遠東宏信有限公司
FAR EAST HORIZON LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock code: 3360)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the "Board") of Far East Horizon Limited (the "Company") hereby announces the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014. This announcement, containing the full text of the 2014 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

By Order of the Board
Far East Horizon Limited
Chairman
Liu Deshu

Hong Kong, March 25, 2015

As at the date of this announcement, the executive directors of the Company are Mr. KONG Fanxing and Mr. WANG Mingzhe, the non-executive directors of the Company are Mr. LIU Deshu (Chairman), Mr. YANG Lin, Mr. LIU Haifeng David, Mr. Kuo Ming-Jian and Mr. John LAW, and the independent non-executive directors of the Company are Mr. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming.

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
Mr. LIU Haifeng David
Mr. KUO Ming-Jian
Mr. John LAW

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
Mr. John LAW

Remuneration and Nomination Committee
Mr. LIU Jialin *(Chairman)*
Mr. HAN Xiaojing
Mr. KUO Ming-Jian

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

Baker & McKenzie

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. Based on its philosophy of "creating value and pursuing excellence", Far East Horizon endeavours to realize its vision of "Integrating global resources and promoting China's industries" by making innovations in products and services to provide our customers with tailor-made integrated operations services.

Over the past two decades, 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 organization of resources and value added services, we provide integrated finance, investment, trade, advisory and leasing services in healthcare, packaging, transportation, infrastructure construction, industrial machinery, education, textiles, electronic information, as well as other sectors. The Group, headquartered in Hong Kong, has operations centers in Shanghai and Tianjin, and has offices in major cities throughout China such as Beijing, Shenyang, Ji'nan, Zhengzhou, Wuhan, Chengdu, Chongqing, Changsha, Shenzhen, Xi'an, Harbin, Xiamen and Kunming, 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 services, industrial investment, operating leasing, trade brokerage, management consulting, engineering services, 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

Dear Shareholders,

On behalf of Far East Horizon Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present our annual results for the year ended 31 December 2014 to all our shareholders.

Far East Horizon Limited
Chairman of the Board

LIU Deshu

The global economy saw an unbalanced development in 2014. The US economy continued its recovery with gradual tapering of quantitative easing policy, while other developed economies underwent an economic downturn coupled with mounting pressure. In China, economic development has entered the state of "new normal". On one hand, the economic growth rate decelerated from top gear to normal speed; and on the other hand, industrial upgrading and structural optimisation have become normality, with the driving force of elements and investments gradually going innovation-oriented. Meanwhile, China also deepened reform of its financial sector, and made substantial breakthroughs in financial innovation such as interest rate liberalization, RMB internationalization and gradual deregulation of its capital market. With the full support and guidance of China's national industrial policies, all types of fundings have been entering the financial leasing industry, serving and supporting real economy development in a more effective manner. In the long term, we believe that, with gradual deepening of industrial restructuring and upgrading of China's economy, the financial leasing industry will experience a more sustained, healthy and stable development.

In 2014, the Group continued to adopt the innovative development model characterized by an "organic and effective combination of finance and industries", actively implemented the business strategy of "vigorously promoting the growth and innovation of traditional businesses and striving to improve the allocation of assets and service capability of industrial operations" which was formulated at the beginning of the year, and prudently implemented well-designed business plans to achieve more remarkable results. Thanks to the concerted efforts made by our staff, the Group achieved all objectives set at the beginning of the year, delivering another record high operating results despite the negative impact of the external environment.

As at the end of 2014, total assets of the Group exceeded RMB110.0 billion, up by approximately 28% from the beginning of the year. Net profit attributable to holders of ordinary shares amounted to RMB2.296 billion for the year, representing a year-on-year increase of 20%. Meanwhile, asset quality of the Group remained stable and the provision coverage ratio was maintained at approximately 220%, achieving our targets to maintain asset security and healthy business growth. These achievements would not have been possible without the long-term strong support from our shareholders and business partners as well as diligent efforts made by our management team and all staff. On behalf of the Board of Directors, I would like to extend our sincere gratitude to each and every one of them.

With the ultimate goal of maximising shareholders' value in mind, the Board spared no efforts to enhance its corporate governance capability and optimise the management system of the Company. In accordance with the requirements of Corporate Governance Code of the Hong Kong Stock Exchange, the Company convened a total of four regular Board meetings in 2014 to consider and approve issues on the annual results, interim results, strategic planning report, annual operating budgets and the remuneration and incentive schemes of the Company. The Audit Committee, the Remuneration and Nomination Committee and the Strategy and Investment Committee under the Board all exercised their rights and performed their duties authorised by the Board in respect of enhancement of internal control capability, optimisation of the remuneration and incentive systems and improvement of corporate development strategies.

Looking forward to 2015, the landscape of the global economy will remain complicated and mixed, and China's economic development will maintain its theme of "promoting steady growth and making structural adjustments". Facing such opportunities and challenges and adhering to the operation concept of "integrated industry operation services", the Group will strive to enhance the profitability and asset security of its financial leasing business and other traditional financial business, proactively promote the development of industrial operation businesses including hospital investment and management and operating lease, enhance industrial service and management capabilities as well as resources allocation capability, and strive to fulfill all the operating budget objectives approved by the Board for 2015, so as to create greater value for all our shareholders, all sectors of the community and our employees as well.

Far East Horizon Limited
LIU Deshu
Chairman of the Board

25 March 2015

CEO's Statement

Dear shareholders,

2014 was a challenging year during which the global economy became increasingly intricate and volatile. Internationally, the US economy continued its recovery which eventually triggered a QE tapering, while the Europe adopted a loosening monetary policy under escalating economic pressure. Domestically, China continued to fully deepen economic reform which has become overwhelmingly challenging in the structural adjustments and industrial upgrading of our national economy. The traditional economic development model can no longer adapt to new economic growth pattern. It is envisaged that China's economy has already entered into the "new normal" state of "decelerated economic growth, painful structural adjustment and vanishing impetus brought about by the previous economic stimulus policies". As a crucial move for serving real economy and industrial upgrading, financial reform has been fully carried out, including interest rate liberalization, diversification and opening up of the capital market, RMB globalization and other initiatives which have gradually vitalized our domestic economy. As an essential component of innovative financial services, the financial leasing industry has also geared into a fast lane of growth.

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

Kong Fanxing

In 2014, with strong leadership and support of the Board of Directors, Far East Horizon Limited (the "Group") adhered to the development strategy which blends financial service and industrial development in an organic and effective manner, proactively improved its operation philosophy and efficiency, and enhanced the adaptation of internal management to changing external environment. Despite the escalating challenge over operation management amidst economic slowdown, all our tasks were well performed to fulfil our commitments to all shareholders, which are mainly reflected in the following aspects:

Operating results: achieving steady growth in net profit and maintaining good asset quality

The Group's total assets increased to RMB110.7 billion as at 31 December 2014, representing an increase of 28% from last year. The net profit attributed to holders of ordinary shares was RMB2.296 billion for the year, representing a year-on-year increase of approximately 20%. While expanding total assets and ensuring steady profit growth, the asset quality remained relatively stable. The non-performing loan ratio was 0.91%, and the provision coverage ratio maintained at a healthy level of 218.7%, thereby further improving our risk-resisting capability.

Business operation: optimizing industry layout and improving industrial operation capability

In 2014, as for traditional financial services, based on the development stage of various industries, the Group proactively increased investment in industries with less competition, such as healthcare, education, infrastructure construction and electronics. On the other hand, we prudently promoted our business development in fully competitive industries, such as machinery, packaging, transportation and textiles, and proactively explored business opportunities in livelihood-related industries, such as public transportation, heat supply and sewage treatment, so as to optimize our overall industry layout. Meanwhile, based on customers' diversified demand for financial services, we proactively launched various innovative short- and medium-term businesses, which had effectively improved business scale and customer loyalty. As for its industrial operation services, the Group actively explored business opportunities in healthcare and infrastructure construction and, based on customers' diversified demand, made innovations in industrial operation, thereby improving its customer service and resources allocation in such industries. After one year of operation, a hospital investment management company of the Group has made substantial progress in hospital investment, including a successful acquisition of a majority stake in Huizhou Huakang Orthopaedics and Traumatology Hospital (惠州華康骨傷醫院) in Guangdong, and a joint-equity co-operation with Siping Tumour Treatment Hospital (四平腫瘤醫院) in Jilin, Weihai Haida Hospital (威海海大醫院) in Shandong, and other hospitals. Such successful acquisition of the hospitals laid a solid foundation for the Company to establish a hospital operation management group. With our expanded business network and improved service capability, two operating leasing subsidiaries of the Group developed rapidly in terms of business volume and operating results in 2014, and have gradually realized strategic synergy with our traditional financial leasing business. In general, thanks to the above aggressive asset allocation strategy adopted in the past year, the Group's assets were more balanced in terms of industry distribution, its asset allocation was better rationalized, its revenue from operating activities was further diversified and its capability in adapting to external fluctuations has grown stronger.

Business management and control: proactively adjusting management and control strategies to effectively safeguard asset safety

In last year, in respect of the management of newly added assets, the Group adjusted its risk control policies in a timely manner according to the changes in external environment, strictly controlled assets granted to industries associated with high risks and reduced risk exposure to individual customers. In respect of regional layout of our business operation, the Group prudently granted assets to regions with high credit risks. In respect of customer selection, the Group proactively raised the qualification of customers, and put more efforts in the investigations and verifications of information of customers such as implicit liabilities, mutual guarantees, and extensions and transfers of bank loans. In respect of operation, the Group strengthened the appraisal of operational quality of staff, so as to enhance operational quality. In respect of non-performing assets and projects associated with risks, the Group made more efforts in post-investigation, accountability and penalties, so as to enhance the awareness of responsibilities and reduce ethic risks.

In respect of the management of stock assets, the Group established regional asset management centers in accordance with the geographical layout of various assets, and assets management personnel worked closely with customers and assets, so as to enhance the timeliness and effectiveness of assets management. The Group also put more efforts in investigations and feedbacks of industries, regions and customers with high risks to get the knowledge of asset safety in a timely manner. Meanwhile, through a combination of non-litigation measures and litigations, the Group enhanced the disposal of non-performing assets and restored the asset quality, so as to effectively ensure asset safety of the Group.

CEO's Statement

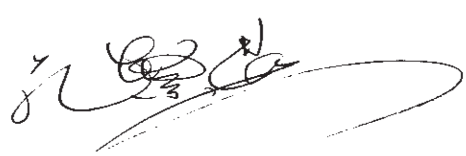
Financing: constantly optimizing financing structure and effectively securing resources supply

In 2014, with an aim of establishing a fund raising system that operates on "multi-platforms, multi-channels, multi-currencies and multi-products", the Group constantly optimized its financing channels and achieved a number of progresses. The Group proactively expanded its domestic and overseas bank financing channels, and has obtained over RMB100 billion credit facilities from banks, thereby effectively securing fund supply. Also, the Group increased the percentage of its direct financing. As at the end of 2014, the percentage of direct debt financing is nearing 18% of the Group's total financing, thereby effectively reducing the financing costs. In accordance with the development requirement of the Company, the Group was devoted to innovate new financing products. In June 2014, the Group successfully issued a perpetual bond amounting to US$200 million, which played a positive role in the sustainable development of the Group. In 2014, under a situation of relatively high financing cost in the monetary market of China, through above efforts, the Group effectively satisfied its fund requirements, and mitigated the pressure of increasing fund cost. Meanwhile, the Group constantly adopted prudent policies in managing liquidity risk and exchange risk, and the financial assets and financial liabilities were well matched. The Group strictly reduced the percentage of exchange risk exposure, so as to effectively control the liquidity risk and exchange risk of the Company.

Sun Tzu on the Art of War said: "Whoever comes first in the field and awaits the arrival of the enemy, will be well-prepared for combat; whoever is second in the field and has to hasten to battle, will arrive exhausted. Therefore a clever combatant imposes his will on the enemy, but not allowing the enemy's will to be imposed on him." Looking forward, facing a number of challenges brought about by the state of "new normal" of China's economic development, we believe that, only through adhering to the development strategy of "concentrating on industries with integrated operation", proactively optimizing and adjusting our asset allocation, enhancing the operation, management and resources integration capabilities of the Group at the industrial end, and enhancing the capabilities of risk identification and asset value retrieval, the adverse effects of the external environment on the operations of the Company could thus be mitigated. The establishment of the business model with unique features of the Group will enable the results of the Group to achieve sustainable, steady and healthy development, so as to create more value for all our shareholders and all sectors of the community.

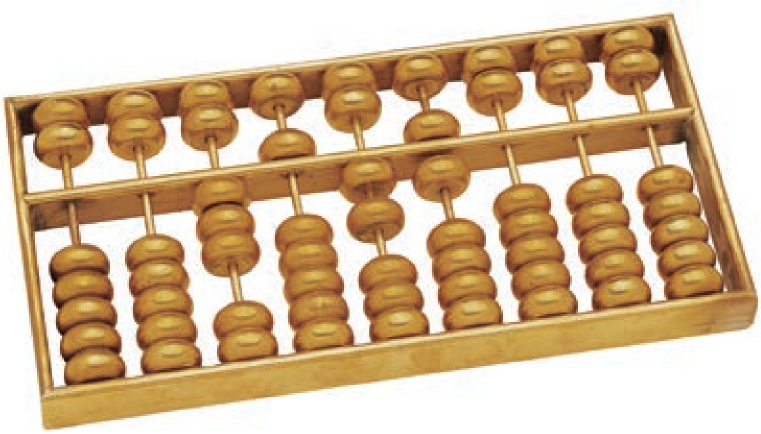
Finally, on behalf of the management and all the staff, I would like to thank every shareholder, client and cooperation partner for their continued understanding and support. I also hope that we can create a brighter future through brainstorming and better cooperation.

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



Business Review

	Year ended 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Operating results					
Total revenue	10,060,717	7,868,382	6,486,395	4,716,436	2,198,610
Finance leasing and factoring (interest income)	6,457,748	5,170,398	4,333,589	3,063,074	1,199,558
Advisory services (fee income)	2,709,366	2,245,431	1,525,721	1,099,792	805,494
Revenue from business operation	1,009,959	573,800	797,111	686,101	260,853
Business tax and surcharges	(116,356)	(121,247)	(170,026)	(132,531)	(67,295)
Cost of sales	(4,106,547)	(2,890,185)	(2,908,365)	(2,214,078)	(792,688)
Borrowing Costs	(3,422,599)	(2,464,876)	(2,208,405)	(1,615,495)	(589,526)
Costs for business operation	(683,948)	(425,309)	(699,960)	(598,583)	(203,162)
Profit before tax	3,211,200	2,600,741	2,076,020	1,478,809	896,691
Profit for the year attributable to holders of ordinary shares of the Company	2,295,954	1,912,744	1,518,577	1,107,630	697,759
Basic earnings per share (RMB)	0.70	0.58	0.48	0.42	0.37
Diluted earnings per share (RMB)	0.70	0.58	0.48	0.42	0.37
Profitability indicators					
Return on average assets[(1)]	2.37%	2.61%	2.82%	3.06%	3.52%
Return on average equity[(2)]	15.19%	14.18%	13.72%	17.32%	25.97%
Net interest margin[(3)]	3.30%	3.91%	4.27%	4.39%	3.27%
Net interest spread[(4)]	2.01%	2.76%	3.02%	2.92%	1.71%
Service fee income ratio (%)[(5)]	44.63%	44.03%	40.71%	41.74%	54.68%
Cost to income ratio[(6)]	38.06%	37.86%	33.98%	32.56%	31.31%



Business Review

	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Assets and liabilities					
Total assets	110,726,124	86,512,872	60,570,275	47,097,345	25,326,291
Net interest-earning assets	100,828,572	80,745,756	57,587,210	41,810,998	24,770,885
Total liabilities	93,276,231	72,348,002	47,714,829	37,795,575	21,833,929
Interest-bearing bank and other borrowings	71,777,837	56,554,478	36,751,959	29,649,439	17,019,935
Total equity	17,449,893	14,164,870	12,855,446	9,301,770	3,492,362
Equity attributable to owners of the Company	16,112,952	14,125,342	12,844,482	9,297,751	3,489,580
Net assets per share (RMB)	4.89	4.30	3.90	3.27	1.83
Duration Matching of Assets and Liabilities					
Financial assets	104,545,229	83,085,680	59,706,865	46,756,799	25,186,188
Financial liabilities	90,313,636	70,255,960	46,816,315	37,252,124	21,567,650
Quality of interest-earning assets					
Non-performing asset ratio(7)	0.91%	0.80%	0.73%	0.60%	0.97%
Provision coverage ratio(8)	218.66%	219.19%	213.87%	218.38%	120.18%
Write-off of non-performing assets(9)	19.02%	2.47%	0.00%	0.00%	0.14%
Overdue interest-earning assets (over 30 days) ratio(10)	0.91%	0.45%	0.30%	0.08%	0.14%

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 attributable to holders of ordinary shares of the Company/average balance of equity at the beginning and the end of the year attributable to holders of ordinary shares of the Company;

(3) Net interest margin = net interest income/average 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 business operation segments – cost from business operation segments), 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) Non-performing asset ratio = net non-performing assets/net interest-earning assets;

(8) Provision coverage ratio = provision for interest-earning assets/net non-performing assets;

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

(10) Overdue interest-earning assets (over 30 days) ratio = overdue interest-earning assets (over 30 days)/net interest-earning assets.

Management Discussion and Analysis

1. Economic Environment

1.1 Macro-economy Environment

Looking back on 2014, the government's launch of a series of "micro-stimulation" measures resulted in an overall smooth development in China' economy, however, still under downward pressure. Gross domestic product (GDP) grew by 7.4% year on year, being the lowest record for the past 24 years and in line with the economic growth in 2013. The growth rate of fixed assets investment slowed down to 15.3%, the lowest for the past 12 years. The growth rate of investment in manufacturing industry fell down to 13.5%, representing a decrease of 5% as compared to the corresponding period of previous year, and share of investment in manufacturing industry decreased to 33.25%. The added value of industrial enterprises above designated size grew by 8.3%, being the new lowest for the past 5 years and only single-digit growth for two consecutive years.

For the financial environment, the monetary policy has been fine tuned but still slightly tight as a whole, with slower growth in the financing amount. Money Supply (M2) for the whole year amounted to RMB122.84 trillion, representing an increase of 12.2%. Throughout 2014, the total financing amount was more than 16 trillion, slightly decreased as compared to last year. Inventory for the financing amount was 122.86 trillion, being the new lowest for the past 9 years and representing a year on year increase of 14.3%. The interest rates in the real economy were still, even after two targeted reserve requirement ratio cuts and one asymmetric rate cut for financial institutions' RMB loans and deposits throughout the year by the central bank. The monthly bill discount rate, reflecting the financial cost of real economy, has been over 4% since January 2014.

1.2 Industry Environment

The added value of industrial enterprises above designated size in China grew by 8.3% year-on-year in 2014, resulted in the smooth, healthy and effective operation of the industrial economy. However, profit from industrial enterprises above designated size in China recorded a year on year increase of 3.3%, which was less than one third of that in 2013 and being the new lowest since 1998.

With respect to the industrial structure, China's economy accelerated its transformation from industry-dominant to service sector-dominant. In 2014, the added value of tertiary industry increased by 8.1%, faster than the 7.3% of the secondary industry and the 4.1% of the first industry, while the service sector accounted for 48.2% and surpassed the industry sector. With respect to the demand structure, percentage of final consumption has increased and consumption-driven economic model has preliminarily showed. Final consumption contributed over 50% to the economic growth in 2014, which was 2.6 percentage points higher than that from aggregate sum of capital formation, thus becoming an important driving force for the economic growth.

Management Discussion and Analysis

Against this backdrop, the eight major industries in which Far East Horizon was involved were affected by external conditions to various extents. The less competitive sectors including healthcare, education, infrastructure construction and electronic information maintained stable growth. The fully competitive industries such as printing, industrial equipment and textile, however, remained depressing under the sluggish manufacturing environment. Fixed-asset investments and profit continued to decrease. The shipping market continued to slip and remained depressed due to the global economic slowdown and shipping overcapacity.

1.3 The Leasing Industry

Capitalising on the huge demand of investment in fixed assets in China and benefiting from the nation's supportive policies, China's financial leasing industry maintained its rapid growth. According to relevant statistics, as at the end of 2014, there were more than 2,000 financial leasing enterprises (excluding special purpose vehicles, subsidiaries and overseas companies acquired) in the country, representing an increase of almost 1000 as compared to the end of last year, with a growth rate of 100%. The balance amount of financial leasing contracts amounted to RMB3.2 trillion as at the end of 2014.

