58%
Total	**1,057,716**	**100.00%**	750,405	100.00%	40.95%

Note:

(1) The 2011 data for machinery, electronic information and other industries are reclassified in this report.

2.2.1. Financial Leasing and Factoring (Interest Income)

The interest income (before business taxes and surcharges) from the leasing and advisory segment of the Group rose from US$474,028,000 in 2011 to US$688,615,000 or by 45.27% in 2012, accounting for 65.10% of the Group's total revenue (before business taxes and surcharges) and representing an increase of 1.93 percentage points from 63.17% as recorded in 2011. It was mainly due to the growth of average balance of interest-earning assets, which was partially offset by the decrease in the average yield.

The changes in interest income were mainly driven by two factors: the average balance of interest-earning assets and the average yield. The Group's average balance of interest-earning assets rose from US$5,178,391,000 as at the end of 2011 to US$7,851,008,000 as at the end of 2012, representing an increase of 51.61%. It was attributable to the expansion of the Group's business operation. The average rate of yield of the Group fell from 9.15% in 2011 to 8.77% in 2012, mainly due to the impact of the two downward adjustments of the benchmark interest rate for RMB loans and deposits of financial institutions by the People's Bank of China in 2012 reflected in the 2012 results.

Management Discussion and Analysis

The table below sets forth the average balance of interest-earning assets, interest income and average yield by industry during the indicated period.

	For the year ended 31 December					
	2012			2011		
	Average Interest-earning assets[1] US$'000	Interest income[2] US$'000	Average yield[3] %	Average Interest-earning assets[1] US$'000	Interest income[2] US$'000	Average yield[3] %
Healthcare	**1,659,747**	**141,559**	**8.53%**	1,208,895	108,235	8.95%
Education	**1,347,758**	**112,630**	**8.36%**	819,402	74,822	9.13%
Infrastructure construction	**1,189,364**	**108,758**	**9.14%**	753,042	78,995	10.49%
Shipping	**833,245**	**64,244**	**7.71%**	510,557	35,582	6.97%
Printing	**1,115,779**	**97,087**	**8.70%**	777,550	70,149	9.02%
Machinery	**619,468**	**62,525**	**10.09%**	418,435	45,207	10.80%
Textiles	**133,971**	**13,024**	**9.72%**	44,580	4,384	9.83%
Electronic information	**389,988**	**35,106**	**9.00%**	198,628	15,959	9.03%
Others	**561,688**	**53,681**	**9.56%**	447,302	40,695	9.10%
Total	**7,851,008**	**688,614**	**8.77%**	5,178,391	474,028	9.15%

Notes:

(1) Calculated based on the total average balance of interest-earning assets at the beginning and the end of the indicated period.

(2) Interest income of each industry represents the revenue before business taxes and surcharges.

(3) Average yield represents the quotient of interest income as divided by average balance of interest-earning assets.

(4) Interest-earning assets include net financial leasing receivable, entrusted loans, long-term receivables and factoring receivables.

Management Discussion and Analysis

Analysis according to average balance of interest-earning assets

Among the eight target industries, healthcare, education, infrastructure construction and printing were the key drivers to the Group's average balance of interest-earning assets, representing 67.67% of the average balance of interest-earning assets in 2012. The increase in the average balance of interest-earning assets reflected the business expansion of the Group and the introduction of new target industries, as well as the benefits from the Group's greater efforts in marketing and promotion, including arranging expos and exhibitions for major industry participants and professionals, and recruiting more sales and marketing staff. In 2012, the Group enhanced the expansion in the market segment of respective industries, such as the non-bulk cargo ship market for logistics and maritime work in the shipping industry, the ancillary spare parts market for passenger vehicles and buses in the machinery industry, the final consumption market for packaging in the printing industry and information network application of the electronic information industry.

Analysis according to average yield

In 2012, the average yield of the Group was 8.77%, representing 0.38 percentage point lower than 9.15% as recorded in 2011, mainly due to the fact that (i) the two consecutive decrease in the benchmark interest rate by the People's Bank of China in 2012 resulted in a decrease of 50 basis points in the benchmark interest rate for 1-3 years and 3-5 years RMB loans, the effect of which was gradually reflected in the results for this year; and (ii) the Group focused on more privileged customers in the respect of leasing quotation through providing customised and flexible financial products while the growth in new leasing contracts of high gross profit customers slowed down. The average yield of the Group's shipping industry rose from 6.97% in 2011 to 7.71% in 2012, mainly because the bargaining power of the Group with customers improved and resources were allocated in a more efficient way, benefited from the decrease of financing channels of customers in target industries as shipping industry was hit by the ongoing sluggish market condition. In addition, the total value of new leasing contracts of USD project with lower yield in the shipping industry decreased while that of new leasing contracts of RMB project with higher yield increased.

2.2.2 Advisory Services (Fee Income)

In 2012, fee income (before business and surcharges) from leasing and advisory segment grew by 42.44% from US$170,199,000 in 2011 to US$242,439,000 in 2012, accounting for 22.92% of the total revenue (before business taxes and surcharges) of the Group, basically flat as compared with 22.68% in 2011.

Management Discussion and Analysis

The table below sets forth the Group's service charge income (before business taxes and surcharges) by industry during the indicated period.

	For the year ended 31 December				
	2012		2011		
	US$'000	% of total	US$'000	% of total	Change %
Healthcare	**61,111**	**25.21%**	35,448	20.83%	72.40%
Education	**47,879**	**19.75%**	28,179	16.56%	69.91%
Infrastructure construction	**37,111**	**15.31%**	24,832	14.59%	49.45%
Shipping	**18,368**	**7.57%**	17,379	10.21%	5.69%
Printing	**38,617**	**15.93%**	27,663	16.25%	39.60%
Machinery	**21,354**	**8.81%**	19,268	11.32%	10.83%
Textiles	**6,316**	**2.61%**	3,995	2.35%	58.10%
Electronic information	**8,405**	**3.46%**	5,547	3.26%	51.52%
Others	**3,278**	**1.35%**	7,888	4.63%	-58.44%
Total	**242,439**	**100.00%**	170,199	100.00%	42.44%

Healthcare, education, infrastructure construction and printing represented the greatest contribution to the aggregate growth of the Group's service charge income (before business taxes and surcharges) and service charge income of such segments represented 94.96% of the Group's total service charge income in 2012. The public transportation, passenger transportation and heat supply businesses in other industries fell down compared to the same period of the previous year and in turn resulted in the decrease of the proportion of other industries. The increase in service charge income of such industries was mainly attributable to; (i) the expansion of scale and scope of services provided to the customers of the Group in view of the diversification of products and services offered in the Group's advisory services segment and expansion of the Group's businesses; and (ii) the recruitment of more sales and marketing staff of different industries. As the shipping and machinery industries were impacted by the sluggish market, customers' demand reduced while the growth rate of service charge slowed down. The Group adjusted the charge rate of some services for the industries and focused on providing service to high quality customers in the industries.

Management Discussion and Analysis

2.2.3 Revenue from Trading and Others Segment

Revenue from trading and others segment of the Group in 2012, before business taxes and surcharges, increased by 19.29% from US$106,178,000 in 2011 to US$126,662,000 in 2012, accounting for 11.98% of the total revenue (before business taxes and surcharges), representing 2.17 percentage points lower than 14.15% as recorded in 2011. This was attributable to the increase in the trading revenue from machinery and electronic information and brokerage revenue from shipping, which was partially offset by the decrease in revenue of medical engineering business. Meanwhile, the operating lease business in infrastructure construction was carried out in the second half of 2011 and achieved a relatively large breakthrough in 2012.

The table below sets forth the Group's revenue from the trading and others segment (before business taxes and surcharges) by business segment during the indicated period:

	For the year ended 31 December				
	2012		2011		
	US$'000	% of total	US$'000	% of total	Change (%)
Revenue from trading	**90,074**	**71.11%**	79,105	74.50%	13.87%
Revenue from brokerage	**18,889**	**14.91%**	16,287	15.34%	15.98%
Revenue from construction contracts	**8,501**	**6.71%**	10,134	9.54%	-16.11%
Revenue from operating lease	**9,198**	**7.27%**	652	0.62%	1,310.74%
Total	**126,662**	**100.00%**	106,178	100.00%	19.29%

In 2012, revenue from the trade business was US$90,074,000 (before business taxes and surcharges), representing an increase by US$10,969,000 or 13.87% from 2011 as a result of the Group's efforts to meet the increasing demand of the machine tool equipment agency sales from the auto spare part customers of the machinery industry and the equipment agency sales from the electronic manufacturing customers of electronic information industry, which was partly offset by the decrease of the volume of the trading business such as paper trading of the printing industry. The brokerage revenue was US$18,889,000 (before business taxes and surcharges), representing an increase of US$2,602,000 or 15.98% from 2011 mainly due to the further expansion in the ship chartering business and the income from brokerage services of the sale and purchase of ships contracted in previous years. The medical engineering of the Group achieved revenue (before business taxes and surcharges) of US$8,501,000, representing a decrease of US$1,633,000 or 16.11% from 2011 mainly because the medical engineering was affected by its business features and recognition principles. The Group's operating leasing business achieved a breakthrough in 2012, recording revenue (before business taxes and surcharges) of US$9,198,000.

Management Discussion and Analysis

2.3. Cost of Sales

Cost of sales of the Group in 2012 was US$462,144,000, an increase of 34.88% from US$342,641,000 in the same period of the previous year. This was mainly due to the cost increase from the leasing and advisory service segment and the trading and others segment. Among them, the cost from the leasing and advisory segment was US$350,919,000, accounting for 75.93% of the total costs. The cost of trading and others segment was US$111,225,000, accounting for 24.07% of the total costs.

The table below sets forth the composition and the changes of Group's cost of sales by business segment in the indicated period.

	For the year ended 31 December				
	2012		2011		
	US$'000	% of total	US$'000	% of total	Change %
Cost of the leasing and advisory segment	**350,919**	**75.93%**	250,007	72.96%	40.36%
Cost of trading and others segment	**111,225**	**24.07%**	92,634	27.04%	20.07%
Cost of sales	**462,144**	**100.00%**	342,641	100.00%	34.88%

2.3.1 Cost from the Leasing and Advisory Segment

The cost of sales from the leasing and advisory segment of the Group comprised solely the cost of sales from financial leasing facing of the Group. The cost of sales from financial leasing and facing arose entirely from the relevant interest expenses of the interest-bearing banks and other borrowings of the Group.

Management Discussion and Analysis

The following table sets forth the average balance of the interest-bearing liabilities of the Group, the interest expense of the Group and the average cost of the Group in the indicated period.

	For the year ended 31 December					
	2012			2011		
	Average balance[1] US$'000	**Interest expense US$'000**	Average cost % of total[2] **% of total**	Average balance[1] US$'000	Interest expense US$'000	Average cost % of total[2] % of total
Interest-bearing liabilities	**6,259,720**	**350,919**	**5.61%**	4,032,652	250,007	6.20%

Notes:

(1) Calculated as the average beginning and ending balance of the year of the interest-bearing liabilities.

(2) Calculated by dividing interest expense by the average balance of interest-bearing liabilities.

The cost of sales from financial leasing increased by 40.36% from US$250,007,000 for 2011 to US$350,919,000 for 2012, because the Group continued to increase the level of interest-bearing bank and other borrowings to fund the on-going business expansion of the Group. The average cost rate of our interest-bearing bank and other borrowings was 5.61% in 2012, representing a decrease of 0.59 percentage point from 6.20% in 2011. The increase in the average cost of our interest-bearing bank and other borrowings in 2011 was mainly attributable to the fact that: (i) the cost of fund and financing was reduced due to the impact of the two consecutive decreases in the benchmark interest rate by the People's Bank of China reflected in the results for this year as affected by the macroeconomic environment in China in 2012; and (ii) the Group took quick response to the two interest cuts and displaced parts of high cost loan generated before the interest cuts to ensure the synchronous decrease in cost under the condition of the interest cuts. At the same time, against the external market with low interest rate, the Group took full use of its own advantages to promote U.S. dollars financing, so as to further reduce the overall finance costs of the Company. The overall revenue level stayed steady and the decrease in the average yield of 0.38 percentage point was lower than that in the average cost rate of 0.59 percentage point.

Management Discussion and Analysis

2.3.2 Cost from Trading and Others Segment

The cost of sales for the trading and others segment of the Group is primarily derived from the cost of goods sold for trading services of the Group, cost of charter business, cost of construction business and cost of operating lease.

The following table sets forth the cost from trading and others segment of the Group by business type of the dates indicated.

	For the year ended 31 December				
	2012		2011		
	US$'000	% of total	US$'000	% of total	Change %
Cost of trading	**88,285**	**79.38%**	76,693	82.79%	15.11%
Cost of brokerage	**13,281**	**11.94%**	8,902	9.61%	49.19%
Cost of construction contracts	**6,346**	**5.70%**	7,039	7.60%	-9.85%
Cost of operating lease	**3,313**	**2.98%**	–	–	N/A
Total	**111,225**	**100.00%**	92,634	100.00%	20.07%

Cost of goods sold for trading business of the Group increased by 15.11% to US$88,285,000 in 2012 from US$76,693,000 in 2011, primarily due to an increase in the aggregate value of trade transactions in machinery and electronic information in 2012, which resulted in an increase in the cost of sales relating to the trading business of the Group machinery and electronic information in both industries though being partly offset by the cost of sales relating to the trading business in printing. Cost of the ship chartering business of the Group increased by 49.19% to US$13,281,000 in 2012 from US$8,902,000 in 2011 mainly due to an increase in cost caused by the increase of the ship chartering business and brokerage services for the sale and purchase of ships. The cost of construction contracts decreased by 9.85% to US$6,346,000 in 2012 from US$7,039,000 in 2011 mainly due to a decrease of cost of construction contracts of medical engineering caused by the drop in new revenue from construction contracts of medical engineering. In addition, cost of operating lease of infrastructure construction was US$3,313,000.

Management Discussion and Analysis

2.4. Gross Profit

The gross profit of the Group in 2012 was US$568,555,000, which increased by US$181,301,000 or 46.82% from US$387,254,000 in 2011. During 2012 and 2011, the gross profit margin of the Group was 55.16% and 53.06%, respectively.

2.4.1 Gross Profit of Lease and Services Segment

The gross profit margin of the lease and services segment of the Group in 2012 was 61.24%, basically flat with 59.60% in the previous year. The gross profit margin of leasing and services segment was affected by the change of net interest income and net interest income margin. The following table sets forth the interest income, interest expense, net interest income, net interest spread and net interest margin for the periods indicated.

	For the year ended 31 December		
	2012	2011	
	US$'000	US$'000	Change %
Interest income[1]	**688,615**	474,028	45.27%
Interest expense[2]	**(350,919)**	(250,007)	40.36%
Net interest income	**337,696**	224,021	50.74%
Net interest spread[3]	**3.16%**	2.95%	7.12%
Net interest margin[4]	**4.30%**	4.33%	-0.69%

Notes:

(1) Interest income is the revenue for the financial leasing and factoring portion of the financial leasing and advisory segment of the Group.

(2) Interest expense is the cost of sales for the financial leasing and factoring portion of the financial leasing and advisory services segment of the Group.

(3) Calculated as the difference between the average yield and the average cost. The average yield is calculated by dividing interest income by the average total balance of interest-earning assets. The average cost is calculated by dividing interest expense by the average total balance of the interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average total balance of interest-earning assets.

Management Discussion and Analysis

Net interest spread of the Group for 2012 increased by 0.21 percentage point to 3.16% as compared with 2.95% in the same period of the previous year. Net interest spread increased, primarily due to the decrease of 59 basis points in respect of the average cost on interest-bearing loans of the Group, which was partially offset by the decrease of 38 basis points in the average yield on interest-earning assets of the Group. For the changes in respect of the average yield on interest-earning assets and average cost on interest bearing borrowings, please refer to paragraphs 2.2.1 and 2.3.1 of this section. At the same time, the average total balance of interest-earning assets of our Group in 2012 increased by 51.61%. As such, the net interest income of the Group increased by 50.74% to US$337,696,000 for 2012 from US$224,021,000 for 2011. Furthermore, although the net interest spread for 2012 of the Group increased as compared to the previous year, the average cost on interest-bearing loans in 2012 decreased to some extent and the proportion of non-interest-earning assets to the average total balance of interest-earning assets decreased from 22.13% in the same period of the previous year to 20.27%. On the basis of the above-mentioned reasons, the net interest margin of the Group fell slightly from 4.33% for 2011 to 4.30% for 2012.

2.4.2 Gross Profit of Trading and Others Segment

The gross profit of trade and other segments increased by 15.01% from US$13,185,000 for 2011 to US$15,164,000 for 2012, primarily due to the increase of the gross profit of the operating lease business, which was partly offset by the decrease of the gross profit of the trading business, the brokerage business of the shipping industry and the medical engineering business. The gross profit of the trading business decreased from US$2,412,000 for 2011 to US$1,789,000 for 2012. The gross profit of the brokerage business of the shipping industry decreased from US$7,385,000 for 2011 to US$5,608,000 for 2012. The gross profit of the medical engineering business decreased from US$3,095,000 for 2011 to US$2,155,000 for 2012. The gross profit of the operating lease business increased from US$652,000 for 2011 to US$5,885,000 for 2012.

Management Discussion and Analysis

2.5. Other Income and Gains

The following table sets forth a breakdown of our other income and gains in the indicated periods:

	For the year ended 31 December		
	2012	2011	
	US$'000	US$'000	Change %
Bank interest income	**7,695**	4,702	63.65%
Foreign exchange gain	–	4,987	-100.00%
Derivatives financial instruments-transactions not qualified as hedges:			
Unrealised fair value gains, net	–	760	-100.00%
Realised fair value gains, net	–	320	-100.00%
Gain from structured financial products	**930**	–	N/A
Gain from disposing subsidiaries	**8**	–	N/A
Government grants	**10,001**	778	1,185.48%
Other income	**410**	80	412.50%
Total	**19,044**	11,627	63.79%

In 2012, the Group's other income and gains amounted to US$19,044,000, an increase of 63.79% from the previous year. Foreign exchange gain of US$0 represented a substantial decrease from US$4,987,000 of the previous year, mainly reflecting the impact of change in exchange rate. Gain from disposing subsidiaries of US$8,000 primarily was the gain on disposal of two subsidiaries, namely 貴盛有限公司 and Far East Horizon Haorui (Tianjin) Leasing Co., Ltd., by the Company. Government grants of US$10,001,000, represented a substantial increase from the previous year, mainly due to implementation of the collection of value-added tax instead of business tax in 2012, after which the Group benefited from the instant rebate of value-added tax policy, and the rebated value-added tax has already been realised.

2.6. Selling and Distribution Costs

Selling and distribution cost of the Group in 2012 was US$111,731,000, which increased by US$42,200,000 or 60.69% as compared to the same period of the previous year, mainly attributable to the increase of 71.15% in the cost of the Group relating to the salaries and benefits of sales and marketing staff due to the increase in total headcount for selling and distribution personnel of the Group from 790 in the previous year to 1,120 in 2012. This increase in headcount for selling and distribution personnel was necessary for the expansion of the Group's business operations. Also, the increase in staff and business volume also resulted in an increase in our travel expenses, which increased by 37.90%.

Management Discussion and Analysis

2.7. Administrative Expenses

Administrative expenses of the Group in 2012 were US$137,233,000, an increase of US$40,586,000 or 41.99% from the previous year. The increase in administrative expenses was mainly due to: (i) the increase in expenses relating to the impairment of loans and accounts receivable. Impairment of loans and accounts receivable for 2012 amounted to US$55,779,000, an increase of US$15,683,000 or 39.11% from the previous year; (ii) the office expenses increased due to business expansion. Rental expenses of the Group for 2012 amounted to US$10,492,000, an increase of US$5,022,000 or 91.81% from the previous year; (iii) the headcount of full-time staff increased. The cost regarding on the remuneration and welfare of staff relating to the administrative expenses rose by 51.06%. The total headcount of full-time staff of the Group increased from 1,353 in 2011 to 1,817 in 2012.

2.7.1. Impairment of Loans and Accounts Receivable

The impairment of loans and accounts receivable of the Group in 2012 was US$55,779,000, which increased by US$15,683,000 or 39.11% from the previous year. This is primarily due to an increase of 38.53% in the net lease receivables during the relevant period. According to the standards of the five-category classification, the Group cautiously increased the provisions for the impairment of loans and accounts receivable.

The following table sets forth the breakdown of the impairment of loans and accounts receivable of the Group for the indicated period.

	For the year ended 31 December				
	2012		2011		
	US$'000	% of total	US$'000	% of total	Change %
Impairment of loans and accounts receivable:					
Individual assessment	**17,987**	**32.25%**	2,995	7.47%	500.57%
Collective assessment	**37,792**	**67.75%**	37,101	92.53%	1.86%
Total	**55,779**	**100.00%**	40,096	100.00%	39.11%

2.7.2. Cost to income ratio

Cost to income ratio of the Group in 2012 was 33.98%, which was a slight increase from 32.56% of the previous year.

Management Discussion and Analysis

2.8. Other Expenses

Other expenses of the Group in 2012 were US$8,411,000, which increased by US$4,562,000 as compared to the previous year. Among others, bank charges amounted to US$4,444,000, an increase of US$949,000; foreign exchange loss amounted to US$1,703,000; net unrealised fair value loss of derivative financial instruments – transactions not qualifying as hedges amounted to US$1,750,000.

2.9. Income Tax Expense

Income tax expense of the Group in 2012 was US$88,771,000, which increased by US$31,520,000 or 55.06% from 2011. The increase was primarily due to an increase in the operating profit of the Group during the same period. Effective tax rate of the Group for 2012 and 2011 was 26.91% and 25.02%, respectively.

2.10.Profit for the Year Attributable to Owners of the Parent

Based on the above discussion and analysis, profit for the year attributable to owners of the parent was US$241,305,000, which increased by US$69,893,000 or 40.77% from the previous year. Net profit margin of the Group was 23.39%, basically flat as compared with 23.51% in the previous year.

3. Analysis of Financial Position

3.1. Assets (Overview)

As at 31 December 2012, the total assets of the Group increased by US$2,161,807,000 or 28.92% from the end of the previous year to US$9,636,509,000. Loans and accounts receivable increased by US$2,513,777,000 or 38.53% from the end of the previous year to US$9,038,257,000.

As at 31 December 2012, the cash and cash equivalents of the Group decreased from 2011 to US$239,074,000, but were still sufficient. The decrease was primarily because the Group started to reserve relatively sufficient cash as the domestic situation of credit crunch was gradually mitigated, so as to sustain the business development and ensure the liquidity safety of the Group.

As at 31 December 2012, the restricted deposits of the Group amounted to US$107,589,000, mainly the restricted security deposit and time deposit held in banks over three months.

Management Discussion and Analysis

The following table sets forth the analysis of the assets as of the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	% of total	US$'000	% of total	Change %
Loans and accounts receivable	**9,042,265**	**93.83%**	6,558,082	87.74%	37.88%
Including: Net lease receivables	**9,038,257**		6,524,480		38.53%
Cash and cash equivalents	**239,074**	**2.48%**	661,365	8.85%	-63.85%
Restricted deposit	**107,589**	**1.12%**	183,626	2.45%	-41.41%
Prepayment and other accounts receivable	**121,502**	**1.26%**	22,398	0.30%	442.47%
Deferred tax assets	**42,045**	**0.44%**	20,103	0.27%	109.15%
Property, plant and equipment	**56,554**	**0.59%**	17,009	0.23%	232.49%
Derivative financial instruments	**159**	**0.00%**	760	0.01%	-79.08%
Inventories	**8,700**	**0.09%**	1,140	0.02%	663.16%
Construction contracts	**12,804**	**0.13%**	4,780	0.06%	167.87%
Other assets	**5,817**	**0.06%**	5,439	0.07%	6.95%
Total assets	**9,636,509**	**100.00%**	7,474,702	100.00%	28.92%

3.2. Loans and Accounts Receivable

The main components of assets of the Group were loans and accounts receivable, accounting for 93.83% of the total assets of the Group as of 31 December 2012. Against the external operating condition with ongoing increase of uncertainty, the Group, in adherence to the existing operating strategy and corresponding management approach and with the direction of main industry as the base and relatively well-managed customers as the target, implemented ongoing and stable expansion of the financial leasing business and increased staff of sales and market promotion on a basis of the Group's effective risk control so as to maintain stable growth in both the number of customers served and the number of new lease contracts entered into by the Group and keep the net lease receivables increase steadily.

Management Discussion and Analysis

The following table sets forth the analysis of loans and accounts receivable as of the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	% of total	US$'000	% of total	Change %
Lease receivables	**10,330,633**		7,609,623		35.76%
Less: Unearned finance income	**(1,292,376)**		(1,085,143)		19.10%
Net lease receivables	**9,038,257**	**98.39%**	6,524,480	98.18%	38.53%
Factoring receivables	**34,553**	**0.38%**	–	–	N/A
Entrusted loans[1]	**51,412**	**0.56%**	70,468	1.06%	-27.04%
Long-term receivables	**1,543**	**0.02%**	2,223	0.03%	-30.59%
Others	**59,844**	**0.65%**	48,208	0.73%	24.14%
Loans and accounts receivable[2]	**9,185,609**	**100.00%**	6,645,379	100.00%	38.23%

Notes:

(1) Entrusted loans represent the lending business operated by banks the Group entrusted, which are applicable to top quality customers who cannot operate financial leasing due to policy or otherwise, and are a beneficial complement of financial leasing business.

(2) The amount is before provisions.

Loans and accounts receivable consist of (i) net lease receivables, which are lease receivables less unearned finance income, (ii) factoring receivables, (iii) entrusted loans, (iv) long-term receivables, and (v) others, which include lease interest receivables, notes receivables and accounts receivables.

Loans and accounts receivable of the Group (after provisions) as of 31 December 2012 amounted to US$9,042,265,000, representing an increase of 37.88% from US$6,558,082,000 as of 31 December 2011. Net lease receivables (before provisions) were the most significant component of loans and accounts receivable, accounting for 98.39% of loans and accounts receivable (before provisions) as of 31 December 2012.

Management Discussion and Analysis

3.2.1. Lease Receivables

Net lease receivables of the Group as of 31 December 2012 were US$9,038,257,000 representing an increase of 38.53% as compared to US$6,524,480,000 as of 31 December 2011. The increase was due to a significant increase in both the number of customers served and the number of new lease contracts entered into by the Group, as a result of the continuous expansion of financial leasing business of the Group on a basis of the Group's effective risk control in 2012.

3.2.2 Net lease receivables by industry

The following table sets forth net lease receivables of the Group by industry as of the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change %
Healthcare	**1,866,173**	**20.65%**	1,427,091	21.87%	30.77%
Education	**1,598,911**	**17.69%**	1,094,533	16.78%	46.08%
Infrastructure construction	**1,387,076**	**15.35%**	981,333	15.04%	41.35%
Shipping	**1,041,342**	**11.52%**	624,504	9.57%	66.75%
Printing	**1,287,176**	**14.24%**	954,311	14.63%	34.88%
Machinery	**692,795**	**7.67%**	546,863	8.38%	26.69%
Textiles	**195,682**	**2.17%**	79,459	1.22%	146.27%
Electronic information	**479,805**	**5.31%**	309,375	4.74%	55.09%
Others	**489,297**	**5.40%**	507,011	7.77%	-3.49%
Total	**9,038,257**	**100.00%**	6,524,480	100.00%	38.53%

Net lease receivables for education, healthcare, shipping and infrastructure construction as of 31 December 2012 grew the most among the target industries of the Group, namely by US$504,378,000, US$439,082,000, US$416,838,000 and US$405,743,000, respectively over those as of 31 December 2011, due to the following reasons: (i) the Group had assigned more dedicated sales and marketing personnel to the education, healthcare and infrastructure construction industries; and (ii) more growth in net lease receivables for shipping was derived from the performance of the leasing contracts contracted in previous years. The development of new fragmented markets in other industries slowed down as a result of prudent consideration.

Management Discussion and Analysis

3.2.3 Ageing Analysis of Lease Receivables

The following table sets forth an aged analysis of lease receivables as of the dates indicated, categorised by the time lapsed since the effective date of the relevant lease contracts.

	31 December 2012		31 December 2011		
	US$'000	% of total	US$'000	% of total	Change %
Net lease receivables					
Within 1 year	**5,001,451**	**55.34%**	4,186,672	64.17%	19.46%
1 to 2 years	**2,815,162**	**31.15%**	1,713,888	26.27%	64.26%
2 to 3 years	**969,266**	**10.72%**	490,452	7.52%	97.63%
3 years and beyond	**252,378**	**2.79%**	133,468	2.04%	89.09%
Total	**9,038,257**	**100.00%**	6,524,480	100.00%	38.53%

Net lease receivables within one year represent net lease receivables relating to new lease contracts that become effective within one year from the reporting date indicated, and are still valid as of the end of the year. As of 31 December 2012, net lease receivables within one year represented 55.34% of net lease receivables of the Group, which was lower than the level recorded as of the end of the previous year, primarily due to the Group's prudent operation of the businesses in the relatively cyclical industries such as machinery and printing. However, the Company remained able to execute and perform new lease contracts steadily.

Management Discussion and Analysis

3.2.4 Maturity Profile of Lease Receivables

The following table sets forth, as of the dates indicated, the maturity profile of the net lease receivables.

	31 December 2012		31 December 2011		
	US$'000	% of total	US$'000	% of total	Change %
Maturity date					
Within 1 year	**3,381,281**	**37.41%**	2,261,453	34.66%	49.52%
1 to 2 years	**2,763,579**	**30.58%**	1,913,043	29.32%	44.46%
2 to 3 years	**1,691,395**	**18.71%**	1,263,148	19.36%	33.90%
3 years and beyond	**1,202,002**	**13.30%**	1,086,836	16.66%	10.60%
Total	**9,038,257**	**100.00%**	6,524,480	100.00%	38.53%

Net lease receivables due within the first year represent net lease receivables which the Group will receive within one year of the reporting date indicated. As of 31 December 2012, net lease receivables due within one year as set forth in the table above represented 37.41% of the Group's net lease receivables as of each of the respective dates, which was slightly higher as compared to the end of the previous year. This indicated that the maturity of the Group's net lease receivables was widely spread and could provide the Group with consistent and sustainable cash inflows that facilitated the matching of our liabilities.

3.2.5 Asset Quality of Net Lease Receivables

3.2.5.1 Five-category Lease Receivables Classification

The Group implements a five-category classification of lease receivables that accurately reveal the asset risk profile and confirm the quality of assets primarily by obtaining information on the qualification of stock and assets. On such basis, we have deployed management resources and efforts in a focused manner to effectively implement measures on category management, and have strengthened risk anticipation and the relevance of risk prevention to improve the ability to control asset risks.

Management Discussion and Analysis

Classification criteria

In determining the classification of our lease receivables portfolio, we apply a series of criteria that are derived from our own internal regulations regarding the management of lease assets. These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on our lease receivables. Our lease receivable classification criteria focus on a number of factors, to the extent applicable; and our lease classifications include:

Pass. There is no reason to doubt that the loan principal and interest will not be paid by the lessee in full or on a timely basis. 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 factors that could adversely affect its ability to pay, which are related to changes in the economic, policy and industrial environment, the structure of the lessee's property rights and the lessee's management mechanisms, organisational framework and management personnel adjustments, operating capabilities, material investments and credit size and conditions, as well as the impact of changes in the value of core assets on the lessee's ability to repay; while taking into consideration the impact of subjective factors, including any change in the lessee's willingness to repay, on the quality of assets, such as if lease payments have been overdue for 30 days or more, then the lease receivables for this lease contract shall be classified as special mention or lower.

Substandard. The lessee's ability to pay is in question as it is unable to make its payments in full with its operating revenues, and we are likely to incur losses notwithstanding the enforcement of any guarantees underlying the lease contract. We take into account other factors, for example, if lease payments have been overdue for over three months, then the lease receivables for this lease contract shall be classified as substandard or lower.

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Doubtful. The lessee's ability to pay is in question as it is unable to make lease payments in full and/or on a timely basis with its operating revenues and we are likely to incur significant losses notwithstanding the enforcement of any guarantees underlying the lease contract. We take into account other factors, for example, if lease payments have been overdue for over six months, 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. We take into account other factors, for example, if lease payments have been overdue for more than one year, the lease receivables for this lease contract shall be classified as a loss.

Asset management measures

Facing the weak domestic and overseas macroeconomic environment of 2012 and the challenges for asset management, the Company continued to enhance its credit management methods and optimise asset management system, strengthen asset process monitoring, and intensify risk asset disposal. We implemented the risk management conception of overall process, all-dimension, multi-angle and non-interruption. The quality of our assets remained to be stable and under control on the whole during the reporting period.

Management Discussion and Analysis

Strengthening credit management system to mitigate the risks to the fullest extent permissible

For the introduction of new businesses, the Group formulated business introduction policy against the business sentiments and risk exposure of the fragmented markets based on the difference of the effect of the economic environment on different industries. The Group differently dealt with different markets, different fragments markets and customers of different quality. The operating resources shifted to the relatively stable industries and the customers strong in resisting the risks. New businesses were selectively introduced. Meanwhile, the Group also established an entry and management mechanism for new industry. We studied the industry based on the operating value, risk management and resources allocation in stages to ensure the mitigation of the systematic risk in the areas such as market testing and system setting.

For business approval, the Group employed a differentiated assessment for different industries. The credit position of the customers was understood in depth through financial data assessment and industrial feature assessment. The Group adjusted the proportion of credit granted to the customers based on the structure of the customers due to the macroeconomic effect, thereby having effective control over the credit exposure of the customers. Meanwhile, the Group further optimised the assessment and management of leased articles. The property right protection and value realisation of the leased articles were continuously enhanced. Moreover, the Group also selectively employed the guarantee measures such as security, pledge or non-related third party corporate guarantee to strengthen the protection against the credit assets, in addition to the enhancement of the value protection of the leased articles.

Management Discussion and Analysis

Optimising rental management methods to promote the effectiveness of control and management

The Group continuously optimised centralised rental management work to further improve the operation process and enhance the working efficiency. The Group further standardised the customer rental collection work, which ensured accuracy and made the working efficiency significantly increase. The effectiveness of rental collection supervision was further enhanced. Overdue rental payment due from customers and its reason could be recognised on a timely basis.

Intensifying asset process monitoring to promote the effectiveness of asset process monitoring

In 2012, the Group further intensified its asset process monitoring. It timely identified the abnormal factors affecting the safety of assets. Regional managers were stationed in districts with high customer concentration and high risk. They were closer to the assets, thus shortening the distance of control and improving control efficiency. For the monitoring and control of leased articles, a dynamic assessment system for leased articles was established to continuously assess the asset safety protection of leased articles.

In order to ensure the safety of our assets and operation, we organised and launched asset screening action for key customers. Through these special screening actions for key customers and small and medium-sized customers, we understand the degree of the impact which the changes in macroeconomic environment have on clients' business on a timely basis. Then we could evaluate the safety of the present stock assets systemically, which made for taking countermeasures for risk assets.

Increased risk management methods to step up efforts to dispose of risk assets

The Group stepped up efforts to dispose of risk assets through various means of disposal such as timely litigation and mediation, enforcement or disposal of leasing assets, thereby effectively mitigating the risks. In 2012, the Group requested 24 customers to pay the rental payment overdue for a prolonged period through litigation and good results were achieved. The projects of 13 customers were terminated earlier with full recovery of the payments. The overdue payments of 7 customers were fully repaid and the customers performed their obligations in accordance with the mediation agreements. The projects of the remaining 4 customers proceeded to be resolved.

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The following table sets forth the five-category lease receivables classification as of the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	% of total	US$'000	% of total	US$'000	% of total	US$'000	% of total
Pass	**7,607,147**	**84.17%**	5,454,713	83.61%	3,019,352	82.55%	1,652,089	83.81%
Special mention	**1,365,085**	**15.10%**	1,030,317	15.79%	602,064	16.46%	295,514	14.99%
Substandard	**39,960**	**0.44%**	30,211	0.46%	29,750	0.81%	16,294	0.83%
Doubtful	**25,996**	**0.29%**	8,762	0.13%	5,856	0.16%	6,855	0.35%
Loss	**69**	**0.00%**	477	0.01%	656	0.02%	440	0.02%
Net lease receivables	9,038,257	100.00%	6,524,480	100.00%	3,657,678	100.00%	1,971,192	100.00%
Non-performing assets	**66,025**		39,450		36,262		23,589	
Non-performing asset ratio	**0.73%**		0.60%		0.99%		1.20%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As of 31 December 2012, the Group's assets under special mention accounted for 15.10% of its total amount, representing a slight decrease as compared with 15.79% as of the end of the previous year. In particular, assets under special mention in the education industry accounted for the largest portion at 18.39% primarily due to the large size of the infrastructure of the higher education segment with long establishment time and high debts. The Group prudently kept this asset class under ongoing supervision. Assets under special mention in other industries accounted for the second portion at 17.73%, mainly because of the exploration of new industries by the Company, the short operating period and limited knowledge on customers' repayment pattern. Despite that, our business operations maintained steady growth. Nevertheless, taking into account of the ongoing tightening policy under the macro environment and the overall industry risks, the Group prudently adjusted the asset classification for such type of customers as the Group paid close attention to the systematic risks of such industry. The assets under special mention for the shipping industry accounted for the third largest portion, at 16.97%, mainly because the shipping market continued to be sluggish and the contradiction between redundant shipping capacity and unbalanced supply and demand did not significantly improve. Decrease in freight rate resulted in a slide in the profitability of some ship owners and the Group prudently reclassified more assets in this sector as assets under special mention, as the Group paid close attention to the systematic risks of such industry. The assets under special mention for

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the printing industry accounted for the fourth largest portion, at 14.15%, mainly because the printing industry was impacted by market conditions. Taking into account the ongoing macro environment and the industry risks, the Group prudently re-classified more assets in this sector as assets under special mention.

The following table sets forth the analysis on the Group's assets under special mention by industries for the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	**% of total**	US$'000	% of total	US$'000	% of total	US$'000	% of total
Healthcare	**101,464**	**7.43%**	63,842	6.20%	60,763	10.09%	66,687	22.57%
Education	**251,094**	**18.39%**	170,640	16.56%	150,264	24.96%	87,668	29.67%
Infrastructure construction	**121,406**	**8.89%**	209,227	20.31%	102,099	16.96%	63,638	21.53%
Shipping	**231,588**	**16.97%**	120,558	11.70%	65,965	10.96%	9,984	3.38%
Printing	**193,197**	**14.15%**	53,396	5.18%	32,884	5.46%	50,934	17.23%
Machinery	**101,635**	**7.45%**	80,565	7.82%	25,711	4.27%	15,760	5.33%
Textiles	**26,766**	**1.96%**	4,418	0.43%	–	–	–	–
Electronic information	**95,870**	**7.03%**	45,889	4.45%	12,368	2.05%	843	0.29%
Others	**242,065**	**17.73%**	281,782	27.35%	152,010	25.25%	–	–
Total	**1,365,085**	**100.00%**	1,030,317	100.00%	602,064	100.00%	295,514	100.00%

In addition, lease receivables over 30 days overdue were also included in assets under special mention. As a result of the Group's fixed asset management standard and stringent risk management and control asset management policy, the percentage of the Group's lease receivables over 30 days overdue in 2012 was 0.30%, a decrease of 0.22 percentage point as compared with 0.08% as of the end of the previous year. However, our overall asset quality continued to be favourable and assets under special mention and non-performing assets continued to remain low.

Based on the Group's historical migration, the proportion of reclassifying the Group's assets under special mention at the beginning of the year as non-performing assets as at the end of the year is low. The quality of the Group's assets under special mention is well maintained.

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The following table sets forth the migration of the Group's assets under special mention for the dates indicated.

	Pass	Special mention	Substandard	Doubtful	Loss and write-off
		31 December 2012 (unaudited)			
Special mention	**18.38%**	**40.37%**	**1.14%**	**0.15%**	0.00%
		31 December 2011 (unaudited)			
Special mention	16.41%	49.24%	1.26%	0.44%	0.00%
		31 December 2010 (unaudited)			
Special mention	32.87%	32.18%	1.43%	0.84%	0.00%
		31 December 2009 (unaudited)			
Special mention	14.59%	44.56%	0.49%	1.19%	0.00%

The Group's asset quality remained favourable. The non-performing asset ratio slightly increased from 0.60% from the end of the previous year to 0.73% as of 31 December 2012. The Group's write-off amount of non-performing assets remained US$0 in the previous year. The write-off ratio still remained at 0.00%.

The non-performing asset ratio for the shipping industry to total non-performing assets was 29.92%, mainly due to the fact that the shipping industry was more likely to be affected by the changing international economic environment. Most customers of the non-performing assets were the privately operated customers in the fragmented industries of dry bulk vessels and special cargo vessels. The Group prudently reclassified the assets of the segments into substandard assets. The non-performing asset ratio for the printing industry to total non-performing assets was 20.08%, primarily because the printing industry was more likely to be affected by the domestic macroeconomic environment. Most customers of the non-performing assets were the privately operated customers in the fragmented industries of offset printing. The Group prudently reclassified more assets of this segment into substandard and doubtful assets. The non-performing assets of the infrastructure construction industry accounted for 18.60% of the total non-performing assets. The Group prudently reclassified more assets of the infrastructure industry into substandard and doubtful assets based on the continuity of macroeconomic tightening policies and the risks of that industry. Most of the customers of the

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non-performing assets were the privately operated customers of the fragmented industries such as lifting. The non-performing assets of the machinery industry accounted for 13.57% of the total non-performing assets. Most of the customers of the non-performing assets were in the fragmented industries of engineering machinery and heavy duty trucks, which were subject to greater market change, and their revenue further dropped. The Group prudently reclassified more assets of the machinery industry into substandard and doubtful assets. The non-performing assets of the electronic information industry accounted for 8.75% of the total non-performing assets. Most customers of the non-performing assets were in the fragmented industries of PCB (Printed Circuit Board) and SMT (Surface-mount Technology), which were affected by the sluggish external economic environment with a fall in orders and difficulties in collecting the receivables due from downstream customers. The Group prudently reclassified more assets of the electronic information industry into substandard and doubtful assets.

The following table sets forth the analysis on the Group's non-performing assets by industries for the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	**% of total**	US$'000	% of total	US$'000	% of total	US$'000	% of total
Healthcare	**2,582**	**3.91%**	1,561	3.96%	2,624	7.24%	2,814	11.93%
Education	**2,571**	**3.89%**	2,945	7.46%	1,055	2.91%	–	–
Infrastructure construction	**12,279**	**18.60%**	9,727	24.65%	3,621	9.98%	7,616	32.29%
Shipping	**19,757**	**29.92%**	15,001	38.03%	18,733	51.66%	767	3.25%
Printing	**13,254**	**20.08%**	7,317	18.55%	10,228	28.21%	9,150	38.79%
Machinery	**8,959**	**13.57%**	2,899	7.35%	–	–	3,242	13.74%
Textiles	**846**	**1.28%**	–	–	–	–	–	–
Electronic information	**5,777**	**8.75%**	–	–	–	–	–	–
Others	**–**	**–**	–	–	–	–	–	–
Total	**66,025**	**100.00%**	39,450	100.00%	36,262	100.00%	23,589	100.00%

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The following table sets forth the analysis on the Group's substandard assets by industries for the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	**% of total**	US$'000	% of total	US$'000	% of total	US$'000	% of total
Healthcare	**446**	**1.12%**	1,561	5.17%	1,604	5.39%	1,649	10.12%
Education	**833**	**2.08%**	1,332	4.41%	1,055	3.55%	–	–
Infrastructure construction	**3,479**	**8.71%**	8,465	28.02%	3,621	12.17%	7,616	46.74%
Shipping	**18,703**	**46.80%**	15,001	49.66%	18,733	62.97%	–	–
Printing	**7,488**	**18.74%**	2,989	9.89%	4,737	15.92%	3,924	24.08%
Machinery	**5,510**	**13.79%**	863	2.85%	–	–	3,105	19.06%
Textiles	**–**	**–**	–	–	–	–	–	–
Electronic information	**3,501**	**8.76%**	–	–	–	–	–	–
Others	**–**	**–**	–	–	–	–	–	–
Total	**39,960**	**100.00%**	30,211	100.00%	29,750	100.00%	16,294	100.00%

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The following table sets forth the analysis on the Group's doubtful assets by industries for the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	% of total	US$'000	% of total	US$'000	% of total	US$'000	% of total
Healthcare	2,136	8.21%	–	–	820	14.00%	1,165	17.01%
Education	1,738	6.69%	1,613	18.41%	–	–	–	–
Infrastructure construction	8,800	33.85%	1,262	14.40%	–	–	–	–
Shipping	1,054	4.05%	–	–	–	–	767	11.19%
Printing	5,697	21.92%	3,851	43.95%	5,036	86.00%	4,786	69.82%
Machinery	3,449	13.27%	2,036	23.24%	–	–	137	1.98%
Textiles	846	3.25%	–	–	–	–	–	–
Electronic information	2,276	8.76%	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	25,996	100.00%	8,762	100.00%	5,856	100.00%	6,855	100.00%

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The following table sets forth the analysis on the Group's loss assets by industries for the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	**% of total**	US$'000	% of total	US$'000	% of total	US$'000	% of total
Healthcare	–	–	–	–	200	30.49%	–	–
Education	–	–	–	–	–	–	–	–
Infrastructure construction	–	–	–	–	–	–	–	–
Shipping	–	–	–	–	–	–	–	–
Printing	**69**	**100.00%**	477	100.00%	456	69.51%	440	100.00%
Machinery	–	–	–	–	–	–	–	–
Textiles	–	–	–	–	–	–	–	–
Electronic information	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	**69**	**100.00%**	477	100.00%	656	100.00%	440	100.00%

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The following table sets forth the movement of non-performing assets of the Group for the dates indicated.

	Amount US$'000	NPA ratio %
31 December 2009	23,589	1.20%
Downgrades[(1)]	28,554	
Upgrades	(1,971)	
Recoveries	(13,875)	
Write-offs	(35)	
31 December 2010	36,262	0.99%
Downgrades[(1)]	19,133	
Upgrades	(1,942)	
Recoveries	(14,003)	
Write-offs	–	
31 December 2011	39,450	0.60%
Downgrades[(1)]	56,609	
Upgrades	(376)	
Recoveries	(29,658)	
Write-offs	–	
31 December 2012	66,025	0.73%

Note:

(1) Represents downgrades of lease receivables classified as normal or special mention at the end of prior year and lease receivables newly re-classified in the current year to non-performing categories.

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3.2.5.2 *Lease receivable provisions*

The following table sets forth the analysis of the Group's provisions under the assessment methodology as of the dates indicated.

	31 December 2012		31 December 2011		31 December 2010		31 December 2009	
	US$'000	**% of total**	US$'000	% of total	US$'000	% of total	US$'000	% of total
Asset impairment provisions:								
Individual assessment	**30,211**	**21.42%**	12,037	14.24%	8,930	21.16%	8,013	31.06%
Collective assessment	**110,818**	**78.58%**	72,520	85.76%	33,270	78.84%	17,788	68.94%
Total	**141,029**	**100.00%**	84,557	100.00%	42,200	100.00%	25,801	100.00%
Non-performing assets	**66,025**		39,450		36,262		23,589	
Provision coverage ratio	**213.60%**		214.34%		116.38%		109.38%	

As of 31 December 2012, after prudent analysis of the tightening credit policies in China and dynamic changes in the global economic environment, the Group managed the asset quality of the Group in a prudent and cautious manner, carried on the relatively prudent provision policy of the Group and increased the provision for asset impairment. Accordingly, the provision coverage ratio of the Group was 213.60% as of 31 December 2012.

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3.2.5.3 *Write-offs of Lease Receivables*

The following table sets forth the write-offs of lease receivables as of the dates indicated.

	31 December 2012 US$'000	31 December 2011 US$'000	31 December 2010 US$'000	31 December 2009 US$'000
Write-off	**0**	0	35	236
Non-performing assets as at the end of the previous year	**39,450**	36,262	23,589	25,624
Write-off ratio[1]	**0.00%**	0.00%	0.15%	0.92%

Note:

(1) The write-off ratio is calculated as the percentage of lease receivable write-offs over the balance of non-performing assets as of the beginning of the relevant year.

As a result of the Group's stringent risk management controls and our management of asset quality, the Group's non-performing assets write-off ratio in 2012 remained at 0.00% as it was in the previous year.

Management Discussion and Analysis

*3.2.5.4 **Status of Overdue Loans and Lease Receivables (Over 30 Days)***

The following table sets forth status of overdue loans and lease receivables (over 30 days) as of the dates indicated.

	31 December 2012 US$'000	31 December 2011 US$'000	31 December 2010 US$'000	31 December 2009 US$'000
Overdue ratio (over 30 days)	**0.30%**	0.08%	0.14%	0.38%

As a result of the Group's stringent risk management controls and our management of assets quality, the Group's lease overdue ratio (over 30 days) was 0.30% in 2012, representing an increase as compared with 0.08% as of the end of 2011.

The following table sets forth status of overdue loans and lease receivables (over 30 days) by industry as of the dates indicated.

	31 December 2012		31 December 2011	
	US$'000	**% of total**	US$'000	% of total
Healthcare	**272**	**1.01%**	–	–
Education	**1,848**	**6.84%**	551	10.26%
Infrastructure construction	**6,872**	**25.43%**	600	11.17%
Shipping	**306**	**1.13%**	–	–
Printing	**5,716**	**21.16%**	2,184	40.67%
Machinery	**6,275**	**23.23%**	2,036	37.90%
Textiles	**621**	**2.30%**	–	–
Electronic information	**5,108**	**18.90%**	–	–
Others	**–**	**–**	–	–
Total	**27,018**	**100.00%**	5,371	100.00%

Despite the increase of overdue ratio (over 30 days) in 2012, the Group adhered to stringent policy on classification and management of asset quality. As a result, most of the overdue loans and lease receivables (over 30 days) were reflected in the non-performing assets and the overall asset quality of the Company continued to be favourable.

Management Discussion and Analysis

The following table sets forth the classification of overdue loans and lease receivables (over 30 days) as of the dates indicated.

	31 December 2012		31 December 2011	
	US$'000	**% of total**	US$'000	% of total
Special mention	**88**	**0.33%**	–	–
Substandard	**8,992**	**33.28%**	668	12.44%
Doubtful	**17,938**	**66.39%**	4,225	78.67%
Loss	–	–	477	8.89%
Total	**27,018**	**100.00%**	5,371	100.00%

3.3. Liabilities (Overview)

As at 31 December 2012, the total liabilities of the Group amounted to US$7,591,255,000, representing an increase of US$1,592,813,000 or 26.55% as compared to the previous years. Among others, Interest-bearing bank and other borrowings were the major component of the total liabilities of the Group, representing 77.02%, a slight decrease from the previous year.

The following table sets forth the analysis of the liabilities as of the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change %
Interest-bearing bank and other borrowings	**5,847,102**	**77.02%**	4,705,588	78.45%	24.26%
Other payables and accruals	**1,327,729**	**17.49%**	886,186	14.77%	49.83%
Trade and bills payables	**348,563**	**4.59%**	357,354	5.96%	-2.46%
Tax payable	**40,015**	**0.53%**	34,940	0.58%	14.52%
Derivative financial instruments	**1,149**	**0.02%**	–	–	N/A
Deferred tax liabilities	**14,652**	**0.19%**	12,267	0.20%	19.44%
Deferred revenue	**12,045**	**0.16%**	2,107	0.04%	471.67%
Total liabilities	**7,591,255**	**100.00%**	5,998,442	100.00%	26.55%

Management Discussion and Analysis

3.4. Interest-bearing bank and other financing

In 2012, the profound effects of the global financial crisis continued to emerge. Europe and the Unites States along with other economies rebounded slowly. Overseas financial markets fluctuated. The growth of the domestic economy slowed down. The credit market eased and the direct financing developed rapidly. Furthermore, new steps were taken in the market orientation reform of the domestic interest rates and exchange rates and the market became much more open. As a result, the overall financial environment presented an unprecedented complex situation.

Based on the above changes of the internal and external environment, we strived to increase our ability to have access to resources and strengthened our self-control. We also placed great emphasis on the following aspects: expanding financing market, innovating financing methods, reducing finance costs and optimising capital management.

In the aspect of expanding financing market, we adhered to the established strategy of "resources globalisation" and mainly expanded the Hong Kong and Taiwan market. In the Hong Kong market, based on the good credit record and market reputation, we sourced our funds with many financing methods such as issue bonds, syndicated loans and bilateral funding and other financing tools and obtained consistent recognition. In the Taiwan market, we carried on key developments and quickly established substantial cooperation with dozens of Banks through successful distribution of several single syndicates. Our market image was set up preliminarily.

In terms of innovating financing methods, we focused on factoring, financial management and bond financing. The proportion of our non-bank financing increased significantly and our liability structure was further improved. Moreover, we successfully set up the Medium Term Note ("MTN") programs totalled US$1,000,000,000 in April, and consecutively issued US Dollar and RMB bonds successfully. Bond financing gradually became one of our conventional financing methods.

With respect to reducing financing costs, we kept up with market changes and used many ways to control the costs. In the middle of 2012, the People's Bank of China cut interest rates two times in a row. We responded rapidly by replacing some partly high-cost loans which were introduced before the interest-rate cuts to guarantee the cost to decrease simultaneously in this environment. Combined with the external market environment of low interest rates, we made full use of our own advantages and increased the introduction of US Dollar financing to reduce the overall cost of financing of the Group. The integrated use of various means helped the Group effectively control the finance costs.

Management Discussion and Analysis

On capital management, we emphasised the construction of liquidity management system and reinforced the internal controls. We improved the liquidity management system based on Basel III. We constantly improved the liquidity management system and ensured the healthiness and security of our Group's operation through the stress tests. Furthermore, we constructed the system of capital pool management, strengthened the funds central management of our subsidiaries and improved the operation efficiency of the overall funds.

The Group's business growth and capital requirements are primarily supported by multiple credit facilities granted by various financial institutions to the Group's operating entities.

As of 31 December 2012, the Group's interest-bearing bank and other borrowings (including deposits for lease and entrusted loans) amounted to US$7,024,076,000, of which interest-bearing bank and other borrowings amounted to US$5,847,102,000, representing an increase of 24.26% as compared with US$4,705,588,000 as of the end of the previous year. This is primarily because the Group increased the amount of bank loans in 2012 in order to support the growth of the Group's lease receivable portfolio as we expanded our business operations. The Group's borrowings were mainly denominated in RMB and US$ with variable interest rates.