1.4 Company's solutions

Amidst slow macroeconomic growth and industry restructuring, the Group continued to implement its operational philosophy of integrating "finance and industry", classify different industrial assets, strengthen its efforts to secure more quality customers, expand its niche markets in different industries, enhance assets safety maintenance, vigorously explore the industrial operation businesses and keep stable business growth subject to operation safety.

According to the situation of each industry and the degree of asset security, the Group updated its assets portfolio and optimized its assets structure by making more investments in non-fully competitive fields that have lower risks such as healthcare, education, infrastructure construction and broadcasting and television. Meanwhile, the Company enhanced its market penetration and product innovation, increased its efforts to develop potential quality customers to ensure stable business growth. In addition, it also actively explored new industries that involve lower risks and market penetration, such as pharmaceuticals manufacturing and distribution, cultural tourism, high-end construction materials, food and beverage, information media and utilities, to hedge against downward revenue and to provide more options for assets distribution in the future.

As for assets security, the Group duly adjusted its risk control policies by taking into consideration of the external environment. The Company curbed its investments in industries involving higher risks such as shipping, dyeing and finishing, printing and paper making and reduced the risks that our individual customers were exposed to. At the same time, we continued to improve our customers' quality by enhancing assurance on customers' information in terms of their hidden liabilities, joint guarantee and mutual guarantee, renewal and transfer of bank loans etc. In addition, regional assets management centers were established in Tianjin, Shenzhen, Chongqing and other cities to continuously strengthen the supervision and disposal of stock assets so as to effectively maintain operation safety.

Management Discussion and Analysis

For non-financial business, the Group continued to cultivate and establish its business operational capability by providing multi-dimensional and diversified services in various core areas. For the healthcare industry, the Group continued to expand its healthcare industry layout by newly investing in two hospitals in 2014, marking a significant step towards its objective of building a healthcare group featuring major specialties (focusing on orthopedics, oncology, gynaecology and pediatrics) combining with small-scale general consultation service, with wide network. Meanwhile, the Group gradually formed its operating pattern integrated by finance, hospital, management and engineering through continuously improving its professionalism in those aspects. For the infrastructure construction, the Group systematically promoted its operating leasing business and currently it has become a leading industrial enterprise in the market segments of road equipments, industrial equipments and mould bases. In addition, the Group also explored its business layouts in industries such as education and transportation, and created synergies with the financial business and endeavored to enhance its integrated service and market competitiveness.

1.5 Future Outlook

Looking into the future, the world economy is expected to maintain a slow recovery. In spite of the support of domestic fundamentals and reform policies, certain structural factors in existence for a long time will impact and restrain the economic growth in China. As the Chinese economic development has entered into a "new normalization", its growth is shifting from a high pace to a medium-high pace and the economic structure is shifting from expansion to adjustment. With the promulgation of a series of reform measures by the central government in 2014, the benefits of reform are expected to gradually emerge in the future, delivering positive effects on the economic growth in 2015. However, lack of investment growth potential, apparent constraints due to financing bottlenecks and operating difficulties of some enterprises remain lingering, resulting in the downside pressures on the overall macro-economy and the declining demand momentum.

In respect of the industrial trend, affected by the slow economic recovery overseas, overcapacity and implementation of energy saving and environmental protection policies domestically, the traditional processing and manufacturing industry is expected to continue to decline. With accelerating upgrades and adjustments to industrial structures, high-end device manufacturing and some emerging industries will maintain rapid growth. Based on the major segments in which the Group has a presence, the healthcare, education and infrastructure segments will have steady growth with increasing investments from the government. The growth of other manufacturing segments will slow down and the growth of demand for new investments may constantly decline.

Amidst increasing slowdown of macro-economic growth and the real economic environment, the Group will adhere to implement its business model by combining financial and industrial developments in order to promote the Company's sustained, steady and healthy development. For the financial side, the Group will continue to deepen thoroughly the development of ancillary industries, while innovating financial products and expanding into new industries and niche markets. For the industrial side, the Group will continue to accelerate the development of strategic operations and endeavour to form a diversified business pattern featuring the integration of assets, income and profit, which aims to improve asset output efficiency. The Group is marching forward in achieving its vision of "Gathering Global Resources and Promoting China's Industrial Developments".

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In 2014, 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 RMB3,211,200,000, representing a growth of 23.47% from the previous year and the profit attributable to owners of the parent was RMB2,295,954,000 representing a growth of 20.03% from the previous year. The following table sets forth the figures for the year ended 31 December 2013 for comparison.

	For the year ended 31 December		
	2014	2013	
	RMB'000	RMB'000	Change %
Revenue	10,060,717	7,868,382	27.86%
Cost of sales	(4,106,547)	(2,890,185)	42.09%
Gross profit	5,954,170	4,978,197	19.60%
Other income and gains	523,689	318,178	64.59%
Selling and distribution costs	(1,356,023)	(1,124,955)	20.54%
Administrative expenses	(1,659,885)	(1,294,330)	28.24%
Other expenses	(249,400)	(282,972)	-11.86%
Finance costs	(14,667)	(1,270)	1054.80%
Loss on investment in Joint Ventures	(195)	–	N/A
Gains on investment in asscoiates	13,511	7,893	71.18%
Profit before tax	3,211,200	2,600,741	23.47%
Income tax expense	(869,026)	(684,668)	26.93%
Profit for the year	2,342,174	1,916,073	22.24%
Attributable to:			
Holders of ordinary shares of the Company	2,295,954	1,912,744	20.03%
Holders of senior perpetual securities	36,036	–	N/A
Non-controlling interests	10,184	3,329	205.92%

Management Discussion and Analysis

2.2. Revenue

In 2014, the Group realised revenue of RMB10,060,717,000, representing a growth of 27.86% from RMB7,868,382,000 as recorded in the previous year; also it was recorded a higher growth of income in leasing, factoring and advisory segment. In 2014, income (before business taxes and surcharges) of the leasing, factoring and advisory segment was RMB9,167,114,000, accounting for 90.08% of the total income (before business taxes and surcharges), and representing a growth of 23.62% from the previous year. The share of income from industrial operation segment, with a growth of 76.01%, in the total income (before business taxes and surcharges) increased to 9.92% from 7.18% in the previous year mainly due to the Group's proactive exploring its integrated business with a view to diversifying its revenue distribution.

In addition, in 2014, the Group promoted factoring business among its existing customer base in the industries, which significantly increased and realised interest revenue of RMB174,479,000 in total for the year, representing a growth of 231.17% from RMB52,685,000 as recorded in the previously year.

Management Discussion and Analysis

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

	For the year ended 31 December				
	2014		2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Leasing, factoring and advisory segment	9,167,114	90.08%	7,415,829	92.82%	23.62%
Financial leasing and factoring (interest income)	6,457,748	63.45%	5,170,398	64.72%	24.90%
Advisory services (fee income)	2,709,366	26.63%	2,245,431	28.10%	20.66%
Industrial and operation segment	1,009,959	9.92%	573,800	7.18%	76.01%
Total	10,177,073		7,989,629		27.38%
Business taxes and surcharges	(116,356)		(121,247)		-4.03%
Income (after Business taxes and surcharges)	10,060,717		7,868,382		27.86%

The Group also categorised income by industry, and the Group's business mainly focused on eight industries, namely healthcare, infrastructure construction, education, transportation, packaging, machinery, textiles and electronic information industries in 2014. In 2014, the Group became more involved in the highly secured civil industries without perfect competition such as healthcare, education, and infrastructure construction, which results in an increase of total in respective industy.

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 periods.

	For the year ended 31 December				
	2014		2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	2,344,946	23.04%	1,665,246	20.84%	40.82%
Education	1,398,583	13.74%	1,212,328	15.17%	15.36%
Infrastructure construction	1,996,457	19.62%	1,417,355	17.74%	40.86%
Transportation	1,247,585	12.26%	951,670	11.91%	31.09%
Packaging	1,220,990	12.00%	1,167,470	14.61%	4.58%
Machinery	811,959	7.98%	611,809	7.66%	32.71%
Textiles	261,069	2.56%	207,442	2.60%	25.85%
Electronic information	514,107	5.05%	413,873	5.18%	24.22%
Others	381,377	3.75%	342,436	4.29%	11.37%
Total	10,177,073	100.00%	7,989,629	100.00%	27.38%

2.2.1 Financial Leasing and Factoring (Interest Income)

The interest income (before business taxes and surcharges) from the leasing, factoring and advisory segment of the Group rose by 24.90% from RMB5,170,398,000 for the previous year to RMB6,457,748,000 for 2014, accounting for 63.45% of the Group's total revenue (before business taxes and surcharges).

The changes in interest income were mainly driven by two factors: the average balance of interest-earning assets and the average yield.

The interest income for the year rose by 24.90%, which was mainly attributable to the growth of average balance of interest-earning assets. The Group's average balance of interest-earning assets rose from RMB69,183,658,000 for 2013 to RMB92,021,658,000 for 2014, representing an increase of 33.01%. It was attributable to the expansion of the Group's business operation. The average rate of yield of the Group fell from 7.47% for 2013 to 7.02% for 2014. Details of the primary reason for the fall are described under the paragraph headed "Analysis according to average yield" below.

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 periods.

	For the year ended 31 December					
	2014			2013		
	Average balance of interest-earning assets[1] RMB'000	Interest income[2] RMB'000	Average yield[3] %	Average balance of interest-earning assets[1] RMB'000	Interest income[2] RMB'000	Average yield[3] %
Healthcare	21,111,975	1,464,101	6.93%	15,027,830	1,103,474	7.34%
Education	14,094,616	981,635	6.96%	11,333,874	820,868	7.24%
Infrastructure construction	14,897,292	1,012,044	6.79%	10,727,765	766,204	7.14%
Transportation	9,832,955	729,754	7.42%	7,902,930	563,049	7.12%
Packaging	11,881,056	834,022	7.02%	9,855,061	759,174	7.70%
Machinery	8,375,328	576,208	6.88%	5,440,579	423,690	7.79%
Textiles	2,683,019	164,116	6.12%	1,691,174	121,275	7.17%
Electronic information	5,140,219	371,283	7.22%	3,697,827	309,526	8.37%
Others	4,005,198	324,585	8.10%	3,506,618	303,138	8.64%
Total	92,021,658	6,457,748	7.02%	69,183,658	5,170,398	7.47%

Notes:

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

(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 as well as their respective interest accrued but not received.

Management Discussion and Analysis

Analysis according to average balance of interest-earning assets

Among the eight target industries, healthcare, infrastructure construction, machinery and education were the key drivers to the increase in the Group's average balance of interest-earning assets, representing 63.55% of the average balance of interest-earning assets for 2014. The increase in the average balance of interest-earning assets reflected the business expansion of the Group and its in-depth exploration into each of the industries, as well as the benefits from the Group's greater efforts in marketing and promotion, including arranging expositions and exhibitions for major industry participants and professionals, and recruiting more sales and marketing staff. In 2014, the Group enhanced the expansion in the niche market and new customers of respective industries, such as the pharmaceutical and distribution segments of the healthcare industry, the owners and high-end construction material market in the infrastructure construction industry, the cultural tourism market in the education industry, the non-woven and fiber material areas in the textiles industry and the chemical area of the machinery industry.

Analysis according to average yield

In 2014, the average yield of the Group was 7.02%, representing 0.45 percentage point lower than 7.47% as compared to the previous year. This was mainly due to the fact that (i) the Group strengthened the promotion of healthcare, infrastructure construction, education, electronic information application, public transportation, water supply and other highly secured civil industries. The growth of such assets in the civil industries reached 30.04% from the end of 2013 and the percentage of the total interest-earning assets increased from 58.26% as at the end of the previous year to 60.67% as at the end of the year; (ii) the Group increased investments in high-end quality customers as yields of high-end quality customers stabilized amidst rising macro-economic risks. According to statistics, customers who contributed revenue of more than RMB100 million accounted for 46.66% of the newly contracted customers in the year, up by 4.12 percentage points from 42.54% in the previous year; (iii) the value-added tax for the financial leasing industry was levied at 17% and was tax excluded in price due to the introduction of the pilot reform of transformation of business tax into value-added tax in Shanghai on 1 January 2012. The yield was affected as compared with the tax included in price in the business tax system. As new leasing contracts of the Group in the value-added tax system grew and leasing contracts in the business tax system declined, it is estimated that the effect of the transformation would cause Group's average yield to decrease by approximately 0.10 percentage point; and (iv) the decrease in the benchmark interest rate by the People's Bank of China in November 2014 resulted in a decrease of 15 basis points and 40 basis points respectively in the benchmark interest rate of Renminbi loans with respective terms of 1 to 3 years and 3 to 5 years, the effect of which was reflected in the results for this year.

Management Discussion and Analysis

2.2.2 Advisory Services (Fee Income)

In 2014, fee income (before business taxes and surcharges) from leasing, factoring and advisory segment grew by 20.66% from RMB2,245,431,000 for 2013 to RMB2,709,366,000 for 2014, accounting for 26.63% of the total revenue (before business taxes and surcharges) of the Group and representing a decrease as compared with 28.10% in the previous year.

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				
	2014		2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	679,200	25.07%	497,794	22.17%	36.44%
Education	414,344	15.33%	391,460	17.43%	6.10%
Infrastructure construction	558,599	20.62%	415,499	18.50%	34.44%
Transportation	199,155	7.35%	197,413	8.79%	0.88%
Packaging	344,749	12.72%	360,613	16.06%	-4.40%
Machinery	217,290	8.02%	183,136	8.16%	18.65%
Textiles	96,953	3.58%	85,235	3.80%	13.75%
Electronic information	141,829	5.23%	74,983	3.34%	89.15%
Others	56,247	2.08%	39,298	1.75%	43.13%
Total	2,709,366	100.00%	2,245,431	100.00%	20.66%

Healthcare, infrastructure construction, electronic information and machinery accounted for 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 91.72% of the Group's total service charge income in 2014. 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 certain industries. The Group adjusted the charge rate of some services for these industries and focused on providing service to high quality customers in the industries.

Management Discussion and Analysis

2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group for 2014, before business taxes and surcharges increased by 76.01% from RMB573,800,000 for 2013 to RMB1,009,959,000 for 2014, accounting for 9.92% of the total revenue (before business taxes and surcharges) of the Group, representing 2.74 percentage points higher as compared with 7.18% in the previous year. This was mainly attributable to increased efforts in developing transportation and brokerage and operating leasing business.

The table below sets forth the Group's revenue from industrial operation segment (before business taxes and surcharges) by business segment during the indicated periods.

	For the year ended 31 December				
	2014		2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Income from industrial operation segment	1,009,959	100.00%	573,800	100.00%	76.01%
Including:					
Operating lease income	390,090	38.62%	176,854	30.82%	120.57%
Chartering and brokerage income	322,538	31.94%	191,198	33.32%	68.69%
Revenue from trading	135,931	13.46%	171,040	29.81%	-20.53%
Revenue from construction contracts	85,639	8.48%	26,166	4.56%	227.29%
Revenue from healthcare service	60,458	5.99%	–	–	N/A

The Group's operating leasing business experienced a rapid growth in 2014, and realised revenue (before business taxes and surcharges) of RMB390,090,000, representing an increase of RMB213,236,000 or 120.57% from 2013. The chartering and brokerage revenue (before business taxes and surcharges) was RMB322,538,000, representing an increase of RMB131,340,000 or 68.69% from 2013, mainly due to the further expansion in the ship chartering business and the income from brokerage services of the sale and purchase of ships. The revenue from the trading business (before business taxes and surcharges) was RMB135,931,000, representing a decrease of RMB35,109,000 or 20.53% from 2013 as a result of the Group's prudent promotion of trading businesses with low profit margin and a decline in trading revenue of infrastructure construction and electronic information sector for the corresponding period of the previous year. The construction contracts of the Group realised revenue (before business taxes and surcharges) of RMB85,639,000, representing an increase of RMB59,473,000 or 227.29% from 2013, mainly due to new construction contracts of the engineering construction. The Group gained additional revenue from healthcare service for its acquisition of Huakang Hospital and realised revenue from healthcare service (before business taxes and surcharges) of RMB60,458,000 in 2014.

Management Discussion and Analysis

2.3 Cost of Sales

Cost of sales of the Group in 2014 was RMB4,106,547,000, representing an increase of 42.09% from RMB2,890,185,000 in the same period of the previous year. This was mainly due to an increase in the cost of the leasing, factoring and advisory service segment. Among them, the cost of the leasing, factoring and advisory segment was RMB3,422,599,000, accounting for 83.34% of the total cost of sales. The cost of the industrial operation segment was RMB683,948,000, accounting for 16.66% of the total cost of sales.

The table below sets forth the composition and the change of the Group's cost of sales by business segments during the indicated periods.

	For the year ended 31 December				
	2014		2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the leasing, factoring and advisory segment	3,422,599	83.34%	2,464,876	85.28%	38.85%
Cost of the industrial operation segment	683,948	16.66%	425,309	14.72%	60.81%
Cost of sales	4,106,547	100.00%	2,890,185	100.00%	42.09%

2.3.1 Cost of the Leasing, factoring and Advisory Segment

The cost of sales of the leasing, factoring and advisory segment of the Group comprised solely the cost of sales of financial leasing and factoring of the Group. The cost of sales of financial leasing and factoring arose entirely from the relevant interest expenses of the interest-bearing bank and other financing of the Group.

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					
	2014			2013		
	Average balance (1) RMB'000	Interest expense RMB'000	Average cost rate (2) % of total	Average balance (1) RMB'000	Interest expense RMB'000	Average cost rate (2) % of total
Interest-bearing liabilities	68,341,364	3,422,599	5.01%	52,370,473	2,464,876	4.71%

Notes:

(1) Calculated as the average balance of the interest-bearing liabilities at the beginning, middle and end of the year.

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

Management Discussion and Analysis

The cost of sales of financial leasing and factoring increased by 38.85% from RMB2,464,876,000 for 2013 to RMB3,422,599 for 2014. The average cost rate of the Group was 5.01% in 2014, a slight increase from 4.71% in 2013. It is mainly due to the fact that:

(i) in 2014, the interest rate liberalisation progressed steadily in the domestic market. With the overall tightening of liquidity in the capital market, the finance cost was being driven up. While the interest rate of US dollar is expected to rise, fund cost in US dollar also increased significantly abroad compared with previous years. Finance cots in US dollar of the Group in overseas markets for this year increased by 18.5% over the previous year;

(ii) on the basis of the liquidity management requirements, the Group initiated to adjust the liability structure in accordance with the maturity of assets and liabilities, and input more long-term debts;

(iii) in addition, in order to control currency risk, the Group hedged against foreign exchange risks through the operation of derivative financial instruments such as forward rate and currency swap, thus leading to an increase of 0.13 percentage point for fund cost.

In 2015, under the strategy of "resources globalization", the Group will proactively expand its financing channels in domestic and overseas markets, and manage its finance cost, by leveraging the advantage of rating of investment grade, to maintain its competitive advantage among its peers.

2.3.2 Cost of Industrial Operational Segments

The cost of sales of the industrial operational segments of the Group is primarily derived from the cost of goods sold for trading business of the Group, cost of charter business, cost of construction contract, cost of operating lease and cost of healthcare service.

The following table sets forth the cost of industrial operational segments of the Group by business type of the period indicated.

	For the year ended 31 December				
	2014		2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the industrial operational segments	683,948	100.00%	425,309	100.00%	60.81%
Of which:					
Cost of operating lease	176,591	25.82%	79,170	18.61%	123.05%
Cost of chartering and brokerage	282,360	41.28%	158,502	37.27%	78.14%
Cost of trading	130,520	19.08%	161,371	37.94%	-19.12%
Cost of construction contracts	56,299	8.23%	23,996	5.64%	134.62%
Cost of healthcare service	32,144	4.70%	–	–	N/A

Management Discussion and Analysis

Cost of operating lease of the Group increased by 123.05% to RMB176,591,000 in 2014 from RMB79,170,000 in 2013, mainly due to the rapid growth of the operating leasing business of the Group. Cost of the chartering and brokerage business of the Group increased by 78.14% to RMB282,360,000 in 2014 from RMB158,502,000 in 2013 mainly due to an increase in cost caused by the increase of the transportation chartering business. Cost of goods sold for the trading business of the Group decreased by 19.12% to RMB130,520,000 in 2014 from RMB161,371,000 in 2013, primarily due to a decrease in the aggregate value of trading transactions in construction and electronic information industry in 2014, which resulted in a decrease in the cost of sales relating to the trading business in construction and electronic information industry. The cost of construction contracts increased by 134.62% to RMB56,299,000 in 2014 from RMB23,996,000 in 2013 mainly due to an increase of cost of construction contracts of project engineering caused by additional construction contracts. In addition, the cost of healthcare service in 2014 amounted to RMB32,144,000, mainly comprised of the operating cost of Huakang Hospital which was acquired in 2014.

2.4 Gross Profit

The gross profit of the Group in 2014 was RMB5,954,170,000, which increased by RMB975,973,000 or 19.60% from RMB4,978,197,000 in 2013. In 2014 and 2013, the gross profit margin of the Group was 59.18% and 63.27% respectively.

2.4.1 Gross profit of the Leasing, Factoring and Advisory Segment

The gross profit margin of the leasing, factoring and advisory segment of the Group in 2014 was 62.66%, down from 66.76% in the previous year. The gross profit margin of the leasing, factoring and advisory segment was affected by the change of net interest income and net interest 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		
	2014	2013	
	RMB'000	RMB'000	Change%
Interest income[1]	6,457,748	5,170,398	24.90%
Interest expense[2]	3,422,599	2,464,876	38.85%
Net interest income	3,035,149	2,705,522	12.18%
Net interest spread[3]	2.01%	2.76%	-27.17%
Net interest margin[4]	3.30%	3.91%	-15.60%

Notes:

(1) Interest income is the interest income of the leasing, factoring and advisory segment of the Group.

(2) Interest expense is the borrowing cost of the leasing, factoring and advisory 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 rate 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.

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Net interest spread of the Group for 2014 decreased by 0.75 percentage point to 2.01% from 2.76% in the previous year. The decrease in net interest spread was primarily due to the decrease of 45 basis points in the average yield on interest-earning assets of the Group and the increase of 30 basis points in respect of the average cost on interest-bearing liabilities of the Group. For the changes in respect of the average yield on interest-earning assets and average cost on interest-bearing liabilities, please refer to paragraphs 2.2.1 and 2.3.1 of this section. Meanwhile, net interest income of the Group increased by 12.18% from RMB2,705,522,000 in 2013 to RMB3,035,149,000 in 2014, and the average total balance of interest-earning assets of the Group increased by 33.01% as compared to the same period of the previous year. As such, the net interest margin of the Group of 3.30% was lower as compared to 3.91% in 2013.

2.4.2 Gross Profit of the Industrial Operations Segment

	For the year ended 31 December				
	2014		2013		
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %	Change in gross profit margin %
Gross profit of industrial operations segment	326,011	32.28%	148,491	25.88%	6.40%
Of which:					
Gross profit of operating lease	213,499	54.73%	97,684	55.23%	-0.50%
Gross profit of transportation and brokerage	40,178	12.46%	32,696	17.10%	-4.64%
Gross profit of trading business	5,411	3.98%	9,669	5.65%	-1.67%
Gross profit of construction contracts	29,340	34.26%	2,170	8.29%	25.97%
Gross profit of hospital operations	28,314	46.83%	–	N/A	N/A

The gross profit of the industrial operations segment increased by 119.55% from RMB148,491,000 in 2013 to RMB326,011,000 in 2014, primarily due to the increase in gross profit from our operating lease, construction contracts and transportation and brokerage businesses, which was partially offset by the decline in gross profit of the trading business. The gross profit of the operating leasing business increased from RMB97,684,000 in 2013 to RMB213,499,000 in 2014. The gross profit of the chartering and brokerage business grew from RMB32,696,000 in 2013 to RMB40,178,000 in 2014. The gross profit of the trading business decreased from RMB9,669,000 in 2013 to RMB5,411,000 in 2014. The gross profit of construction contracts increased from RMB2,170,000 in 2013 to RMB29,340,000 in 2014. The gross profit of the healthcare service amounted to RMB28,314,000 in 2014.

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2.5 Other Income and Gains

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

	For the year ended 31 December 2014 RMB'000	2013 RMB'000	Change %
Bank interest income	**51,981**	**34,675**	49.91%
Gains from deductible inter-group loans[1]	**85,483**	**39,719**	115.22%
Foreign exchange gain	–	**157,522**	-100.00%
Gains from structured financial products	**7,798**	**4,989**	56.30%
Government grants	**326,187**	**77,636**	320.15%
Derivative financial instruments – Transaction not qualifying as a hedge	**20,772**	–	N/A
Other income	**31,468**	**3,637**	765.22%
Total	**523,689**	**318,178**	64.59%

Note:

(1) Since the interest expenses that the Group's domestic subsidiaries paid for inter-group loans qualify for deductible taxes under value-added tax, these saved taxes constitute those companies' gain for the year. Specifically, these unpaid taxes include the business tax and additional effects that have been accrued based on the interest expenses. In order to maintain consistency in the presentation of 2014 financial data, the 2013 financial data of this report has been restated.

In 2014, the Group's other income and gains amounted to RMB523,689,000, representing an increase of 64.59% from the previous year, the substantial increase was mainly attributable to government grants and changes in foreign exchange gains. Government grants mainly comprised the special financial support which the Group had applied for in respect of the additional tax due to the transformation of business tax into value-added tax under the Document Hu Cai Shui [2012] No.5. Foreign exchange loss for 2014 amounted to RMB88,977,000 (2013: foreign exchange gain of RMB157,522,000) which was mainly attributable to the Group's foreign exchange risk exposure to US$ debts to a large extent, the gain or loss of foreign exchange was subject to the combined effect of the fluctuation of the exchange rate of RMB against US$ and the proportion of foreign exchange exposure with hedges of the Group. The depreciation of RMB against US$ was approximately 0.92% during the first half of 2014, and the appreciation of RMB against US$ was approximately 0.56% in the second half of 2014, therefore, the exchange rate of RMB against US$ depreciated by approximately 0.36% during the whole year. To control exchange rate risk, the Group gradually increased the hedge against foreign exchange risk exposure through the operation of financial instruments such as forward exchange contracts and currency swap in 2014. The average percentage of foreign exchange risk exposure with hedges was 38% in the first half of 2014, and the average percentage of foreign exchange risk exposure with hedges reached 82% in the second half of 2014.

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2.6 Selling and Distribution Costs

Selling and distribution costs of the Group in 2014 amounted to RMB1,356,023,000, which increased by RMB231,068,000 or 20.54% compared to the previous year. Such increase was mainly attributable to the 21.71% increase in the cost of the Group relating to remuneration and welfare benefits of sales and marketing staff due to the increase in total headcount for sales and distribution personnel of the Group from 1,503 in 2013 to 1,866 in 2014. The increase in headcount for sales and distribution personnel was necessary for the expansion of the Group's business operations. Similarly, the increase in staff and business volume also resulted in an increase in our travel expenses, which increased by 21.48%.

2.7 Administrative Expenses

Administrative expenses of the Group in 2014 were RMB1,659,885,000, representing an increase of RMB365,555,000 or 28.24% 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 in 2014 amounted to RMB750,009,000, representing an increase of RMB215,393,000 or 40.29%); (ii) the increase in office expenses resulting from business expansion (rental expenses of the Group in 2014 amounted to RMB96,749,000, representing an increase of RMB14,172,000 or 17.16% from the previous year); (iii) the increase in the headcount of full-time staff (the cost regarding remuneration and welfare benefits of staff relating to administrative expenses increased accordingly by 28.11%. The total headcount of full-time staff of the Group increased from 3,250 in 2013 to 5,016 in 2014.

2.7.1 Impairment of Loans and Accounts Receivable

The impairment of loans and accounts receivable of the Group in 2014 was RMB750,009,000, which increased by RMB215,393,000 or 40.29% as compared with RMB534,616,000 in the previous year. This was primarily due to an increase of 24.87% in net interest-earning assets at the end of 2014 as compared with that at the end of 2013. According to the standards of the five-category classification, the Group cautiously increased the provisions for impairment of loans and accounts receivable.

2.7.2 Cost to Income Ratio

Cost to income ratio of the Group in 2014 was 38.06%, which was slightly higher than 37.86% for the previous year.

2.8 Other Expenses

Other expenses of the Group for 2014 amounted to RMB249,400,000, representing a decrease of RMB33,572,000 compared to the previous year. In 2013, an amount of RMB148,305,000 related to the effect of the Document Cai Shui [2013] No.37, which represented the value-added tax and surcharges paid for the sale-leaseback principal of finance lease. Other expenses for the current year comprised exchange loss of RMB88,977,000 and bank fees of RMB64,436,000. For details, please refer to the discussion and analysis set out on the above section 2.5.

2.9 Income Tax Expense

Income tax expense of the Group in 2014 was RMB869,026,000, which increased by RMB184,358,000 or 26.93% from the corresponding period of the previous year. The increase was primarily due to an increase in the operating profit of the Group during the relevant period. Effective tax rate of the Group in 2014 and 2013 was 27.06% and 26.33% 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 RMB2,295,954,000, which increased by RMB383,210,000 or 20.03% from the previous year. Net profit margin of the Group slightly decreased to 23.28% in 2014 from 24.35% in the previous year.

Management Discussion and Analysis

3. Analysis of Financial Position

3.1 Assets (Overview)

As at 31 December 2014, the total assets of the Group increased by RMB24,213,252,000 or 27.99% from the end of the previous year to RMB110,726,124,000. Loans and accounts receivable increased by RMB19,754,409,000 or 24.79% from the end of the previous year to RMB99,441,429,000.

As at 31 December 2014, the cash and cash equivalents of the Group increased by 24.10% from the end of the previous year to RMB3,317,850,000. The increase was primarily because the Group started to reserve moderately sufficient cash to sustain the business development and ensure the capital liquidity safety of the Group.

As at 31 December 2014, the restricted deposits of the Group amounted to RMB953,805,000, which comprised the restricted security deposits.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Loans and accounts receivable	99,441,429	89.81%	79,687,020	92.12%	24.79%
Cash and cash equivalents	3,317,850	3.00%	2,673,476	3.09%	24.10%
Restricted deposits	953,805	0.86%	463,129	0.54%	105.95%
Prepayment and other accounts receivable	2,248,499	2.03%	949,681	1.10%	136.76%
Deferred tax assets	904,331	0.82%	583,953	0.67%	54.86%
Property, plant and equipment	1,733,169	1.57%	964,053	1.11%	79.78%
Prepaid land lease payments	987,878	0.89%	973,847	1.13%	1.44%
Investment in joint ventures	80,985	0.07%	–	–	N/A
Investment in associates	94,154	0.08%	80,643	0.09%	16.75%
Available-for-sale financial assets	394,253	0.36%	–	–	N/A
Derivative financial instruments	290,277	0.26%	968	0.00%	29887.29%
Inventories	78,708	0.07%	27,461	0.03%	186.62%
Construction contracts	82,339	0.07%	53,951	0.06%	52.62%
Goodwill	64,164	0.06%	–	–	N/A
Other assets	54,283	0.05%	54,690	0.06%	-0.74%
Total assets	110,726,124	100.00%	86,512,872	100.00%	27.99%

Management Discussion and Analysis

3.2 Loans and Accounts Receivable

The main components of assets of the Group were loans and accounts receivable, accounting for 89.81% of the total assets of the Group as of 31 December 2014. In 2014, 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 factoring 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 contracts entered into by the Group and keep the net interest-earning assets increase steadily.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Lease receivables	108,061,474		88,630,514		
Less: Unearned finance income	(11,002,267)		(10,043,367)		
Net lease receivables	97,059,207	95.66%	78,587,147	96.89%	23.51%
Other net interest-earning assets[1]	3,769,365	3.71%	2,158,609	2.66%	74.62%
Subtotal for interest-earning assets	100,828,572	99.37%	80,745,756	99.55%	24.87%
Others[2]	636,463	0.63%	364,180	0.45%	74.77%
Subtotal for loans and accounts receivable	101,465,035	100.00%	81,109,936	100.00%	25.10%
Less: Provisions	(2,023,606)		(1,422,916)		42.82%
Net loans and accounts receivable	99,441,429		79,687,020		24.79%

Notes:

(1) Other interest-earning assets include entrusted loans, long term receivables and factoring receivables, as well as their respective interest accrued but not received.

(2) Others include notes receivables and accounts receivables.

Loans and accounts receivable of the Group (before provisions) as of 31 December 2014 amounted to RMB101,465,035,000, representing an increase of 25.10% from RMB81,109,936,000 as of 31 December 2013. Net lease receivables (before provisions) were the most significant component of loans and accounts receivable, accounting for 95.66% of loans and accounts receivable (before provisions) as of 31 December 2014.

Management Discussion and Analysis

3.2.1 Interest-earning Assets

Net interest-earning assets of the Group as of 31 December 2014 were RMB100,828,572,000, representing an increase of 24.87% as compared with RMB80,745,756,000 as of 31 December 2013. The increase was due to a steady increase in both the number of customers served and the number of new contracts entered into by the Group, as a result of the continuous expansion of financial leasing and factoring business of the Group on a basis of the Group's effective risk control in 2014.

3.2.2 Net Interest-earning Assets by Industry

The following table sets forth net interest-earning assets(1) of the Group by industry as of the dates indicated.

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	23,507,871	23.31%	17,754,823	21.99%	32.40%
Education	15,466,615	15.34%	12,455,594	15.43%	24.17%
Infrastructure construction	16,647,106	16.51%	12,305,661	15.24%	35.28%
Transportation	9,886,786	9.81%	9,186,527	11.38%	7.62%
Packaging	11,837,094	11.74%	11,675,559	14.46%	1.38%
Machinery	10,021,061	9.94%	6,851,733	8.49%	46.26%
Textiles	3,190,946	3.16%	2,250,497	2.79%	41.79%
Electronic information	5,868,285	5.82%	4,490,853	5.56%	30.67%
Others	4,402,808	4.37%	3,774,509	4.66%	16.65%
Total	100,828,572	100.00%	80,745,756	100.00%	24.87%

Net interest-earning assets for healthcare, infrastructure construction, education and machinery as of 31 December 2014 grew the most among the target industries of the Group, namely by RMB5,753,048,000, RMB4,341,445,000, RMB3,011,021,000 and RMB3,169,328,000, respectively over those as of 31 December 2013. The increase was attributable to the Group's business expansion and exploration in different industries, as well as contribution from enhanced promotion and marketing activities. The development of new fragmented markets in transportation and packaging industries slowed down as a result of prudent consideration.

Management Discussion and Analysis

3.2.3 Aged Analysis of Net Interest-earning Assets

The following table sets forth an aged analysis of net interest-earning assets as of the dates indicated, categorised by the time elapsed since the effective date of the relevant leases, entrusted loans and factoring contracts.

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Net interest-earning assets					
Within 1 year	55,185,382	54.73%	47,299,860	58.58%	16.67%
1 to 2 years	29,932,332	29.69%	20,304,845	25.15%	47.41%
2 to 3 years	10,080,236	10.00%	9,345,441	11.57%	7.86%
3 years and beyond	5,630,622	5.58%	3,795,610	4.70%	48.35%
Total	100,828,572	100.00%	80,745,756	100.00%	24.87%

Net interests-earning assets within one year represent net interest-earning assets the Group received, and are still valid as of the end of the year or the end of the period. As of 31 December 2014, net interest-earning assets within one year as set out in the table above represented 54.73% of net interest-earning assets of the Group.

3.2.4 Maturity Profile of Net Interest-earning Assets

The following table sets forth, as of the dates indicated, the maturity profile of the net interest-earning assets.

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Maturity date					
Within 1 year	39,513,571	39.19%	31,303,641	38.77%	26.23%
1 to 2 years	30,248,447	30.00%	23,016,610	28.50%	31.42%
2 to 3 years	17,857,336	17.71%	15,325,805	18.98%	16.52%
3 years and beyond	13,209,218	13.10%	11,099,700	13.75%	19.01%
Total	100,828,572	100.00%	80,745,756	100.00%	24.87%

Net interest-earning assets due within one year represent net interest-earning assets which the Group will receive within one year of the reporting date indicated. As of 31 December 2014, net interest-earning assets due within one year as set forth in the table above represented 39.19% of the Group's net interest-earning assets 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 interest-earning assets was widely spread and could provide the Group with consistent and sustainable cash inflows that facilitated the matching of our liabilities.

Management Discussion and Analysis

3.2.5 Asset Quality of Net Interest-earning Assets

3.2.5.1 Five-category Net Interest-earning Assets Classification

The Group implements a five-category classification of interest-earning assets 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.

Classification criteria

In determining the classification of our interest-earning assets 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 collect ability of principal and interest on our interest-earning assets. Our interest-earning assets classification criteria focus on a number of factors, if applicable; and our asset classifications include:

Pass. There is no reason to doubt that the loan principal and interest will not be paid by the debtor in full and/or on a timely basis. There is no reason whatsoever to suspect that the interest-earning assets will be impaired.

Special mention. Even though the debtor has been able to pay his 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 debtor's property rights and the debtor's management mechanisms, organizational 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 debtor's ability to repay; while taking into consideration the impact of subjective factors, including any change in the debtor's willingness to repay, on the quality of assets, such as if payments have been overdue for 30 days or more, then the interest-earning assets for this contract shall be classified as special mention or lower.

Substandard. The debtor'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 contract. We take into account other factors, for example, if lease payments have been overdue for over three months, then the interest-earning assets for this contract shall be classified as substandard or lower.

Doubtful. The debtor's ability to pay is in question as it is unable to make 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 contract. We take into account other factors, for example, if payments have been overdue for over six months, the interest-earning assets for this contract shall be classified as doubtful or lower.

Loss. After taking all possible steps or going through all necessary legal procedures, payments remain overdue or only a very limited portion has been recovered. We take into account other factors, for example, if payments have been overdue for more than one year, the interest-earning assets for this contract shall be classified as a loss.

Management Discussion and Analysis

Asset management measures

In 2014, the domestic economy was experiencing a transition period in economic growth rate, structural adjustment and preliminary adaptation stage of stimulating policies, thus it remained sluggish. With excess production capacity in some manufacturing sectors and prolonged weak domestic demand, the operating environment faced by our customers did not turned around. There were challenges in the safety of present stock assets. The Group continued to optimise its asset management system, strengthen its asset process monitoring, and intensify risk asset disposal so as to keep the quality of our assets stable and under control on the whole during the reporting period.

Carrying out case studies at the micro level and enhancing individual operational capability to reduce operational risks; enhancing the risk management hierarchy to promote the management of industrial risks.

In the first half of 2014, through checking on internal risk cases at the micro level, the Group identified, analyzed and discussed the problems, so as to enhance the risk awareness of its staff and assess their skills, and implemented specific rectification measures to constantly optimize its risk management system;

In the second half of the year, the Group changed individual operational projects in the past and carried out a dual customer manager system for projects in non state-controlled fields. Both managers performed their on-site due diligence at the same time and took equal responsibilities for the truthfulness of information and safety of assets, so as to effectively reduce operational risks during business operation.

In 2014, the Group classified existing well-established industries into four categories, namely the encouraged, the maintained, the restricted and the reduced, and carried out differentiated management on them for its customers' businesses, so as to reduce systematic risks.

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

In 2014, the Group continued to optimise our asset management system. The Group strived for its management concept of "close to assets, close to customers" and its assets management headquarters established four regional management centres in Central, Southern, Western and Northern China respectively during 2014. The regional management centres were responsible for facilitating the implementation of regional asset management. Leveraging our competitive edges of "embedded in local region, close to assets, across different industries and high mobilisation" of regional asset management, the Group timely monitored asset security information and rapidly responded to changes, thus enhancing the efficiency of asset management.

Management Discussion and Analysis

In order to enhance the effectiveness of leased items as risk aversion measures, the Group conducted specified research on the management of leased items in 2014. The Group formulated systematic management measures in respect of valuation, title inspection and registration, and daily management of leased items and formulated relevant management systems and supporting management tools. Such management measures clearly stated the principles in the valuation of leased items, realized the scientific and systematic operation of leased item management, and returned to the actual guaranteed amount of equipment to avoid inflated credit limit of projects. Such management measures also standardized the title inspection and registration of leased items to avoid any flaws in the titles of leased items when they were being leased, standardized the process monitoring and management of leased items during their terms of lease, and clarified duties and responsibilities, so as to ensure the continuous effectiveness of leased items as a risk prevention measure during the term of lease.