The following table sets forth, as of the dates indicated, the distribution between current and non-current interest-bearing bank and other borrowings.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change%
Current	**3,010,726**	**51.49%**	1,918,048	40.76%	56.97%
Non-current	**2,836,376**	**48.51%**	2,787,540	59.24%	1.75%
Total	**5,847,102**	**100.00%**	4,705,588	100.00%	24.26%

As of 31 December 2012, the Group's current interest-bearing bank and other borrowings (including the portion of short--term borrowings and long-term borrowings maturing with one year) as a percentage of the Group's total interest-bearing bank and other borrowings was 51.49%, it increased by 10.73 percentage points from 40.76% as of 31 December 2011. In 2012, the Group made no change to the Group's policies with respect to the term structure of current and non-current bank and other borrowings.

Management Discussion and Analysis

The following table sets forth, as of the dates indicated, the distribution between secured and unsecured interest-bearing bank and other borrowings.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change%
Secured	**2,233,832**	**38.20%**	2,060,091	43.78%	8.43%
Unsecured	**3,613,270**	**61.80%**	2,645,497	56.22%	36.58%
Total	**5,847,102**	**100.00%**	4,705,588	100.00%	24.26%

In 2012, the Group carefully managed its funding risk. As of 31 December 2012, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 61.80% of the Group's total interest-bearing bank and other borrowings, representing an increase as compared to the end of the previous year.

The following table sets forth, as of the dates indicated, the interest-bearing bank and other borrowings based on the distribution between bank loans, related-party borrowings and other loans.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change%
Bank loans	**4,655,945**	**79.63%**	3,517,379	74.75%	32.37%
Related-party borrowings	**173,529**	**2.97%**	650,998	13.83%	-73.34%
Other loans	**1,017,628**	**17.40%**	537,211	11.42%	89.43%
Total	**5,847,102**	**100.00%**	4,705,588	100.00%	24.26%

The proportion of the Group's related-party borrowings as a percentage to the Group's total bank and other borrowings was 2.97% as of 31 December 2012, representing a decreased of 10.86 percentage points as compared to the end of the previous year as the Group chose to utilise more on other borrowings to expand the Group's business.

Management Discussion and Analysis

The following table sets forth, as at the dates indicated, the interest-bearing bank and other borrowings based on the local and overseas distribution.

	31 December 2012		31 December 2011		
	US$'000	% of total	US$'000	% of total	Change%
Local	**4,704,845**	**80.46%**	3,819,776	81.18%	23.17%
Overseas	**1,142,257**	**19.54%**	885,812	18.82%	28.95%
Total	**5,847,102**	**100.00%**	4,705,588	100.00%	24.26%

The proportion of the Group's total domestic bank and other borrowings was 80.46% as of 31 December 2012, a decrease as compared to the end of the previous year as the Group chose to utilise more overseas borrowings to expand the Group's business.

The following table sets forth the distribution of interest-bearing bank and other borrowings by currency as of the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	% of total	US$'000	% of total	Change%
RMB	**5,133,416**	**87.79%**	4,308,284	91.56%	19.15%
US$	**711,722**	**12.17%**	397,304	8.44%	79.14%
Other currency borrowings	**1,964**	**0.04%**	–	–	N/A
Total	**5,847,102**	**100.00%**	4,705,588	100.00%	24.26%

The proportion of the Group's total RMB business bank and other borrowings was 87.79% as of 31 December 2012, a decrease as compared to the end of the previous year as the Group chose to utilise more borrowings of US$ and other currencies to expand the Group's business.

Management Discussion and Analysis

The following table sets forth the distribution of interest-bearing bank and other borrowings by direct financing and indirect financing as of the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change%
Direct financing	**547,494**	**9.36%**	422,003	8.97%	29.74%
Indirect financing	**5,299,608**	**90.64%**	4,283,585	91.03%	23.72%
Total	**5,847,102**	**100.00%**	4,705,588	100.00%	24.26%

The proportion of the Group's total direct bank and other borrowings was 90.64% as of 31 December 2012, decreased as compared to the end of the previous year as the Group still actively chose to utilise more direct financing to expand the Group's business.

3.5. Shareholder's equity

As at 31 December 2012, total equity of the Group amounted to US$2,045,254,000, representing an increase of US$568,994,000 or 38.54%.

As at 30 March 2011, in connection with the Company's IPO as defined in the prospectus of the Company dated 18 March 2011 (the "Prospectus"), 816,000,000 new ordinary shares of the Company of HK$0.01 each were issued at a price of HK$6.29 per share resulting in gross proceeds of HK$5,132,640,000 (equivalent to US$658,566,000).

As at 31 March 2011, an over-allotment option was exercised and additional 122,400,000 ordinary shares of HK$0.01 each were then issued on 6 April 2011 at a price of HK$6.29 per share resulting in gross proceeds of HK$769,896,000 (equivalent to US$99,054,000).

As at 2 April 2012, the Company issued additional 450,000,000 ordinary shares of HK$0.01 each at a price of HK$6.40 per share resulting in gross proceeds of HK$2,880,000,000 (equivalent to US$370,909,000).

Management Discussion and Analysis

The following table sets forth the analysis of equity as at the dates indicated.

	31 December 2012		31 December 2011		
	US$'000	**% of total**	US$'000	% of total	Change%
Issued share capital	**4,227**	**0.20%**	3,647	0.25%	15.90%
Reserves	**2,039,283**	**99.71%**	1,471,975	99.71%	38.54%
Non-controlling interests	**1,744**	**0.09%**	638	0.04%	173.35%
Total equity	**2,045,254**	**100.00%**	1,476,260	100.00%	38.54%

4. Analysis on Cash Flows Statement

	For the year ended 31 December		
	2012	2011	
	US$'000	US$'000	Change%
Net cash flow from operating activities	**(1,881,924)**	(1,943,729)	-3.18%
Net cash flow from investing activities	**21,153**	(54,583)	-138.75%
Net cash flow from financing activities	**1,436,703**	2,583,756	-44.39%
Effect of exchange rate changes on cash and cash equivalents	**1,777**	22,559	-92.12%
Net increase/(decrease) in cash and cash equivalents	**(422,291)**	608,003	-169.46%

As of 31 December 2012, the Group had net cash outflow from operating activities in the amount of US$1,881,924,000 as the Group expanded its business and increased the balance of net lease receivables. Correspondingly, the Group increased its bank and other borrowings, which were recorded as cash inflow from financing activities. Moreover, the Company issued additional 450,000,000 shares on 2 April 2012. As a result, net cash inflow from financing activities was US$1,436,703,000 as of 31 December 2012. Net cash inflow from investing activities was US$21,153,000, which was primarily attributable to the impact from the unsecured time deposit of the Group due to be withdrawn. As of 31 December 2012, the Group's cash and cash equivalents amounted to US$239,074,000, the majority of which were denominated in RMB, US$ and HK$.

Management Discussion and Analysis

5. Capital Management

The primary objective of the Group's capital management activities is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. In 2012, no change was made to the objectives, policies or processes for managing capital.

5.1. Gearing Ratio

The Group monitors its capital by gearing ratio.

The following table sets forth the gearing ratios as of the dates indicated.

	31 December 2012 US$'000	31 December 2011 US$'000
Total assets	**9,636,509**	7,474,702
Total liabilities	**7,591,255**	5,998,442
Total equity	**2,045,254**	1,476,260
Gearing ratio	**78.78%**	80.25%

In 2012, the Group made full use of its capital leverage for our operations to keep the Group's gearing ratio relatively high while at the same time closely managing the Group's gearing ratio to avoid potential liquidity risks. As at 31 December 2012, our gearing ratio was maintained at a reasonable level, was 78.78%.

Management Discussion and Analysis

5.2. Ratio of Assets at Risk to Equity

The following table sets forth the ratio of assets at risk to equity as of the dates indicated.

	31 December 2012 US$'000	31 December 2011 US$'000
Total assets	**9,075,535**	7,098,560
Less: Cash	**316,233**	795,360
Total assets at risk	**8,759,302**	6,303,200
Equity	**1,867,628**	1,389,894
Ratio of assets at risk to equity	**4.69**	4.54

In accordance with the requirements of the Measures on the Administration of Foreign Investment in the Leasing Industry, the assets at risk of International Far Eastern Leasing Co., Ltd. should not exceed 10 times of its equity. As at 31 December 2012, the Group's ratio of assets at risk to equity was 4.69, which was in compliance with the ratio of assets at risk to equity requirements of the measures.

6. Capital Expenditures

The Group's capital expenditure was US$46,360,000 in 2012, which was mainly used for expenditures for additions of property, plant and equipment.

Management Discussion and Analysis

7. Risk Management

7.1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings and lease receivables.

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 modelling). 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 measures to mitigate such risk.

The table below demonstrates the sensitivity to a reasonable possible change in interest rate, to the Group's profit before tax with all other variables held constant.

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. The effect of the assumed changes in interest rates on profit before tax is the change in profit of the assets relative to the non-interest-bearing assets (non-interest-bearing liabilities and equity) of the Group. The effect to the interest-bearing part is very light.

	Increase/(decrease) in profit before tax of the Group As of 31 December	
	2012	2011
	US$'000	US$'000
Change in basis points		
+100 basis points	**31,097**	28,163
-100 basis points	**(31,097)**	(28,163)

Management Discussion and Analysis

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 foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the operating activities of the Group (when receipt or payment is settled using a currency that is different from the functional currency).

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and to a lesser extent, other currencies. The Group's treasury operations exposure mainly arises from its transactions in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The exchange rate of RMB to US$ is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to the US$ and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to US$.

The table below indicates a sensitivity analysis of changes in the exchange rate of the currency to which the Group had exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rate against the RMB, with all other variables held constant, on profit before tax. This effect, however, is based on the assumption that the Group's foreign exchange exposures as of the end of each reporting period are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

		Increase/(decrease) in profit before tax of the Group As of 31 December	
		2012	2011
Currency	Change in currency rate	**US$'000**	US$'000
US dollar	-1%	**765**	1,089

Since the net position is comparatively small, the Group has only adopted a small part of financial instruments to hedge against currency risk.

Management Discussion and Analysis

7.3. Liquidity Risk

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

The Group manages its liquidity risk through daily monitoring with the following objectives: maintaining the stability of the leasing business, projecting cash flows and evaluating the level of current assets and in liquidity of the Group, maintaining an efficient internal fund transfer mechanism.

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

	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
			As of 31 December 2012			
Total financial assets	**248,979**	**1,103,014**	**3,229,221**	**6,242,418**	**113,634**	**10,937,266**
Total financial liabilities	**8,678**	**1,096,923**	**2,718,567**	**4,138,308**	**35,178**	**7,996,654**
Net liquidity gap	**240,301**	**6,091**	**510,654**	**2,105,110**	**78,456**	**2,940,612**
			As of 31 December 2011			
Total financial assets	670,285	788,122	2,192,931	4,772,240	98,960	8,522,538
Total financial liabilities	32,277	852,791	1,585,660	3,946,671	19,718	6,437,117
Net liquidity gap	638,008	(64,669)	607,271	825,569	79,242	2,085,421

8. Charges on Group Assets

In May 2012, the Company entered into a facility agreement with certain banks pursuant to which the Company assigned, among other things, certain rights in the inter-company loan to those banks as security for the payment and discharge of the obligations thereunder. As of 31 December 2012, the Group had lease receivables in the amount of US$3,224.32 million and cash in the amount of US$28.53 million pledged or charged to the bank in order to secure the bank borrowings.

9. Material Investments, Acquisitions or Disposals

As of 31 December 2012, the Company had no material investment and there was no material acquisition and disposal of subsidiaries and associated companies.

10. Human Resources

As of 31 December 2012, the Group had 1,817 full-time employees, an increase of 464 full-time employees compared to 1,353 by the end of 2011.

During 2012 and 2011, the Group incurred employee benefit expenses of US$124,660,000 and US$76,310,000, respectively, representing approximately 12.10% and 10.45% of the Group's total revenue for those periods.

The Group believes it has a high quality work force with specialised industry expertise, with approximately 82.59% of the Group's employees having bachelor's degrees and above and approximately 49.82% having master's degrees and above as of 31 December 2012.

The Group has established effective employee incentive schemes to correlate the remuneration of our employees with their overall performance and contribution to the Company rather than operational results, and have established a merit-based remuneration awards system. Employees are promoted not only in terms of position and seniority, but also in terms of professional classification. Our senior employees are reviewed every quarter on the basis of, among other criteria, their performance as business leaders to achieve stipulated performance targets (such as budget targets) and their risk management capabilities on the operational matters under their charge.

Management Discussion and Analysis

Employee benefits

In accordance with applicable PRC regulations, the Group has made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. The Group also provides supplemental commercial medical insurance, property insurance and safety insurance in addition to those required under the PRC regulations. As of 31 December 2012, the Group had complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

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

11.1.Contingent liabilities

As of 31 December 2012, no legal proceeding was initiated by any third party against Group as defendant.

The table below sets forth the total outstanding claims as of each of the dates indicated.

	As of 31 December 2012 US$'000	As of 31 December 2011 US$'000
Legal proceeding:		
Claimed amounts	–	158

Management Discussion and Analysis

11.2.Capital Commitments and Credit Commitments

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

	As of 31 December 2012 US$'000	As of 31 December 2011 US$'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	**5,838**	2,071
Irrevocable credit commitments	**530,797**	605,542

The Group's irrevocable credit commitments represent leases that have been signed but where the term of the lease has not started. The increase from 31 December 2011 to 31 December 2012 was primarily due to the expansion of the Group's business during 2012.

Besides the capital commitments stated above, the Group had no other material plans for major investment or capital assets acquisition.

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2012.

Corporate Governance Practices

The Board of the Company has committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good corporate governance to the Group's success and sustainability. We are committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency and accountability.

The Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules, issued by the Stock Exchange in October 2011, is the new edition of the Code on Corporate Governance Practices (the "Former Code") as contained in Appendix 14 of the Listing Rules, and is applicable to financial reports covering an accounting period which ends after 1 April 2012.

During the accounting period for the year ended 31 December 2012, the Company has complied with all the Code Provisions set out in the CG Code during the period from 1 April 2012 to 31 December 2012 as well as the Former Code during the period from 1 January 2012 to 31 March 2012, except for Code Provision E.1.2 and A.6.7 as explained in the paragraph headed "Communication with shareholders and Investors/Investor Relations" below.

The Company will continue to enhance its corporate governance practices as appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

Corporate Governance Report

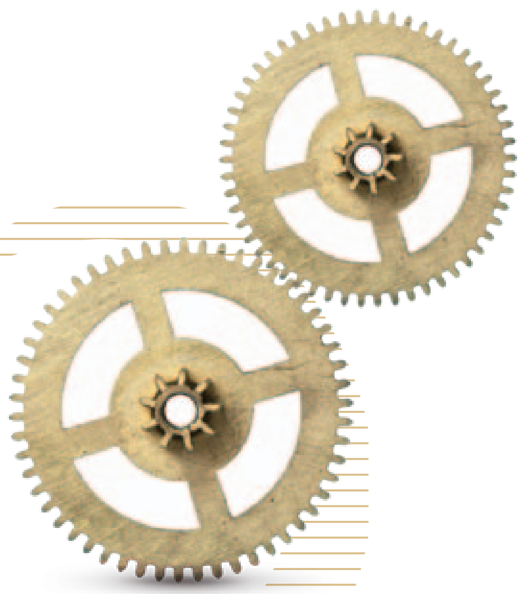
Directors' Securities Transactions

The Company has devised its own code of conduct regarding directors' dealings in the Company's securities (the "Code of Conduct") on terms. no less exacting than the required standard set out in Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2012.

The Company has also established written guidelines no less exacting than the required standard set out in the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.



Corporate Governance Report

Board of Directors

The Board currently comprises 11 members, consisting of 2 executive directors, 5 non-executive directors and 4 independent non-executive directors.

The list of all directors, which also specifies the posts held by each director is set out under "Corporate Information" on page 4. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Board of the Company currently comprises the following directors:

Executive directors:
Mr. Kong Fanxing *(Vice Chairman, Chief Executive Officer)*
Mr. Wang Mingzhe *(Chief Financial Officer)*

Non-executive directors:
Mr. Liu De Shu *(Chairman)*
Mr. Yang Lin
Ms. Shi Dai *(resigned with effect from 18 March 2013)*
Mr. Liu Haifeng David
Mr. Kuo Ming-Jian *(appointed with effect from 18 March 2013)*
Ms. Sun Xiaoning *(resigned with effect from 25 October 2012)*
Mr. John Law *(appointed with effect from 25 October 2012)*

Independent non-executive directors:
Mr. Cai Cunqiang
Mr. Han Xiaojing
Mr. Liu Jialin
Mr. Yip Wai Ming

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

Corporate Governance Report

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Liu De Shu, and the Chief Executive Officer is Mr. Kong Fanxing. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgment. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Officer focuses on implementing objectives, policies and strategies and delegated by the Board.

Independent Non-Executive Directors

During the year ended 31 December 2012, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent.

Non-Executive Directors and Directors' Re-election

The non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors have made various contributions to the effective direction of the Company.

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

According to the articles of association of the Company, each of the directors of the Company as appointed under a general meeting of the Company is appointed for a specific term of 3 years and he/she may serve consecutive terms if re-elected by the Company in general meeting upon the expiration of his/her term. For further details of the re-election of the directors of the Company, please refer to page 92 of the "Directors' Report".

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board make decisions objectively in the interests of the Company.

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

All directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

All directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

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

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

The Company has arranged for appropriate insurance cover for directors' and senior officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Corporate Governance Report

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, all directors have participated in appropriate continuous professional development activities by reading materials including regulatory update and seminar handouts or reviewing the papers and circulars sent by the Company. As part of the continuous professional development programme, directors are also encouraged to participate in the various briefings and visits to local management and the Company's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the directors. Details are as follows:

Directors	Reading Relevant Materials	Visiting/Interviewing Key Management
Executive Directors		
Mr. Kong Fanxing	√	√
Mr. Wang Mingzhe	√	√
Non-Executive Directors		
Mr. Liu De Shu	√	√
Mr. Yang Lin	√	√
Ms. Shi Dai	√	√
Mr. Liu Haifeng David	√	√
Ms. Sun Xiaoning	√	√
Mr. John Law	√	√
Independent Non-Executive Directors		
Mr. Cai Cunqiang	√	√
Mr. Han Xiaojing	√	√
Mr. Liu Jialin	√	√
Mr. Yip Wai Ming	√	√

Corporate Governance Report

Board Committees

The Board has established 3 committees, namely, Audit Committee, Remuneration and Nomination Committee and Strategy and Investment Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 4.

Audit Committee

The Audit Committee comprises 2 independent non-executive directors, namely, Mr. Yip Wai Ming (Chairman of the Committee) and Mr. Han Xiaojing, and 1 non-executive director, namely, Mr. John Law (who has been appointed with effect from 25 October 2012 to replace Ms. Sun Xiaoning who has resigned with effect from 25 October 2012). Mr. Yip Wai Ming possesses the appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

- To review the financial information
- To review the relationship with the external auditors
- To review financial reporting system, internal control system and risk management system
- To review the annual budget and final accounts

The Audit Committee held 4 meetings during the year ended 31 December 2012 to review the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions and arrangements for employees to raise concerns about possible improprieties. The attendance records of the Audit Committee are set out under "Attendance Record of Directors and Committee Members" on pages 75 to 76.

The Audit Committee also met the external auditors once without the presence of the executive directors.

The Company's annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee.

Corporate Governance Report

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises 3 members of 2 independent non executive directors, namely, Mr. Liu Jialin (Chairman of the Committee), Mr. Han Xiaojing and 1 non-executive director, namely, Mr. Kuo Ming-Jian (who has been appointed with effect from 18 March 2013 to replace Ms. Shi Dai who has resigned with effect from 18 March 2013). The majority of them are independent non-executive directors.

The principal duties of the Remuneration and Nomination Committee include the following:

- To make recommendations to the Board on the remuneration packages of the individual executive directors and senior management
- To review and make recommendations to the Board on the remuneration of the non-executive directors
- To review and make recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management
- To make recommendations to the Board on the terms of service contract(s) or letter(s) of appointment of the new executive director(s) appointed during the year
- To assess the independence of the independent non-executive directors
- To consider and/or make recommendations to the Board on the re-election of directors
- To review the structure, size and composition of the Board and/or where appropriate, make recommendations to the Board on the proposed changes to complement the Company's corporate strategy

The criteria adopted by the Remuneration and Nomination Committee in considering whether the relevant personnel are suitable to the directors include their qualifications, experience, expertise and knowledge, as well as provisions of the Listing Rules.

The Remuneration and Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. External recruitment professionals might be engaged to carry out selection process when necessary.

The Remuneration and Nomination Committee met once during the year ended 31 December 2012 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The attendance records of the Remuneration and Nomination Committee are set out under "Attendance Record of Directors and Committee Members" on pages 75 to 76.

Corporate Governance Report

Strategy and Investment Committee

The Strategy and Investment Committee comprises 3 members, namely, Mr. Liu Haifeng David (Chairman of the Committee), Mr. Kong Fanxing and Mr. Cai Cunqiang.

The primary function of the Strategy and Investment Committee is to make recommendations to the Board about the strategy, investment plans and investment profit forecast, oversee and formulate risk management and internal control procedures and review material risk matters and transactions.

During the year ended 31 December 2012, no meeting of the Strategy and Investment Committee was held. The attendance records of the Strategy and Investment Committee are set out under "Attendance Record of Directors and Committee Members" on pages 75 to 76.

Attendance Record of Directors and Committee Members

During the year ended 31 December 2012, 4 regular Board meetings and 1 extraordinary Board meeting were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Corporate Governance Report

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration and Nomination Committee	Strategy and Investment Committee	Annual General Meeting
Executive Directors					
Mr. Kong Fanxing	5/5	Not applicable	Not applicable	0/0	1/1
Mr. Wang Mingzhe	5/5	Not applicable	Not applicable	Not applicable	1/1
Non-Executive Directors					
Mr. Liu De Shu	5/5	Not applicable	Not applicable	Not applicable	0/1
Mr. Yang Lin	5/5	Not applicable	Not applicable	Not applicable	0/1
Ms. Shi Dai *(resigned with effect from 18 March 2013)*	5/5	Not applicable	1/1	Not applicable	1/1
Mr. Liu Haifeng David	2/5	Not applicable	Not applicable	0/0	0/1
Ms. Sun Xiaoning *(resigned with effect from 25 October 2012)*	4/4	3/3	Not applicable	Not applicable	0/1
Mr. John Law *(appointed with effect from 25 October 2012)*	1/1	1/1	Not applicable	Not applicable	Not applicable
Independent Non-Executive Directors					
Mr. Cai Cunqiang	5/5	Not applicable	Not applicable	0/0	0/1
Mr. Han Xiaojing	5/5	3/4	1/1	Not applicable	0/1
Mr. Liu Jialin	5/5	Not applicable	1/1	Not applicable	0/1
Mr. Yip Wai Ming	5/5	4/4	Not applicable	Not applicable	1/1

Apart from the Board meetings stated above, the Chairman also held one meeting with the non-executive directors (including independent non-executive directors) without the presence of executive directors on 22 August 2012.

Corporate Governance Report

Directors' Responsibility in Respect of The Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

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

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 109 to 110.

Where appropriate, a statement will be submitted by the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

Auditor's Remuneration

The statement by the external auditors of the Company about their reporting responsibilities relating to the financial statements for the year ended 31 December 2012 is set out in the "Independent Auditors' Report" on pages 109 to 110.

The remuneration paid/payable to the Company's external auditors of the Company in respect of annual audit service and interim review service for the year ended 31 December 2012 amounted to US$456,000 and US$95,000 respectively.

Corporate Governance Report

Internal Controls

The Company has established its Risk Management Committee and Internal Audit Department .

The Risk Management Committee oversees risk management processes within the Group. The main duties and responsibilities of the Risk Management Committee are to design risk management systems and policies, to review, approve and supervise overall risk management measures and procedures and their general implementation.

The Internal Audit Department operates independently from the business operation and management of the Company. It reports directly to the Audit Committee on a regular basis and performs independent audits of the reasonableness, completeness and effectiveness of the operational management and risk controls. There are four teams in the Internal Audit Department, namely operation audit team, management audit team, IT audit team and discipline inspection team. Internal Audit Department plans and arranges resources to ensure supervision and assessment of the key control aspects including but not limited to operational monitoring, financial monitoring, compliance monitoring, information security and management duties supervision. During the course of its audits, the Internal Audit Department is authorized to comprehensively inspect, analyze, evaluate and audit all of the business and operational procedures to identify any material issues or risk matters, and to provide advice for improvement and rectification. The Internal Audit Department is also the main communication channel with relevant external regulatory entities, such as courts and public safety bureaus. Internal Audit Department conducts follow-up audits to monitor the updated status of previously identified issues to ensure corrective and remedial measures have been duly implemented and are enforced. It also evaluates the non-compliance of the risk management policies and procedures by key personnel in the operational process, and may make recommendations to the senior management and the Board to impose certain penalties.

Corporate Governance

The Board is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

Corporate Governance Report

(e) to review the Company's compliance with the CG Code which is amended from time to time, and its disclosure in the corporate governance report.

To discharge our corporate governance duties, the compliance manual on connected transactions was updated and a shareholders' communication policy was devised.

Company Secretary

Ms. Mak Sze Man of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary. Its primary contact person at the Company is Mr. Kong Fanxing, an executive director and Chief Executive Officer of the Company.

Shareholders' Rights

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

Convening an Extraordinary General Meeting by Shareholders

Extraordinary general meetings may be convened by the Board on requisition of shareholder(s) holding not less than one-twentieth of the paid up capital of the Company or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition, which must be signed by the Requisitionist(s) and deposited at the registered office of the Company at Room4701, Convention Plaza, 1 Habour Road, Wanchai, Hong Kong for the attention of the Company Secretary.

If the directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene an extraordinary general meeting for a day not more than 28 days after the date on which the notice convening an extraordinary general meeting is given, the shareholder(s) concerned or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an extraordinary general meeting, provided that the extraordinary general meeting so convened shall not be held after the expiration of 3 months from such date.

Corporate Governance Report

The extraordinary general meeting convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the directors. Shareholders should follow the requirements and procedures as set out in section 113 of the Companies Ordinance for convening an extraordinary general meeting.

Putting Forward Proposals at General Meetings

Pursuant to Section 115A of the Companies Ordinance, the following shareholders, namely: (1) shareholders representing not less than one-fortieth of the total voting rights of all shareholders; or (2) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than $2000, may submit a requisition in writing to put forward a resolution or business to be dealt with at the next general meeting.

The Company shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of a general meeting unless (a) a copy of the requisition signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company at Room 4701, Office Tower, Convention Plaza, 1 Harbour road, Wanchai, Hong Kong for the “Attention of the Company Secretary” not less than 6 weeks before a general meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before a general meeting in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company’s expenses in giving effect thereto.

Shareholders should follow the requirements and procedures as set out in Section 115A of the Companies Ordinance for putting forward a proposal at a general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Room 4706, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong (For the attention of the Board of Directors/Chief Investor Relations Officer)
Fax:	86-21-50490066
Email:	IR-Horizon@sinochem.com
Attention:	Company Secretary

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

Code provision E.1.2 of the New Code stipulates that, among others, the chairman of the Board shall attend the annual general meeting of the listed issuers and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.