In order to ensure the safety of its assets and operations, the Group organized specific asset screening actions in sectors/regions and customers with higher risks and in the uses of leased items and leased-back funds in 2014. The Group analyzed and assessed the safety level of stock assets through research and understanding of the degree of the impact of the external economic environment on customers' operations and survivals. The Group adopted risk reduction measures for assets which were exposed to risks. It also provided the bases for decision makings in respect of future operating and management policies of the Group through analysis of market and regional systematic risks.

Optimizing the risk management system and increasing methods to dispose of risk assets

In 2014, the Group constantly optimized its risk management system, and enhanced the building of various functions for disposal of risk assets, including administration of disposal of risk assets, expansion/maintenance of resources for disposal of risk assets, analysis of risk cases and business trainings and studies on judicial policies.

In respect of administration, in order to optimize resources allocation and improve the efficiency of disposal of risk assets, the Group implemented authorized control and management for litigations and classified litigations into different levels and categories. For litigations which met specific criteria, the business segment is authorized to dispose assets. The assets management headquarters are responsible for handling complicated litigations with large claims. In respect of management enhancement, the Group reviewed and rectified the weakness on asset management based on the analysis of past risk exposure cases. The Group made specific suggestions on enhancing asset management and inspected the implementation of rectification measures. In respect of building and maintenance of resources, the Group implemented constant expansion and maintenance on external resources such as judicial resources, second-hand equipment suppliers and transport and storage service suppliers.

In 2014, the Group stepped up efforts to dispose of risk assets through various means of disposal such as debt restructuring, judicial litigation, disposal of leasing items and market-oriented disposal, thereby effectively mitigating the risks.

Management Discussion and Analysis

The following table sets forth the five-category interest-earning assets classification as of the dates indicated.

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	86,066,609	85.36%	68,819,144	85.23%	48,334,185	83.94%	34,705,439	83.01%
Special mention	13,841,631	13.73%	11,280,176	13.97%	8,832,505	15.34%	6,856,261	16.40%
Substandard	597,030	0.59%	259,905	0.32%	252,665	0.44%	190,606	0.46%
Doubtful	323,302	0.32%	386,531	0.48%	167,421	0.28%	55,686	0.12%
Loss	–	–	–	–	434	0.00%	3,006	0.01%
Net interest-earning assets	100,828,572	100.00%	80,745,756	100.00%	57,587,210	100.00%	41,810,998	100.00%
Non-performing assets	920,332		646,436		420,520		249,298	
Non-performing asset ratio	0.91%		0.80%		0.73%		0.60%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As of 31 December 2014, the Group's assets under special mention accounted for 13.73% of its net interest-earning assets, remained relatively stable as compared with that of 13.97% at the end of the previous year.In particular, assets under special mention in the transportation industry accounted for the largest portion at 23.14%. Due to the sluggish shipping industry and the overall decrease in the freight rate, shipping customers suffered constant pressure in terms of profitability and financing from external sources and were confronted with tight liquidity, thus 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 in the healthcare industry accounted for the second largest portion at 15.63%, mainly attributable to the large investment of the infrastructure of the healthcare segment with high debts. The Group prudently kept this asset class under ongoing supervision. The assets under special mention in the packaging industry accounted for the third largest portion at 14.47%, mainly attributable to the fact that private enterprises in the packaging industry were susceptible from the negative impact of the macro-economic environment, and withdrawal of loan grants from banks and refinancing of leased items were commonly seen in the industry. Therefore, the Group prudently reclassified more assets in this sector as assets under special mention. Assets under special mention in the machinery industry accounted for the fourth largest portion at 12.11%, mainly attributable to the sluggish development in certain segments of the machine manufacturing industry in view of the impact of the prolonged macro-economic downturn, thus the Group prudently reclassified more assets in this sector as assets under special mention.

Management Discussion and Analysis

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

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	2,163,851	15.63%	1,319,246	11.70%	641,070	7.26%	403,832	5.89%
Education	1,092,498	7.89%	893,569	7.91%	1,591,140	18.00%	1,089,993	15.90%
Infrastructure construction	1,208,022	8.73%	993,563	8.81%	765,693	8.67%	1,323,122	19.30%
Transportation	3,203,122	23.14%	3,005,841	26.65%	1,462,367	16.56%	761,518	11.11%
Packaging	2,002,526	14.47%	1,230,813	10.91%	1,217,311	13.78%	337,457	4.92%
Machinery	1,676,805	12.11%	997,917	8.85%	648,344	7.34%	509,538	7.43%
Textiles	220,133	1.59%	78,540	0.70%	169,256	1.91%	27,911	0.41%
Electronic information	1,043,528	7.54%	1,069,806	9.48%	604,410	6.85%	290,159	4.23%
Others	1,231,146	8.90%	1,690,881	14.99%	1,732,914	19.63%	2,112,731	30.81%
Total	13,841,631	100.00%	11,280,176	100.00%	8,832,505	100.00%	6,856,261	100.00%

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.

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

	31 December 2014 (Unaudited)	31 December 2013 (Unaudited)	31 December 2012 (Unaudited)	31 December 2011 (Unaudited)
Pass	8.59%	15.55%	20.88%	16.41%
Special mention	51.83%	40.77%	49.63%	49.24%
Substandard	2.16%	0.22%	1.22%	1.26%
Doubtful	0.07%	0.39%	0.17%	0.44%
Loss and write-off	–	–	–	–
Recoveries	37.35%	43.07%	28.10%	32.65%
Total	100.00%	100.00%	100.00%	100.00%

Management Discussion and Analysis

The Group's asset quality remained favourable. The non-performing asset ratio slightly increased from 0.80% from the end of the previous year to 0.91% as of 31 December 2014. The Group's write-off amount of non-performing assets was RMB122,924,000. The write-off ratio of non-performing assets was 19.02%.

The non-performing asset ratio for the transportation industry to total non-performing assets was 51.94%, mainly because of substantial decline in demand for iron ore, grain, chemicals and other bulk cargo, unbalance of the supply and demand of the shipping market, higher risk exposure of some customers under the continuous sluggish overseas and domestic dry bulk shipping market. The Group prudently reclassified the assets of the segment into substandard and doubtful assets. The non-performing asset ratio for the packaging industry to total non-performing assets was 20.00%, primarily because many business enterprises in the packaging industry were private enterprises, and they were susceptible to sluggish external economic conditions. Mutual guarantee, private lending and refinancing of leased items were commonly in the packaging industry, especially for the customers of offset printing industry, because of shortened credit period by their suppliers, loans calling back from the banks and difficulties in collecting receivables. As a result, the Group prudently reclassified more assets of this segment into substandard and doubtful assets. The non-performing assets of the machinery industry accounted for 13.13% of the total non-performing assets, because of the significant decrease in revenue and profit of customers in sub-segments which were vulnerable to market fluctuation, including engineering machinery and machine tools. Especially, certain private companies had difficulties in collecting receivables and had to repay bank loans early at the request of the banks, which brought great pressure on their liquidity. Hence, the Group prudently reclassified more assets of the machinery industry into substandard and doubtful assets. The non-performing assets of the construction industry accounted for 11.06% of the total non-performing assets mainly attributable to the continued sluggish steel and real estate market. In addition, the changes in bank lending policies made those enterprises hard to obtain any fund. The Group prudently reclassified more assets in this industry into substandard and doubtful assets.

Management Discussion and Analysis

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

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	8,116	0.88%	5,921	0.91%	16,307	3.88%	9,868	3.97%
Education	3,557	0.39%	8,071	1.25%	16,736	3.98%	19,126	7.67%
Infrastructure construction	101,783	11.06%	88,931	13.76%	80,821	19.22%	61,515	24.67%
Transportation	478,051	51.94%	212,565	32.88%	124,686	29.65%	94,217	37.79%
Packaging	184,098	20.00%	198,641	30.73%	83,287	19.81%	46,282	18.56%
Machinery	120,802	13.13%	81,259	12.57%	56,448	13.41%	18,290	7.34%
Textiles	9,048	0.98%	19,788	3.06%	5,923	1.41%	–	
Electronic information	14,877	1.62%	31,260	4.84%	36,312	8.64%	–	
Others	–	–	–	–	–	–	–	
Total	920,332	100.00%	646,436	100.00%	420,520	100.00%	249,298	100.00%

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

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	3,403	0.57%	–	–	2,828	1.12%	9,868	5.18%
Education	1,779	0.30%	–	–	5,349	2.12%	8,573	4.50%
Infrastructure construction	56,582	9.48%	22,086	8.50%	22,556	8.93%	53,568	28.10%
Transportation	302,711	50.70%	108,819	41.87%	118,061	46.73%	94,217	49.44%
Packaging	119,926	20.09%	100,492	38.66%	47,117	18.65%	18,918	9.92%
Machinery	104,415	17.49%	21,855	8.41%	34,748	13.75%	5,462	2.86%
Textiles	4,909	0.82%	3,949	1.52%	–	–	–	
Electronic information	3,305	0.55%	2,704	1.04%	22,006	8.70%	–	
Others	–	–	–	–	–	–	–	
Total	597,030	100.00%	259,905	100.00%	252,665	100.00%	190,606	100.00%

Management Discussion and Analysis

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

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	4,713	1.46%	5,921	1.53%	13,479	8.05%	–	–
Education	1,778	0.55%	8,071	2.09%	11,387	6.80%	10,553	18.95%
Infrastructure construction	45,201	13.98%	66,845	17.29%	58,265	34.80%	7,947	14.27%
Transportation	175,340	54.23%	103,746	26.84%	6,625	3.97%	–	–
Packaging	64,172	19.85%	98,149	25.39%	35,736	21.34%	24,358	43.74%
Machinery	16,387	5.07%	59,404	15.37%	21,700	12.96%	12,828	23.04%
Textiles	4,139	1.28%	15,839	4.10%	5,923	3.54%	–	–
Electronic information	11,572	3.58%	28,556	7.39%	14,306	8.54%	–	–
Others	–	–	–	–	–	–	–	–
Total	323,302	100.00%	386,531	100.00%	167,421	100.00%	55,686	100.00%

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

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	–	–	–	–	–	–	–	–
Education	–	–	–	–	–	–	–	–
Infrastructure construction	–	–	–	–	–	–	–	–
Transportation	–	–	–	–	–	–	–	–
Packaging	–	–	–	–	434	100.00%	3,006	100.00%
Machinery	–	–	–	–	–	–	–	–
Textiles	–	–	–	–	–	–	–	–
Electronic information	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	–	–	–	–	434	100.00%	3,006	100.00%

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

	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2012 RMB'000
At the beginning of the year	646,436	420,520	249,298
Downgrades[1]	699,657	469,784	361,853
Upgrades	(32,440)	(74,095)	(2,638)
Recoveries	(270,397)	(159,384)	(187,993)
Write-offs	(122,924)	(10,389)	–
At the end of the year	920,332	646,436	420,520
NPA ratio	0.91%	0.80%	0.73%

Note:

(1) Represents downgrades of interest-earning assets classified as normal or special mention at the end of prior year and interest-earning assets newly reclassified in the current year to non-performing categories.

3.2.5.2 Interest-earning assets provisions

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

	31 December 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Interest-earning Assets Provisions:								
Individual assessment	407,940	20.27%	312,024	22.02%	189,891	21.11%	75,844	13.93%
Collective assessment	1,604,453	79.73%	1,104,872	77.98%	709,470	78.89%	468,573	86.07%
Total	2,012,393	100.00%	1,416,896	100.00%	899,361	100.00%	544,417	100.00%
Non-performing assets	920,332		646,436		420,520		249,298	
Provision coverage ratio	218.66%		219.19%		213.87%		218.38%	

As of 31 December 2014, after prudent analysis of the credit policies in China and dynamic changes in the global economic environment, the Group carried on the relatively prudent provision policy. The provision coverage ratio of the Group was 218.66% as of 31 December 2014.

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3.2.5.3 Write-offs of Interest-earning Assets

The following table sets forth the write-offs of interest-earning assets as of the dates indicated.

	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Write-off	122,924	10,389	–	–
Non-performing assets as at the end of the previous year	646,436	420,520	249,298	240,629
Write-off ratio(1)	19.02%	2.47%	–	–

Note:

(1) The write-off ratio is calculated as the percentage of interest-earning assets write-offs over the non-performing net assets as of the beginning of the relevant year.

In 2014, the Group wrote off bad debts of RMB122,924,000 mainly for the industries with perfect competition, of which, the packaging industry accounted for RMB70,395,000; the textiles industry accounted for RMB20,558,000; the industrial equipment industry accounted for RMB13,441,000; the electronics industry accounted for RMB7,421,000; the transportation industry accounted for RMB6,793,000; the infrastructure construction industry accounted for RMB4,316,000. It was mainly because small and medium sized enterprises suffered deteriorating business environments, weak market demands, intensified competitions and difficult financing situations due to continuingly sluggish macro-economy, therefore, the Group's customers in the industries with perfect competition were susceptible to external economic fluctuations, together with weak operation and management capabilities of certain customers, their capital chains were broken.

From the perspective of distribution regions, they were mainly in eastern and central China, including Henan, Hunan, Jiangsu, Zhejiang and Anhui. Suspension of loan grants from banks, joint guarantee and mutual guarantee and private lending were common in these regions. Even runaway of debtors for evasion of debts occurred in certain regions, indicating materially regional risks.

In respect of risk projects, the Group carried out full recovery through the measures such as disposal of leased items and guarantee of customers' properties, however, certain leased items failed to be recovered and disposed as they were grabbed by other creditors or were with title defects due to being used for refinancing; or the equipment disposal values of certain leased items were unable to cover the risk exposures due to declining market demands; at the same time, certain losses were recorded upon confirmation that customers did not possess other valid assets for enforcement following recovery through relevant legal procedures.

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3.2.5.4 Status of Interest-earning Assets (Over 30 Days)

The following table sets forth status of interest-earning assets (over 30 days) as of the dates indicated.

	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Overdue ratio (over 30 days)	0.91%	0.45%	0.30%	0.08%

As a result of the Group's prudent risk control and asset management, the Group's lease overdue ratio (over 30 days) was 0.91% as at 31 December 2014, 0.46 percentage point higher as compared with 0.45% as of the end of 2013.

The following table sets forth status of interest-earning assets (overdue more than 30 days) by industry as of the dates indicated.

	31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total
Healthcare	2,982	0.32%	7,515	2.08%
Education	3,557	0.39%	6,885	1.90%
Infrastructure construction	89,104	9.68%	57,774	15.99%
Transportation	423,483	46.00%	104,337	28.88%
Packaging	359,588	39.06%	108,408	30.00%
Machinery	30,332	3.29%	52,238	14.46%
Textiles	–	–	6,152	1.70%
Electronic information	11,572	1.26%	18,023	4.99%
Others	–	–	–	–
Total	920,618	100.00%	361,332	100.00%

The assets under special mention that were overdue more than 30 days all fell into the packaging and transportation industries, of which, the packaging industry accounted for 60.09% while the transportation industry accounted for 39.91%. This was mainly due to the fact that due to stagnant markets in the packaging and transportation industries and generally extended turnover period of accounts receivable, there was mismatch between collection of accounts receivables and payment of rents of some customers, thus rents were overdue at points of time. Though these customers maintained normal operations, the Group continued to prudently pay attention to the tense capital arrangements at points of time.

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The following table sets forth the interest-earning assets (overdue more than 30 days) classification as of the dates indicated.

	31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total
Special mention	423,128	45.96%	2,167	0.60%
Substandard	197,562	21.46%	86,911	24.05%
Doubtful	299,928	32.58%	272,254	75.35%
Loss	–	–	–	–
Total	920,618	100.00%	361,332	100.00%

3.3 Assets other than Loans and Accounts Receivable

As at 31 December 2014, the balance of the Group's available-for-sale financial assets was RMB394,253,000 which were equity investments not quoted in an active market with their fair values unable to be reliably measured, implying no control, common control or material impact over investees.

On 31 December 2014, the balance of the Group's derivative financial instruments amounted to RMB290,277,000, representing an increase of RMB289,309,000 as compared with RMB968,000 as at the end of 2013, which was the fair value of the derivative financial instruments as at 31 December 2014. In order to control currency risk and exchange rate risk, the Group gradually hedged against currency risk and foreign exchange exposure through the operation of derivative financial instruments such as foreign exchange forwards and currency swaps.

On 31 December 2014, the balance of the Group's goodwill amounted to RMB64,164,000, which is the goodwill recognised for the acquisition of Huakang Hospital.

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3.4 Liabilities (Overview)

On 31 December 2014, total liabilities of the Group amounted to RMB93,276,231,000, representing an increase of RMB20,928,229,000 or 28.93% as compared to the end of last year. Interest-bearing bank and other borrowings were the main component of the Group's liabilities, accounting for 76.95% of the total.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	71,777,837	76.95%	56,554,478	78.17%	26.92%
Other payables and accruals	16,511,583	17.70%	12,495,590	17.27%	32.14%
Trade and bills payables	3,489,071	3.74%	2,299,346	3.18%	51.74%
Tax Payable	840,356	0.90%	603,297	0.83%	39.29%
Derivative financial instruments	223,947	0.24%	66,818	0.09%	235.16%
Deferred tax liabilities	137,556	0.15%	124,482	0.18%	10.50%
Deferred revenue	295,881	0.32%	203,991	0.28%	45.05%
Total Liabilities	93,276,231	100.00%	72,348,002	100.00%	28.93%

3.5 Interest-bearing Bank and Other Borrowings

In 2014, as the complex financial environment at home and overseas faced the Group, the Group adhered to the established strategy of "resources globalisation", and made good progress in both indirect financing and direct financing with an improved liability structure, thus obviously enjoying a finance-cost advantage over the peers.

Within the marketplace of direct financing, the Group was granted a rating of investment grade by Standard & Poor's, an international rating agency, and expanded the facility in the medium term note program to US$3.0 billion from US$1.5 billion, which further expanded its channels for sourcing funds. The successful issue of Far Eastern Third ABS in the domestic market made Far East Horizon the only financial leasing company with the issue of asset-backed securities products for three consecutive times. Meanwhile, throughout the year the Company placed several bond issues overseas, with currencies covering US Dollar, Singapore Dollar and Australia Dollar etc., which further expanded coverage of investors and made breakthroughs in respect of bond durations. Successively, the Group has issued senior perpetual securities and HKD bonds with a term of eight years, which reflected our diversity of bond issue arrangement and sustainable issuing capacity.

Within the marketplace of indirect financing, the Group achieved cross-platform facility on the basis of the current financing channel as required by its strategic development, and strengthened its co-operation relationship with key bank channels at the same time. Facing relatively tight credit policies domestically in 2014, the Group took initiative in guiding domestically state-owned giant banks to tap into overseas markets. Through domestic and overseas syndicates, accepting guarantees by domestic enterprises to secure loans granted to overseas entities, overseas direct credit and other means, the Group raised funds in an aggregate amount of RMB6 billion overseas, which diversified its products portfolio. In addition, the trial orders of Japan syndicates and the oversubscription of re-financing syndicates indicated the Group's access to large-scale financing as well as its flexible and effective product innovation capability in the marketplace of indirect financing.

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Meanwhile, in 2014, the Group has made concrete breakthroughs in off-balance-sheet financing measures. Specifically, it explored several modes of financial products such as non-recourse factoring, off-balance-sheet ABS and equity industrial funds etc. Off-balance-sheet financing diversified funding sources, optimized liability structure and improved management on financial statements.

As the Group joined the National Association of Financial Market Institutional Investors in 2014 and became the only domestic leasing company that was gave a rating of investment grade internationally recognised, the Group had diverse financing methods with an improved liability structure, thus further reducing our reliability on a single product and a single market, and in turn achieving diversity of financing products, decentralisation of financing regions and the long term finance. The Group was confident that with the global financing network as well as resource advantage, the Group can further improve its competitiveness in the liability landscape, and promote investors' dependency on the Group.

As of 31 December 2014, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB71,777,837,000, representing an increase of 26.92% as compared with RMB56,554,478,000 as of the end of last year. This was primarily caused by the increase of interest-earning liabilities used to support the business expansion of the Group. The Group's borrowings were mainly denominated in RMB and USD at floating 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 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Current	30,272,870	42.18%	27,283,667	48.24%	10.96%
Non-current	41,504,967	57.82%	29,270,811	51.76%	41.80%
Total	71,777,837	100.00%	56,554,478	100.00%	26.92%

As of 31 December 2014, the Group's current interest-bearing bank and other borrowings as a percentage of the Group's total interest-bearing bank and other borrowings was 42.18%, representing a decrease as compared with 48.24% as of 31 December 2013, which was mainly caused by the Group's more inclusion of long term borrowings considering liquidity management demands in 2014.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	13,730,579	19.13%	19,864,235	35.12%	-30.88%
Unsecured	58,047,258	80.87%	36,690,243	64.88%	58.21%
Total	71,777,837	100.00%	56,554,478	100.00%	26.92%

The Group carefully managed its funding risk and optimized its borrowing conditions in 2014. As at 31 December 2014, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 80.87% of the Group's total interest-bearing bank and other borrowings, higher than that of the end of last year.