Corporate Governance Report

At the annual general meeting of the Company held on 13 June 2012 (the "2012 AGM"), Mr. Liu De Shu, (Chairman of the Board), Mr. Liu Haifeng, David (Chairman of the Strategy and Investment Committee) and Mr. Liu Jialin (Chairman of the Remuneration and Nomination Committee) were unable to attend due to other important business engagements. In order to ensure smooth holding of the 2012 AGM, Mr. Kong Fanxing, an executive director and Chief Executive Officer of the Company, chaired the 2012 AGM. Furthermore, Mr. Kong Fanxing (as a member of the Strategy and Investment Committee) together with Ms. Shi Dai (a former non-executive director of the Company and a former member of the Remuneration and Nomination Committee) and Mr. Yip Wai Ming (an independent non-executive director of the Company and Chairman of the Audit Committee) were available at the 2012 AGM to answer questions where necessary.

Code Provision A.6.7 of the New Code stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

At the 2012 AGM, a few independent non-executive directors and non-executive directors were unable to attend the 2012 AGM due to other important business engagements at the relevant time.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Biographies of Directors and Senior Management

Mr. LIU Deshu (劉德樹) – Non-Executive Director and Chairman

Mr. LIU Deshu (劉德樹), aged 61, was appointed as a non-executive Director and the Chairman of the Company in December 2010. Mr. Liu graduated from Tsinghua University in China in 1979 and obtained an MBA degree from China Europe International Business School in May 1998. In March 1998, Mr. Liu was appointed as the president of Sinochem Group and has held that position since then. Prior to joining Sinochem Group, Mr. Liu had been the deputy general manager, the general manager and the chairman of China National Machinery Import & Export Corporation.

Currently, Mr. Liu is also the chairman of Sinofert Holdings Limited, Sinochem Corporation and Sinochem Quanzhou Petrochemical Co., Ltd. (中化泉州石化有限公司). Mr. Liu has approximately 30 years of experience in foreign trade, machinery and petrochemical industry.

Mr. KONG Fanxing (孔繁星) – Executive Director, Vice Chairman, Chief Executive Officer

Mr. KONG Fanxing (孔繁星), aged 49, is an executive Director, the Vice Chairman and the Chief Executive Officer of the Company. Mr. Kong received an EMBA degree from Peking University (北京大學) in January 2006, a master's degree in Economics and a bachelor's degree in Economics from University of International Business and Economics (對外經濟貿易大學) in China in June 1991 and July 1986, respectively. Mr. Kong joined Sinochem Group in August 1991. During the period which Mr. Kong worked for Sinochem Group, he had been the general manager of Sinochem International Engineering Trade Company (中化國際工程貿易公司), the deputy general manager of Sinochem International Industrial Company (中化國際實業公司), the deputy general manager, general manager of Sinochem International Tendering Co., Ltd. (中化國際招標有限責任公司), the deputy chief of the fertiliser division, the executive deputy general manager of Sinochem International Fertilizer Trading Company (中化國際化肥貿易公司) respectively. In April 2001, he joined International Far Eastern Leasing Co., Ltd (遠東國際租賃有限公司) ("Far Eastern") and has become the general manager since then. Mr. Kong has been the President and Chief Executive Officer of the Company since September 2009. Currently, Mr. Kong is also an executive director and general manager of Shanghai Donghong Co., Ltd. (上海東泓實業發展有限公司).

Mr. Kong has nearly 20 years of experience in enterprise management.

Biographies of Directors and Senior Management

Mr. YANG Lin (楊林) – Non-Executive Director

Mr. YANG Lin (楊林), aged 49, has been a non-executive Director of the Company since October 2009. Mr. Yang obtained a bachelor's degree in Economics from Tianjin Commerce Collage (天津商學院) in China in July 1985, and studied enterprise management course in University of Stuttgart in Germany (德國思圖加特大學) from 1990 to 1993. Mr. Yang then worked for Siemens AG and Wella AG from 1993 to 1994. In July 1994, Mr. Yang joined Sinochem Group and has worked there ever since. In Sinochem Group, Mr. Yang served as the deputy general manager of the finance and accounting department, the general manager of the treasury department and the deputy general manager of the investment and development department. Currently, Mr. Yang is the chief financial officer of Sinochem Group as well as the chief financial officer and the chairman of the budget and evaluation committee of Sinochem Corporation.

Mr. Yang has approximately 20 years of experience in finance and treasury management.

Mr. WANG Mingzhe (王明哲) – Executive Director and Chief Financial Officer

Mr. WANG Mingzhe (王明哲), aged 42, is an executive Director and the Chief Financial Officer of the Company. Mr. Wang obtained a bachelor's degree in Economics from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in China in July 1993 and an MBA degree from North-eastern University (東北大學) in China in March 2003. Mr. Wang joined Far Eastern in October 1995 and has worked there since then. In Far Eastern, Mr. Wang served as the manager of the business development department, the deputy general manager of the first business division, the deputy general manager, the general manager and assistant general manager of quality control department and the chief financial officer. In September 2009, Mr. Wang was appointed as the Chief Financial Officer of the Company and he has held these positions since then.

Mr. Wang has over 17 years of experience in finance management.

Ms. SHI Dai (石岱) – Non-Executive Director

Ms. Shi Dai (石岱), aged 46, was a non-executive Director of the Company since October 2009 and resigned in March 2013. Ms. Shi obtained a bachelor's degree in Engineering from Shanghai Jiaotong University (上海交通大學) in China in July 1990, a bachelor's degree in Economics from University of International Business and Economics (對外經濟貿易大學) in China in June 1994 and an MBA degree from China Europe International Business School in September 2010. Since August 1994, Ms. Shi has worked in Sinochem Group and served as the deputy general manager of human resources department, the manager of risk management department, the deputy general manager of Xi'an Jinzhu Modern Chemicals Co., Ltd. (西安金珠近代化工有限公司), and the deputy general manager of the investment department. Currently, Ms. Shi is a director of Communist Party of China (CPC) office at Sinochem Corporation.

Ms. Shi has approximately 20 years of experience in risk management, sales management and human resources management.

Biographies of Directors and Senior Management

Mr. LIU Haifeng David (劉海峰) – Non-Executive Director

Mr. LIU Haifeng David (劉海峰), aged 43, has been a non-executive Director of the Company since October 2009.

Mr. Liu is a global partner of KKR Asia Limited and the head of KKR Greater China. Prior to joining KKR, Mr. Liu served as managing director and co-head of Morgan Stanley Private Equity Asia. Mr. Liu has 18 years of experience in direct investment; he has achieved excellent result in long-term investment. Mr. Liu was responsible for a number of successful and innovative direct investments, such as Mengniu Dairy, Ping An Insurance, Belle International, Nanfu Battery, Hengan International, Shanshui Cement, Modern Farming and the Company etc.

Mr. Liu graduated from Columbia University in the United States as Class Salutatorian with a B.S. in Electrical Engineering. He is a member of Tau Beta Pi National Engineering Honor Society and was granted the Edwin Howard Armstrong Memorial Award for the top electrical engineering student at Columbia University.

Mr. Liu is also a non-executive director of United Envirotech Ltd which is a listed company in Singapore.

Mr. KUO Ming-Jian (郭明鑑) – Non-Executive Director

Mr. KUO Ming-Jian (郭明鑑), aged 51, was appointed as a non-executive Director of the Company in March 2013.

Mr. Kuo is currently a Senior Advisor of Blackstone Private Equity and was appointed as the Vice Chairman and a Senior Managing Director of Blackstone, Great China since 2007. Before joining Blackstone, Mr. Kuo was a Partner and Co-Vice Chairman and Managing Director, Head of greater China in H&Q Asia Pacific. Before that, Mr. Kuo was also the Country Head and Head of Investment Banking for JPMorgan in Hong Kong and the Vice Chairman of JPMorgan's greater China Operating Committee.

Mr. Kuo is currently an independent non-executive director of Cathay Financial Holdings Co., Ltd., an independent non-executive director of Cathay Life Insurance Co., Ltd. and an independent non-executive director of Samson Holding Limited.

Mr. Kuo received his undergraduate degree from Fu-Jen Catholic University and holds an MBA degree from City University of New York.

Biographies of Directors and Senior Management

Ms. SUN Xiaoning (孫小寧) – Non-Executive Director

Ms. SUN Xiaoning (孫小寧), aged 44, was appointed as a non-executive Director of the Company in October 2009 and resigned in October 2012. Ms. Sun Xiaoning is serving as the Senior Vice President of The Government of Singapore Investment Corporation. Ms. Sun Xiaoning has over 20 years of experience in finance industry. Prior to joining The Government of Singapore Investment Corporation, she was a senior investment officer and worked for McKinsey & Company. Prior to that, Ms. Sun Xiaoning also served as a financial analyst and project officer in the People's Bank of China.

Ms. Sun Xiaoning obtained an MBA degree from the Wharton School of University of Pennsylvania.

Mr. John LAW (羅強) – Non-Executive Director

Mr. John LAW (羅強), aged 62, was appointed as a non-executive director of the Company on 25 October 2012.

From 1995 to 2000, Mr. Law worked for J.P. Morgan & Co. as training head of Asia Pacific Region, as risk manager for Greater China Region and as senior credit officer for Asia Pacific Region, Euroclear respectively. He then worked for Citibank/Citigroup from 2000 to 2003 as the regional credit officer for Asia Pacific Financial Markets. Prior to joining the Company, he worked for International Finance Corporation from 2004 to 2012 as the principal banking specialist for global financial markets.

Mr. Law holds a master degree in business administration (finance) from Indiana University in USA and has nearly 30 years' experience in finance.

Mr. CAI Cunqiang (蔡存強) – Independent Non-Executive Director

Mr. CAI Cunqiang (蔡 存 強), aged 63, was appointed as an independent non-executive Director of the Company in March 2011. Mr. Cai graduated from Shanghai Maritime College (上海海運學院) (now known as Shanghai Maritime University (上海海事大學)) in 1977, and worked for that college since then. He was promoted to be a deputy professor in 1993 and later a professor in 1995. In 2001, Mr. Cai became the deputy dean of Shanghai Maritime College and was awarded the special government allowance by the State Council. Currently, Mr. Cai is the vice principal, the professor and the tutor of PHD students of Shanghai Maritime University. He is also a part-time lawyer in Shanghai Yingtai Law Firm (上海瀛泰律師事務所), an arbitrator of China Maritime Arbitration Commission (中國海事仲裁委員會), and an independent director of Winsan (Shanghai) Industrial Corporation Ltd. (運盛(上海)實業股份有限公司).

Mr. Cai is admitted to practicing law in the PRC. Mr. Cai has 36 years of experience in the shipping industry.

Biographies of Directors and Senior Management

Mr. HAN Xiaojing (韓小京) – Independent Non-Executive Director

Mr. HAN Xiaojing (韓小京), aged 58, was appointed as an independent non-executive Director of the Company in March 2011. From 1986 to 1992, Mr. Han worked at China Law Center (中國法律事務中心). During the same period, he spent three and a half years at Zimmerman Lawyers (默爾曼律師事務所) in Canada and Livasiri & Co. (廖綺雲律師事務所) in Hong Kong for study. In 1992, Mr. Han was involved in the establishment of Commerce & Finance Law Offices (北京市通商律師事務所), and has been a partner there ever since. Mr. Han is admitted to practicing law in the PRC and has 26 years of experience in the legal profession.

Currently, Mr. Han is an independent non-executive Director of Sino-Ocean Land Holdings Limited (遠洋地產控股有限公司) and an independent director of Shenzhen Overseas Chinese Town Co., Ltd. (深圳華僑城股份有限公司).

Mr. LIU Jialin (劉嘉凌) – Independent Non-Executive Director

Mr. LIU Jialin (劉嘉凌), aged 50, was appointed as an independent non-executive Director of the Company in March 2011. From 1992 to 2007, Mr. Liu worked for Morgan Stanley group of companies and once served as a member of the Management Committee and Asia Executive Committee as well as a Managing Director in the Fixed Income Division in Hong Kong. In 2008, Mr. Liu established Shelter Cove Capital Limited (now known as Voras Capital Management (HK) Limited). Mr. Liu has 24 years of experience in finance and securities industry.

Mr. Liu obtained a bachelor's degree in science from Peking University and a degree of Master of Science in physics from Massachusetts Institute of Technology.

Mr. YIP Wai Ming (葉偉明) – Independent Non-Executive Director

Mr. YIP Wai Ming (葉偉明), aged 48, was appointed as an independent non-executive Director of the Company in March 2011. Mr. Yip graduated from the University of Hong Kong with a bachelor of social sciences degree in November 1987. He also obtained a degree of bachelor of laws from the University of London in August 2001. Mr. Yip started his career in Ernst & Young in 1987, and was a senior manager at the time of his departure in 1996. From 1996 to 2010, Mr. Yip served as an associate director in ING Bank N.V., the chief financial officer in Fulbond Holdings Limited (福邦控股有限公司), the vice president of Hi Sun Technology (China) Limited (高陽科技(中國) 有限公司), the chief financial officer of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司), the deputy general manager of Yuzhou Properties Company Limited (禹州地產股份有限公司) respectively. Currently, Mr. Yip is an independent non-executive director of BBMG Corporation (北京金隅股份有限公司), Ju Teng International Holdings Limited (巨騰國際控股有限公司) and Pax Global Technology Limited (百富環球科技有限公司). Mr. Yip is a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a member of the Chinese Institute of Certified Public Accountants.

Mr. Yip has over 22 years of experience in accounting and finance.

Biographies of Directors and Senior Management

Mr. NIU Weidong (牛衛東) – Senior Vice President

Mr. NIU Weidong (牛衛東), aged 43, is the Senior Vice President of the Company. Mr. Niu graduated from Shandong Finance College (山東財政學院) in July 1993, and obtained an MBA degree from Shanghai Jiaotong University (上海交通大學) in China in July 2006. Mr. Niu Weidong worked in Sinochem Group for many years and worked in Shandong Import & Export Group Corporation, High Technology Branch (中化山東進出口集團高科技分公司) and Sinochem Furan International Chemicals Co., Ltd (中化國際呋喃化工品有限責任公司) respectively. In 2001, he was assigned to International Far Eastern Leasing Co., Ltd., the wholly owned subsidiary of Far East Horizon Limited, and served as the general manager of the quality control department, the general manager of the first business division, the general manager of the printing industry division, Assistant General Manager of the Company and the deputy general manager of the Company respectively. He possesses years of experience in business and marketing management. Mr. Niu was appointed as Senior Vice President of the Company in September 2009.

Mr. Niu has over 11 years of experience in the financial leasing industry.

Mr. CAO Jian (曹健) -Senior Vice President

Mr. CAO Jian (曹健), aged 38, is the Assistant President of the Company. Mr. Cao obtained a master's degree in economics from University of International Business and Economics (中國對外經濟貿易大學) in China in June 1997 and an MBA from Shanghai Jiaotong University (上海交通大學) in China in June 2008. Mr. Cao Jian became a manager of the human resources department in Sinochem Group. After joining International Far Eastern Leasing Co., Ltd., the wholly owned subsidiary of Far East Horizon Limited, he served as the deputy general manager, the executive deputy general manager and the general manager of the healthcare business division, and the Assistant General Manager, the Assistant President and the Vice President of the Company, thus he has adequate experience in corporate management. Mr. Cao was appointed as the Senior Vice President of the Company in January 2013.

Mr. Cao has over 10 years of experience in the financial leasing industry.

Biographies of Directors and Senior Management

Mr. SHANG Bing (尚兵) -Vice President

Mr. SHANG Bing (尚兵), aged 46, is the Vice President of our Company. Mr. Shang obtained a bachelor of arts from Sichuan University in China in July 1989. After graduation, Mr. Shang joined MOFCOM and worked as an officer in the Department of Outward Investment and Economic Cooperation until October 1991. He then joined Embassy of the PRC in the Kingdom of Thailand in November 1991 and worked there until August 1995. In September 1995, Mr. Shang returned to MOFCOM and served there until 2003. From 2003 to 2007, Mr. Shang worked in Chongqing Lifan Holding Company Limited (重慶力帆控股有限公司) and held several positions there such as special assistant to the chairman, director and executive director. In April 2008, Mr. Shang joined Deloitte Touche Tohmatsu CPA Ltd., Beijing Branch and worked there until December 2010. Mr. Shang was appointed as an Assistant President of the Company in January 2011 and the Vice President in June 2012.

Mr. Shang has over 23 years of experience in relation to government affairs and enterprise management.

Mr. WANG Ruisheng (王瑞生) – Vice President

Mr. WANG Ruisheng, aged 58, is the Vice President of the Company. Prior to joining Far East Horizon Limited, he worked as Section Chief Assistant of Shanghai Chemicals Import and Export Corporation, General Manager of Black & White Advertising Co., Ltd., Deputy General Manager of Sinochem Shanghai Co., Ltd. and Deputy General Manager of Sinochem International Tendering Co., Ltd. He has extensive experience in corporate management and government relationship. Mr. Wang was appointed as the Vice President of the Company in June 2012.

Mr. Wang was granted an EMBA degree by Peking University.

Directors' Report

The Board is pleased to present the Directors' Report of the year 2012 together with the audited financial statements of the Group for the year ended 31 December 2012.

Brief Introduction of the Group's Business Activities

The principal business activities of the Group are financial leasing and advisory services, and the principal business activities of its subsidiaries are trading and brokerage services. An analysis of the Group's operational status for the year by business segments is detailed in Note 4 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statements on page 111 of this annual report.

The Board recommends the payment of a final dividend of HK$0.23 per share in respect of the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company on Wednesday, 26 June 2013.

Closure of Share Register

The annual general meeting ("AGM") of the Company is scheduled to be held on Friday, 14 June 2013. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 11 June 2013 to Friday, 14 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all completed transfers of shares, accompanied by the relevant share certificates, must be lodged 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, for registration not later than 4:30 p.m. on Monday, 10 June 2013.

The final dividend is subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 21 June 2013 to Wednesday, 26 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged 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, for registration not later than 4:30 p.m. on Thursday, 20 June 2013.

Directors' Report

Financial Highlights

The summary of the Group's results, assets, liabilities and non-controlling interests for the past five financial years are extracted from the audited financial information and financial statements published, which are set out on pages 222 to 224 to this annual report. This summary does not form a part of the audited financial statements.

Property, Plant and Equipment

The movement in the Group's property, plant and equipment for the year are set out in Note 14 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company are set out in Note 28 to the financial statements.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any shares of the Company for the year ended 31 December 2012.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 115 of this annual report and Note 29 to the financial statements respectively.

Charitable Donations

The Group's external charitable donations for the year amounted to US$318,000 (2011: US$310,000).

Directors' Report

Directors

As at the date of this annual report, Directors of the Company were as follows:

Executive Directors
Mr. KONG Fanxing (appointed on 16 October 2009)
Mr. WANG Mingzhe (appointed on 16 October 2009)

Non-Executive Directors
Mr. LIU Deshu (appointed on 8 December 2010)
Mr. YANG Lin (appointed on 16 October 2009)
Ms. SHI Dai (appointed on 16 October 2009 and resigned on 18 March 2013)
Mr. LIU Haifeng David (appointed on 16 October 2009)
Mr. KUO Ming-Jian (appointed on 18 March 2013)
Ms. SUN Xiaoning (appointed on 16 October 2009 and resigned on 25 October 2012)
Mr. John LAW (appointed on 25 October 2012)

Independent Non-Executive Directors
Mr. HAN Xiaojing (appointed on 11 March 2011 but taking effect on 30 March 2011)
Mr. LIU Jialin (appointed on 11 March 2011 but taking effect on 30 March 2011)
Mr. CAI Cunqiang (appointed on 11 March 2011 but taking effect on 30 March 2011)
Mr. YIP Wai Ming (appointed on 11 March 2011 but taking effect on 30 March 2011)

Biographical Details of the Directors and Senior Management

Biographical details of the Directors and senior management are set out on pages 83 to 89 of this annual report.

Directors' Report

Directors' Service Contracts

Executive Directors

Each of the executive directors has entered into a service contract with the Company under which he agreed to act as executive Director for an initial term of three years with effect from 11 March 2011. Either party has the right to give not less than three months' written notice to terminate the service contract.

Each of the executive Directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of the Board, and social welfare benefits provided under the relevant PRC laws and regulations. The aggregate amount of the annual salaries of the two executive Directors is US$831,000.

Non-Executive Directors

Each of the non-executive directors has entered into an appointment letter with the Company. The appointment of Mr. Liu Deshu, Mr. Yang Lin and Mr. Liu Haifeng commenced from March 2011 for an initial term of three years. In accordance with Article 74(1) of the articles of association of the Company, Mr. YANG Lin and Mr. LIU Haifeng David were re-elected at 2012 AGM of the Company, and Mr. Liu Deshu shall retire at the next AGM of the Company and is then eligible for re-election. In accordance with Article 73 of the article of association of the Company, the appointment of Mr. John Law and Mr. Kuo Ming-Jian commenced on 25 October 2012 and 18 March 2013 respectively and both shall hold office until the next AGM of the Company and are then eligible for re-election. No fees are payable to the non-executive Directors by the Company under the appointment letters.

Independent Non-Executive Directors

Each of the independent non-executive directors has entered into an appointment letter with the Company. Each of the appointments is for an initial term of three years commencing from 30 March 2011 (being the Listing Date). The aggregate amount of annual fees payable to our independent non-executive Directors under the appointment letters is HK$1,680,000.

The Directors' remuneration is determined with references to Directors' duties and responsibilities, individual performance and the results of the Group.

In accordance with Article 74(1) of the articles of association of the Company, Mr. Cai Cunqiang, Mr. Han Xiaojing, Mr. Liu Jialin and Mr. Yip Wai Ming shall retire at the next AGM of the Company and are then eligible for re-election.

As at 31 December 2012, none of the Directors of the Company had a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

Directors' Report

Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers that each of the independent non-executive Directors, namely Mr. Cai Cunqiang, Mr. Han Xiaojing, Mr. Liu Jialin and Mr. Yip Wai Ming to be independent.

Directors' Emoluments and Senior Management' Emoluments

Details of the remuneration of the Directors and that of the senior management of the Group for the year ended 31 December 2012 are set out in Note 8 to the consolidated financial statements of the Group.

Directors' Interests in Contract

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

As at 31 December 2012, none of the Directors of the Company are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Pension Scheme and Share Option Scheme

The Group does not have any pension scheme and share option scheme.

Management Contracts

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

Directors' Report

Arrangements for the Directors to Purchase Shares or Debentures

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations

As at 31 December 2012, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were detailed as follows:

Name of shareholder	Name of corporation	Capacity/nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
KONG Fanxing	The Company	Beneficial owner	700,000(L)	0.02%
WANG Mingzhe	The Company	Beneficial owner	291,000(L)	0.00%
HAN Xiaojing	The Company	Beneficial owner	30,000(L)	0.00%

Notes:

(1) The letter "L" denotes the person's long position in the shares of the Company.

Save as disclosed above, as at 31 December 2012, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she had taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Substantial Shareholders' Interests in the Shares

As at 31 December 2012, the following entities who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholder	Capacity/nature of interest	Number of ordinary shares[1]	Approximate percentage of interest
Sinochem Group[2]	Interest in a controlled corporation	1,294,720,000(L)	39.32%
Greatpart Limited[2]	Beneficial owner	1,294,720,000(L)	39.32%
KKR Future Investments S.À.R.L.[3]	Beneficial owner	337,000,000(L)	10.24%
KKR Future Holdings Limited[3]	Beneficial owner Interest in a controlled entity	104,378,000(L) 455,501,000(L)	3.17% 13.83%
KKR Asian Fund L.P.[3]	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Associates Asia L.P.[3]	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Asia Limited[3]	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Fund Holdings L.P.[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
KKR Fund Holdings GP Limited[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
KKR Group Holdings L.P.[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
KKR Group Limited[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
KKR & Co. L.P.[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
KKR Management LLC[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
Mr. Henry R. Kravis and Mr. George R. Roberts[3]	Interest in a controlled entity	559,879,000 (L)	17.01%
Techlink Investment Pte Ltd[4]	Beneficial owner	213,062,000 (L)	6.47%
Tetrad Ventures Pte Ltd[4]	Interest in a controlled entity	213,062,000 (L)	6.47%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.[4]	Interest in a controlled entity	213,062,000 (L)	6.47%
GIC Special Investments Pte Limited[4]	Interest in a controlled entity	213,062,000 (L)	6.47%
Government of Singapore Investment Corporation Pte Limited[4]	Interest in a controlled entity Investment manager	213,062,000 (L) 63,261,000 (L)	6.47% 1.92%
Prime Capital Management (Cayman) Limited	Investment manager	200,939,000 (L)	6.10%

Directors' Report

Note:

(1) The letter "L" denotes the person's long position in the Shares of the Company.

(2) Sinochem Group is the beneficial owner of 100% of the issued share capital of Greatpart Limited and is deemed to be interested in the number of Shares of the Company held by Greatpart Limited.

(3) Amongst the 559,879,000 Shares, 104,378,000 Shares are directly held by KKR Future Holdings Limited, 337,000,000 Shares are directly held by KKR Future Investments S.A.R.L., KKR Future Holdings Limited (as the sole shareholder of KKR Future Investment S.À.R.L., and the beneficial owner of 104,378,000 Shares); KKR Asian Fund L.P. (as the controlling shareholder of KKR Future Holdings Limited), KKR Associates Asia L.P.(as the general partner of KKR Asian Fund L.P.), KKR SP Limited (as the voting partner of KKR Associates Asia L.P.), KKR Asia Limited (as the general partner of KKR Associates Asia L.P.), KKR Fund Holdings L.P. (as the sole member of KKR Asia Limited), KKR Fund Holdings GP Limited (as the general partner of KKR Fund Holdings L.P.), KKR Group Holdings L.P.(as the general partner of KKR Fund Holdings L.P.), KKR Group Limited (as the general partner of KKR Group Holdings L.P.), KKR & Co. L.P.(as the sole shareholder of KKR Group Limited), KKR Management LLC (as the general partner of KKR & Co. L.P.) and Mr. Henry R. Kravis and Mr. George R. Roberts (as the designated members of KKR Management LLC) is deemed to be interested in the Shares of the Company. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares of the Company.

(4) Techlink Investment Pte Ltd ("Techlink") is wholly-owned by Tetrad Ventures Pte Ltd which, in turn, is wholly-owned by Government of Singapore Investment Corporation (Ventures) Pte. Ltd. GIC Special Investments Pte Limited manages the investments of Techlink, and is wholly-owned by Government of Singapore Investment Corporation Private Limited. Each of Tetrad Ventures Pte Ltd, Government of Singapore Investment Corporation (Ventures) Pte. Ltd., GIC Special Investments Private Limited and Government of Singapore Investment Corporation Pte Limited is deemed to be interested in the Shares of the Company held by Techlink Investment under the SFO. In addition, Government of Singapore Investment Corporation Pte Ltd holds 63,261,000 Shares in the capacity of investment manager.

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified by any person of any interest or short position in the shares or underlying shares of the Company.

Use of Proceeds from the Company's Initial Public Offering

On 30 March 2011, the shares of the Company were listed on the Main Board of the Stock Exchange. Net proceeds from the global offering (taking into account the exercise of the over-allotment option) were approximately US$742,356,000. The Company intends to use the net proceeds in accordance with the proposed applications set out in the prospectus of the Company dated 18 March 2011.

Directors' Report

Shares Placement

On 25 March 2012, the Company entered into a placing agreement with a sole placing agent, pursuant to which the sole placing agent placed 450,000,000 new shares at a price of HK$6.40 per share.

The aforesaid placing was completed on 2 April 2012. The net proceeds from the placing was approximately HK$2,821,000,000. The use of proceeds was to replenish its capital and support its ongoing growth. Immediately after completion of the placing, the number of the issued shares by the Company increased from 2,842,400,000 to 3,292,400,000.