The following table sets forth, as at 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 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank loans	55,946,919	77.94%	48,165,951	85.17%	16.15%
Related-party borrowings	–	–	174,401	0.31%	-100.00%
Other loans	15,830,918	22.06%	8,214,126	14.52%	92.73%
Total	71,777,837	100.00%	56,554,478	100.00%	26.92%

As at 31 December 2014, the proportion of the Group's bank loans and related-party borrowings to the Group's total bank and other borrowings decreased as compared to the end of last year as the Group proactively expanded its channels for sourcing funds, further broadened its investment regions available to investors and chose to utilise more other loans to expand its business.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
China	41,752,340	58.17%	35,466,296	62.71%	17.72%
Overseas	30,025,497	41.83%	21,088,182	37.29%	42.38%
Total	71,777,837	100.00%	56,554,478	100.00%	26.92%

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As at 31 December 2014, the proportion of the Group's total borrowings from banks and other borrowings in China was 58.17%, which shrunk as compared with that at the end of last year as the Group made full use of the cost advantage of offshore funds and chose to utilise more overseas borrowings such as issuance of overseas bonds and syndicated financing to expand the business of the Group.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
RMB	47,568,897	66.27%	41,482,332	73.35%	14.67%
US dollars	18,191,255	25.34%	13,960,236	24.68%	30.31%
Borrowings in other currencies	6,017,685	8.39%	1,111,910	1.97%	441.20%
Total	71,777,837	100.00%	56,554,478	100.00%	26.92%

As at 31 December 2014, the proportion of the Group's total bank and other borrowings in RMB was 66.27%, representing a decrease from the end of last year as the Group diversified its financing currency mix and proactively chose to utilise more borrowings in US dollars and loans in other currencies to expand the Group's business.

The following table sets forth, as at the dates indicated, the interest-bearing bank and other borrowings based on direct and indirect financing.

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	12,751,188	17.76%	5,864,095	10.37%	117.45%
Indirect financing	59,026,649	82.24%	50,690,383	89.63%	16.45%
Total	71,777,837	100.00%	56,554,478	100.00%	26.92%

As at 31 December 2014, the proportion of the Group's total direct bank and other borrowings was 17.76%, representing a significant increase from the end of last year as the Group proactively chose to utilise more direct financing such as issuance of MTN and multi-currency overseas bonds to expand the Group's business.

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3.6 Shareholders' equity

As at 31 December 2014, the total equity of the Group was RMB17,449,893,000, representing an increase of RMB3,285,023,000 or 23.19% from the end of last year.

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

	31 December 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
Issued share capital	6,683,751	38.30%	27,570	0.19%	24142.84%
Reserve	9,429,201	54.04%	14,097,772	99.53%	-33.12%
Equity attributable to holders of ordinary shares of the Company	16,112,952	92.34%	14,125,342	99.72%	14.07%
Senior perpetual securities	1,258,170	7.21%	–	–	N/A
Non-controlling interests	78,771	0.45%	39,528	0.28%	99.28%
Total Equity	17,449,893	100.00%	14,164,870	100.00%	23.19%

According to the new Companies Ordinance of Hong Kong effective on 3 March 2014, par value of shares was abolished. The Company fully transferred the balance of share premium account of RMB6,657,979,000 to the issued shares in 2014.

The functional currency of the Company changed from US$ to RMB with effect from 1 January 2014. RMB1,798,000 was transferred to reserves from issued capital in accordance with the related accounting standards.

4. Analysis on Cash Flows Statement

	For the year ended 31 December		
	2014	2013	
	RMB'000	RMB'000	Change %
Net cash flow from operating activities	(13,332,369)	(16,771,860)	-20.51%
Net cash flow from investing activities	(1,912,709)	(1,724,522)	10.91%
Net cash flow from financing activities	15,814,610	19,674,790	-19.62%
Effect of exchange rate changes on cash and cash equivalents	74,842	(7,630)	-1080.89%
Net increase in cash and cash equivalents	644,374	1,170,778	-44.96%

In 2014, the Group had net cash outflow from operating activities in the amount of RMB13,332,369,000 as the Group expanded its business and increased the balance of its interest-earning assets. Correspondingly, the Group increased its bank and other borrowings, which were recorded as cash inflow from financing activities. As a result, net cash inflow from financing activities was RMB15,814,610,000 in 2014. Net cash outflow from investing activities was RMB1,912,709,000 in 2014, which was primarily attributable to the impact of external equity investment and capital expenditure such as payment for equipment. As at 31 December 2014, the Group's cash and cash equivalents amounted to RMB3,317,850,000, which are mainly denominated in RMB, USD and Hong Kong dollars.

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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 2014, no change was made to the objectives, policies or processes for managing capital.

5.1 Gearing Ratio

The Group monitors our capital by gearing ratio.

The following table sets forth the gearing ratios as at the dates indicated:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Total assets (A)	110,726,124	86,512,872
Total liabilities (B)	93,276,231	72,348,002
Total equity	17,449,893	14,164,870
Gearing ratio (C = B/A)	84.24%	83.63%

In 2014, the Group made full use of capital leverage for our operations to keep the Group's gearing ratio relatively high while at the same time closely managed the Group's gearing ratio to avoid potential liquidity risk. As at 31 December 2014, our gearing ratio, which was maintained at a reasonable level, was 84.24%.

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 2014 RMB'000	31 December 2013 RMB'000
Total assets	102,816,856	82,357,521
Less: Cash	2,796,205	2,751,163
Total assets at risk	100,020,651	79,606,358
Equity	15,195,810	13,065,484
Ratio of assets at risk to equity	6.58	6.09

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 2014, the ratio of assets at risk to equity of International Far Eastern Leasing Co., Ltd. was 6.58, 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 RMB1,449,914,000 in 2014, which was mainly used for expenditures for additions of property, plant and equipment, and external equity investments.

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. As financing strategies were promoted in 2014 and the introduction of overseas direct financing products led to the expansion of interest rate exposures, the Group actively explored management methods and guided the business segment to set up fixed-rate assets with various terms and sizes through adjusting internal quotations from banks in order to achieve effective controls on interest rate exposures. The Group has gradually promoted the leasing and factoring products with fixed rates so as to reduce the risk of changes in interest rates in the future.

The table below demonstrates the sensitivity to a reasonably 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 re-pricing within the coming year.

	Increase/(decrease) in profit before tax of the Group	
	31 December 2014	31 December 2013
	RMB'000	RMB'000
Change in basis points		
+ 100 basis points	512,555	301,473
- 100 basis points	(512,555)	(301,473)

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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 and at the same time takes effective measures to lock in the exchange rate to reduce the risk of change in exchange rate in the future.

The exchange rate of RMB to US$ is managed under a floating exchange rate system. 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 exchange rates of US$ to RMB and HK$ to RMB, with all other variables held constant, and on the assumption that the functional currency of the Company had been changed to RMB on 31 December 2013 on profit before tax.

		Increase/(decrease) in profit before tax of the Group	
		31 December 2014	31 December 2013
Currency	Change in currency rate	RMB'000	RMB'000
US$	-1%	(10,564)	105,035
HK$	-1%	19,501	11,557
		8,937	116,592

In order to control currency risk, the Group actively adopted financial instruments such as foreign exchange forwards and currency swaps to hedge against the foreign exchange exposure. As of 31 December 2014, the percentage of hedges against foreign exchange exposure was 87%. The effect above was based on the assumption that the Group's foreign exchange exposures as of the end of each reporting period are kept unchanged and the average percentage of foreign exchange exposure with hedges remained as above so as to calculate the effect of exchange rate change on profit before tax.

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 the following objectives: maintaining the stability of the leasing business, projecting cash flows and evaluating the level of current assets, and maintaining an efficient internal fund transfer mechanism to ensure liquidity of the Group.

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

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
			As of 31 December 2014			
Total financial assets	3,733,926	12,384,884	34,282,287	66,959,098	557,005	117,917,200
Total financial liabilities	379,063	12,570,533	25,209,279	54,963,865	842,870	93,965,610
Net liquidity gap	3,354,863	(185,649)	9,073,008	11,995,233	(285,865)	23,951,590
			As of 31 December 2013			
Total financial assets	2,920,459	9,632,448	27,072,135	52,926,569	795,095	93,346,706
Total financial liabilities	126,291	11,614,089	21,993,953	40,116,917	445,959	74,297,209
Net liquidity gap	2,794,168	(1,981,641)	5,078,182	12,809,652	349,136	19,049,497

8. Charge on Group Assets

As at 31 December 2014, the Group had lease receivables in the amount of RMB19,688,387,000 and cash in the amount of RMB478,557,000 pledged to the bank to secure bank borrowings, and cash of RMB475,248,000 was pledged for bank acceptances, letter of credit and etc.

9. Material Investments, Acquisitions or Disposals

The acquisition of 70% equity of Huakang Hospital was completed on 28 February 2014 at a total consideration of RMB130,000,000. Therefore, Huakang Hospital became a subsidiary of the Group. Founded in 1999, Huakang Hospital is a modernised general hospital specialised in trauma treatment and enjoys a relatively high reputation in the local medical healthcare industry.

The acquisition of 50% equity of Haida Hospital in Weihai was completed on 24 December 2014 at a total consideration of RMB72,000,000. Therefore, Haida Hospital in Weihai became a joint venture company of the Group. A consideration of RMB27,000,000 had been paid as at 31 December 2014. Founded in 2009, Haida Hospital is a modernised general hospital specialised in gynecology, orthopedics and oncology and enjoys a relatively high reputation in the local medical healthcare industry.

The acquisition of Huakang Hospital and the investment in Haida Hospital in Weihai marked a significant step for the Group's strategy of the combination of finance and industry, and in turn has profound strategic implications for further improvement of its operating capacity in the healthcare industry.

Management Discussion and Analysis

10.Human Resources

As of 31 December 2014, the Group had 5,016 full-time employees, an increase of 1,766 full-time employees compared to 3,250 by the end of 2013.

In 2014 and 2013, the Group incurred employee benefit expenses of RMB1,611,518,000 and RMB1,331,548,000 respectively, representing approximately 16.02% and 16.92% of the Group's total revenue for those periods.

The Group believes it has a high quality work force with specialised industry expertise. As of 31 December 2014, approximately 63.71% of the Group's employees had bachelor's degrees and above, and approximately 34.17% had master's degrees and above.

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.

In order to promote the establishment and improvement of the incentive and discipline mechanism of the Group in the medium and long term, unleash motivation of the management, function as a measure to attract and retain quality executives, effectively align the interests of shareholders and corporate interests with the personal interests of the management in order to secure the sustainable healthy development of the Group, the Company established a shareholding incentive plan (including the restrictive share incentive plan and share option plan) after consideration and approval by the Board in 2014.

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 2014, the Group complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

Management Discussion and Analysis

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

11.1 Contingent Liabilities

As of 31 December 2014, no legal proceeding had been initiated by any third party against the Group as defendant.

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Legal proceedings:		
Claimed amounts	–	614

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:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	63,826	59,487
Capital expenditure for equity investment	120,000	–
Irrevocable credit Commitments	3,693,206	5,116,140

The Group's irrevocable credit commitments represent finance leases that have been signed but the term of the lease has not started.

Capital expenditure for equity investment mainly represents a joint-equity co-operation with Siping Tumour Treatment Hospital (四平腫瘤醫院) and Weihai Haida Hospital (威海海大醫院).

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 2014.

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 Company's corporate governance practices are based on the Principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

During the accounting period for the year ended 31 December 2014, the Company has complied with all the Code Provisions set out in the CG Code, except for Code Provision E.1.2 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 the 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 2014.

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 inside 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 Deshu *(Chairman)*
Mr. Yang Lin
Mr. Liu Haifeng David
Mr. John Law
Mr. Kuo Ming-Jian

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 Deshu, 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 2014, 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 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 80 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 experience, 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.

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 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.

Corporate Governance Report

During the year ended 31 December 2014, 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	Attending Seminars/Visiting/ Interviewing Key Management
Executive Directors		
Mr. Kong Fanxing	✓	✓
Mr. Wang Mingzhe	✓	✓
Non-Executive Directors		
Mr. Liu Deshu	✓	✓
Mr. Yang Lin	✓	✓
Mr. Liu Haifeng David	✓	✓
Mr. John Law	✓	✓
Mr. Kuo Ming-Jian		
Independent Non-Executive Directors		
Mr. Cai Cunqiang	✓	✓
Mr. Han Xiaojing	✓	✓
Mr. Liu Jialin	✓	✓
Mr. Yip Wai Ming	✓	✓

Board Committee

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.

Corporate Governance Report

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. 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 2014 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 page 65.

The Audit Committee also met the external auditors 4 times without the presence of the Executive Directors.

The Company's annual results for the year ended 31 December 2014 have been reviewed by the Audit Committee.

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. 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

Corporate Governance Report

- 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. In assessing the Board composition, the Remuneration and Nomination Committee would make full consideration about the diversity of the board before making proposal, to ensure that the Board shall be composed of members having accounting of financial expertise, legal professional qualification, financial investment experience or industry experiences related to the Company. The Remuneration and Nomination Committee would identify individuals suitably qualified for election as directors, select or make recommendations to the Board on the selection of individuals nominated for directorships.

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 5 times during the year ended 31 December 2014 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 page 65.

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 2014, 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 page 65.

Corporate Governance Report

Attendance Record of Directors and Committee Members

During the year ended 31 December 2014, 4 regular Board meetings 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.

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 2014 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	General Meeting
Executive Directors						
Mr. Kong Fanxing	4/4	Not applicable	Not applicable	0/0	1/1	0/1
Mr. Wang Mingzhe	4/4	Not applicable	Not applicable	Not applicable	1/1	1/1
Non-Executive Directors						
Mr. Liu Deshu	4/4	Not applicable	Not applicable	Not applicable	0/1	0/1
Mr. Yang Lin	3/4	Not applicable	Not applicable	Not applicable	0/1	0/1
Mr. Liu Haifeng David	4/4	Not applicable	Not applicable	0/0	0/1	0/1
Mr. John Law	4/4	2/4	Not applicable	Not applicable	1/1	0/1
Mr. Kuo Ming-Jian	4/4	Not applicable	5/5	Not applicable	0/1	0/1
Independent Non-Executive Directors						
Mr. Cai Cunqiang	3/4	Not applicable	Not applicable	0/0	0/1	0/1
Mr. Han Xiaojing	4/4	3/4	4/5	Not applicable	0/1	0/1
Mr. Liu Jialin	4/4	Not applicable	5/5	Not applicable	0/1	1/1
Mr. Yip Wai Ming	4/4	4/4	Not applicable	Not applicable	0/1	0/1

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 20 August 2014.

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 2014.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information 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. When the directors are aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this corporate governance report.

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 page 97.

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.

Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities relating to the financial statements for the year ended 31 December 2014 is set out in the Independent Auditors' Report on page 97.

The remuneration paid/payable to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2014 is set out below:–

Type of services provided by the external auditors	**Amount of fees RMB'000**
Audit services (annual audit service)	3,050
Non-audit service (interim review service, and issuance of comfort letters, etc)	1,211
Total	4,261

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 and effectiveness.

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.

The Risk Management Committee and Internal Audit Department report to the Board on any findings and make recommendations to the Board as and when appropriate. The Board at least annually conducts a review of the effectiveness of the Company and its subsidiaries' internal control systems. Such review covers all material controls, including financial, operational and compliance controls and risk management functions.

Corporate Governance Report

Corporate Governance

The Audit Committee is responsible for performing the corporate governance duties including:

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

(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

(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.

The Board has reviewed the shareholders' communication policy on a regular basis to ensure its effectiveness.

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' Right

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 a General Meeting

General meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Corporate Governance Report

Putting Forward Proposals at General Meeting

Pursuant to Sections 580 and 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant general meeting, may put forward proposals for considerations at a general meeting by sending requests in writing to the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for 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.

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
Fax:	86-21-50490066
Email:	IR-Horizon@sinochem.com
Attention:	Board of Directors/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.

Corporate Governance Report

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 CG 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.

At the annual general meeting of the Company held on 11 June 2014 (the "2014 AGM"), Mr. Liu Deshu (Chairman of the Board), Mr. Yip Wai Ming (Chairman of the Audit Committee), 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 transaction of business at the 2014 AGM, Mr. Kong Fanxing, the vice chairman, executive director, Chief Executive Officer and a member of the Strategy and Investment Committee of the Company chaired the 2014 AGM.

Mr. Wang Mingzhe (as an executive director and the Chief Financial Officer) and Mr. John Law (as a non-executive director and a member of the Audit Committee) have attended the 2014 AGM to answer questions where necessary.

During the year under review, the Company has amended its Articles of Association. Details of the amendments were set out in the circular dated 5 May 2014 to the shareholders. An updated 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 63, 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. 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 Sinochem Group, 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 51, 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 over 20 years of experience in enterprise management.

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

Mr. YANG Lin (楊林), aged 51, 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 also holds directorships in Sinochem International Corporation, Sinofert holdings Limited and Franshion Properties (China) Limited and is the chairman of China Foreign Economy and Trade Trust Co., Ltd.

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

Biographies of Directors and Senior Management

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

Mr. WANG Mingzhe (王明哲), aged 44, 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 Northeastern 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 19 years of experience in finance management.

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

Mr. LIU Haifeng David (劉海峰), aged 45, has been a non-executive director of the Company since October 2009. Mr.Liu serves as Partner of KKR, Co-head of KKR Asia Private Equity and CEO of KKR Greater China. Mr. Liu is also a member of KKR's Asian Private Equity Investment Committee, Asian Portfolio Management Committee and China Growth Fund Investment Committee. Prior to joining KKR, Mr. Liu was Managing Director and Co-head of Morgan Stanley Private Equity Asia. Mr. Liu has 21 years of experience in direct investment. He has established one of the leading investment track records in Greater China and was responsible for a number of successful and innovative investments such as Mengniu Dairy, Ping An Insurance, Belle International, Far East Horizon, Nanfu Battery, China Modern Dairy, United Envirotech Ltd, China Cord Blood Corporation, Qingdao Haier Co., Ltd, Paradise Retail, Hengan International, Shanshui Cement, Rundong Auto, etc. Mr. Liu graduated from Columbia University as Class Salutatorian with a B.S. in Electrical Engineering. He is a member of Tau Beta Pi National Engineering Honor Society and a winner of the Edwin Howard Armstrong Memorial Award for the top electrical engineering student at Columbia University.

Mr. Liu also serves as a non-executive director for United Envirotech Ltd which is a listed company in Singapore, China Rundong Auto Group Limited which is a listed company in Hong Kong, and Qingdao Haier which is an A-share listed Company.

Biographies of Directors and Senior Management

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

Mr. KUO Ming-Jian (郭明鑑), aged 53, 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 nonexecutive 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.

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

Mr. John LAW (羅強), aged 64, was appointed as a non-executive director of the Company on 25 October 2012. 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 August 2000 to November 2003 as the regional credit officer for Asia Pacific Financial Markets. Prior to joining the Company, he worked for International Finance Corporation from March 2004 to September 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 65, 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 38 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 60, 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 28 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 Sinotrans Limited (中國外運股份有限公司). He also serves as independent director of Ping An Bank Company Limited (平安銀行股份有限公司), and Beijing Sanju Environmental Protection Company Limited (北京三聚環保新材料股份有限公司).

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

Mr. LIU Jialin (劉嘉凌), aged 52, 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 26 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 50, 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), Pax Global Technology Limited (百富環球科技有限公司), Poly Culture Group Corporation Limited (保利文化集團股份有限公司) and Yida China Holdings Limited (億達中國控股有限公司).

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 24 years of experience in accounting and finance.

Biographies of Directors and Senior Management

Mr. CAO Jian (曹健) – Senior Vice President

Mr. CAO Jian (曹健), aged 40, is the Senior Vice President of the Company. Mr. Cao graduated from Nankai University (南開大學) majoring in finance in August 1997, and obtained a master's degree in finance from University of International Business and Economics (對外經濟貿易大學) in December 2006 and an MBA from Shanghai Jiaotong University (上海交通大學) in June 2008. Mr. Cao Jian was 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 standing deputy general manager and the general manager of the healthcare business division, and 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 12 years of experience in the financial leasing industry.