Public Float

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

Major Customers and Suppliers

During the year, the income of the Group's lease and advisory segments accounted for 88.02% of the total income, and the information of the customers and suppliers of the lease and advisory segments is as follows:

	For the year ended 31 December 2012 Percentage of the total income (before business taxes and surcharges) (%)
Top five customers	1.98%
The largest customer	0.48%

	Percentage of total costs (%)
Top five suppliers	35.92%
The largest supplier	14.21%

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

Connected and Continuing Connected Transactions

The Company entered into certain continuing connected transactions, as defined in the Listing Rules, which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions

Framework agreement for the provision of financial services from 中化集團財務有限責任公司 ("Sinochem Finance")

On 17 June 2011, the Company entered into a framework agreement with Sinochem Finance with a term of three years, whereby the Group agreed to utilise various financial services from Sinochem Finance. The Company entered into this framework agreement due to various advantages of utilizing financial services provided by Sinochem Finance over independent commercial banks and also because the risk profile of Sinochem Finance is not greater than independent commercial banks in the PRC.

Sinochem Finance is a wholly-owned subsidiary of 中國中化股份有限公司 (Sinochem Corporation Co., Limited)* ("Sinochem Corporation"), which in turn is owned as to approximately 98% by Sinochem Group, which is a substantial shareholder of the Company. Accordingly, Sinochem Finance is an associate of Sinochem Group and hence a connected person of the Company and the financial services provided by Sinochem Finance to the Group under this framework agreement constitutes continuing connected transactions of the Company. The annual cap on the maximum daily outstanding balance of any such deposits (excluding deposits for extending entrustment loans) is RMB919 million for the term of this framework agreement. This annual cap is based primarily on the requirement to settle accounts receivables through the deposit accounts of the members of the Group maintained with Sinochem Finance, the strategies of the treasury management of the Group, the development and financial needs of the Group, and the average cash balance of the Group. This annual cap was not exceeded for the year ended 31 December 2012.

Please refer to the announcement made by the Company on 17 June 2011 relating to this transaction.

Directors' Report

Framework agreement for the provision of ship chartering services to 中國中化集團公司 ("Sinochem Group")

On 5 December 2012, the Company entered into a framework agreement with Sinochem Group pursuant to which the Group agreed to provide ship chartering and other related products and services to Sinochem Group and/or its subsidiaries and associates for an initial term which will expire on 31 December 2014 and upon such expiration of the initial term, it shall automatically be extended for further terms of three years.

The Group carries on ship chartering in its ordinary course of business. Sinochem Group is a large-scale enterprise with variety of business interests. From time to time, Sinochem Group and its subsidiaries and/or associates require the charter of vessels to transport cargo between ports. Sinochem Group is substantial shareholder of the Company and therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the ongoing transactions contemplated under this framework agreement will constitute continuing connected transactions of the Company.

The annual caps of this framework agreement, being the total charterhire and other related fees receivable by the Group under this framework agreement, for the three years ending 31 December 2014 are at the same amount of US$35,000,000 per annum. This annual cap is based primarily on the historical transactions amount, the market charter rates for other ship chartering of similar size vessels, and the expected growth in the ship chartering business of the Group. This annual cap was not exceeded for the year ended 31 December 2012.

Please refer to the announcement made by the Company on 5 December 2012 relating to this transaction.

Lease agreements for various properties

The Group entered into various lease agreements and corresponding supplementary agreements that constitute continuing connected transactions, namely:

Lease of property in Convention Plaza

On 1 March 2011, the Company entered into a lease agreement with Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") in relation to commercial premises with total gross floor area of approximately 128 square meters. The term of the lease agreement is from 1 March 2011 to 28 February 2013. Pursuant to the lease agreement, the Company shall pay to Sinochem HK a monthly rent of HK$92,326 and monthly management and air condition fees of HK$8,916. This lease agreement was agreed upon following arm's length negotiations and is based on normal commercial terms.

Sinochem HK is indirectly owned as to 98% by Sinochem Group. Therefore, Sinochem HK is an associate of Sinochem Group and a connected person of the Company and this lease agreement constitutes a continuing connected transaction of the Company.

Directors' Report

Lease of property in 凱晨世貿中心 ("Chemsunny World Trade Center")

On 30 December 2011, 遠東國際租賃有限公司 (International Far Eastern Leasing Co., Ltd)* ("**Far Eastern**") entered into an agreement with 北京凱晨置業有限公司 (Beijing Chemsunny Property Company Limited)* ("**Chemsunny**") to renew a number of lease agreements. Effectively, Chemsunny shall continue to lease to Far Eastern a number of office premises with a gross floor area of 440.62 square meters and provide other ancillary facilities in Chemsunny World Trade Centre, from 1 January 2012 to 31 December 2014. Far Eastern shall pay to Chemsunny a monthly rent of RMB111,476.86 and shall pay a monthly management fee of RMB13,218.60. Far Eastern is a wholly-owned subsidiary of the Company. Chemsunny is a wholly-owned subsidiary of Franshion Properties (China) Limited ("Franshion"), which in turn is a subsidiary of Sinochem Group. Sinochem Group is a substantial shareholder of the Company. Accordingly, Chemsunny is an associate of Sinochem Group and hence a connected person of the Company. The lease agreement constitutes continuing connected transactions of the Company.

Please refer to the announcement of the Company dated 30 December 2011 for further details.

Lease of property in 金茂大厦 ("Jin Mao Tower")

On 30 December 2011, Far Eastern entered into an agreement with 中國金茂（集團）有限公司 (China Jin Mao (Group) Company Limited)* ("Jin Mao") to renew a number of lease agreements. Effectively, Jin Mao shall lease to Far Eastern a number of office premises and other ancillary facilities in Jin Mao Tower, for a term up to 31 December 2014. Far Eastern shall pay utility, cleaning fees and other fees to 金茂（上海）物业服务有限公司 (Jin Mao (Shanghai) Property Services Co., Ltd)*, a wholly-owned subsidiary of Jin Mao ("Jin Mao Property Services").

On 7 August 2012 Far Eastern and Jin Mao entered into a new additional agreement to lease further units of Jin Mao Tower. Effectively, Jin Mao shall lease to Far Eastern another set of office premises with total gross floor area of approximately 1,541 square meters, also in Jin Mao Tower for a term up to 31 December 2014. Far Eastern shall pay to Jin Mao a monthly rent of RMB554,760 and shall pay utility, cleaning fees and other charges and outgoings to Jin Mao Property Services.

Jin Mao is a wholly-owned subsidiary of Franshion, which is owned as to approximately 62.87% by Sinochem Group. Sinochem Group is a substantial shareholder of the Company. Accordingly, Jin Mao is an associate of Sinochem Group and hence a connected person of the Company and this renewal agreement constitutes a continuing connected transaction of the Company.

The above agreements were agreed upon following arm's length negotiations and were based on normal commercial terms. They have been aggregated pursuant to Rule 14A.25 of the Listing Rules. The annual cap for the above leases is RMB44,000,000 for the year ended 31 December 2012. The annual cap is based on several factors, including the total gross floor area leased, rent, management fees and other miscellaneous fees to be incurred under the lease agreements. The annual cap was not exceeded for the year ended 31 December 2012.

Please refer to the announcements of the Company dated 30 December 2011 and 7 August 2012 for further details.

Directors' Report

Confirmation of Independent Non-Executive Directors

Pursuant to Rule 14A.37 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the independent non-executive directors, who confirmed that the aforesaid continuing connected transactions were entered into:

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

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

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

Confirmation of the Auditors

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors has received a letter from the auditors, confirming that the continuing connected transactions set out above:

(a) have received the approval of the Board of Directors;

(b) have been entered into in accordance with the pricing policies of the Group;

(c) have been entered into in accordance with the relevant agreement governing the transactions; and

(d) have not exceeded the relevant annual caps for the financial year ended 31 December 2012.

Directors' Report

Audit Committee

Audit Committee comprises three members, respectively Mr. Yip Wai Ming (Chairman), Mr. Han Xiaojing and Mr. John Law, among whom, two are independent non-executive directors (including one independent non-executive Director who owns appropriate professional qualifications or expertise in accounting or relevant finance management). They have reviewed the accounting principles and practices adopted by the Group and discussed matters regarding auditing and financial reporting, including reviewing the financial results of the Group for the year ended 31 December 2012.

The consolidated financial statements of the Company for the year ended 31 December 2012 has been reviewed by Ernst & Young, the auditor of the Company, in accordance with Hong Kong Financial Reporting Standards.

Auditor

Pursuant to the resolution of the general meeting of the Company for 2012, the Company proposes to re-appoint Ernst & Young as the auditor of the Company in 2013. The resolution of appointing Ernst & Young as the auditor of the Company is proposed at the AGM to be held on Friday, 14 June 2013 for review and approval.

By order of the Board
LIU Deshu
Chairman
27 March 2013

Corporate Social Responsibility Report

Social Responsibility

Concept of Responsibility

Creating value sharing and harmonious development

We believe that the essence of corporate social responsibility lies in achieving the win-win situation of sharing values with all stakeholders, including investors, customers, partners, employees, governments and the entire society, through which truly motivating the healthy, sustained, stable and harmonious development of the industrial economy and the society as a whole.

Investor Responsibility

Deepening value cooperation and sharing China's growth

Far East Horizon has closely linked up its own developments with China's economic growth by focusing on comprehensive operational services in the basic industries, achieving sustained business growth and value enhancement. In the past several years, Far East Horizon has brought investors value greater than sustained and stable returns.

Industry Responsibility

Innovating financial services and supporting industrial upgrading

Far East Horizon, in the process of serving industries, will set the basic industries relating to national planning and people's livelihood as its targets of service. We will spare no efforts in deepening our understanding of user needs, integrating global resources, cultivating industrial sectors including healthcare, education, printing, construction, machinery, shipping and textile, and actively promoting industrial interaction and exchanges to help enterprises upgrading equipment, reducing energy consumption and improving production capacity and industries stepping up.

In the health care sector, we provide medical institutions with integrated industry operation services including financing, medical engineering, investment and development, management consulting and equipment services to promote the development of healthcare. As at the end of 2012, there were over 1,500 hospitals served by Far East Horizon. In the education sector, advanced educational facilities and equipment were provided to primary and secondary schools in the poor regions to improve their teaching and learning conditions, driving the continuous progress in education. As at the end of 2012, we were serving over 120 colleges, approximately 200 higher vocational schools and over 160 high schools.

In the public transportation sector, we provide public transportation companies with financing to help them upgrade their operating vehicles and enhance the emission level of their vehicles. More than 1,000 new energy vehicles powered by LNG, LPG, CNG and hybrid amounting to RMB370 million were upgraded in more than ten cities. In the urban sewage treatment sector, we provided sewage treatment companies and drainage companies in ten cities with approximately RMB250 million to help them optimise the urban sewage collection systems and enhance their sewage treatment capacity and level.

Corporate Social Responsibility Report

Constructing high-end resources platform and driving industrial management upgrading

While injecting funds into the industries to help enterprises upgrade and transform hardware, we actively carry out the following actions to help customers continuously improve their competitiveness, enhance the level of development and competitiveness of the industry as a whole and accordingly promote the healthy growth of the national economy:

In 2007, we founded the Free Flow Club and the Family Union to actively create the atmosphere for "mutual trust and win-win" industrial exchanges. In industrial sectors like healthcare and machinery, we joined hands with international and domestic mainstream manufacturers in establishing a vendor alliance platform on the basis of the philosophy for "jointly promoting industrial development", driving China to move from a key manufacturing country to a country of great creative power.

Since 2008, we have been organising several "Far East High-Level Shipping and Vessel Finance Forum" every year, inviting top-class international and domestic shipping and financial experts and scholars to hold seminars, providing the impetus to cultivating high-end financial personnel for China's shipping and shipbuilding sectors. We have held a number of "Construction Enterprise Summit Forum", gathering municipal, transportation and industrial construction enterprises in establishing platforms for strategic cooperation and communication exchanges, boosting the urbanisation process in China.

The "Far East Printing Elite Program" was launched in 2009. Training programs are held regularly by us exclusively for managers in the printing enterprises, covering areas including accounting, finance, management and printing technology, to help enterprises improve their own operating capabilities.

In 2009, we set up the "Far East Healthcare Managers Institute" aiming at introducing advanced hospital management concepts and experience by establishing a high-end exchange platform for hospital administrators in China, helping hospitals strengthen the organisation's management advantages and enhance staff competitiveness, thereby helping hospital administrators to explore new ideas for the rapid improvement in integrated management standards, hence further promoting the development of hospitals and the whole healthcare business in China. By now, nearly 500 students have participated.

Since the establishment of the "Far East Educators Union" in 2010, we has been organising union meetings and forums every year, actively building a bridge among members to achieve the realisation of complementary advantages and the sharing of resources. We build a bridge between the union and the government, giving advice on national education developments and ultimately driving the continuous progress in education.

Corporate Social Responsibility Report

Deepening industrial research and supporting personnel training

Far East Horizon pays great attention to nurture personnel through scholarships and fellowships, establishing a personnel exchange platform for enterprises and colleges which has delivered industries with professionals who better meet market needs, and providing support to the growth of over 230 industry professionals.

Employee Responsibility

Respect for the value of employees and care for their growth

At Far East Horizon, we create vast space for every employee to develop and conditions for each of them to improve capacity through comprehensive training and mentoring systems, helping each of our employees to achieve maximum value from their professions.

Moreover, we help employees resolve issues encountered in personal growth through a series of caring activities, creating a homely environment for the comprehensive growth of our employees.

Far East Academy

Far East Horizon aims to build a self-examination, self-driven and self-enhancement learning organisation and create a team atmosphere for lifelong learning for all staff through the full-swing creation of the "Far East Academy". The academy organises classes for all staff, with altogether 15 faculties and 26 disciplines and covering all employees being divided into six levels from G1-G6. Courses are divided into three major programs, namely vision and concepts, techniques and skills, and knowledge and systems, comprising altogether 20 categories. The training is in the form of credit system through which the learning appraisal structure and human resources management structure are blended, hence forming a dynamic and complete strategic human resources training structure.

Charity Fund

Adhering to the objective of mutual love and pooling the power of everyone and based on the principle of "helping those in distress and peril, caring for mutual aid", the company set up a union "Charity Fund" as a platform to provide caring aid to employees who are in difficulty. For the time being, the Charity Fund sets up the "Plan for Helping the Beloved" and the "Plan for Helping the Infant" to extend special care to cover the family members of the employees, and the newcomers who are fresh graduates, respectively.

Far East Health Station Program (遠東健康加油站計劃)

Far East Horizon is always a people-oriented company which is fully concerned about the physical and mental health of its employees. We joined hands with professional healthcare institutions and introduced the idea of "International EAP" to develop a comprehension employee healthcare system with Far East features – Far East Health Station Program (遠東健康加油站計劃).

The programme identifies and tracks employees' physical and mental health risks, mitigates employees' work and life pressure, and meets the physical and mental health needs in a full range through the "Health Station" connecting the Company and its employees with the help of professional institutions.

Corporate Social Responsibility Report

Public Responsibility

Contributing to society and promoting social harmony

In addition to directly driving the development of the Chinese economy through industrial services, Far East Horizon contributes directly to the community through various ways. The "Far East Horizon Charity Fund", a special charity fund initiated and managed by the company, has made contributions in such purposes as providing financial aids for the education cause as well as promoting poverty alleviation and disaster relief.

In terms of charity

- Far East Horizon Scholarship" is to reward outstanding students of Chinese universities and colleges.
- "Far East Horizon Fellowship" is to help independent but poor students to complete studies at Chinese universities and colleges.
- National reconstruction after super disaster and donation to the poor.
- Other charities.

In 2012, Far East Horizon Charity Fund invested more than RMB2.44 million for developing nine major projects along the two main directions of education and poverty alleviation, taking an active role in fulfilling its corporate social responsibilities and giving back to society.

In terms of education

- To support the growth of outstanding students in China, the company set up the "Far East Horizon Scholarships" at 17 colleges, namely the University of International Business and Economics, the Beijing Normal University, Nankai University, the Southwestern University of Finance and Economics, the Wuhan University, the Shanghai Jiaotong University, the Tongji University, the Shanghai Maritime University, the Zhongshan University, the Xiamen University, Fudan University, Shanghai University of Finance and Economics, Zhejiang University, Tianjin University, Dalian Maritime University, Nanjing University and Harbin Institute of Technology, encouraging outstanding undergraduates for studious habit, constant innovation, caring attitude and determination for success.
- To improve the learning and living conditions of students in the poor regions, the Far East Horizon Fund has successively carried out the activity to assist Wazi Street in Shaanxi, the activity to support students in Gansu and Yunnan and the milk donation activity in Jiqu School District, Nangqian County, Qinghai, donating computers, supplies and nutritious food to schools and helping schools in opening multimedia programs, fostering the children's awareness toward learning, enriching their cultural and sports life and improving their nutritional status.

Corporate Social Responsibility Report

In terms of poverty alleviation

- To alleviate the hardships of minority groups, the company organised the journey to visit the old people in Chenduo County, Yushu, Qinghai and donated Tibetan clothing to nursing homes in Qinghai, providing 29 elderly persons with food and other necessities enough for a year and 80 elderly persons with Tibetan clothing respectively, and funded children suffering from burns for rehabilitation, ensuring that their basic living needs are met.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Far East Horizon Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Far East Horizon Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 111 to 221, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
CONTINUING OPERATIONS			
REVENUE	5	**1,030,699**	729,895
Cost of sales	7	**(462,144)**	(342,641)
Gross profit		**568,555**	387,254
Other income and gains	5	**19,044**	11,627
Selling and distribution costs		**(111,731)**	(69,531)
Administrative expenses		**(137,233)**	(96,647)
Other expenses		**(8,411)**	(3,849)
Finance costs	6	**(340)**	–
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	**329,884**	228,854
Income tax expense	10	**(88,771)**	(57,251)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**241,113**	171,603
PROFIT FOR THE YEAR		**241,113**	171,603
Attributable to:			
Owners of the parent	11	**241,305**	171,412
Non-controlling interests		**(192)**	191
		241,113	171,603
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13	**US cents**	US cents
Basic and diluted – Earnings per share		**7.59**	6.56

Details of the dividends payable and proposed for the year are disclosed in Note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 US$'000	2011 US$'000
PROFIT FOR THE YEAR	**241,113**	171,603
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of financial statements of entities in Mainland China	**5,911**	47,985
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**5,911**	47,985
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**247,024**	219,588
Attributable to:		
Owners of the parent	**247,211**	219,370
Non-controlling interests	**(187)**	218
	247,024	219,588

Consolidated Statement of Financial Position

31 December 2012

	Notes	31 December 2012 US$'000	31 December 2011 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**56,554**	17,009
Other assets	15	**5,817**	5,439
Deferred tax assets	27	**42,045**	20,103
Loans and accounts receivables	20	**5,614,201**	4,262,017
Prepayments, deposits and other receivables	21	**8,995**	4,680
Restricted deposits	22	**–**	15,871
Derivative financial instruments	17	**159**	760
Total non-current assets		**5,727,771**	4,325,879
CURRENT ASSETS			
Inventories	18	**8,700**	1,140
Construction contracts	19	**12,804**	4,780
Loans and accounts receivables	20	**3,428,064**	2,296,065
Prepayments, deposits and other receivables	21	**112,507**	17,718
Restricted deposits	22	**107,589**	167,755
Cash and cash equivalents	22	**239,074**	661,365
Total current assets		**3,908,738**	3,148,823
CURRENT LIABILITIES			
Trade and bills payables	23	**345,900**	357,354
Other payables and accruals	24	**294,718**	190,487
Interest-bearing bank and other borrowings	25	**3,010,726**	1,918,048
Taxes payable		**40,015**	34,940
Total current liabilities		**3,691,359**	2,500,829
NET CURRENT ASSETS		**217,379**	647,994

Consolidated Statement of Financial Position

31 December 2012

	Notes	31 December 2012 US$'000	31 December 2011 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,945,150**	4,973,873
NON-CURRENT LIABILITIES			
Trade and bills payables	23	**2,663**	–
Interest-bearing bank and other borrowings	25	**2,836,376**	2,787,540
Derivative financial instruments	17	**1,149**	–
Deferred tax liabilities	27	**14,652**	12,267
Other payables and accruals	24	**1,033,011**	695,699
Deferred revenue	26	**12,045**	2,107
Total non-current liabilities		**3,899,896**	3,497,613
Net assets		**2,045,254**	1,476,260
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**4,227**	3,647
Reserves	29	**2,039,283**	1,471,975
		2,043,510	1,475,622
Non-controlling interests		**1,744**	638
Total equity		**2,045,254**	1,476,260

Kong Fanxing
Director

Wang Mingzhe
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent								
	Issued capital US$'000 (Note 28)	Share premium account US$'000 (Note 28)	Capital reserve US$'000 (Note 29)	Reserve funds US$'000 (Note 29)	Exchange fluctuation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2012	3,647	729,260	340,296	16,350	82,125	303,944	1,475,622	638	1,476,260
Profit for the year	–	–	–	–	–	241,305	241,305	(192)	241,113
Other comprehensive income for the year									
Exchange differences on translation of financial statements of entities in Mainland China	–	–	–	–	5,906	–	5,906	5	5,911
Total comprehensive income for the year	–	–	–	–	5,906	241,305	247,211	(187)	247,024
Issue of shares (Note 28)	580	370,329	–	–	–	–	370,909	–	370,909
Share issue expenses (Note 28)	–	(7,562)	–	–	–	–	(7,562)	–	(7,562)
Dividends (Note 12)	–	–	–	–	–	(42,436)	(42,436)	–	(42,436)
Capital injection to a subsidiary with non-controlling shareholders (Note 29)	–	–	(234)	–	–	–	(234)	1,293	1,059
At 31 December 2012	4,227	1,092,027 *	340,062 *	16,350*	88,031 *	502,813 *	2,043,510	1,744	2,045,254

* These reserve accounts comprise the consolidated reserves of US$2,039,283,000 (2011: US$1,471,975,000) in the consolidated statement of financial position.

	Attributable to owners of the parent								
	Issued capital US$'000 (Note 28)	Share premium account US$'000 (Note 28)	Capital reserve US$'000 (Note 29)	Reserve funds US$'000 (Note 29)	Exchange fluctuation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2011	2	–	342,737	16,350	34,167	133,656	526,912	420	527,332
Profit for the year	–	–	–	–	–	171,412	171,412	191	171,603
Other comprehensive income for the year									
Exchange differences on translation of financial statements of entities in Mainland China	–	–	–	–	47,958	–	47,958	27	47,985
Total comprehensive income for the year	–	–	–	–	47,958	171,412	219,370	218	219,588
Transfer from capital reserve	2,441	–	(2,441)	–	–	–	–	–	–
Issue of shares	1,204	756,416	–	–	–	–	757,620	–	757,620
Share issue expenses	–	(27,156)	–	–	–	–	(27,156)	–	(27,156)
Dividends	–	–	–	–	–	(1,124)	(1,124)	–	(1,124)
At 31 December 2011	3,647	729,260	340,296	16,350	82,125	303,944	1,475,622	638	1,476,260

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**329,884**	228,854
Adjustments for:			
Finance costs and bank charges		**3,855**	2,872
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	7	**1,750**	(760)
Realised fair value gains, net	7	**147**	(320)
Gain on structured financial products	5	**(930)**	–
Gain on disposal of property, plant and equipment, net		**(90)**	(2)
Gain on disposal of subsidiaries	5	**(8)**	–
Depreciation	14	**6,277**	2,019
Provision for impairment of lease receivables	20(c)	**56,212**	39,451
(Reversal of Provision)/Provision for impairment of other assets		**(433)**	645
Amortisation of intangible assets and other assets	7	**3,246**	2,435
Foreign exchange loss/(gain), net	7	**1,703**	(4,987)
Listing expense		**–**	1,604
		401,613	271,811
Increase in inventories		**(7,548)**	(601)
Increase in construction contracts		**(8,003)**	(4,661)
Increase in loans and accounts receivable		**(2,520,567)**	(2,652,106)
(Increase)/Decrease in prepayments, deposits and other receivables		**(87,263)**	20,703
(Increase)/Decrease in amounts due from related parties		**(2,440)**	834
Increase in other assets		**(3,159)**	(4,597)
(Decrease)/Increase in trade and bills payables		**(16,033)**	178,385
Increase in other payables, accrued liabilities and expenses		**81,358**	27,806
Decrease in amounts due to related parties		**(260)**	(838)
Increase in other liabilities		**383,109**	274,871
Net cash flows used in operating activities before tax		**(1,779,193)**	(1,888,393)
Income tax paid		**(102,731)**	(55,336)
Net cash flows used in operating activities		**(1,881,924)**	(1,943,729)
CASH FLOWS FROM INVESTING ACTIVITIES			
Realised fair value (loss)/gains from derivative financial instruments		**(147)**	320
Gain on structured financial products		**930**	–
Proceeds from disposal of property, plant and equipment		**242**	49
Disposal of a subsidiary	30	**(3,459)**	–
Cash paid for acquisition of property, plant and equipment, intangible assets and other long term assets		**(9,272)**	(13,980)
Decrease/(Increase) in pledged deposits and time deposits		**33,769**	(36,292)
Deposits for derivative financial instruments		**(910)**	(4,680)
Net cash flows from/(used in) investing activities		**21,153**	(54,583)

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**363,346**	730,464
Contribution from non-controlling interest		**1,059**	–
Decrease in amounts due to related parties		–	(50,000)
Cash received from borrowings		**7,620,819**	7,614,826
Cash received from issuance of bonds		**213,000**	479,327
Repayments of borrowings		**(6,757,448)**	(6,066,794)
Dividends paid	12	**(42,436)**	(1,124)
Decrease/(Increase) in pledged deposits and time deposits		**42,897**	(118,088)
Cash paid for other financing activities		**(4,534)**	(4,855)
Net cash flows from financing activities		**1,436,703**	2,583,756
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(424,068)**	585,444
Cash and cash equivalents at beginning of year		**661,365**	53,362
Effect of exchange rate changes on cash and cash equivalents		**1,777**	22,559
CASH AND CASH EQUIVALENTS AT END OF YEAR		**239,074**	661,365
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**324,074**	751,304
Less: Pledged deposits		**85,000**	89,939
Cash and cash equivalents as stated in the statement of financial position	22	**239,074**	661,365
Cash and cash equivalents as stated in the statement of cash flows		**239,074**	661,365

Statement of Financial Position

31 December 2012

	Notes	31 December 2012 US$'000	31 December 2011 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**9**	16
Investments in subsidiaries	16	**1,431,465**	1,100,176
Deferred tax assets		–	338
Prepayments, deposits and other receivables	21	**5,590**	4,680
Loans and accounts receivables	20	**1,270,105**	707,682
Derivative financial instruments		–	601
Total non-current assets		**2,707,169**	1,813,493
CURRENT ASSETS			
Loans and accounts receivables	20	**55,972**	94,761
Prepayments, deposits and other receivables	21	**18,334**	7,877
Dividend receivable from subsidiaries		**118,771**	40,000
Restricted deposits	22	–	4,345
Cash and cash equivalents	22	**6,623**	13,927
Total current assets		**199,700**	160,910
CURRENT LIABILITIES			
Trade and bills payables	23	**1,725**	5,716
Other payables and accruals	24	**20,279**	20,685
Tax payable		–	(121)
Interest-bearing bank and other borrowings	25	**185,544**	160,844
Total current liabilities		**207,548**	187,124
NET CURRENT LIABILITIES		**(7,848)**	(26,214)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,699,321**	1,787,279
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**1,075,343**	589,579
Derivative financial instruments		**1,149**	–
Other payables and accruals	24	**1,155**	–
Total non-current liabilities		**1,077,647**	589,579
Net assets		**1,621,674**	1,197,700
EQUITY			
Issued capital	28	**4,227**	3,647
Reserves	29	**1,617,447**	1,194,053
Total equity		**1,621,674**	1,197,700

Kong Fanxing
Director

Wang Mingzhe
Director

Notes to Financial Statements

31 December 2012

1. CORPORATE INFORMATION

Far East Horizon Limited (the "Company") is a limited liability company which was incorporated in Hong Kong on 15 May 2008. Pursuant to the special resolutions dated 15 October 2008 and 29 November 2010 respectively, the Company changed its name from Fully Ascent Limited to Far Eastern Hong Xin Co., Limited and then to Far East Horizon Limited. The registered office of the Company is located at Room 4701, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Group is principally engaged in providing financing to its customers for a wide array of assets under finance lease arrangements, operating lease arrangements, factoring, the provision of leasing advisory services, import and export trade, and the provision of other services as approved by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China (the "PRC") in Mainland China during the year.