Mr. SHANG Bing (尚兵) – Vice President

Mr. SHANG Bing (尚兵), aged 48, is the Vice President of our Company. Mr. Shang graduated from Sichuan University in China, majoring in English language and literature, with a bachelor of arts 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 25 years of experience in relation to government affairs and enterprise management.

Mr. WANG Ruisheng (王瑞生) – Vice President

Mr. WANG Ruisheng (王瑞生), aged 61, is the Vice President of the Company. Mr. Wang graduated from East China Normal University (華東師範大學) majoring in politics in September 1989 and obtained an EMBA degree from Peking University in September 2005. 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 has over 23 years of experience in enterprise management.

Biographies of Directors and Senior Management

Mr. WU Zhijiun (吳志軍) – Assistant President

Mr. WU Zhijun (吳志軍), aged 42, is the Assistant President of the Company. Mr. Wu graduated from Dongbei University of Finance and Economics (東北財經大學) majoring in management of investment economics in July 1996 and obtained an MBA degree from Northeastern University (東北大學) in July 2002. Prior to joining Far East in 2003, Mr. Wu worked at China Northern Airlines (中國北方航空公司). In Far East, he worked as the deputy general manager of the healthcare business division, the standing deputy general manager and the general manager of Shanghai Domin Medical Engineering Co., Ltd., and the general manager of the healthcare business division, thus has an extensive management experience. Mr. Wu was appointed as the Assistant President of the Company in January 2014.

Mr. Wu has over 13 years of experience in the financial leasing industry.

Mr. WANG Jiayin (王佳音) – Assistant President

Mr. WANG Jiayin (王佳音), aged 42, is the Assistant President of the Company. Mr. Wang graduated from Civil Aviation University of China (中國民航學院) majoring in avionics in July 1995 and obtained an MBA degree from Northeastern University (東北大學) in June 2002. Prior to joining Far East in 2003, Mr. Wang worked at China Northern Airlines (中國北方航空公司). In Far East, he worked as the assistant general manager and the deputy general manager of the first business division, and the deputy general manager and the general manager of the infrastructure construction division, thus has extensive management experience. Mr. Wang was appointed as the Assistant President of the Company in January 2014.

Mr. Wang has over 12 years of experience in the financial leasing industry.

Mr. CAI Jianjun (蔡建軍) – Chief Information Officer

Mr. CAI Jianjun (蔡建軍), aged 52, is the Chief Technology Officer of the Company. Mr. Cai graduated from Xi`an Jiaotong University (西安交通大學) majoring in Computer and Application in July 1984 and obtained a master degree in Computer Science Education from Chinese Academy of Sciences (中國科學院) in July 1991. Prior to joining Far East Horizon Limited, he worked as deputy director of the Mainframe Computer Lab and Commercial Software Lab at Institute of Computing Technology, Chinese Academy of Sciences; vice president and general manager of Beijing Amadeus Data Limited; technical director of IT Department, director of Strategic Planning Department, chief architect and technical executive director in Lenovo Group; general manager of Information Technology department, Sinochem Group, thus has extensive Computer Technology and enterprise management experience. Mr. Cai was appointed as the Chief Information Officer of the Company in April 2014.

Mr. Cai has over 30 years of experience in Computer Technology and management.

Directors' Report

The Board is pleased to present the Directors' Report of the year 2014 together with the audited financial statements of the Group for the year ended 31 December 2014.

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 2014 are set out in the Consolidated Statement of Profit or Loss on page 99 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 2014 to shareholders whose names appear on the register of members of the Company on Friday, 19 June 2015. The proposed final dividend will be paid on or about Monday, 29 June 2015, following approval at the Annual General Meeting to be held on Wednesday, 10 June 2015.

Closure of Share Register

The annual general meeting ("AGM") of the Company is scheduled to be held on Wednesday, 10 June 2015. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 8 June 2015 to Wednesday, 10 June 2015, 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 Friday, 5 June 2015.

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 Wednesday, 17 June 2015 to Friday, 19 June 2015, both days inclusive, during which period no transfer of shares will be registered. The record date on which the shareholders of the Company are qualified to receive the proposed final dividend is Friday, 19 June 2015. 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 Tuesday, 16 June 2015.

Directors' Report

Financial Highlights

The summary of the Group's results, assets, liabilities and non-controlling interests for the past five financial years is extracted from the audited financial information and financial statements published, which are set out on pages 225 to 228 to this annual report. This summary does not form a part of the audited financial statements.

Property, Plant and Equipment

The movements 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 33 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 2014.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 103 to 105 of this annual report and Note 36 to the financial statements respectively.

Charitable Donations

The Group's external charitable donations for the year amounted to RMB4,000,000 (2013: RMB2,000,000).

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)
Mr. LIU Haifeng David (appointed on 16 October 2009)
Mr. KUO Ming-Jian (appointed on 18 March 2013)
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 71 to 76 of this annual report.

Directors' Report

Directors' Service Contracts

As at 31 December 2014, 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.

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

Executive Directors

Each of the executive directors has entered into a service contract with the Company. Each of the appointments is for an initial term of three years commencing from 11 March 2011 and has been renewed on 11 March 2014 for another term of 3 years. Either party has the right to give not less than three months' written notice to terminate the service contract. In accordance with Article 72(1) of the existing articles of association of the Company, Mr. KONG Fanxing and Mr. WANG Mingzhe will retire at the forthcoming general meeting by rotation and shall be eligible for re-election.

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 RMB9,546,000.

Non-Executive Directors

In accordance with Article 74(1) of the previous articles of association and Article 72(1) of the existing articles of association of the Company, Mr. Liu Deshu was re-elected at the 2013 AGM; Mr. YANG Lin and Mr. LIU Haifeng David were re-elected at the 2012 AGM of the Company, and will retire at the forthcoming general meeting by rotation and shall be eligible for re-election. Each of the non-executive directors has entered into an appointment letter with the Company. Each of the appointments of Mr. YANG Lin, Mr. LIU Haifeng David and Mr. LIU Deshu is for an initial term of three years commencing from 11 March 2011 and has been renewed on 11 March 2014 for another term of 3 years. In accordance with Article 73 of the previous articles of association of the Company, Mr. John LAW and Mr. KUO Ming-Jian were re-elected at the 2013 AGM. Each of the two directors has entered into an appointment letter with the Company. Each of the appointments of Mr. John LAW and Mr. KUO Ming-Jian is for an initial term of three years commencing from 11 March 2014.

No payment shall be made by the Company to Mr. Liu Deshu and Mr. YANG Lin under the relevant appointment letters. The Company shall pay a total of HK$1,260,000 as director's fee to Mr. LIU Haifeng David, Mr. KUO Ming-Jian and Mr. John LAW under the relevant 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) and has been renewed on 30 March 2014 for another term of 3 years. In accordance with Article 72(1) of the existing articles of association of the Company, Mr. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming were re-elected at the 2013 AGM of the Company.

Under the relevant appointment letter, no payment shall be made by the Company to Mr. Cai Cunqiang. The aggregate amount of annual fees payable by the Company to Mr.Han Xiaojing, Mr. Liu Jialin and Mr.Yip Wai Ming under the appointment letters is HK$1,260,000.

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. Han Xiaojing, Mr. Liu Jialin, Mr. Cai Cunqiang and Mr. Yip Wai Ming, is 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 2014 are set out in Note 8 to the consolidated financial statements of the Group.

Directors' Interests in Contracts

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 2014, 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

The Group does not have any pension scheme.

Directors' Report

Share Option Scheme

The Company adopted a share option scheme ("Share Option Scheme") for a period of 10 years commencing on 7 July 2014 on which the Share Option Scheme was approved by the Shareholders of the Company. The purpose of the Share Option Scheme is to incentivize and reward Selected Participants (as defined below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The senior and middle management personnel, as well as other key employees of the Company or any subsidiary of the Company (the "Selected Participant(s)") are persons eligible to participate the Share Option Scheme. The eligibility of the Selected Participant will be decided by the Board or the Administration Committee, at its respective absolute discretion, as to his contribution to the Company or any of its Subsidiaries.

The maximum number of new shares in respect of which options may be granted under the Share Option Scheme shall not exceed 4% of the Company's issued share capital as at the date of adoption of the Share Option Scheme by the Shareholders, which is 131,696,000 shares.

The maximum number of shares which are issued and may be issued upon exercise of all options (including exercised and outstanding options) granted to any Selected Participant within any 12-month period must not exceed 1% of the issued share capital of the Company from time to time. Any grant of further share options above this limit is subject to certain requirements as stipulated in the Listing Rules and the Share Option Scheme.

An offer shall be open for acceptance for such period within 14 days inclusive of, and from, the offer date by the Selected Participant. An offer not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of options.

The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price is determined by the Board or the Administration Committee, and shall not be less than the higher of: (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the grant of option; (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant of option; and (iii) the nominal value of the Shares as at the date of the offer of the grant of option.

Directors' Report

As of 31 December 2014, options entitling the holders thereof to subscribe for an aggregate of 1,777,896 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 11,391,704 Shares were granted to 107 grantees under the Share Option Scheme. A summary of the movements of the outstanding share options under the Share Option Scheme during the year is as follows:

					Number of share options				
Grantee	Date of grant	Vesting Period (Note 1)	Exercise period (Note 2)	Exercise price per share HK$ (Note 3)	Outstanding at 1 January 2014	Granted	Exercised	Lapsed	Outstanding as at 31 December 2014
KONG Fanxing, CEO and executive Director	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	–	1,316,960	–	–	1,316,960
WANG Mingzhe, CFO and executive Director	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	–	460,936	–	–	460,936
SUBTOTAL FOR DIRECTORS						**1,777,896**			**1,777,896**
Employee	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	–	11,391,704	–	(46,088)	11,345,616
TOTAL						**13,169,600**			**13,123,512**

Note 1: Subject to the rules of the Share Option Scheme, the options granted on 11 July 2014 will vest to the grantees at the second, third and fourth anniversary of the date of grant at an average amount.

Note 2: According to the Share Option Scheme, the options shall be exercised within the Option Period. "Option Period" shall mean, in respect of any particular option, a period (which may not be later than 10 years from the offer date of that option) to be determined and notified by the Board or the Administration Committee to the grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses; and (ii) 10 years from the offer date of that option. There is no minimum period for which any vested option must be held before it can be exercised and no performance target which need to be achieved by a grantee before the vested options can be exercised.

Note 3: The exercise price is not less than the higher of (i) the closing price of HK$5.86 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 11 July 2014 (i.e. the grant date) and (ii) the average closing price of HK$5.81 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 11 July 2014. The Share does not carry nominal value.

Please refer to note 34 to our financial statements for details of accounting treatment and for share options and the remaining life of the Share Option Scheme.

Directors' Report

Restricted Share Award Scheme

Reference is made to announcement of the Company dated 11 June 2014. The Company adopted a restricted share award scheme ("Award Scheme") on 11 June 2014. This Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. As of 31 December 2014, the Company granted 19,754,400 Shares under the Award 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.

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 2014, 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	4,162,400(L)	0.12%
WANG Mingzhe	The Company	Beneficial owner	1,538,340(L)	0.04%
HAN Xiaojing	The Company	Beneficial owner	30,000(L)	0.00%

Note:

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

Save as disclosed above, as at 31 December 2014, 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 is 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

Based on the information available to the directors of the Company as at 31 December 2014 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 31 December 2014, the 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	919,914,400(L)	27.94%
Greatpart Limited[2]	Beneficial owner	919,914,400(L)	27.94%
KKR Future Investments S.À.R.L.	Beneficial owner	337,000,000(L)	10.24%
KKR Future Holdings I Limited	Beneficial owner	589,005,000(L)	17.89%
KKR Future Holdings Limited[3]	Beneficial owner	104,378,000(L)	3.17%
	Interest in a controlled entity	455,501,000(L)	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 Roberts Kravis and Mr. George R. Roberts[3]	Interest in a controlled entity	559,879,000(L)	17.01%
Prime Capital Management (Cayman) Limited	Investment manager	200,939,000(L)	6.10%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian	329,415,192(L)	10.01%
	Beneficial owner	550,000(S)	0.02%
	Custodian	327,060,766(P)	9.93%
Cathay Life Insurance Co., Ltd.	Beneficial owner	296,316,000(L)	9.00%

Directors' Report

Notes:

(1) The letter "L" denotes the person's long position in the Shares of the Company. The letter "S" denotes the person's short position in the Shares of the Company. The letter "P" denotes the person's Shares of the Company in lending pool.

(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.À.R.L, 58,791,000 Shares are directly held by KKR Future Holdings II Limited and 59,710,000 Shares are directly held by KKR Future Holdings III Limited. Each of KKR Future Holdings Limited (as the sole shareholder of KKR Future Investments S.À.R.L, KKR Future Holdings II Limited and KKR Future Holdings III Limited), 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 Asia Limited (as the general partner of KKR Associates Asia L.P.), KKR Fund Holdings L.P. (as the sole shareholder 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 a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited and controlling shareholder of KKR Subsidiary Partnership 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 Roberts Kravis and Mr. George R. Roberts (as the designated shareholders of KKR Management LLC) may be deemed to be interested in the Shares. Mr. Henry Roberts Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares.

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.

Public Float

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

Bond Issue

In order to effectively meet the Company's capital need and improve the efficiency of direct financing, on 14 April 2014, the Company updated the Medium Term Note Program (the "Program") established in 2012. Currently, the limit on the aggregate nominal amount of notes which may be outstanding at any time under the Program is US$3,000,000,000. On 23 June 2014, the Company issued the senior perpetual capital securities (the "Perpetual Securities") in an amount of US$200,000,000 with its the initial distribution rate at 5.55%. The Stock Exchange of Hong Kong Limited granted the listing of, and the permission to deal in the Perpetual Securities and the notes under the Program.

In addition, on 11 September 2014, International Far Eastern Leasing Co., Ltd., a wholly-owned subsidiary of the Company, completed the issuance of five-year medium term notes in an amount of RMB1.5 billion at an interest rate of 5.6% per annum.

For details, please refer to the announcements published by the Company on 14 April, 17 June and 12 September 2014, respectively.

Directors' Report

Major Customers and Suppliers

The information of the customers and suppliers is as follows:

	For the year ended 31 December 2014 Percentage of the total income (before business taxes and surcharges) (%)
Top five customers	1.81%
The largest customer	0.48%

	Percentage of total costs (%)
Top five suppliers	38.37%
The largest supplier	14.05%

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 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 ("Original Sinochem Finance Framework Agreement"). As the Original Sinochem Finance Framework Agreement expired on 16 June 2014, the Company entered into a new framework agreement with Sinochem Finance ("New Sinochem Finance Framework Agreement") to renew the continuing connected transactions of provision of financial services by Sinochem Finance to the Group under the Original Sinochem Finance Framework Agreement on substantially the same terms. The New Sinochem Finance Framework Agreement has a term of one year effective from 11 June 2014. The Company entered into the above framework agreements 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 those of independent commercial banks in the PRC.

Directors' Report

Sinochem Finance is an associate of Sinochem Group, which is a substantial shareholder of the Company. Accordingly, Sinochem Finance is a connected person of the Company and the provision of financial services by Sinochem Finance to the Group under the Original Sinochem Finance Framework Agreement and the New Sinochem Finance Framework Agreement constitutes continuing connected transactions of the Company.

The annual cap on the maximum daily outstanding balance of deposits (excluding the deposits for the purpose of extending entrustment loans) is RMB740,000,000 during the term of the New Sinochem Finance 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. The annual cap on the maximum daily outstanding balance of deposits (excluding the deposits for the purpose of extending entrustment loans) was RMB919,000,000 during the term of the Original Sinochem Finance Framework Agreement. The applicable annual cap was not exceeded for the year ended 31 December 2014.

Please refer to the announcements made by the Company on 17 June 2011 and on 11 June 2014 relating to these transactions.

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 ("Original Sinochem Ship Chartering Framework Agreement"). As the Original Sinochem Ship Chartering Framework Agreement expired on 31 December 2014, the Company entered into a new framework agreement with Sinochem Group ("New Sinochem Ship Chartering Framework Agreement") to renew the continuing connected transactions of provision of ship chartering and other related products and services by the Group to Sinochem Group and/or its subsidiaries and associates under the Original Sinochem Ship Chartering Framework Agreement with the same principal terms. The initial term of the New Sinochem Ship Chartering Framework Agreement is from 1 January 2015 to 31 December 2017.

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 are in need of the charter of vessels to transport cargo between ports. Sinochem Group is a substantial shareholder of the Company and therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Original Sinochem Ship Chartering Framework Agreement and the New Sinochem Ship Chartering Framework Agreement constitute continuing connected transactions of the Company.

The annual caps of the New Sinochem Ship Chartering Framework Agreement, being the total charterhire and other related fees receivable by the Group, for the three years ending 31 December 2017 are US$5,400,000, US$6,500,000 and US$7,800,000 per annum respectively. These annual caps are based primarily on the historical transactions amount, an expected approximate 20% growth in the demand for the Group's ship chartering and other related products and services for each of the three years ending 31 December 2017, and an expected approximate 20% growth in the charterhire for the period of three years ending 31 December 2017 compared with that for the year ending 31 December 2014. The annual cap of the Original Sinochem Ship Chartering Framework Agreement, being the total charterhire and other related fees receivable by the Group, for the year ended 31 December 2014 was US$35,000,000. This annual cap was not exceeded for the year ended 31 December 2014.

Please refer to the announcements made by the Company on 5 December 2012 and on 3 December 2014 relating to these transactions.

Directors' Report

Framework agreement for the provision of property leasing services from 中國中化集團公司 ("Sinochem Group")

In order to facilitate the Group's business which needs to occupy large office space, the Group entered into various lease agreements and corresponding supplementary agreements that constitute continuing connected transactions with Sinochem Group in 2011, 2012 and 2013. All of these property leases terminated on 31 December 2014.

On 3 December 2014, the Company and Sinochem Group entered into a framework agreement pursuant to which Sinochem Group has agreed that it will and will procure its associates to agree to provide property leasing services to the Group ("Property Leasing Framework Agreement"). The initial term of the Property Leasing Framework Agreement is from 1 January 2015 to 31 December 2017.

As the Group has already been occupying and leasing the same units at prevailing market rates from Sinochem Group and its associates, the Directors are of the view that substantial time and costs can be saved if the Group renews the individual leases entered into with Sinochem Group and its associates instead of moving to other buildings. In addition, by entering into the Property Leasing Framework Agreement, the Company will be in a better position to regulate and monitor the transactions contemplated thereunder. Sinochem Group is a substantial shareholder of the Company and therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions under the property leases previously entered into and terminated and the ongoing transactions contemplated under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company.

The annual caps of the Property Leasing Framework Agreement, being the total rent and related fees payable by the Group to Sinochem Group and/or its associates under the Property Leasing Framework Agreement, for the three years ending 31 December 2017 are RMB68,000,000, RMB71,000,000 and RMB78,000,000 per annum respectively. These annual caps are based primarily on the historical transactions amount, an expected approximate 10% growth in the demand by the relevant parties for leasing of properties for the year ending 31 December 2015, an expected approximate 10% growth in the rent for the year ending 31 December 2015 and an expected approximate 5% consolidated growth in transaction amounts for each of the two years ending 31 December 2017, taking into account the increase in demand by the relevant parties and the expected growth in the rent.

The annual cap for the year ended 31 December 2014 for the property leases previously entered into and terminated was RMB62,000,000. This annual cap was not exceeded for the year ended 31 December 2014.

Please refer to the announcements of the Company dated 30 December 2011, 7 August 2012, 27 March 2013, 21 August 2013, 4 December 2013 and 3 December 2014 relating to these transactions.

Pursuant to the Listing Rules, certain related party transactions in Note 43 to the consolidated financial statements of the Company also constitute continuing connected transactions (as defined in Chapter 14A of the Listing Rules). Such related party transactions have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Directors' Report

Confirmation of Independent Non-Executive Directors

Pursuant to Rule 14A.55 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.56 of the Listing Rules, the Board has received a letter from the auditors, confirming that the continuing connected transactions set out above:

(a) have received the approval of the Board;

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

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

(d) have not exceeded the relevant annual caps for the financial year ended 31 December 2014.

Directors' Report

Audit Committee

Audit Committee comprises three members, namely 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 2014.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2014 have been audited by Ernst & Young, the auditor of the Company.

Auditor

Pursuant to the resolution of the AGM of the Company in 2014, the Company reappointed Ernst & Young as the auditor of the Company in 2014. The proposal of re-appointing Ernst & Young as the auditor of the Company will be put forward at the AGM to be held on Wednesday, 10 June 2015 for consideration and approval.

By order of the Board
LIU Deshu
Chairman
25 March 2015

Corporate Social Responsibility Report

Social Responsibility

Concept of Responsibility

Creating value and sharing 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

Supporting industrial upgrading and promoting national rejuvenation

Far East Horizon has always been focusing on eight basic industries, including healthcare sector, packaging, education, construction, transportation, industrial machinery, textiles and electronic information, and building the specialised operation mode and security system that match the characteristics of different industries. Moreover, the Company always keeps a close eye on customers' demands and provides them with professional individualized financial services and products and comprehensive operational services such as investment operation, operating lease, trading brokerage, management consultation and engineering service.

In the healthcare sector, Far East Horizon provided comprehensive services in relation to finance, investment, engineering, trade, management consultation and other industries to domestic medical institutions, medical products manufacturing and distribution enterprises and public healthcare institutions and the like. Meanwhile, leveraging on a number of medical subsidiaries under the Company, Far East Horizon also provided professional medical and healthcare services to the community, which promoted the long-term development of China's healthcare industry in all respects. As at the end of 2014, there were nearly 2,100 medical institutions served by Far East Horizon. In the education sector, by providing advanced educational facilities and equipment, the Company has improved teaching and learning conditions for schools and colleges, therefore driving the continuous progress in education. As at the end of 2014, we were totally serving nearly 150 colleges, nearly 290 higher vocational schools and nearly 190 high schools.

In the public transportation sector, the Company provided 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 RMB680 million were upgraded in more than 30 cities. In the urban sewage treatment sector, we provided sewage treatment companies and drainage companies in more than 20 cities with approximately RMB780 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 main-stream 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 organization'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 have been organising union meetings and forums every year, actively building a bridge among members to achieve the realization of complementary advantages and the sharing of resources. We have built a bridge between the union and the government, giving advice on national education developments.

Corporate Social Responsibility Report

Employee Responsibility

Respect for the value of employees and care for their growth

Far East Horizon carefully listens to its employees' opinions and strives to provide its employees with a diversified, tolerant, open, equal and dynamic working condition as well as a broad platform on which its employees can realize their career ambition. Moreover, the Company also resolves the issues concerning employees while they focus on working. All of these efforts will enable the Company to build its culture where employees will respect, believe and cooperate with each other and share success.

The rights and interests of employees

The Company encourages its employees to participate in its management affairs as if they were owner of the Company. In addition, the Company, by setting up various channels such as president's mailbox and a platform collecting constructive opinions from employees, endeavors to secure employee representatives' rights to participate in and supervise the Company's democratic management and give recommendations in respect thereof.

The development of employees

The Company encourages its employees to realize their value by fully exploiting their advantages and interests with the consideration of the Company's development. Specifically, the Company has established diversified channels for its employees to be promoted, so as to meet the development demands from talents in technical and management fields. Through Far East Academy, Far East E Platform for Learning and training information management system and other measures, the Company is committed to building a learning organization featured by self-examination, self-driven and self-enhancement and creating a team atmosphere for lifelong learning for all staff.

Employees' love and care

Under the "Far East Health Station Program", the Company has established individualized health fund, organized health check-up on a regular basis for employees and provided various kinds of lectures on the physical and psychological aspects in relation to women employee issues, parents-children relationship and health, so a multi-aspect and interactive platform for securing the physical and mental well-being of employees will be built to identify and track employees' physical and mental health risks, mitigate employees' work and life pressure, and meet their physical and mental health needs.

Far East Horizon advocates its employees to keep balance in life and work, whereby, the Company ensures that its mechanism is set up in an appropriate way so that its employees are entitled to reasonable rest and leave. Moreover, the Company grants every employee five extra days apart from their statutory annual leave quotes and encourages them to take part in a variety of exercises.

Based on the principle of "helping those in distress and peril, caring for mutual aid", the Company set up a union "Charity Fund", under which "Plan for Helping the Beloved" and the "Plan for Helping the Infant" were set up to extend special care to cover the family members of the employees, and the newcomers who are fresh graduates, respectively.

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 "Beijing 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 order to actively fulfill the social responsibility of a company and make contribution to our society, in 2014, Beijing Horizon Charity Fund contributed more than RMB3.1 million to initiate public activities in three categories: education aid, poverty alleviation and volunteer services.

Education aid

- With "Horizon Fellowship" program, the Company provides subsidies to students who are excellent in both academic performances and personal character in 21 famous universities across the country, aiming to encourage outstanding undergraduates for studious habit, constant innovation, caring attitude and determination for success.

- The Company invited successful business representatives from various industries to communicate with awarded students on their career planning and ambition and helped them lay down clear targets to become an accomplished person and get themselves familiar with do's and don'ts in work place.

- Customer representatives from the Company's transportation department and their children were invited to go to Huining County of Gansu Province to launch a public education-aid event, "Qian Li Cao", during which they have taken local classes and donated stationery.

Poverty alleviation

- The Charity Fund continues to conduct poverty alleviation activities in impoverished areas including Yushu Autonomous Prefecture of Qinghai Province and Yongcheng City of Henan Province, providing food such as highland barley, butter, milk and eggs as well as fellowships to local old people and students.

- Cooperating with the Shanghai Committee of China Communist Youth League, the Company has conducted "Hearing Aid Project" in Kashgar Prefecture of Xinjiang, the region that Shanghai is designated to assist its development. The Company has donated hearing aid to children with hearing impairment and poor living conditions and helped them recover their hearing ability.

Volunteer service

- Far East Horizon has recruited more than 50 volunteers from the Company and then provided them with training; through "Caring for leftover children in Chongming County of Shanghai", the Company has organized its volunteers and caring people from various walks of life to go to Chongming and interacted with those children.

For more details about the works for fulfilling the Company's social responsibility, please download and read *Social Responsibility Report of Far East Horizon* under the "Social Responsibility" category on the Company's website.

Independent Auditors' Report

EY 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 99 to 224, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622), 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.

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.

Independent Auditors' Report

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 2014, 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
22/F, CITIC Tower
1 Tim Mei Tower
Central,
Hong Kong

25 March 2015

Consolidated Statement of Profit or Loss

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CONTINUING OPERATIONS			
REVENUE	5	10,060,717	7,868,382
Cost of sales	7	(4,106,547)	(2,890,185)
Gross profit		5,954,170	4,978,197
Other income and gains	5	523,689	318,178
Selling and distribution costs		(1,356,023)	(1,124,955)
Administrative expenses		(1,659,885)	(1,294,330)
Other expenses		(249,400)	(282,972)
Finance costs	6	(14,667)	(1,270)
Share of profits and losses of:			
Associates		13,511	7,893
Joint ventures		(195)	–
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	3,211,200	2,600,741
Income tax expense	10	(869,026)	(684,668)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		2,342,174	1,916,073
PROFIT FOR THE YEAR		2,342,174	1,916,073
Attributable to:			
Ordinary shareholders of the parent	11	2,295,954	1,912,744
Non-controlling interests		10,184	3,329
Holders of perpetual securities	37	36,036	–
		2,342,174	1,916,073
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE PARENT	13	RMB	RMB
Basic and diluted			
– Earnings per share		0.70	0.58

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR	2,342,174	1,916,073
OTHER COMPREHENSIVE INCOME		
Item to be reclassified to profit or loss in subsequent periods:		
Effective portion of changes in fair value of hedging instruments arising during the period	111,377	–
Reclassification to the consolidated statement of profit or loss	380,966	–
Income tax effect	(81,237)	–
	411,106	–
Exchange differences on translation of foreign operations	(599)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	410,507	–
Item not to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements into presentation currency	–	(29,641)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	(29,641)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	410,507	(29,641)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,752,681	1,886,432
Attributable to:		
Ordinary shareholders of the parent	2,706,461	1,883,103
Non-controlling interests	10,184	3,329
Holders of perpetual securities	36,036	–
	2,752,681	1,886,432

Consolidated Statement of Financial Position

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,733,169	964,053
Prepaid land lease payments	15	987,878	973,847
Goodwill	16	64,164	–
Other assets	17	54,283	54,690
Investment in joint ventures	19	80,985	–
Investment in an associate	20	94,154	80,643
Available-for-sale investments	21	394,253	–
Derivative financial instruments	22	227,033	968
Loans and accounts receivables	23	60,156,452	48,641,068
Prepayments, deposits and other receivables	24	95,647	80,995
Deferred tax assets	25	904,331	583,953
Restricted deposits	26	123,694	87,752
Total non-current assets		64,916,043	51,467,969
CURRENT ASSETS			
Inventories	27	78,708	27,461
Construction contracts	28	82,339	53,951
Derivative financial instruments	22	63,244	–
Loans and accounts receivables	23	39,284,977	31,045,952
Prepayments, deposits and other receivables	24	2,152,852	868,686
Restricted deposits	26	830,111	375,377
Cash and cash equivalents	26	3,317,850	2,673,476
Total current assets		45,810,081	35,044,903
CURRENT LIABILITIES			
Trade and bills payables	29	3,489,071	2,299,346
Other payables and accruals	30	4,204,755	3,183,664
Derivative financial instruments	22	8,773	11,832
Interest-bearing bank and other borrowings	31	30,272,870	27,283,667
Deferred Revenue	32	7,577	–
Taxes payable		840,356	603,297
Total current liabilities		38,823,402	33,381,806
NET CURRENT ASSETS		6,986,679	1,663,097

Consolidated Statement of Financial Position

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		71,902,722	53,131,066
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	41,504,967	29,270,811
Derivative financial instruments	22	215,174	54,986
Deferred tax liabilities	25	137,556	124,482
Other payables and accruals	30	12,306,828	9,311,926
Deferred revenue	32	288,304	203,991
Total non-current liabilities		54,452,829	38,966,196
Net assets		17,449,893	14,164,870
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital: nominal value	33	–	27,570
Other statutory capital reserves		–	7,067,502
Share capital and other statutory capital reserves	33	6,683,751	7,095,072
Other reserves	36	9,429,201	7,030,270
		16,112,952	14,125,342
Holders of perpetual securities	37	1,258,170	–
Non-controlling interests		78,771	39,528
Total equity		17,449,893	14,164,870

Kong Fanxing
Director

Wong Mingzhe
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to ordinary shareholders of the parent													
	Share capital RMB'000 (Note 33)	Share premium account# RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Shares held for share award scheme RMB'000 (Note 35)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	27,570	7,067,502	2,403,345	–	–	671	121,913	–	(100,283)	4,604,624	14,125,342	–	39,528	14,164,870
Profit for the year	–	–	–	–	–	–	–	–	–	2,295,954	2,295,954	36,036	10,184	2,342,174
Other comprehensive income for the year														
Cash flow hedges, net of tax	–	–	–	–	–	–	–	411,106	–	–	411,106	–	–	411,106
Exchange differences on translation of financial statements into presentation currency	–	–	–	–	–	–	–	–	(599)	–	(599)	–	–	(599)
Total comprehensive income for the year	–	–	–	–	–	–	–	411,106	(599)	2,295,954	2,706,461	36,036	10,184	2,752,681
Effect of change in functional currency during the year	(1,798)	(409,523)	(306,786)	–	–	–	–	–	739,181	(21,074)	–	–	–	–
Transition to no-par value regime	6,657,979	(6,657,979)	–	–	–	–	–	–	–	–	–	–	–	–
Purchase of shares under share award scheme	–	–	–	(136,260)	–	–	–	–	–	–	(136,260)	–	–	(136,260)
Issue of senior perpetual securities (Note 37)	–	–	–	–	–	–	–	–	–	–	–	1,222,134	–	1,222,134
Final 2013 dividend declared (Note 12)	–	–	–	–	–	–	–	–	–	(600,849)	(600,849)	–	–	(600,849)

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to ordinary shareholders of the parent													
	Share capital RMB'000 (Note 33)	Share premium account# RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Shares held for share award scheme RMB'000 (Note 35)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
Recognition of equity settled share-based payments	–	–	–	–	17,994	–	–	–	–	–	17,994	–	–	17,994
Special reserve – safety fund appropriation	–	–	–	–	–	835	–	–	–	(835)	–	–	–	–
Special reserve – safety fund utilization	–	–	–	–	–	(441)	–	–	–	441	–	–	–	–
Capital injection by non-controlling shareholders	–	–	264	–	–	–	–	–	–	–	264	–	6,236	6,500
Purchase of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(150)	(150)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	28,216	28,216
Dividends paid to a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	–	(5,243)	(5,243)
At 31 December 2014	6,683,751	–	2,096,823*	(136,260)*	17,994*	1,065*	121,913*	411,106*	638,299*	6,278,261*	16,112,952	1,258,170	78,771	17,449,893

* These reserve accounts comprise the consolidated reserves of RMB9,429,201,000 (2013: RMB14,097,772,000) in the consolidated statement of financial position.

\# Included in other statutory capital reserves in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent									
	Share capital RMB'000 (Note 33)	Share premium account# RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Special reserve RMB'000 (Note 36)	Reserve funds RMB'000 (Note 36)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013	27,570	7,067,502	2,402,874	–	121,913	(70,642)	3,295,265	12,844,482	10,964	12,855,446
Profit for the year	–	–	–	–	–	–	1,912,744	1,912,744	3,329	1,916,073
Other comprehensive income for the year										
Exchange differences on translation of financial statements into presentation currency	–	–	–	–	–	(29,641)	–	(29,641)	–	(29,641)
Total comprehensive income for the year	–	–	–	–	–	(29,641)	1,912,744	1,883,103	3,329	1,886,432
Dividends	–	–	–	–	–	–	(602,714)	(602,714)	–	(602,714)
Special reserve – safety fund appropriation	–	–	–	671	–	–	(671)	–	–	–
Capital injection from non-controlling shareholders	–	–	–	–	–	–	–	–	24,500	24,500
Disposal of interest of a subsidiary without losing control	–	–	471	–	–	–	–	471	735	1,206
At 31 December 2013	27,570	7,067,502	2,403,345	671	121,913	(100,283)	4,604,624	14,125,342	39,528	14,164,870

\# Included in other statutory capital reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,211,200	2,600,741
Adjustments for:			
Finance costs and bank charges		3,461,692	2,489,801
Interest income		(51,981)	(34,675)
Share of profits of an associate		(13,511)	(7,893)
Share of profits of Joint Ventures		195	–
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value (gains)/losses, net	5	(20,772)	60,737
Realised fair value losses, net	7	37,611	18,404
Gain on structured financial products	5	(7,798)	(4,989)
Gain on disposal of property, plant and equipment, net		(198)	(19)
Depreciation	14	166,232	76,974
Provision for impairment of lease receivables	23	714,140	516,933
Provision for impairment of other assets		35,869	17,683
Amortisation of intangible assets and other assets	7	26,609	36,643
Equity settled share-based payment expenses		17,994	–
Foreign exchange (gain)/loss, net		88,977	(170,773)
Others		–	1,206
		7,666,259	5,600,773
(Increase)/Decrease in inventories		(49,176)	27,222
(Increase)/Decrease in construction contracts		(28,388)	26,528
Increase in loans and accounts receivable		(20,496,758)	(23,415,762)
Increase in prepayments, deposits and other receivables		(1,171,155)	(158,613)
Increase in amounts due from related parties		–	(74,149)
Increase in other assets		(5,070)	(24,922)
Increase in trade and bills payables		1,132,024	140,765
Increase in other payables and accrued liabilities		3,738,171	4,070,847
Increase in amounts due to related parties		–	11,992
Increase in other liabilities		112,789	128,284
Net cash flows used in operating activities before tax		(9,101,304)	(13,667,035)
Interest paid		(3,253,030)	(2,519,661)
Interest received		51,981	34,675
Income tax paid		(1,030,016)	(619,839)
Net cash flows used in operating activities		(13,332,369)	(16,771,860)

Consolidated Statement of Cash Flows

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Realised fair value losses from derivative financial instruments		–	(18,404)
Gain on structured financial products	5	7,798	4,989
Proceeds from disposal of property, plant and equipment		20,401	1,258
Purchase of a subsidiary	38	(48,197)	–
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(926,284)	(1,751,615)
Purchase of shareholding for an associate		–	(72,750)
Purchase of shareholding for Joint Ventures		(81,180)	–
(Increase)/Decrease in time deposits		(490,994)	112,000
Purchase of available-for-sale investments		(394,253)	–
Net cash flows used in investing activities		(1,912,709)	(1,724,522)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of perpetual securities		1,222,134	–
Capital injection from non-controlling shareholders		6,500	24,500
Purchase of non-controlling shareholders		(150)	–
Cash received from borrowings		78,696,702	80,558,048
Repayments of borrowings		(63,291,624)	(60,379,563)
Dividends paid		(600,795)	(602,714)
Decrease in pledged deposits and time deposits		318	100,851
Cash paid for interests		(14,667)	–
Dividend paid to non-controlling shareholders		(5,243)	–
Realised fair value losses from derivative financial instruments	7	(37,611)	–
Purchase of shares held for share award scheme		(136,260)	–
Cash paid for other financing activities		(24,694)	(26,332)
Net cash flows from financing activities		15,814,610	19,674,790
NET INCREASE IN CASH AND CASH EQUIVALENTS		569,532	1,178,408
Cash and cash equivalents at beginning of year		2,673,476	1,502,698
Effect of exchange rate changes on cash and cash equivalents		74,842	(7,630)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,317,850	2,673,476

Statement of Financial Position

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	64	29
Investments in subsidiaries	18	9,345,504	8,727,502
Deferred tax assets		6,382	–
Loans and accounts receivables	23	26,901,264	18,273,422
Derivative financial instruments	22	215,027	–
Total non-current assets		36,468,241	27,000,953
CURRENT ASSETS			
Loans and accounts receivables	23	2,128,933	2,259,387
Prepayments, deposits and other receivables	24	629,179	230,932
Dividend receivable from subsidiaries		777,506	608,760
Cash and cash equivalents	26	1,040,058	143,632
Derivative financial instruments	22	63,244	–
Total current assets		4,638,920	3,242,711
CURRENT LIABILITIES			
Trade and bills payables	29	2,553	1,957
Other payables and accruals	30	437,237	245,329
Derivative financial instruments	22	8,773	11,832
Tax payable		(4,073)	–
Interest-bearing bank and other borrowings	31	6,967,086	5,519,343
Total current liabilities		7,411,576	5,778,461
NET CURRENT LIABILITIES		(2,772,656)	(2,535,750)
TOTAL ASSETS LESS CURRENT LIABILITIES		33,695,585	24,465,203
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	21,955,135	14,471,349
Derivative financial instruments	22	215,174	54,986
Other payables and accruals	30	3,157	10,446
Deferred tax liabilities		81,237	41,456
Total non-current liabilities		22,254,703	14,578,237
Net assets		11,440,882	9,886,966
EQUITY			
Share capital: nominal value	33	–	27,570
Other statutory capital reserves	33	–	7,067,502
Share capital and other statutory capital reserves		6,683,751	7,095,072
Other reserves	36	3,498,961	2,791,894
Holders of perpetual securities		1,258,170	–
Total equity		11,440,882	9,886,966

Kong Fanxing
Director

Wang Mingzhe
Director

Notes to Financial Statements

31 December 2014

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 the provision of finance to its customers by 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").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Company Ordinance relating to the preparation of financial statements, which of this financial year and the comparative period continue to be those of the predecessor Company Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Company Ordinance (Cap. 622), "Accounts and Audit", which are set out in section 76 to 87 of Schedule of 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'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 comprising the Group on 13 March 2009. The Company was listed on the Stock Exchange on 30 March 2011.

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 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

Notes to Financial Statements

31 December 2014

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Adoption of new and revised accounting standards and interpretation

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) – Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of effective HKFRSs*

1 Effective from 1 July 2014

The adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

Notes to Financial Statements

31 December 2014

2.3 CHANGE IN FUNCTIONAL CURRENCY

In prior years, the Company regarded US dollar ("US$") as its functional currency. However, as a result of the Company's development in recent years, the Company's business transactions in terms of operations have increasingly placed greater reliance on Renminbi ("RMB"). As a result, effective from 1 January 2014, the Company has changed its functional currency from US$ to RMB. RMB have also been adopted as the presentation currency of the Group's and the Company's financial statements.

The change in functional currency of the Company was applied prospectively from date of change when all items were translated into RMB at the exchange rate on that date.