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, 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 United States dollars ("US dollars" or "US$") and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

Through a group reorganisation (the "Reorganisation") as set out in the section headed "Our History and Reorganisation" in the Prospectus dated 18 March 2011 for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 13 March 2009. The Company was listed on the Stock Exchange on 30 March 2011.

For the purpose of these consolidated financial statements, the Group has adopted all the HKFRSs that have been issued and effective for the financial years presented at the beginning of the financial years presented.

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2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. 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 of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKAS 12 Amendments	*Deferred Tax: Recovery of Underlying Assets*
HKFRS 1 Amendments	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	*Transfers of Financial Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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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. Currently, the Group expects to adopt them when they become effective.

HKAS 1 Amendments	*Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	*Offsetting Financial Assets and Financial Liabilities*[3]
HKFRS 1 Amendments	*Government Loans*[2]
HKFRS 7 Amendments	*Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	*Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	*Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	*Amendments to a number of HKFRSs issued in June 2012*[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Amendments to HKAS 1 were issued in July 2011. The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

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31 December 2012

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

HKAS 19 (2011) was issued in July 2011 which includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. It is expected that the amendments would have no significant impact on the Group's financial statements.

Amendments to HKAS 32 were issued in December 2011. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

In March 2012, the HKICPA issued amendments to HKFRS 1. The amendments require a first-time adopter to apply the requirements of HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to HKFRSs. Entities may choose to apply the requirements of HKFRS 9 Financial Instruments (or *HKAS 39 Financial Instruments: Recognition and Measurement*, as applicable) and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. It is expected that the amendments would have no significant impact on the Group's financial statements.

Together with the Amendments to HKAS 32 as aforementioned, the HKICPA issued Amendments to HKFRS 7, which require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

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

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 9 was issued in November 2009. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Additions only affect the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions. HKFRS 9 was originally scheduled to be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. In December 2011, the HKICPA issued amendments to defer the mandatory effective date from 1 January 2013 to 1 January 2015 (with early adoption permission). The Group has not decided to early adopt HKFRS 9. The Group is in the process of making an assessment of the impact of the new standard.

HKFRS 10, issued in June 2011, establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

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

HKFRS 11 was issued in June 2011. This new standard replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 *Jointly Controlled Entities-Non-Monetary Contributions* by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. It is expected that the new standard would have no significant impact on the Group's financial statements.

HKFRS 12 was issued in June 2011. This new standard includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. Currently, the Group expects that these amendments will not have a significant impact on the Group's financial statements.

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

HK(IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. This new interpretation has no significant impact on the Group's financial statements.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Consolidation under common control

The consolidation policy of the acquisition among the entities under common control is dealt with in accordance with the principles set out in Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA ("AG 5") as if the acquisition had occurred from the date when the combining entities first came under the control of the ultimate holding company.

The acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The purchase method of accounting is used to account for the acquisitions of subsidiaries not under common control.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated income statements and the consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Consolidation under common control (continued)

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2012 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2012 has not been restated.

Impairment of non-financial assets

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

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

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary of fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

Category	Annual depreciation rate
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Buildings	4.75-19.40 %
Equipment, tools and moulds	9.00 %
Office equipment and computers	19.40-32.33 %
Motor vehicles	19.40-24.25 %

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

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Leasehold improvements are depreciated on straight-line basis over the shorter of the leased term or beneficial life of the leased asset.

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

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable and derivative financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in revenue in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

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

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Available-for-sale financial investments

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

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

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

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

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings and other liability

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings and other liability (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in cost of sales in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. 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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

(a) Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

(b) Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

(c) Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are goods valued at the lower of cost and net realisable value at the end of the reporting period. The cost of inventories issued is determined on the specific identification basis. The difference between the cost and the lower net realisable value is stated as a provision. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

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31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks (including term deposits with original maturity of less than three months), and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of finance lease;

(b) from rendering of services, income is recognised when the services have been rendered and the revenue can be reasonably estimated and deferred revenue is recorded as liability when the payments have been made in advance by customers for services yet to be rendered as at each of the reporting dates and recognised as income when the services have been rendered and the revenue can be reasonably estimated;

(c) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in which services have been rendered by the employees of the Group.

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year's basic salaries to the Annuity Plan. The contribution is charged to the income statement when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

Contributions to these plans are recognised in the income statement as incurred.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Dividend income is recognised when the shareholders' right to receive payment is established.

Foreign currencies

These financial statements are presented in US dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than the US dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into US dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into US dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into US dollars at the weighted average exchange rates for the year.

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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 report 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.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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 unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Notes to Financial Statements

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of loans and receivables. The identification of doubtful receivables requires management's judgement and estimates. The management measures and monitors the asset quality of the lease receivables portfolio by classifying the lease receivables using the 5-category classification system by referring to guidelines promulgated by the China Banking Regulatory Commission relating to asset quality for financial institutions under its regulation. And thereon, for the first two categories i.e., Pass and Special Mention, the lease receivables are regarded as performing assets as no objective evidence of impairment exists individually and they are collectively assessed for impairment; while lease receivables in the remaining 3 categories i.e., Substandard, Doubtful and Loss, are regarded as non-performing assets and are measured for impairment individually since objective evidence of impairment exists individually for such lease receivables. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the receivables and doubtful debt expenses/write-back of in the period in which such estimate is changed.

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.

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4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two operating segments, namely the leasing and advisory business and the trade and others business, based on internal organisational structure, management requirement and internal reporting system:

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

- The trade and others business comprises primarily (a) import and export trade and domestic trade of medical equipment and parts, paper, ink, cardboard and paper goods primarily for the healthcare and printing industries, as well as the provision of trade agency services primarily within the machinery industry; (b) the ship brokerage services; (c) medical engineering; and (d) operating leasing.

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, assets and liabilities 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 at 31 December 2012 and for the year then ended	Leasing and advisory US$'000	Trading and others US$'000	Intersegment US$'000	Total US$'000
Revenue	905,602	126,389	(1,292)	1,030,699
Cost of sales	(351,028)	(111,225)	109	(462,144)
Selling and distribution costs/ administrative expenses	(240,735)	(8,289)	60	(248,964)
Profit before tax	324,198	5,686	–	329,884
Profit after tax	235,969	5,144	–	241,113
Segment assets	9,613,297	128,428	(105,216)	9,636,509
Segment liabilities	(7,582,940)	(93,396)	85,081	(7,591,255)

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4. OPERATING SEGMENT INFORMATION (continued)

As at 31 December 2011 and for the year then ended	Leasing and advisory US$'000	Trading and others US$'000	Intersegment US$'000	Total US$'000
Revenue	624,158	105,819	(82)	729,895
Cost of sales	(250,160)	(92,634)	153	(342,641)
Selling and distribution costs/ administrative expenses	(160,083)	(6,095)	–	(166,178)
Profit before tax	223,697	5,157	–	228,854
Profit after tax	166,791	4,812	–	171,603
Segment assets	7,463,515	42,831	(31,644)	7,474,702
Segment liabilities	5,993,914	18,498	(13,970)	5,998,442

Geographical information

(a) Revenue from external customers

	2012 US$'000	2011 US$'000
Mainland China	**1,002,322**	715,247
Hong Kong	**24,580**	9,533
Other countries or regions	**3,797**	5,115
	1,030,699	729,895

The revenue information is based on the locations of the customers.

(b) Non-current assets

	2012 US$'000	2011 US$'000
Mainland China	**62,362**	22,448
Hong Kong	**9**	–
	62,371	22,448

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

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4. OPERATING SEGMENT INFORMATION (continued)

Information about a major customer

There was no single customer who contributed revenue of 10% or more to the total revenue of the Group during the year.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts, and the value of services rendered and gross leasing income received, net of business tax, during the year.

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

	Note	2012 US$'000	2011 US$'000
Revenue			
Finance lease income		**688,450**	474,028
Service fee income		**242,439**	170,199
Factoring income		**165**	–
Sale of goods		**90,074**	79,105
Brokerage income		**18,889**	16,287
Construction contract revenue		**8,501**	10,134
Operating lease income		**9,198**	652
Business tax and surcharges		**(27,017)**	(20,510)
		1,030,699	729,895
Other income and gains			
Bank interest income		**7,695**	4,702
Foreign exchange gain		**–**	4,987
Derivative financial instruments – transaction not qualifying as a hedge:			
Unrealised fair value gains,net		**–**	760
Realised fair value gains,net		**–**	320
Gain on structured financial products		**930**	–
Gain on disposal of a subsidiary		**8**	–
Government grants	5a	**10,001**	778
Others		**410**	80
		19,044	11,627

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5. REVENUE, OTHER INCOME AND GAINS (continued)

5a. GOVERNMENT GRANTS

	2012 US$'000	2011 US$'000
Government special subsidy	655	778
Value Added Tax refund	9,346	–
	10,001	778

According to the <Notice of the Ministry of Finance and the State Administration of Taxation on Carrying out the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries in Shanghai> (No. 111 [2011] of the Ministry of Finance), International Far Eastern Leasing Co., Ltd. ("Far Eastern Leasing") started to pay Value Added Tax instead of Business Tax for the business of finance lease and consultation service from 1 January 2012. In accordance with the transitional policies in the <Pilot Program for the Transformation from Business Tax to Value Added Tax>, finance lease company approved by the People's Bank of China, China Banking Regulatory Commission or the Ministry of Commerce of the PRC, is allowed to levy first and refund later for Value Added Tax burden in excess of 3%. Far Eastern Leasing obtained US$9,346,000 Value Added Tax refund in 2012.

The government special subsidies during 2012 included special subsidy amounted to US$579,000 on staff and workers vocational training awarded to Far Eastern Leasing, Shanghai Domin Medical Engineering Co., Ltd. ("Domin Medical Engineering") and Shanghai Donghong Co., Ltd. by Shanghai Pudong New Area Government, and special subsidy amounted to US$76,000 granted to Shanghai Horizon Construction Engineering Equipment Co., Ltd., Far East Horizon Haorui (Tianjin) Leasing Co., Ltd. and Domin Medical Engineering calculated based on a certain percentage of the tax paid during a certain period.

In 2011, the government special subsidy was granted to Far Eastern Leasing. In accordance with the notice of "regarding the allocation of the annual domestic trade credit insurance subsidy of 2011" issued by Qingdao Municipal Finance Bureau of the PRC, Far Eastern Leasing was granted a one-off government subsidy of RMB5 million as a credit insurance allowance for domestic trade.

6. FINANCE COSTS

	2012 US$'000	2011 US$'000
Interest on bank loans repayable within five years	340	–

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7. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit before tax from continuing operations is arrived at after charging:

	Note	2012 US$'000	2011 US$'000
Cost of borrowings included in cost of sales		**350,919**	250,007
Cost of inventories sold		**88,285**	76,693
Cost of construction contracts		**6,346**	7,039
Cost of operating leasing		**3,313**	–
Cost of transportation		**13,281**	8,902
Depreciation		**4,068**	2,019
Amortisation of intangible assets and other assets		**3,246**	2,435
Rental expenses		**10,492**	5,470
Auditors' remuneration		**551**	511
Employee benefit expense (including directors' remuneration (Note 8))			
– Wages and salaries		**96,276**	57,833
– Pension scheme contributions		**6,502**	4,258
– Other employee benefits		**21,885**	14,216
Impairment of loans and accounts receivable	20	**55,779**	40,096
Entertainment expenses		**6,667**	5,138
Business travelling expenses		**20,487**	14,711
Consultancy fees		**3,804**	2,976
Office expenses		**4,777**	5,170
Advertising and promotional expenses		**222**	496
Transportation expenses		**823**	406
Communication expenses		**1,931**	1,459
Other miscellaneous expenses		**11,477**	9,005
Loss on disposal of property, plant and equipment		**26**	23
Donation		**318**	310
Bank commission expenses		**4,444**	3,495
Foreign exchange losses/(gains)		**1,703**	(4,987)
Derivative financial instruments – transaction not qualifying as a hedge:			
Unrealised fair value losses/(gains), net		**1,750**	(760)
Realised fair value losses/(gains), net		**147**	(320)

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Group

	2012 US$'000	2011 US$'000
Fees	**216**	216
Other emoluments:		
Salaries, allowances and benefits in kind	**429**	377
Performance related bonuses*	**350**	340
Pension scheme contributions	**52**	49
	831	766
	1,047	982

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

(a) Independent non-executive directors

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

	2012 US$'000	2011 US$'000
Mr. Cai Cunqiang	**54**	54
Mr. Han Xiaojing	**54**	54
Mr. Liu Jialin	**54**	54
Mr. Yip Wai Ming	**54**	54
	216	216

(b) Non-executive directors

There were no fees and other emoluments payable to the non-executive directors during the year (2011: Nil).

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8. DIRECTORS' REMUNERATION (continued)

(c) Executive directors

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Pension scheme contributions US$'000	Total US$'000
Year ended 31 December 2012					
Executive directors:					
Mr. Kong Fanxing	–	**260**	**223**	**31**	**514**
Mr. Wang Mingzhe	–	**169**	**127**	**21**	**317**
	–	**429**	**350**	**52**	**831**
Year ended 31 December 2011					
Executive directors:					
Mr. Kong Fanxing	–	238	216	29	483
Mr. Wang Mingzhe	–	139	124	20	283
	–	377	340	49	766

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the year is as follows:

	Number of employees	
	2012	2011
Directors	**2**	2
Non-directors	**3**	3
	5	5

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9. FIVE HIGHEST PAID EMPLOYEES (continued)

The five highest paid employees during the year included two (2011: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2011: three) non-director, highest paid employees for the year are as follows:

Group

	2012 US$'000	2011 US$'000
Salaries, allowances and benefits in kind	**508**	480
Performance related bonuses	**389**	433
Pension scheme contributions	**54**	51
	951	964

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

	Number of employees	
	2012	2011
HK$1,000,000 to HK$1,500,000 (Equivalent to US$129,003 to US$ 193,505)	–	–
HK$1,500,001 to HK$2,000,000 (Equivalent to US$193,505 to US$ 258,007)	–	–
HK$2,000,001 to HK$2,500,000 (Equivalent to US$258,007 to US$ 322,508)	**1**	2
HK$2,500,001 to HK$3,000,000 (Equivalent to US$322,508 to US$ 387,010)	**2**	1
HK$3,000,001 to HK$3,500,000 (Equivalent to US$387,010 to US$ 451,511)	–	–
HK$3,500,001 to HK$4,000,000 (Equivalent to US$451,512 to US$ 516,013)	–	–
	3	3

Notes to Financial Statements

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10. INCOME TAX

	2012 US$'000	2011 US$'000
Current – Hong Kong		
Charge for the year	**2,521**	963
(Overprovision)/Underprovision in prior years	**(80)**	46
Current – Mainland China		
Charge for the year	**105,821**	60,618
Overprovision in prior years	**(4)**	(759)
Deferred tax (Note 27)	**(19,487)**	(3,617)
Total tax charge for the year	**88,771**	57,251

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong for the year.

Corporate Income Tax ("CIT")

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

Prior to 1 January 2008, Far Eastern Leasing was entitled to a preferential CIT rate of 15% and all other subsidiaries in Mainland China are subject to CIT at the statutory rate of 33%. For each of the subsidiaries of the Group in Mainland China, CIT is provided at the applicable rate of the profits for the purpose of Mainland China statutory financial reporting, adjusted for those items which are not assessable or deductible.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%. Pursuant to relevant recognition by the local tax authorities, Far Eastern Leasing and Shanghai Donghong Co., Ltd. were entitled to transitional CIT rates of 18% in 2008, 20% in 2009, 22% in 2010 and 24% in 2011 and they are entitled to a CIT rate of 25% from 2012 onward.

On 25 September 2012, Domin Medical Engineering was recognised as a high-technology enterprise by Shanghai Science and Technology Commission. Since then, Domin Medical Engineering enjoyed a preferential tax rate of 15%.

Notes to Financial Statements

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10. INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

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

	2012 US$'000	2011 US$'000
Profit before tax	**329,884**	228,854
Tax at the statutory income tax rates	**102,671**	53,734
Expenses not deductible for tax	**3,578**	2,443
Income not subject to tax	**(24,215)**	(3,736)
Adjustment to current income tax in respect of prior years	**(84)**	(713)
Effects of change in tax rates	**41**	(731)
Utilisation of previously unrecognised tax losses	**–**	(309)
Unrecognised tax losses	**3,678**	20
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**3,102**	6,543
Income tax expense as reported in the consolidated income statement	**88,771**	57,251

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of US$103,063,000 (2011: profit of US$37,603,000) which has been dealt with in the financial statements of the Company (Note 29(b)).

12. DIVIDENDS PAID AND PROPOSED

	2012 US$'000	2011 US$'000
Dividends before listing	**–**	1,124
Proposed final dividend – HK$0.23 (2011: HK$0.10) per ordinary share	**97,688**	36,572

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12. DIVIDENDS PAID AND PROPOSED (continued)

A final dividend for the year 2012 of HK$0.23 per share was proposed at the meeting of the Board of Directors held on 27 March 2013. Based on the total number of outstanding ordinary shares of 3,292,400,000, the proposed final dividend amounted to approximately HK$757,252,000 (equivalent to US$97,688,000). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the financial statements.

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the consolidated profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue for the year. The weighted average number of ordinary shares includes the weighted average of 938,400,000 shares issued in connection with the Company's IPO and an exercise of an over-allotment option as defined in the Prospectus of the Company dated 18 March 2011 (the "Prospectus"), in addition to the aforesaid 1,904,000,000 ordinary shares.

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the consolidated net profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue for the year. The weighted average number of ordinary shares includes the weighted average of 450,000,000 shares issued on 2 April 2012, in addition to the outstanding 2,842,400,000 ordinary shares as at 31 December 2011.

The calculation of basic earnings per share is based on:

Earnings

	2012 **US$'000**	2011 US$'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**241,305**	171,412

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13. EARNINGS PER SHARE (continued)

Shares

	Number of shares 2012	2011
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**3,178,055,738**	2,611,237,260

The Group had no potentially dilutive ordinary shares in issue during these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2012

	Leasehold improvements US$'000	Buildings US$'000	Equipment, tools and moulds US$'000	Office equipment and computers US$'000	Motor vehicles US$'000	Total US$'000
At 31 December 2011 and at 1 January 2012						
Cost	1,779	1,441	9,532	6,640	1,517	20,909
Accumulated depreciation	(458)	(103)	(135)	(2,667)	(537)	(3,900)
Net carrying amount	1,321	1,338	9,397	3,973	980	17,009
At 1 January 2012, net of accumulated depreciation	1,321	1,338	9,397	3,973	980	17,009
Additions	3,324	1,637	38,206	2,381	336	45,884
Depreciation provided during the year	(1,649)	(129)	(2,209)	(1,924)	(366)	(6,277)
Disposal	–	–	(136)	(3)	(13)	(152)
Exchange realignment	6	5	67	10	2	90
At 31 December 2012, net of accumulated depreciation	3,002	2,851	45,325	4,437	939	56,554
At 31 December 2012						
Cost	5,109	3,083	47,670	9,033	1,689	66,584
Accumulated depreciation	(2,107)	(232)	(2,345)	(4,596)	(750)	(10,030)
Net carrying amount	3,002	2,851	45,325	4,437	939	56,554

Notes to Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

31 December 2011

	Leasehold improvements US$'000	Buildings US$'000	Equipment, tools and moulds US$'000	Office equipment and computers US$'000	Motor vehicles US$'000	Total US$'000
At 31 December 2010 and at 1 January 2011						
Cost	153	1,359	–	3,633	710	5,855
Accumulated depreciation	(33)	(32)	–	(1,486)	(302)	(1,853)
Net carrying amount	120	1,327	–	2,147	408	4,002
At 1 January 2011, net of accumulated depreciation	120	1,327	–	2,147	408	4,002
Additions	1,578	12	9,294	2,846	804	14,534
Depreciation provided during the year	(413)	(67)	(131)	(1,146)	(262)	(2,019)
Disposal	–	–	–	(26)	(5)	(31)
Exchange realignment	36	66	234	152	35	523
At 31 December 2011, net of accumulated depreciation	1,321	1,338	9,397	3,973	980	17,009
At 31 December 2011						
Cost	1,779	1,441	9,532	6,640	1,517	20,909
Accumulated depreciation	(458)	(103)	(135)	(2,667)	(537)	(3,900)
Net carrying amount	1,321	1,338	9,397	3,973	980	17,009

Notes to Financial Statements

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December 2012

	Leasehold improvements US$'000	Office equipment and computers US$'000	Total US$'000
31 December 2011 at 1 January 2012			
Cost	8	13	21
Accumulated depreciation	(3)	(2)	(5)
Net carrying amount	5	11	16
At 1 January 2012, net of accumulated depreciation	5	11	16
Additions	–	1	1
Depreciation provided during the year	(5)	(3)	(8)
Disposal	–	–	–
Exchange realignment	–	–	–
At 31 December 2012, net of accumulated depreciation	–	9	9
31 December 2012			
Cost	8	14	22
Accumulated depreciation	(8)	(5)	(13)
Net carrying amount	–	9	9

Notes to Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

31 December 2011

	Leasehold Improvements US$'000	Office equipment and computers US$'000	Total US$'000
31 December 2010 at 1 January 2011			
Cost	–	–	–
Accumulated depreciation	–	–	–
Net carrying amount	–	–	–
At 1 January 2011, net of accumulated depreciation	–	–	–
Additions	8	13	21
Depreciation provided during the year	(3)	(2)	(5)
Disposal	–	–	–
Exchange realignment	–	–	–
At 31 December 2011, net of Accumulated depreciation	5	11	16
31 December 2011			
Cost	8	13	21
Accumulated depreciation	(3)	(2)	(5)
Net carrying amount	5	11	16

Notes to Financial Statements

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15. OTHER ASSETS

Group

	2012 US$'000	2011 US$'000
Software (Note 15a)	**1,243**	1,235
Other assets	**4,574**	4,204
	5,817	5,439

15a. SOFTWARE

Group

	2012 US$'000	2011 US$'000
Cost		
At the beginning of the year	**2,781**	2,230
Additions	**477**	426
Disposals/write-off	**(2)**	–
Exchange differences	**7**	125
At the end of the year	**3,263**	2,781
Accumulated amortisation		
At the beginning of the year	**(1,546)**	(1,072)
Additions	**(472)**	(409)
Disposals/write-off	**2**	–
Exchange differences	**(4)**	(65)
At the end of the year	**(2,020)**	(1,546)
Net carrying amount		
At the end of the year	**1,243**	1,235
At the beginning of the year	**1,235**	1,158

16. INVESTMENTS IN SUBSIDIARIES

Company

	2012 US$'000	2011 US$'000
Unlisted shares, at cost	**1,431,465**	1,100,176

Notes to Financial Statements

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16. INVESTMENTS IN SUBSIDIARIES (continued)

Company (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
International Far Eastern Leasing Co. Ltd. (遠東國際租賃有限公司) (Note i)	PRC/Mainland China 13 September 1991	US$1,342,710,922	100	–	Finance leasing
Shanghai Donghong Co., Ltd. (上海東泓實業發展有限公司) (Note ii)	PRC/Mainland China 28 April 2006	RMB105,000,000	–	100	Trading
Shanghai Domin Medical Engineering Co., Ltd. (上海德明醫用設備工程有限公司) (Note ii)	PRC/Mainland China 4 March 2010	RMB100,000,000	–	88.31	Engineering and trading
Shanghai Horizon Construction Engineering Equipment Co., Ltd. (上海宏信設備工程有限公司) (Note ii)	PRC/Mainland China 13 July 2011	RMB150,000,000	–	100	Operating leasing
Far East Horizon Mingrui (Shanghai) Shipping Leasing Co., Ltd. (遠東宏信明瑞(上海)船舶租賃有限公司) (Note ii)	PRC/Mainland China 2 April 2011	RMB500,000	–	100	Finance leasing
Shanghai Depeng Co., Ltd. (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB10,000,000	–	100	Trading
Far East Horizon Fortune Shipbrokers (Shanghai) Co., Ltd. (遠東宏信祥瑞航運經紀(上海)有限公司) (Note i)	Mainland China 5 September 2012	HK$15,000,000	–	100	Shipping brokerage
Tianjin Horizon Equipment & Engineering Ltd. (天津宏信設備工程有限公司) (Note ii)	PRC/Mainland China 27 July 2012	RMB100,000,000	–	100	Operating leasing
Grand Light Development Limited. (宏明發展有限公司)	Hong Kong 23 June 2011	HK$1	100	–	Trading
Far East Horizon Shipping Holdings Co., Limited (遠東宏信航運控股有限公司)	Cayman Islands 2 October 2009	US$1,000	100	–	Investment holding
Far East Medical Holding Limited (遠東醫療控股有限公司)	Hong Kong 30 August 2012	HK$10,000,000	100	–	Investment holding

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

Note i: Foreign invested enterprise

Note ii: Domestic company

Notes to Financial Statements

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17. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	Notes	2012 US$'000	2011 US$'000
Cross-currency interest rate swaps	(a)	**(1,149)**	601
Call options	(b)	**159**	159
		(990)	760

(a) As at 31 December 2012, to manage the exchange rate exposure and interest rate exposure arising from the borrowings from Standard Chartered Bank by Far Eastern Leasing amounting to US$67,000,000 (2011: US$100,000,000) with floating interest rates determined with reference to LIBOR and measured at amortised cost, the Company accordingly entered into two non-deliverable cross currency swap contracts with Standard Chartered Bank with a nominal amount of US$66,667,000 (2011: US$100,000,000). Changes in the fair value of the financial derivatives amounting to a loss of US$1,750,000 (2011: gain of US$601,000) was charged to the income statement during the year.

(b) As at 31 October 2012, Bright Time (China) limited ("Bright"), a subsidiary of the Company, entered into a call option agreement (the "Agreement") with a company registered in the Cayman Islands (the "Cayman Islands company"). According to the Agreement, Bright shall have the right at any time between the date of signing the Agreement and the expiration of the exercise period, that is, 3 years or 5 years upon fulfillment of certain extension criteria, to subscribe by cash the newly issued common stock of the Cayman Islands company representing 25% of the fully-diluted, as converted common stock of the Cayman Islands company. No change in the fair value of the financial derivative (2011: US$159,000) was recognised in the income statement during the year.

18. INVENTORIES

Group

	2012 US$'000	2011 US$'000
Commodity goods	**8,700**	1,140

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19. CONSTRUCTION CONTRACTS

	2012 US$'000	2011 US$'000
Gross amount due from contract customers	**12,804**	4,780
Contract costs incurred plus recognised profits less recognised losses to date	**16,337**	10,520
Less: Progress billings	**3,549**	5,860
Exchange difference	**16**	120
	12,804	4,780

20. LOANS AND ACCOUNTS RECEIVABLE

Group

	2012 US$'000	2011 US$'000
Loans and accounts receivable due within 1 year	**3,428,064**	2,296,065
Loans and accounts receivable due after 1 year	**5,614,201**	4,262,017
	9,042,265	6,558,082

Company

	2012 US$'000	2011 US$'000
Loans and accounts receivable due within 1 year	**55,972**	94,761
Loans and accounts receivable due after 1 year	**1,270,105**	707,682
	1,326,077	802,443

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20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20a. LOANS AND ACCOUNTS RECEIVABLE BY NATURE

Group

	2012 US$'000	2011 US$'000
Lease receivables (Note 20b)	**10,330,633**	7,609,623
Less: Unearned finance income	**(1,292,376)**	(1,085,143)
Net lease receivables (Note 20b)	**9,038,257**	6,524,480
Bank interest receivables	**1,024**	–
Lease interest receivables	**39,971**	34,373
Notes receivable	**2,141**	2,672
Accounts receivable (Note 20d)	**15,344**	11,163
Due from a related party (Note 20f)	**1,364**	–
Factoring receivable (Note 20g)	**34,553**	–
Entrusted loans	**51,412**	70,468
Long term receivables	**1,543**	2,223
Subtotal of loans and accounts receivable	**9,185,609**	6,645,379
Less:		
Provision for lease receivables (Note 20c)	**(141,029)**	(84,557)
Provision for accounts receivable (Note 20e)	**(259)**	(894)
Provision for factoring receivable (Note 20h)	**(872)**	–
Provision for entrusted loans (Note 20i)	**(1,153)**	(1,828)
Provision for long term receivables (Note 20j)	**(31)**	(18)
	9,042,265	6,558,082

Notes to Financial Statements

31 December 2012

20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20a. LOANS AND ACCOUNTS RECEIVABLE BY NATURE (continued)

Company

The loans and accounts receivable of the Company were amounts due from related parties as follows:

	Notes	2012 US$'000	2011 US$'000
Due from related parties			
Directly held subsidiaries:			
Interest receivables	(i)	**28,865**	5,854
Accounts receivable (Note 20d)	(i)	**7,336**	54,960
Loans	(ii)	**893,868**	477,466
Indirectly held subsidiaries:			
Interest receivables	(i)	**20,185**	11,043
Accounts receivable (Note 20d)	(i)	**3,927**	3,163
Loans	(ii)	**374,493**	250,971
Provision for loans (Note 20k)		**(2,597)**	(1,014)
		1,326,077	802,443

Notes:

(i) Balances with related parties were unsecured and non-interest-bearing.

(ii) This is in relation to long term loans granted to subsidiaries with annual interest rates from 2.95% to 6.15%.

Notes to Financial Statements

31 December 2012

20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20b(1). **An aged analysis of 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:**

Group

	2012 US$'000	2011 US$'000
Lease receivables		
Within 1 year	**5,745,815**	4,938,514
1 to 2 years	**3,214,520**	1,973,561
2 to 3 years	**1,091,393**	549,470
3 years and beyond	**278,905**	148,078
Total	**10,330,633**	7,609,623

	2012 US$'000	2011 US$'000
Net lease receivables		
Within 1 year	**5,001,451**	4,186,672
1 to 2 years	**2,815,162**	1,713,888
2 to 3 years	**969,266**	490,452
3 years and beyond	**252,378**	133,468
Total	**9,038,257**	6,524,480

Notes to Financial Statements

31 December 2012

20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20b(2). **The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following three consecutive accounting years:**

Group

	2012 US$'000	2011 US$'000
Lease receivables:		
Due within 1 year	**4,037,484**	2,768,003
Due in 1 to 2 years	**3,138,458**	2,227,659
Due in 2 to 3 years	**1,861,331**	1,424,709
Due after 3 years and beyond	**1,293,360**	1,189,252
Total	**10,330,633**	7,609,623

	2012 US$'000	2011 US$'000
Net lease receivables:		
Due within 1 year	**3,381,281**	2,261,453
Due in 1 to 2 years	**2,763,579**	1,913,043
Due in 2 to 3 years	**1,691,395**	1,263,148
Due after 3 years and beyond	**1,202,002**	1,086,836
Total	**9,038,257**	6,524,480

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

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20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20c. CHANGE IN PROVISION FOR LEASE RECEIVABLES

Group

	Individually assessed		Collectively assessed		Total	
	2012	2011	**2012**	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
At beginning of year	**12,037**	8,930	**72,520**	33,270	**84,557**	42,200
Charge for the year	**18,125**	2,685	**38,087**	36,766	**56,212**	39,451
Write-off	**–**	–	**–**	–	**–**	–
Exchange difference	**49**	422	**211**	2,484	**260**	2,906
At end of year	**30,211**	12,037	**110,818**	72,520	**141,029**	84,557

	2012	2011
	US$'000	US$'000
Lease receivables:		
Individually assessed (Note (i))	**73,389**	43,665
Collectively assessed	**10,257,244**	7,565,958
Total	**10,330,633**	7,609,623

	2012	2011
	US$'000	US$'000
Net lease receivables:		
Individually assessed (Note (i))	**66,025**	39,450
Collectively assessed	**8,972,232**	6,485,030
Total	**9,038,257**	6,524,480

Note (i) Individually assessed lease receivables include those classified as substandard, doubtful and loss by the Group.

Note (ii) As at 31 December 2012, the carrying values of the lease receivables pledged or charged as security for the Group's borrowings amounted to US$3,224,319,000 (2011: US$2,245,760,000) (Note 25).

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20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20d. An aged analysis of accounts receivable as at the end of the reporting period is as follows:

Accounts receivable are non-interest-bearing and are generally on 60-day terms, while the credit terms of major customers can be extended to 90 days.

Group

	2012 US$'000	2011 US$'000
Within 1 year	**14,955**	10,719
More than 1 year	**389**	444
Total	**15,344**	11,163

Company

	2012 US$'000	2011 US$'000
Within 1 year	**11,263**	58,123
Total	**11,263**	58,123

20e. CHANGE IN PROVISION FOR ACCOUNTS RECEIVABLES

Group

	2012 US$'000	2011 US$'000
At beginning of year	**894**	519
(Reversal)/charge for the year	**(638)**	347
Exchange difference	**3**	28
At end of year	**259**	894

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20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20f. BALANCE WITH A RELATED PARTY

	2012 US$'000	2011 US$'000
Subsidiary of the ultimate holding company of a shareholder with significant influence		
Sinochem International (Overseas) Pte. Ltd. (i)	**1,364**	–

(i) Balance with the related party was unsecured and non-interest-bearing.

20g. An aged analysis of factoring receivables as at the end of the reporting period is as follows:

Group

	2012 US$'000	2011 US$'000
Within 1 year	**34,553**	–
At end of year	**34,553**	–

20h. CHANGE IN PROVISION FOR FACTORING RECEIVABLES

Group

	2012 US$'000	2011 US$'000
At beginning of year	–	–
Charge for the year	871	–
Exchange difference	1	–
At end of year	872	–

Notes to Financial Statements

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20. LOANS AND ACCOUNTS RECEIVABLE (continued)

20i. CHANGE IN PROVISION FOR ENTRUSTED LOANS

Group

	2012 US$'000	2011 US$'000
At beginning of year	**1,828**	1,466
(Reversal)/charge for the year	**(679)**	280
Exchange difference	**4**	82
At end of year	**1,153**	1,828

20j. CHANGE IN PROVISION FOR LONG TERM RECEIVABLES

Group

	2012 US$'000	2011 US$'000
At beginning of year	**18**	–
Charge for the year	**13**	18
Exchange difference	**–**	–
At end of year	**31**	18

20k. CHANGE IN PROVISION FOR LOANS

Company

	2012 US$'000	2011 US$'000
At beginning of year	**1,014**	–
Charge for the year	**1,583**	1,014
Exchange difference	**–**	–
At end of year	**2,597**	1,014

Notes to Financial Statements

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	2012 US$'000	2011 US$'000
Current assets:			
Prepayments		**3,456**	5,549
Leased assets*		**96,631**	7,951
Other receivables		**12,381**	3,187
Provision for other receivables		**–**	(420)
Export tax refund receivables		**–**	223
Due from related parties	(21a)	**39**	1,228
		112,507	17,718
Non-current assets:			
Deposit from cross-currency interest rate swaps contracts		**5,590**	4,680
Rental deposit due after 1 year		**1,065**	–
Project quality guarantee deposit		**69**	–
Due from related parties	(21a)	**2,271**	–
		8,995	4,680
		121,502	22,398

* The leased assets arise from the situations where the Group had already made payments to vendors or suppliers of machinery and equipment, but the terms of the related lease contract of the said machinery and equipment have not commenced. The Group records these paid amounts under leased assets among its current assets as such assets had already been earmarked for lease to customers. Once the terms of the lease contract commence, the Group ceases to recognise the amount relating to the leased assets and recognise the lease receivables due under the lease contract.

Company

	Note	2012 US$'000	2011 US$'000
Current assets:			
Due from related parties	(21a)	**18,293**	4,800
Prepayment		**16**	3,062
Others		**25**	15
		18,334	7,877
Non-current asset:			
Deposit from cross-currency interest rate swaps contracts		**5,590**	4,680
		23,924	12,557

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

21a. BALANCES WITH RELATED PARTIES

		Group		Company	
		2012	2011	**2012**	2011
	Note	**US$'000**	US$'000	**US$'000**	US$'000
Due from related parties:					
Subsidiaries of the ultimate holding company of a shareholder with significant influence:					
China Jin Mao Group Co., Ltd.	(i)	**2,211**	1,078	–	–
Beijing Chemsunny Property Co., Ltd.	(i)	**60**	54	–	–
Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")	(i)	**39**	39	**39**	39
Sinochem Growth Enterprises Vision Co., Ltd.		–	57	–	–
Indirectly held subsidiaries		–	–	**18,254**	4,761
		2,310	1,228	**18,293**	4,800

Note:

(i) Balances with related parties were unsecured and non-interest-bearing.

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22. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Cash and bank balances	**324,074**	751,304	**6,623**	18,272
Time deposits	**22,589**	93,687	**–**	–
	346,663	844,991	**6,623**	18,272
Less:				
Pledged deposits	**89,770**	132,123	**–**	4,345
Time deposits with original maturity of more than 3 months	**17,819**	51,503	**–**	–
Cash and cash equivalents	**239,074**	661,365	**6,623**	13,927

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$299,177,000 (2011: US$701,425,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

As at 31 December 2012, cash of US$28,534,000 (2011: US$74,221,000) was pledged for bank and other borrowings (Note 25).

As at 31 December 2012, cash of US$34,629,000 (2011: US$145,750,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

Notes to Financial Statements

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23. TRADE AND BILLS PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Bills payable	**234,408**	196,113	**1,538**	545
Trade payables	**114,155**	161,241	**187**	5,171
	348,563	357,354	**1,725**	5,716

An aged analysis of the trade and bills payables as at the end of the reporting period is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Within 1 year	**322,861**	342,360	**1,674**	5,716
1 to 2 year	**13,238**	11,589	**51**	–
2 to 3 year	**7,488**	2,532	**–**	–
3 years and beyond	**4,976**	873	**–**	–
	348,563	357,354	**1,725**	5,716

The trade payables are non-interest-bearing and are repayable within the normal operating cycle or on demand.

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24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Current:				
Lease, entrusted loan and factoring deposits due within 1 year	**143,963**	94,077	**–**	–
Salary payables	**49,878**	21,262	**1,461**	1,291
Welfare payables	**2,960**	1,778	**–**	–
Advances from customers	**58,996**	52,447	**1**	3,020
Due to related parties (Note (24a))	**561**	823	**10,406**	112
Other taxes payable	**3,228**	4,177	**–**	–
Interest payable	**27,171**	11,386	**7,728**	3,146
Other payables	**7,961**	4,537	**683**	13,116
	294,718	190,487	**20,279**	20,685
Non-current:				
Lease, entrusted loan and factoring deposits due after 1 year	**1,033,011**	695,699	**–**	–
Due to related parties (Note (24a))	**–**	–	**1,155**	–
	1,033,011	695,699	**1,155**	–
	1,327,729	886,186	**21,434**	20,685

24a. BALANCES WITH RELATED PARTIES

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Due to related parties:				
Subsidiaries of the ultimate holding company of a shareholder with significant influence:				
Sinochem Finance Co., Ltd.	**316**	711	**–**	–
Sinochem Corporation	**245**	112	**245**	112
Indirectly held subsidiaries	**–**	–	**11,316**	–
	561	823	**11,561**	112

Balances with related parties were unsecured and non-interest-bearing.

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2012			2011		
	Effective annual interest rate (%)	Maturity	US$'000	Effective annual interest rate (%)	Maturity	US$'000
Current						
Bank loans – secured	2.51~6.15	2013	123,413	0.98~6.56	2012	274,718
Current portion of long term bank loans – secured	2.16~7.04	2013	826,320	1.95~7.32	2012	421,555
Bank loans – unsecured	1.50~7.40	2013	814,607	1.16~7.22	2012	519,735
Current portion of long term bank loans – unsecured	1.83~6.98	2013	741,229	2.47~7.48	2012	401,484
Current portion of loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	6.15	2013	99,208	6.65	2012	3,405
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence- unsecured	–	–	–	6.56	2012	165,056
Other loans – secured	6.00~7.75	2013	335,012	6.89~9.00	2012	61,102
Other loans – unsecured	8.65	2013	50,911	–	–	–
Bonds – secured	6.80~7.00	2013	20,026	6.30~7.00	2012	70,993
			3,010,726			1,918,048
Non-current						
Bank loans – secured	2.16~7.04	2014~2017	863,942	1.90~7.32	2013~2016	1,142,728
Bank loans – unsecured	1.83~6.98	2014~2019	1,286,434	2.47~7.48	2013~2014	757,159
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	6.15	2014	74,321	6.65	2013~2014	482,537
Other loans – secured	6.15~7.75	2014~2015	65,119	7.315	2013~2014	58,722
Other loans – unsecured	8.65	2014	19,092	–	–	–
Bonds – secured	–	–	–	6.30~7.00	2013	30,273
Bonds – unsecured	4.12~7.54	2014~2016	527,468	3.90~6.95	2014~2016	316,121
			2,836,376			2,787,540
			5,847,102			4,705,588

Notes to Financial Statements

31 December 2012

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Company

	2012			2011		
	Effective annual interest rate (%)	Maturity	US$'000	Effective annual interest rate (%)	Maturity	US$'000
Current						
Bank loans – secured	2.51	2013	20,000	0.98	2012	40,000
Current portion of long term bank loans – secured	2.49~2.51	2013	3,145	1.98~2.04	2012	28,412
Bank loans – unsecured	1.91~5.01	2013	124,034	1.16~3.05	2012	82,282
Current portion of long term bank loans – unsecured	3.30~4.50	2013	36,365	–	–	–
Loans from indirectly held subsidiaries – unsecured	3.97	2013	1,000	–	–	–
Current portion of loans from indirectly held subsidiaries – unsecured	3.31~3.97	2013	1,000	3.29~3.49	2012	10,150
			185,544			160,844
Non-current						
Bank loans – secured	2.49~2.51	2014~2015	38,343	1.98~2.04	2013	116,740
Bank loans – unsecured	3.30~4.50	2014~2016	440,061	3.30~3.65	2013~2014	152,848
Loans from indirectly held subsidiaries – unsecured	3.31~3.97	2014~2015	69,471	3.26~3.53	2013~2014	3,870
Bonds- unsecured	4.12~7.54	2014~2016	527,468	3.90~6.95	2014~2016	316,121
			1,075,343			589,579
			1,260,887			750,423

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2012	2011	2012	2011
	US$'000	US$'000	US$'000	US$'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	**2,505,569**	1,617,492	**183,544**	150,694
In the second year	**1,360,310**	1,404,965	**300,728**	156,338
In the third to fifth years, inclusive	**783,066**	494,922	**177,676**	113,250
Beyond five years	**7,000**	–	**–**	–
	4,655,945	3,517,379	**661,948**	420,282
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence repayable:				
Within one year	**99,208**	168,461	**–**	–
In the second year	**74,321**	3,438	**–**	–
In the third to fifth years, inclusive	**–**	479,099	**–**	–
	173,529	650,998	**–**	–
Loans from Indirectly holding subsidiaries repayable:				
Within one year	**–**	–	**2,000**	10,150
In the second year	**–**	–	**25,765**	2,340
In the third to fifth years, inclusive	**–**	–	**43,706**	1,530
	–	–	**71,471**	14,020
Other borrowings repayable:				
Within one year	**405,949**	132,095	**–**	–
In the second year	**399,468**	68,363	**331,156**	–
In the third to fifth years, inclusive	**212,211**	336,753	**196,312**	316,121
	1,017,628	537,211	**527,468**	316,121
	5,847,102	4,705,588	**1,260,887**	750,423

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(a) As at 31 December 2012, the Group's bank and other borrowings pledged by lease receivables amounted to US$2,067,773,000 (2011: US$1,949,098,000). As at 31 December 2012, the Group's lease receivables pledged as security for the Group's bank borrowings amounted to US$3,120,011,000 (2011: US$2,245,760,000).

(b) In May 2012, the Company entered into a facility agreement ("the Agreement") with certain banks pursuant to which the Company assigned, among other things, certain rights in the inter-company loan to those banks as security for the payment and discharge. As at 31 December 2012, the bank borrowing in relation to to the Agreement amounted to US$41,584,000 (2011: Nil), and the Group's account lease receivables charged as security for the borrowing in relation to the Agreement amounted to US$104,308,000 (2011: Nil).

(c) As at 31 December 2012, the Group's bank borrowings pledged by cash amounted to US$150,178,000 (2011: US$195,123,000).

(d) As at 31 December 2012, the Group's bank borrowings pledged by the shares in indirectly held subsidiaries amounted to US$28,678,000 (2011: US$157,135,000). The indirectly held subsidiary is Treasure Shipping Limited and Far East Horizon Shipping Holdings Ltd.

(e) As at 31 December 2012, no property, plant and equipment of the Group were provided as collateral for borrowings nor had the Group provided any guarantees for other entities.

The carrying amounts of the Group's borrowings approximate their fair values.

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26. DEFERRED REVENUE

Group

		2012 US$'000	2011 US$'000
Service fee	(a)	**1,147**	2,107
Government special subsidy	(b)	**10,898**	–
		12,045	2,107

	2012 US$'000	2011 US$'000
At the beginning of year	**2,107**	3,168
Additions during the year	**10,916**	–
Amortised to the income statement	**(996)**	(1,193)
Exchange differences	**18**	132
At the end of year	**12,045**	2,107

(a) The Group recognised the revenue in accordance with the progress of the services rendered.

(b) As at 31 December 2012, Far East Leasing received US$10,898,000 government special subsidy, which was granted in accordance with the policies of Shanghai Pudong New Area government financial subsidy of the 12th five-year plan. The special subsidy is required to be used for certain expenditure. The Group recognized it as income on a systematic basis to match the expense that it is intended to compensate.

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27. DEFERRED TAX

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

Group

Deferred tax assets

	Allowances for impairment losses US$'000	Salary and welfare payable US$'000	Losses available for off setting against future taxable profits US$'000	Safety production cost US$'000	Government special subsidy US$'000	Total US$'000
Gross deferred tax assets at 1 January 2012	18,802	5,241	285	–	–	24,328
Credited to the income statement during the year	13,597	7,529	(43)	12	2,721	23,816
Exchange differences	64	22	(3)	–	3	86
Gross deferred tax assets at 31 December 2012	32,463	12,792	239	12	2,724	48,230
Gross deferred tax assets at 1 January 2011	7,771	1,484	8	–	–	9,263
Credited to the income statement during the year	10,415	3,590	275	–	–	14,280
Exchange differences	616	167	2	–	–	785
Gross deferred tax assets at 31 December 2011	18,802	5,241	285	–	–	24,328

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31 December 2012

27. DEFERRED TAX (continued)

Group (continued)

Deferred tax liabilities

	Lease deposits US$'000	Withholding tax US$'000	Total US$'000
Gross deferred tax liabilities at 1 January 2012	**4,225**	**12,267**	**16,492**
Charged to the income statement during the year	**1,948**	**2,381**	**4,329**
Exchange differences	**12**	**4**	**16**
Gross deferred tax liabilities at 31 December 2012	**6,185**	**14,652**	**20,837**

	Lease deposits US$'000	Withholding tax US$'000	Total US$'000
Gross deferred tax liabilities at 1 January 2011	–	5,287	5,287
Charged to the income statement during the year	4,120	6,543	10,663
Exchange differences	105	437	542
Gross deferred tax liabilities at 31 December 2011	4,225	12,267	16,492

For the purpose of the presentation of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2012 US$'000	2011 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**42,045**	20,103
Net deferred tax liabilities recognised in the consolidated statement of financial position	**14,652**	12,267

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27. DEFERRED TAX (continued)

Group (continued)

The Group has tax losses arising in Hong Kong of US$1,051,000 (2011: US$115,000) 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 US$441,000 (2011: US$384,000)that will expire in one to five years for offsetting against future taxable profits. The Group has recognised deferred tax assets in respect of the tax losses.

The Group did not recognise deferred tax assets arising in the Mainland China and Hong Kong in respect of unutilised tax losses of US$745,000 (2011: US$1,000) and US$21,219,000 (2011: US$116,000), respectively, because these tax losses have arisen in companies that have been loss-making for some time and it is not considered probable that taxable profit will be available against which the tax losses can be utilised..

Pursuant to the resolution of the Company, part of the Mainland China subsidiaries' profits generated from 2012 onwards will be retained by the Mainland China subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not reverse in the foreseeable future. As at 31 December 2012, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately US$6,861,000 (2011: Nil).

28. ISSUED CAPITAL

	Number of shares	Amounts HK$
Authorised ordinary shares:		
At 31 December 2011 (HK$0.01 each)	10,000,000,000	100,000,000
At 31 December 2012 (HK$0.01 each)	**10,000,000,000**	**100,000,000**
Issued and fully paid ordinary shares:		
At 31 December 2011 (HK$0.01 each)	2,842,400,000	28,424,000
At 31 December 2012 (HK$0.01 each)	**3,292,400,000**	**32,924,000**

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28. ISSUED CAPITAL (continued)

During the year, the movements in share capital and share premium account were as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	US$ equivalent Issued capital US$'000	US$ equivalent Share premium account US$'000	US$ equivalent Total US$'000
At 1 January 2011	18,496	18	–	2	–	2
Issuance and sub-division of shares in connection with pre-IPO restructuring	1,903,981,504	19,022	–	2,441	–	2,441
Issuance of new shares	816,000,000	8,160	5,124,480	1,047	657,519	658,566
Over-allotment	122,400,000	1,224	768,672	157	98,897	99,054
	2,842,400,000	28,424	5,893,152	3,647	756,416	760,063
Share issue expenses				–	(27,156)	(27,156)
As at 31 December 2011				3,647	729,260	732,907
Issuance of new shares	**450,000,000**	**4,500**	**2,875,500**	**580**	**370,329**	**370,909**
Share issue expenses				**–**	**(7,562)**	**(7,562)**
As at 31 December 2012				**4,227**	**1,092,027**	**1,096,254**

On 2 April 2012, 450,000,000 new ordinary shares of the Company of HK$0.01 each were issued at a price of HK$6.40 per share with gross proceeds of HK$2,880,000,000 (equivalent to US$370,909,000) raised.

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29. RESERVES

(a) Group

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 on page 115 of the financial statements.

The Group's capital reserve as at 1 January 2012 represents the excess of the carrying amounts of capital and capital reserve of the subsidiaries acquired pursuant to the Reorganisation as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalised in excess of the nominal value of shares issued. The Group's capital reserve arose during the year represents the deduction of capital injection to a non-wholly-owned and loss-making subsidiary due to that the non-controlling shareholders did not pro rata funded.

Pursuant to the relevant PRC rules and regulations, those subsidiaries which are domestic enterprises in Mainland China are required to transfer no less than 10% of their profits after taxation, as determined under PRC Company Law, to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to this statutory reserve fund must be made before the distribution of dividend to shareholders.

(b) Company

	Capital reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2011	430,173	582	430,755
Profit for the year	–	37,603	37,603
Dividend distribution (Note 12)	–	(1,124)	(1,124)
Capital reserve transfer to share capital	(2,441)	–	(2,441)
Issued ordinary shares (Note 28)	729,260	–	729,260
At 31 December 2011 and 1 January 2012	**1,156,992**	**37,061**	**1,194,053**
Profit for the year	–	**103,063**	**103,063**
Dividend distribution (Note 12)	–	**(42,436)**	**(42,436)**
Issued ordinary shares (Note 28)	**362,767**	–	**362,767**
At 31 December 2012	**1,519,759**	**97,688**	**1,617,447**

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30. DISPOSAL OF A SUBSIDIARY

	2012 US$'000	2011 US$'000
Cash and cash equivalents	5,191	–
Other receivables	315	–
Taxes payable	(20)	–
Other payables	(3,761)	–
	1,725	–
Gain on disposal of a subsidiary	8	–
Exchange difference	(1)	
	1,732	–
Satisfied by:		
Cash	1,732	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2012 US$'000	2011 US$'000
Cash consideration	1,732	–
Cash and bank balances disposed of	5,191	–
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(3,459)	–

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31. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follow:

Group

	2012	2011
	US$'000	US$'000
Claimed amounts	–	158

It represents the disputed amounts of purchase contracts regarding payments withheld either due to the quality or the quantity of the purchased equipment between the Group and the equipment suppliers.

32. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 20, 22 and 25 to the financial statements.

Notes to Financial Statements

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33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its equipment, tools and moulds (Note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms less than one year. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	2012 US$'000	2011 US$'000
Within one year	**2,015**	1,964
In the second to fifth years, inclusive	**17**	–
	2,032	1,964

(b) As lessee

The Group leases certain properties as its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Within one year	**10,586**	8,021	**26**	156
In the second to fifth years, inclusive	**11,145**	14,457	**–**	26
	21,731	22,478	**26**	182

Notes to Financial Statements

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34. COMMITMENTS

(a) In addition to the operating lease commitments detailed in Note 33 above, the Group had the following capital commitments at the end of the reporting period:

Group

	2012 US$'000	2011 US$'000
Contracted, but not provided for:		
Capital expenditure for acquisition of plant and machinery	**5,838**	2,071

(b) Credit commitments

The Group's irrevocable credit commitments at the end of the reporting period are as follow:

Group

	2012 US$'000	2011 US$'000
Irrevocable credit commitments:	**530,797**	605,542

At any given time, the Group also has outstanding commitments to extend credit, which are included in irrevocable credit commitments. These commitments are in the form of approved lease contracts, which have yet to be provided at the end of each reporting period.

Notes to Financial Statements

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35. RELATED PARTY TRANSACTIONS

Relationship between the Group and its related parties:

Ultimate holding company of a shareholder with significant influence

Sinochem Group

A shareholder with significant influence

Greatpart Limited

Subsidiaries of the ultimate holding company of a shareholder with significant influence

Sinochem Hong Kong
Sinochem Finance Co., Ltd.
China Foreign Economy and Trade Trust Co., Ltd.
China Jin Mao Group Co., Ltd.
Beijing Chemsunny Property Co., Ltd.
Shanghai Jin Mao Imtech Facility Services Co., Ltd.
Sinochem Jinmao Property Management (Beijing) Co., Ltd
Sinochem Corporation
Sinochem Growth Enterprises Vision Co., Ltd
Sinochem International (Overseas) Pte. Ltd.
Shenyang International Science and Technology Industrial Park Co., Ltd.

In addition to the transactions and balances in Notes 20, 21, 22, 24 and 25 to the financial statements, the Group had the following material transactions with related parties during the year.

(i) Interest income from cash at banks:

Group

	2012 US$'000	2011 US$'000
Sinochem Finance Co., Ltd.	**1,009**	813

The interest income was charged at rates ranging from 0.36% to 1.64% per annum.

Notes to Financial Statements

31 December 2012

35. RELATED PARTY TRANSACTIONS (continued)

(ii) Service fee income:

Group

	2012 US$'000	2011 US$'000
Sinochem International (Overseas) Pte. Ltd.	**1,364**	2,691

These service were provided based on prices mutually agreed between the parties.

(iii) Interest expense on borrowings:

Group

	2012 US$'000	2011 US$'000
Sinochem Hong Kong	**–**	271
Sinochem Finance Co., Ltd.	**11,970**	19,035

The interest expenses were charged at rates ranging from 1.48% to 6.65% per annum.

(iv) Commission fee:

Group

	2012 US$'000	2011 US$'000
Sinochem Finance Co., Ltd.	**745**	327

Notes to Financial Statements

31 December 2012

35. RELATED PARTY TRANSACTIONS (continued)

(v) Rental expenses:

Group

	2012 US$'000	2011 US$'000
China Jin Mao Group Co., Ltd.	**6,088**	4,132
Beijing Chemsunny Property Co., Ltd.	**268**	191
Shanghai Jin Mao Imtech Facility Services Co., Ltd.	**251**	200
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	**39**	32
Sinochem Hong Kong	**158**	122

These rentals were charged based on rates mutually agreed between the parties.

(vi) Information and Technology Services:

Group

	2012 US$'000	2011 US$'000
Sinochem Corporation	**135**	110

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

(vii) Commission fee income:

Group

	2012 US$'000	2011 US$'000
Shenyang International Science and Technology Industrial Park Co., Ltd.	**90**	–

Notes to Financial Statements

31 December 2012

35. RELATED PARTY TRANSACTIONS (continued)

(viii) Non-cancellable operating leases:

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2012 US$'000	2011 US$'000
China Jin Mao Group Co., Ltd.	**13,132**	16,637
Beijing Chemsunny Property Co., Ltd.	**476**	712
Sinochem Hong Kong	**26**	182

In the opinion of the directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

The related party transactions disclosed in notes (i) to (viii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

Group

	2012 US$'000	2011 US$'000
Short term employee benefits	**2,291**	2,427

Further details of directors' emoluments are set out in Note 8 to the financial statements.

Notes to Financial Statements

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36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

As at 31 December 2012

Financial assets

	Loans and receivables US$'000	Financial assets at fair value through profit or loss Designated as such upon initial recognition US$'000	Total US$'000
Loans and accounts receivable	9,042,265	–	9,042,265
Deposits and other receivables	110,058	–	110,058
Restricted deposits	107,589	–	107,589
Derivative financial instruments	–	159	159
Cash and cash equivalents	239,074	–	239,074
	9,498,986	159	9,499,145

Financial liabilities

	At amortised cost US$'000	Financial liability at fair value through profit or loss Designated as such upon initial recognition US$'000	Total US$'000
Trade and bills payables	348,563	–	348,563
Other payables and accruals	1,251,485	–	1,251,485
Interest-bearing bank and other borrowings	5,847,102	–	5,847,102
Derivative financial instruments	–	1,149	1,149
	7,447,150	1,149	7,448,299

Notes to Financial Statements

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36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

As at 31 December 2011

Financial assets

	Loans and receivables US$'000	Financial assets at fair value through profit or loss Designated as such upon initial recognition US$'000	Total US$'000
Loans and accounts receivable	6,558,082	–	6,558,082
Deposits and other receivables	16,821	–	16,821
Restricted deposits	183,626	–	183,626
Derivative financial instruments	–	760	760
Cash and cash equivalents	661,365	–	661,365
	7,419,894	760	7,420,654

Financial liabilities – at amortised cost

	US$'000
Trade and bills payables	357,354
Other payables and accruals	849,249
Interest-bearing bank and other borrowings	4,705,588
	5,912,191

Notes to Financial Statements

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36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

As at 31 December 2012

Financial assets – Loans and receivables

	Total US$'000
Loans and receivables	1,326,077
Deposits and other receivables	23,898
Cash and cash equivalents	6,623
	1,356,598

Financial liabilities

	Loans and receivables US$'000	Financial liability at fair value through profit or loss Designated as such upon initial recognition US$'000	Total US$'000
Trade and bills payables	1,725	–	1,725
Other payables and accruals	18,335	–	18,335
Interest-bearing bank and other borrowings	1,260,887	–	1,260,887
Derivative financial instruments	–	1,149	1,149
	1,280,947	1,149	1,282,096

Notes to Financial Statements

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36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (continued)

As at 31 December 2011

Financial assets

	Loans and receivables US$'000	Financial liability at fair value through profit or loss Designated as such upon initial recognition US$'000	Total US$'000
Loans and receivables	802,443	–	802,443
Deposits and other receivables	9,486	–	9,486
Restricted deposits	4,345	–	4,345
Cash and cash equivalents	13,927	–	13,927
Derivative financial instruments	–	601	601
	830,201	601	830,802

Financial liabilities – at amortised cost

	US$'000
Trade and bills payables	5,716
Other payables and accruals	19,394
Interest-bearing bank and other borrowings	750,423
	775,533

Notes to Financial Statements

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37. FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, the current portion of restricted deposits, loans and accounts receivable and financial assets included in prepayments, deposits and other receivables, trade and bills payables, the current portion of financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of restricted deposits, loans and accounts receivable and financial assets included in prepayments, deposits and other receivables, the non-current portion of financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the bonds is estimated using an equivalent market interest rate for a similar bond.

The Group enters into two derivative financial instruments with two counterparties, one is non-deliverable cross-currency swap measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The other is a call option measured using valuation techniques including the Binomial Lattice model. The model incorporates various inputs including the value of the underlying equity interest. The carrying amounts of the aforementioned derivatives are the same as their fair values.

Fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Notes to Financial Statements

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37. FAIR VALUE HIERARCHY (continued)

Fair value hierarchy: (continued)

Assets measured at fair value:

Group

As at 31 December 2012

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Derivative financial instruments	**–**	**(1,149)**	**159**	**(990)**

As at 31 December 2011

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Derivative financial instruments	–	601	159	760

The movements in fair value measurements in Level 3 during the year were as follows (see Note 17 for further details):

	US$'000
Derivative financial instruments:	
At 31 December 2011 and 1 January 2012	**159**
Addition	**–**
Exchange difference	**–**
At 31 December 2012	**159**
At 31 December 2010 and 1 January 2011	–
Addition	155
Exchange difference	4
At 31 December 2011	159

Notes to Financial Statements

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37. FAIR VALUE HIERARCHY (continued)

Fair value hierarchy: (continued)

Assets measured at fair value: (continued)

Company

As at 31 December 2012

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Derivative financial instruments	–	**(1,149)**	–	**(1,149)**

As at 31 December 2011

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Derivative financial instruments	–	601	–	601

During the year, there were no transfers at fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings and lease receivables.

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 modelling). 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 table below demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, to the Group's profit before tax.

The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of each reporting period subject to repricing within the coming year.

Group

	Increase/(decrease) in profit before tax As at 31 December	
	2012 US$'000	2011 US$'000
Change in basis points		
+100 basis points	**31,097**	28,163
– 100 basis points	**(31,097)**	(28,163)

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in profit before tax based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of financial instruments with different maturities move by the same amount and, therefore, do not reflect the potential impact on profit before tax in the case where some rates change while others remain unchanged.

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's assets and liabilities:

Group

	As at 31 December 2012					
	Non-interest-bearing US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	114,663	7,968,668	937,432	21,502	–	9,042,265
Deposits and other receivables	101,785	8,273	–	–	–	110,058
Restricted deposits	–	79,190	28,399	–	–	107,589
Derivative financial instruments	159	–	–	–	–	159
Cash and cash equivalents	12	239,062	–	–	–	239,074
Total financial assets	216,619	8,295,193	965,831	21,502	–	9,499,145
FINANCIAL LIABILITIES:						
Trade and bills payables	348,563	–	–	–	–	348,563
Other payables and accruals	81,432	6,281	130,512	1,007,942	25,318	1,251,485
Interest-bearing bank and other borrowings	–	4,845,226	267,521	734,355	–	5,847,102
Derivative financial instruments	1,149	–	–	–	–	1,149
Total financial liabilities	431,144	4,851,507	398,033	1,742,297	25,318	7,448,299
Interest rate risk exposure	(214,525)	3,443,686	567,798	(1,720,795)	(25,318)	2,050,846

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Group (continued)

	As at 31 December 2011					
	Non-interest-bearing US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	43,681	5,652,636	849,533	12,232	–	6,558,082
Deposits and other receivables	10,790	6,031	–	–	–	16,821
Restricted deposits	–	159,821	7,935	15,870	–	183,626
Derivative financial instruments	760	–	–	–	–	760
Cash and cash equivalents	9	661,356	–	–	–	661,365
Total financial assets	55,240	6,479,844	857,468	28,102	–	7,420,654
FINANCIAL LIABILITIES:						
Trade and bills payables	357,354	–	–	–	–	357,354
Other payables and accruals	64,553	5,308	122,521	640,736	16,131	849,249
Interest-bearing bank and other borrowings	–	3,530,293	625,883	549,412	–	4,705,588
Total financial liabilities	421,907	3,535,601	748,404	1,190,148	16,131	5,912,191
Interest rate risk exposure	(366,667)	2,944,243	109,064	(1,162,046)	(16,131)	1,508,463

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Company

	As at 31 December 2012					
	Non-interest-bearing US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	60,312	–	14,744	1,182,182	68,839	1,326,077
Deposits and other receivables	23,898	–	–	–	–	23,898
Cash and cash equivalents	–	6,623	–	–	–	6,623
Total financial assets	84,210	6,623	14,744	1,182,182	68,839	1,356,598
FINANCIAL LIABILITIES:						
Trade and bills payables	1,725	–	–	–	–	1,725
Other payables and accruals	18,335	–	–	–	–	18,335
Interest-bearing bank and other borrowings	–	463,414	127,935	669,537	–	1,260,886
Derivative financial instruments	1,149	–	–	–	–	1,149
Total financial liabilities	21,209	463,414	127,935	669,537	–	1,282,095
Interest rate risk exposure	63,001	(456,791)	(113,191)	512,645	68,839	74,503

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Company (continued)

	As at 31 December 2011					
	Non-interest-bearing US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	75,020	249,957	–	477,466	–	802,443
Deposits and other receivables	9,486	–	–	–	–	9,486
Restricted deposits	–	4,345	–	–	–	4,345
Derivative financial instruments	601	–	–	–	–	601
Cash and cash equivalents	–	13,927	–	–	–	13,927
Total financial assets	85,107	268,229	–	477,466	–	830,802
FINANCIAL LIABILITIES:						
Trade and bills payables	5,716	–	–	–	–	5,716
Other payables and accruals	19,394	–	–	–	–	19,394
Interest-bearing bank and other borrowings	–	234,436	43,147	472,840	–	750,423
Total financial liabilities	25,110	234,436	43,147	472,840	–	775,533
Interest rate risk exposure	59,997	33,793	(43,147)	4,626	–	55,269

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the operating activities of the Group (when receipt or payment is settled using a currency that is different from the functional currency).

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and, to a lesser extent, other currencies. The Group's treasury operations exposure mainly arises from its transactions in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The exchange rate of RMB to US$ is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to US$ and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to US$.

The table below indicates a sensitivity analysis of exchange rate change of the currency to which the Group had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rate against RMB, with all other variables held constant, on profit before tax. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the end of each reporting period are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

Group

		increase/(decrease) in profit before tax As at 31 December	
Currency	Change in currency rate	2012 US$'000	2011 US$'000
US$	-1%	**765**	1,089

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31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

Group

	As at 31 December 2012			
(In US$'000 equivalent)	RMB	US$	Others	Total
FINANCIAL ASSETS:				
Loans and accounts receivable	8,588,960	452,231	1,074	9,042,265
Deposits and other receivables	49,008	60,996	54	110,058
Restricted deposits	104,717	2,872	–	107,589
Derivative financial instruments	159	–	–	159
Cash and cash equivalents	216,050	20,785	2,239	239,074
Total financial assets	8,958,894	536,884	3,367	9,499,145
FINANCIAL LIABILITIES:				
Trade and bills payables	342,294	3,821	2,448	348,563
Other payables and accruals	1,175,169	76,281	35	1,251,485
Interest-bearing bank and other borrowings	5,133,416	711,722	1,964	5,847,102
Derivative financial instruments	–	1,149	–	1,149
Total financial liabilities	6,650,879	792,973	4,447	7,448,299
Net position	2,308,015	(256,089)	(1,080)	2,050,846

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

Group (continued)

(In US$'000 equivalent)	As at 31 December 2011 RMB	US$	Others	Total
FINANCIAL ASSETS:				
Loans and accounts receivable	6,235,843	322,239	–	6,558,082
Deposits and other receivables	11,597	4,839	385	16,821
Restricted deposits	151,461	32,165	–	183,626
Derivative financial instruments	159	601	–	760
Cash and cash equivalents	627,652	33,167	546	661,365
Total financial assets	7,026,712	393,011	931	7,420,654
FINANCIAL LIABILITIES:				
Trade and bills payables	349,081	4,985	3,288	357,354
Other payables and accruals	806,532	42,717	–	849,249
Interest-bearing bank and other borrowings	4,328,655	376,933	–	4,705,588
Total financial liabilities	5,484,268	424,635	3,288	5,912,191
Net position	1,542,444	(31,624)	(2,357)	1,508,463

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

Company

(In US$'000 equivalent)	As at 31 December 2012			
	RMB	US$	Others	Total
FINANCIAL ASSETS:				
Loans and accounts receivable	929,521	395,207	1,349	1,326,077
Deposits and other receivables	–	23,249	649	23,898
Restricted deposits	–	–	–	–
Cash and cash equivalents	101	6,206	316	6,623
Total financial assets	929,622	424,662	2,314	1,356,598
FINANCIAL LIABILITIES:				
Trade and bills payables	–	493	1,232	1,725
Other payables and accruals	5,576	12,724	35	18,335
Interest-bearing bank and other borrowings	662,631	597,770	485	1,260,886
Derivative financial instruments	–	1,149	–	1,149
Total financial liabilities	668,207	612,136	1,752	1,282,095
Net position	261,415	(187,474)	562	74,503

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

Company (continued)

(In US$'000 equivalent)	As at 31 December 2011 RMB	US$	Others	Total
FINANCIAL ASSETS:				
Loans and accounts receivable	503,916	290,805	7,722	802,443
Deposits and other receivables	–	9,101	385	9,486
Restricted deposits	–	4,345	–	4,345
Derivative financial instruments	–	601	–	601
Cash and cash equivalents	909	12,472	546	13,927
Total financial assets	504,825	317,324	8,653	830,802
FINANCIAL LIABILITIES:				
Trade and bills payables	–	2,429	3,287	5,716
Other payables and accruals	112	19,282	–	19,394
Interest-bearing bank and other borrowings	508,880	241,543	–	750,423
Total financial liabilities	508,992	263,254	3,287	775,533
Net position	(4,167)	54,070	5,366	55,269

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 recognised and creditworthy third parties. In accordance with the policy of the Group, the Group examines and verifies the credit risk of all customers that the Group has credit transactions with. Besides, the Group monitors and controls the lease receivables regularly to mitigate the risk of significant exposure from bad debts.

Other financial assets of the Group include cash and bank deposits, accounts receivable, notes receivable, derivative financial instruments, and entrusted loans. 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.

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk is often greater when lessees are concentrated in one single industry or geographical location or have comparable economic characteristics. Customers of the Group are mainly located in Mainland China. Lessees of the Group are from different industries as follows:

	As at 31 December 2012		As at 31 December 2011	
	US$'000	%	US$'000	%
Net lease receivables				
Healthcare	**1,866,173**	**21**	1,427,091	22
Printing	**1,287,176**	**14**	954,311	15
Shipping	**1,041,342**	**12**	624,504	9
Infrastructure construction	**1,387,076**	**15**	981,333	15
Machinery	**692,795**	**8**	546,863	8
Education	**1,598,911**	**18**	1,094,533	17
Textile	**195,682**	**2**	79,459	1
Electronic information	**479,805**	**5**	309,375	5
Others	**489,297**	**5**	507,011	8
	9,038,257	**100**	6,524,480	100
Less: Impairment provision on lease receivables	**141,029**		84,557	
Net	**8,897,228**		6,439,923	

As the customers of the Group are widely dispersed and are engaged in different industries, there is no significant credit risk concentration within the Group.

The quantitative data of exposure to credit risk arising from lease receivables, notes receivable, accounts receivable, entrusted loans, derivative financial instruments and other receivables are set out in Note 20, Note 17 and Note 21 respectively.

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The analysis of financial assets which are neither past due nor impaired is as follows:

Group

	As at 31 December	
	2012	2011
	US$'000	US$'000
Lease receivables	**8,964,331**	6,477,649
Notes receivable	**2,141**	2,672
Accounts receivable	**16,654**	8,905
Factoring receivable	**34,031**	–
Entrusted loans	**51,412**	70,468
Lease interest receivables	**39,971**	34,373
Bank interest receivables	**1,024**	–
Derivative financial instruments	**159**	760
Deposits and other receivables	**110,058**	16,821
Non-current accounts receivable	**1,543**	2,223

As 31 December 2012, the assets which are past due but are not considered impaired amounted to US$7,901,000, which are all past due within one month (2011: US$7,381,000).

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet the 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 monitoring with the following objectives: maintaining the stability of the leasing business, projecting cash flows and evaluating the level of current assets and liquidity of the Group, maintaining an efficient internal fund transfer mechanism.

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

Group

	As at 31 December 2012					
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	9,870	1,021,778	3,099,908	6,233,260	113,634	10,478,450
Deposits and other receivables	35	30,946	70,078	8,999	–	110,058
Restricted deposits	–	50,290	59,235	–	–	109,525
Derivative financial instruments	–	–	–	159	–	159
Cash and cash equivalents	239,074	–	–	–	–	239,074
Total financial assets	248,979	1,103,014	3,229,221	6,242,418	113,634	10,937,266
FINANCIAL LIABILITIES:						
Trade and bills payables	6,214	139,734	199,943	2,672	–	348,563
Other payables and accruals	2,372	67,204	152,336	1,148,538	27,873	1,398,323
Interest-bearing bank and other borrowings	92	889,552	2,365,957	2,986,412	7,305	6,249,318
Derivative financial instruments	–	–	–	1,149	–	1,149
Total financial liabilities	8,678	1,096,923	2,718,567	4,137,308	35,178	7,996,654
Net liquidity gap	240,301	6,091	510,654	2,105,110	78,456	2,940,612

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group (continued)

	As at 31 December 2011					
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	8,920	649,633	2,150,384	4,749,612	98,960	7,657,509
Deposits and other receivables	–	9,534	2,631	4,680	–	16,845
Restricted deposits	–	128,955	39,916	17,188	–	186,059
Derivative financial instruments	–	–	–	760	–	760
Cash and cash equivalents	661,365	–	–	–	–	661,365
Total financial assets	670,285	788,122	2,192,931	4,772,240	98,960	8,522,538
FINANCIAL LIABILITIES:						
Trade and bills payables	26,355	95,129	59,186	171,280	5,404	357,354
Other payables and accruals	5,922	56,736	92,879	778,895	14,314	948,746
Interest-bearing bank and other borrowings	–	700,926	1,433,595	2,996,496	–	5,131,017
Total financial liabilities	32,277	852,791	1,585,660	3,946,671	19,718	6,437,117
Net liquidity gap	638,008	(64,669)	607,271	825,569	79,242	2,085,421

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	As at 31 December 2012					
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	1	13,455	42,887	1,354,036	72,617	1,482,996
Deposits and other receivables	–	43	18,260	5,595	–	23,898
Cash and cash equivalents	6,623	–	–	–	–	6,623
Total financial assets	6,624	13,498	61,147	1,359,631	72,617	1,513,517

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company (continued)

	As at 31 December 2012					
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL LIABILITIES:						
Trade and bills payables	1,578	147	–	–	–	1,725
Other payables and accruals	324	2,713	14,143	1,155	–	18,335
Interest-bearing bank and other borrowings	1,092	66,987	169,906	1,142,839	–	1,380,824
Derivative financial instruments	–	–	–	1,149	–	1,149
Total financial liabilities	2,994	69,847	184,049	1,145,143	–	1,402,033
Net liquidity gap	3,630	(56,349)	(122,902)	214,488	72,617	111,484

	As at 31 December 2011					
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
FINANCIAL ASSETS:						
Loans and accounts receivable	1,853	22,928	64,084	726,840	58,346	874,051
Deposits and other receivables	–	4,767	–	4,719	–	9,486
Restricted deposits	–	4,345	–	–	–	4,345
Derivative financial instruments	–	–	–	601	–	601
Cash and cash equivalents	13,927	–	–	–	–	13,927
Total financial assets	15,780	32,040	64,084	732,160	58,346	902,410
FINANCIAL LIABILITIES:						
Trade and bills payables	–	5,182	384	150	–	5,716
Other payables and accruals	1,044	3,332	14,172	846	–	19,394
Interest-bearing bank and other borrowings	–	96,231	80,089	646,315	–	822,635
Total financial liabilities	1,044	104,745	94,645	647,311	–	847,745
Net liquidity gap	14,736	(72,705)	(30,561)	84,849	58,346	54,665

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes bank and other borrowings. The gearing ratios as at each of the reporting dates during the year are as follows:

Group

	As at 31 December	
	2012	2011
	US$'000	US$'000
Bank and other borrowings	**5,847,102**	4,705,588
Net debt	**5,847,102**	4,705,588
Total equity	**2,045,254**	1,476,260
Total equity and bank and other borrowings	**7,892,356**	6,181,848
Gearing ratio	**74%**	76%

Notes to Financial Statements

31 December 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

Far Eastern Leasing

The primary objectives of the capital management of Far Eastern Leasing, a principal subsidiary of the Group located in Mainland China, are to ensure that it complies with the regulatory requirements of the Ministry of Commerce of the PRC (the "MOFCOM") in addition to the aforementioned general requirements that are relevant to the Group. In accordance with the "Administration of Foreign Investment in the Leasing Industry" promulgated by the MOFCOM on 3 February 2005 and other relevant laws and regulations, Far Eastern Leasing has set up appropriate business development and capital management programs and established a comprehensive evaluation system. It actively adjusts the capital structure in light of changes in the market and the risks being confronted by adjusting its dividend policy or financing channels. During the year, there were no significant changes in the policies or processes for managing the capital of Far Eastern Leasing.

In accordance with the aforementioned requirements of the MOFCOM, Far Eastern Leasing should maintain its assets at risk within 10 times of its equity. The calculations of the ratios of assets at risk to equity as at each of the reporting dates are as follows:

	As at 31 December	
	2012	2011
	US$'000	US$'000
Total assets	**9,075,535**	7,098,560
Less: Cash	**316,233**	795,360
Total assets at risk	**8,759,302**	6,303,200
Equity	**1,867,628**	1,389,894
Ratio of assets at risk to equity	**4.69**	4.54

39. EVENTS AFTER THE REPORTING PERIOD

There are no further material subsequent events undertaken by the Company or by the Group after 31 December 2012.

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial information and financial statements is set out below.

RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
REVENUE	**1,030,699**	729,895	326,909	211,362	155,119
Cost of sales	**(462,144)**	(342,641)	(117,864)	(74,527)	(65,689)
Gross profit	**568,555**	387,254	209,045	136,835	89,430
Other income and gains	**19,044**	11,627	9,930	2,652	9,349
Selling and distribution costs	**(111,731)**	(69,531)	(37,614)	(23,332)	(17,485)
Administrative expenses	**(137,233)**	(96,647)	(44,589)	(26,017)	(17,944)
Other expenses	**(8,411)**	(3,849)	(3,444)	(773)	(376)
Finance costs	**(340)**	–	–	–	(6)
PROFIT BEFORE TAX	**329,884**	228,854	133,328	89,365	62,968
Income tax expense	**(88,771)**	(57,251)	(29,910)	(20,292)	(12,468)
PROFIT AFTER TAX	**241,113**	171,603	103,418	69,073	50,500
Attributable to:					
Owners of the parent	**241,305**	171,412	103,749	69,073	50,321
Non-controlling interests	**(192)**	191	(331)	–	179
	241,113	171,603	103,418	69,073	50,500

Financial Summary

The following table sets forth the results of the Group converted into RMB at the respective average exchanged rate of each year[1] as of the dates indicated.

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**6,486,395**	4,716,436	2,198,610	1,443,898	1,096,629
Cost of sales	**(2,908,365)**	(2,214,078)	(792,688)	(509,124)	(464,395)
Gross profit	**3,578,030**	2,502,358	1,405,922	934,775	632,234
Other income and gains	**119,848**	75,131	66,784	18,117	66,094
Selling and distribution costs	**(703,146)**	(449,295)	(252,971)	(159,390)	(123,612)
Administrative expenses	**(863,635)**	(624,514)	(299,881)	(177,733)	(126,857)
Other expenses	**(52,932)**	(24,871)	(23,162)	(5,281)	(2,658)
Finance costs	**(2,140)**	–	–	–	(42)
PROFIT BEFORE TAX	**2,076,026**	1,478,809	896,691	610,488	445,159
Income tax expense	**(558,654)**	(369,945)	(201,158)	(138,623)	(88,144)
PROFIT AFTER TAX	**1,517,372**	1,108,864	695,533	471,865	357,015
Attributable to:					
Owners of the parent	**1,518,581**	1,107,630	697,759	471,865	355,749
Non-controlling interests	**(1,208)**	1,234	(2,226)	–	1,265
	1,517,372	1,108,864	695,533	471,865	357,015

Financial Summary

ASSETS, LIABILITIES AND NON-CONTROLLING EQUITY

	As at 31 December				
	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	**9,636,509**	7,474,702	3,824,164	2,084,037	1,404,688
Total liabilities	**(7,591,255)**	(5,998,442)	(3,296,832)	(1,808,201)	(1,201,148)
Non-controlling interests	**(1,744)**	(638)	(420)	–	(262)
	2,043,510	1,475,622	526,912	275,836	203,278

The following table sets forth the assets, liabilities and non-controlling equity of the Group converted into RMB at the respective average rate of each year(1) as of the dates indicated.

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**60,570,277**	47,097,350	25,326,291	14,230,221	9,600,481
Total liabilities	**(47,714,833)**	(37,795,583)	(21,833,929)	(12,346,758)	(8,209,366)
Non-controlling interests	**(10,962)**	(4,020)	(2,782)	–	(1,791)
	12,844,482	9,297,747	3,489,580	1,883,463	1,389,324

Note:

(1) Exchange rate

	Exchange rate as at the end of the year	Average exchange rate
2007	7.3046	7.5567
2008	6.8346	7.0696
2009	6.8282	6.8314
2010	6.6227	6.7255
2011	6.3009	6.4618
2012	6.2855	6.2932

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