2.4 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANY ORDINANCE NOT YET ADOPTED

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

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 And HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010 –2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011 –2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012 –2014 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

2.4 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANY ORDINANCE NOT YET ADOPTED (continued)

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) will come into operation as from the Company's first financial year commencing after 3 March 2014 in accordance with section 358 of that Ordinance, which will be the year ending 31 December 2015. The Group is in the process of making an assessment of the expected impact of the changes in the period of initial application of Part 9 of the Ordinance. So far it has concluded that the impact is unlikely to be significant and will primarily affect the presentation and disclosure of information in the consolidated financial statements.

Further information about those HKFRSs that may significantly affect the consolidated financial statements of Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss 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.

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The results of associates are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 September. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

Fair value measurement

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

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

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

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is 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 statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2014

2.5 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).

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Category	Annual depreciation rate
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.

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

Vessels under construction are stated at cost less accumulated impairment losses. Cost of vessel under construction includes all direct costs relating to the construction and acquisition of vessels incurred by the Group. No depreciation is provided for vessels under construction until such time as the relevant vessels are completed and ready for intended use. Vessels under construction are transferred to container vessels upon the completion of the construction.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and accounts 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 statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

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

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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.

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 statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

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

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

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 other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

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

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

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. 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.

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 statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate or return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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

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

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, 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.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, 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.

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.

Notes to Financial Statements

31 December 2014

2.5 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 profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for cash flow hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

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

(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.

Treasury shares

Own equity instruments which are required (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instrument. Any difference between the carrying amount and the consideration is recognised in equity.

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.

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.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

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.

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.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 or is deducted in reporting the related expense.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease;

(b) from rendering of services, where 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;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

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.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in Note 34 and Note 35 to the financial statements.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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 statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Notes to Financial Statements

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 statement of profit or loss when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions even if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

Contributions to these plans are recognised in the statement of profit or loss as incurred.

Foreign currencies

These financial statements are presented in RMB, 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 statement of profit or loss.

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries whose functional currency is other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with functional currency other than RMB which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the 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 goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use required the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the goodwill at 31 December 2014 was RMB64,164,000. Further details are given in Note 16.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal 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 and liabilities

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. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and liabilities and income tax charge in the period in which such estimate has been changed.

Notes to Financial Statements

31 December 2014

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 receivable portfolio by classifying the lease receivables using the 5-category classification system by referring to guidelines promulgated by the China Banking Regulatory Commission relating to asset quality for financial institutions under its regulation. Based on the guidelines, lease receivables classified in the first two categories of the five categories, i.e., Pass and Special Mention 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 three 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 made.

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.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including volatility, expected exercise behaviour and dividend yield, etc, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 34 and Note 35.

Judgements

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

Classification between finance leasing and operating leasing

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

Notes to Financial Statements

31 December 2014

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between finance leasing and operating leasing (continued)

Situations that would normally lead to a lease being classified as a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

4. OPERATING SEGMENT INFORMATION

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

- The leasing factoring and advisory business comprises (a) direct finance leasing; (b) sale-leaseback; (c) factoring; and (d) advisory services.
- The industrial operation 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; (d) operating leasing; and (e) hospital and healthcare management.

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.

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

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

Year ended 31 December 2014	Leasing, factoring and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	9,053,889	1,006,828	–	10,060,717
Intersegment sales	59,257	6,086	(65,343)	–
Cost of sales	(3,427,730)	(683,948)	5,131	(4,106,547)
Other income and gains	521,524	7,296	(5,131)	523,689
Selling and distribution costs and administrative expenses	(2,852,984)	(169,010)	6,086	(3,015,908)
Other expenses	(248,460)	(940)	–	(249,400)
Finance costs	–	(73,924)	59,257	(14,667)
Share of profits and losses of an associate	–	13,511	–	13,511
Share of profits and losses of joint ventures	(97)	(98)	–	(195)
Profit before tax	3,105,399	105,801	–	3,211,200
Income tax expense	(851,588)	(17,438)	–	(869,026)
Profit after tax	2,253,811	88,363	–	2,342,174
Segment assets	111,030,781	3,829,928	(4,134,585)	110,726,124
Segment liabilities	(93,792,884)	(3,187,206)	3,703,859	(93,276,231)
Other segment information:				
Impairment losses recognised in the statement of profit or loss	739,811	10,198	–	750,009
Depreciation and amortisation	55,398	137,443	–	192,841
Capital expenditure	4,156	59,670	–	63,826

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31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2013	Leasing, factoring and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	7,335,416	532,966	–	7,868,382
Intersegment sales	29,844	1,829	(31,673)	–
Cost of sales	(2,465,984)	(425,309)	1,108	(2,890,185)
Other income and gains	268,636	50,650	(1,108)	318,178
Selling and distribution costs and administrative expenses	(2,332,175)	(90,706)	3,596	(2,419,285)
Other expenses	(282,331)	(641)	–	(282,972)
Finance costs	–	(29,347)	28,077	(1,270)
Share of profits and losses of an associate	–	7,893	–	7,893
Profit before tax	2,553,406	47,335	–	2,600,741
Income tax expense	(676,547)	(8,121)	–	(684,668)
Profit after tax	1,876,859	39,214	–	1,916,073
Segment assets	86,387,589	1,642,959	(1,517,676)	86,512,872
Segment liabilities	(72,327,706)	(1,098,810)	1,078,514	(72,348,002)
Other segment information:				
Impairment losses recognised in the statement of profit or loss	529,425	5,191	–	534,616
Depreciation and amortisation	66,968	46,649	–	113,617
Capital expenditure	1,668	57,819	–	59,487

Notes to Financial Statements

31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2014 RMB'000	2013 RMB'000
Mainland China	9,908,385	7,817,454
Hong Kong	94,145	24,942
Other countries or regions	58,187	25,986
	10,060,717	7,868,382

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

(b) Non-current assets

	2014 RMB'000	2013 RMB'000
Mainland China	2,832,488	2,046,377
Hong Kong	182,145	26,856
	3,014,633	2,073,233

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

Information about a major customer

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

Notes to Financial Statements

31 December 2014

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 value-added tax or business tax, during the year.

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

	Note	2014 RMB'000	2013 RMB'000
Revenue			
Finance lease income		6,283,269	5,117,713
Service fee income		2,709,366	2,245,431
Factoring income		174,479	52,685
Sale of goods		135,931	171,040
Chartering and brokerage income		322,538	191,198
Construction contract revenue		85,639	26,166
Operating lease income		390,090	176,854
Healthcare service income		60,458	–
Other income		15,303	8,542
Business tax and surcharges		(116,356)	(121,247)
		10,060,717	7,868,382
Other income and gains			
Bank interest income		51,981	34,675
Foreign exchange gain		–	157,522
Gain on structured financial products		7,798	4,989
Fair value gain:			
Derivative instruments – transaction not qualifying as hedges		20,772	–
Gain on disposal of property, plant, and equipment		1,225	–
Government grants	5a	326,187	77,636
Tax benefits from intra-group borrowings		85,483	39,719
Gain on disposal of lease receivables		15,638	–
Others		14,605	3,637
		523,689	318,178

Notes to Financial Statements

31 December 2014

5. REVENUE, OTHER INCOME AND GAINS (continued)

5a. Government grants

		2014 RMB'000	2013 RMB'000
Transitional financial support for implementing VAT reform	(i)	309,532	32,863
Value Added Tax ("VAT") refund	(ii)	–	40,292
Government special subsidy		16,655	4,481
		326,187	77,636

(i) According to the *Notice of the Shanghai Municipal Finance Bureau, the Shanghai Municipal Office of the State Administration of Taxation and the Shanghai Local Taxation Bureau on Implementing the Transitional Financial Support Policies for the Pilot Program of Levying Value-added Tax in Lieu of Business Tax* (Shanghai Caishui [2012] No.5) which became effective on 1 January 2012, during the implementation of the pilot program of levying VAT in lieu of BT in Shanghai municipality, transition financial support shall be provided from 1 January 2012 for enterprises covered by such program whose tax burdens have increased as a result of the adoption of the new tax system. International Far Eastern Leasing Co., Ltd. ("Far Eastern Leasing") received transitional financial support of RMB309,532,000 for the increased tax burden in 2014 (2013: RMB32,863,000).

(ii) According to *Circular of the China Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") on Carrying out the Pilot Collection of VAT in Lieu of Business Tax ("BT") to be imposed on Transportation Industry and Part of Modern Services Industry in Shanghai* (Caishui [2011] No. 111) effective from 1 January 2012, all entities and individuals which provide transportation services and part of modern services (hereinafter, the "taxable services") within PRC territory are VAT payers. In connection with their taxable services, such taxpayers shall stop paying BT and instead pay VAT from 1 January 2012. Besides, in order to ensure the steady convergence with the preferential BT policies originally applicable to the pilot taxpayers after the implementation of Caishui [2011] No. 111, some VAT preferential policies for pilot taxpayers during implementation of the pilot change are stipulated:

For finance lease services of corporeal movables provided by general taxpayers who are pilot taxpayers that engage in financial lease with approval from the People's Bank of China, Chinese Banking Regulatory Commission or the Ministry of Commerce, the policy of VAT refund upon collection shall be applicable to the portion of actual VAT burden in excess of the rate of 3%. In accordance with the further clarification about Caishui [2011] No. 111 made by Shanghai tax bureau, the actual VAT burden is the proportion of the amount of VAT actually paid by the tax payer in the current period to the total price and other fees obtained by the tax payer for providing the taxable service after deduction of the actual costs of leased goods.

Notes to Financial Statements

31 December 2014

5. REVENUE, OTHER INCOME AND GAINS (continued)

5a. Government grants (continued)

(ii) (continued)

According to *Supplementary Circular of the MOF and the SAT on Several Tax Policies on the Taxable Scope for the Pilot Collection of VAT in Lieu of BT in Transportation Industry and Some Modern Service Industry* (Cai Shui [2012] No. 86), effective from 1 December 2012, the actual VAT burden under Cai Shui [2011] No. 111 shall mean the proportion of the amount of VAT actually paid by the tax payer in the current period to the total price and other fees obtained by the tax payer for providing the taxable service. That is, the "actual costs of leased goods" cannot be deducted for calculating the actual VAT burden and VAT refund thereafter.

Pursuant to above regulations, International Far Eastern Leasing started to pay VAT in Lieu of BT for the incomes of finance leases and consultation services from 1 January 2012 and did not receive any VAT refund of in 2014 (2013: received RMB40,292,000).

6. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank loans repayable within five years	14,667	1,270

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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/(crediting):

	2014 RMB'000	2013 RMB'000
Cost of borrowings included in cost of sales	3,422,599	2,464,876
Cost of inventories sold	130,520	161,371
Cost of construction contracts	56,299	23,996
Cost of operating leasing	176,591	79,170
Cost of chartering	282,360	158,502
Cost of healthcare service	32,144	–
Cost of others	6,034	2,270
Depreciation	33,556	32,466
Amortisation of intangible assets and other assets:		
Current year expenditure	32,433	37,632
Less: Government grants released*	(5,824)	(989)
	26,609	36,643
Rental expenses	96,749	82,577
Auditors' remuneration		
– audit services	3,050	2,900
– other services	1,211	860

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7. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (continued)

	2014 RMB'000	2013 RMB'000
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries	1,338,101	1,126,792
– Equity-settled share-based payment expense	17,994	–
– Pension scheme contributions	65,679	55,054
– Other employee benefits	189,744	149,702
Impairment of loans and accounts receivable (Note 23)	750,009	534,616
Entertainment expenses	66,786	50,889
Business travelling expenses	174,906	143,982
Consultancy fees:		
Current year expenditure	35,950	79,381
Less: Government grants released*	–	(31,008)
	35,950	48,373
Office expenses:		
Current year expenditure	50,511	39,489
Less: Government grants released*	(3,949)	–
	46,562	39,489
Advertising and promotional expenses	4,451	1,931
Transportation expenses	11,032	12,431
Communication expenses	15,812	13,909
Other miscellaneous expenses:		
Current year expenditure	141,297	114,889
Less: Government grants released*	(22,486)	(37,321)
	118,811	77,568
Litigation expense	18,896	9,103
Loss on disposal of property, plant and equipment	1,028	268
Donation	4,013	2,030
Bank commission expenses	64,436	53,186
VAT and its surcharges on principal of leaseback business	–	148,305
Foreign exchange (gains)/losses, net		
Cash flow hedges (transfer from equity to foreign exchange losses):	360,035	–
Others	(271,058)	–
Derivative instruments – transaction not qualifying as hedges	37,611	79,141
Loss on disposal of lease receivables	52,175	–
Other expenditure	1,160	42

7. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (continued)

* Government grants have been received by a subsidiary of the Company from local government for improvement of technology, staff training etc. The government grants released have been deducted from the expenses to which they related. Government grants received for which related expenditure has not yet been undertaken are included in deferred revenue in the statement of financial position (Note 32).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

Group

	2014 RMB'000	2013 RMB'000
Fees	1,986	2,352
Other emoluments:		
Salaries, allowances and benefits in kind	5,842	3,281
Performance related bonuses*	3,100	5,600
Pension scheme contributions	604	386
	9,546	9,267
	11,532	11,619

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

During 2014, certain directors were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 34 and Note 35 to the financial statements.

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

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

	2014 RMB'000	2013 RMB'000
Mr Cai Cunqiang	–	336
Mr Han Xiaojing	331	336
Mr Liu Jialin	331	336
Mr Yip Wai Ming	331	336
	993	1,344

(b) Non-executive directors

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

	2014 RMB'000	2013 RMB'000
Mr Liu Deshu	–	–
Mr Yang Lin	–	–
Mr Liu Haifeng	331	336
Mr Luo Qiang	331	336
Mr Guo Mingjian	331	336
	993	1,008

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(c) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2014					
Executive directors:					
Mr. Kong Fanxing	–	3,739	1,800	383	5,922
Mr. Wang Mingzhe	–	2,103	1,300	221	3,624
	–	5,842	3,100	604	9,546
Year ended 31 December 2013					
Executive directors:					
Mr. Kong Fanxing	–	1,909	3,600	225	5,734
Mr. Wang Mingzhe	–	1,372	2,000	161	3,533
	–	3,281	5,600	386	9,267

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 2014	2013
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 (2013: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2013: three) non-directors, highest paid employees for the year are as follows:

Group

	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	5,761	3,986
Performance related bonuses	3,550	5,500
Pension scheme contributions	580	450
	9,891	9,936

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

	Number of employees	
	2014	2013
HK$3,500,001 to HK$4,000,000 (Equivalent to RMB2,794,891 to RMB3,194,160)	1	1
HK$4,000,001 to HK$4,500,000 (Equivalent to RMB3,194,161 to RMB3,593,430)	1	1
HK$4,500,001 to HK$5,000,000 (Equivalent to RMB3,593,431 to RMB3,992,700)	1	1
	3	3

During 2014, certain highest-paid employees were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 34 and Note 35 to the financial statements.

Far Eastern Leasing adopted a collective economic-gain bonus scheme (the "Scheme") in September 2014. According to the Scheme, Far Eastern Leasing paid a portion of employee bonus to a separate fund (the "Employees' Collectively Owned Funds"). The Employees' Collectively Owned Funds are collectively owned by employees participating the Scheme until distributed to individual employees. A committee (the "Committee"), elected by the general meeting of employee representatives, is established to be in charge of the management, operation of the Scheme and the determination and distribution of the Employees' Collectively Owned Funds to all individual participating employees. In the view of the directors, the Employees' Collectively Owned Funds are not property of the Company or any of its subsidiaries, and the Group has no rights and obligations in respect of the management and operation of the Employees' Collectively Owned Funds. The Company have not been notified any distribution of Employees' Collectively Owned Funds to individual employees. As of 31 December 2014, the above information of five highest paid employees has not taken into their potential entitlement under the Scheme.

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10. INCOME TAX

	2014 RMB'000	2013 RMB'000
Current – Hong Kong		
Charge for the year	139,050	45,861
Overprovision in prior years	–	(1,183)
Current – Mainland China		
Charge for the year	1,086,484	927,613
Overprovision in prior years	–	(87)
Deferred tax (Note 25)	(356,508)	(287,536)
Total tax charge for the year	869,026	684,668

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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 were 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 the applicable CIT rate of 25% from 2012 onwards.

On 18 November 2012, Domin Medical Engineering was recognised as a high-technology enterprise by Shanghai Science and Technology Commission. Since then, Domin Medical Engineering has enjoyed a preferential tax rate of 15%.

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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:

	2014 RMB'000	2013 RMB'000
Profit before tax	3,211,200	2,600,741
Tax at the statutory income tax rates	805,825	632,591
Lower tax rate for enacted by local authority	(120)	2,106
Expenses not deductible for tax	69,711	31,336
Income not subject to tax	(80,117)	(44,260)
Adjustment to current income tax in respect of prior years	(10)	(1,270)
Utilisation of previously unrecognised tax losses	(12,763)	(7,858)
Unrecognised tax losses	2,349	7,375
Effect of recognition of deductible temporary differences that were not recognized in prior years	(30)	–
Effect of recognition of deferred tax arising merger accounting under non-common control	(176)	–
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	(12,000)	22,911
Effect of withholding tax on interest on intra-group balances	96,357	41,737
Income tax expense as reported in the consolidated statement of profit or loss	869,026	684,668

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a profit of RMB603,755,000(2013: RMB604,584,000) which has been dealt with in the financial statements of the Company (Note 36(b)).

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12. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Proposed final dividend – HK$0.23 (2013: HK$0.23) per ordinary share	592,755	595,374

A final dividend for the year 2014 of HK$0.23 per share was proposed at the meeting of the Board of Directors held on 25 March 2015. Based on the total number of outstanding ordinary shares of 3,266,944,000 (excluding the 25,456,000 shares held for share award scheme (note 35)), the proposed final dividend amounted to approximately HK$751,397,000 (equivalent to RMB592,755,000). 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 2014 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 of 3,287,307,315 in issue for the year.

The calculation of basic earnings per share for the year ended 31 December 2013 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 of 3,292,400,000 in issue for the year.

The calculation of basic earnings per share is based on:

Earnings

	2014 RMB'000	2013 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	2,295,954	1,912,744

Shares

	Number of shares 2014	 2013
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	3,287,307,315	3,292,400,000

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13. EARNINGS PER SHARE (continued)

In the year ended 31 December 2014, the Share Option Scheme (Note 34) and the Restricted Share Award Scheme (Note 35) has no dilutive effect on earnings per share yet. The Group had no other potentially dilutive ordinary shares in issue. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2014

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Vessel under construction RMB'000	Total RMB'000
At 31 December 2013 and at 1 January 2014:							
Cost	45,009	23,105	916,770	56,612	16,554	26,826	1,084,876
Accumulated depreciation	(28,332)	(2,393)	(48,774)	(34,166)	(7,158)	–	(120,823)
Net carrying amount	16,677	20,712	867,996	22,446	9,396	26,826	964,053
At 1 January 2014, net of accumulated depreciation	16,677	20,712	867,996	22,446	9,396	26,826	964,053
Acquisition of a subsidiary	–	86,766	8,774	250	96	–	95,886
Additions	34,118	38,164	599,157	96,664	7,380	105,029	880,512
Depreciation provided during the year	(47,603)	(5,858)	(96,116)	(11,700)	(3,967)	(988)	(166,232)
Disposal	–	(974)	(35,908)	(3,707)	(461)	–	(41,050)
Exchange realignment	–	–	–	–	–	–	–
At 31 December 2014, net of accumulated depreciation	3,192	138,810	1,343,903	103,953	12,444	130,867	1,733,169
At 31 December 2014:							
Cost	50,878	163,733	1,456,755	140,948	25,401	137,025	1,974,740
Accumulated depreciation	(47,686)	(24,923)	(112,852)	(36,995)	(12,957)	(6,158)	(241,571)
Net carrying amount	3,192	138,810	1,343,903	103,953	12,444	130,867	1,733,169

Notes to Financial Statements

31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

31 December 2013

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Vessel under construction RMB'000	Total RMB'000
At 31 December 2012 and at 1 January 2013:							
Cost	32,127	19,379	299,635	56,770	10,620	–	418,531
Accumulated depreciation	(13,265)	(1,455)	(14,740)	(28,886)	(4,715)	–	(63,061)
Net carrying amount	18,862	17,924	284,895	27,884	5,905	–	355,470
At 1 January 2013, net of accumulated depreciation	18,862	17,924	284,895	27,884	5,905	–	355,470
Additions	13,129	3,726	628,474	7,911	6,731	26,826	686,797
Depreciation provided during the year	(15,314)	(938)	(44,570)	(12,984)	(3,168)	–	(76,974)
Disposal	–	–	(803)	(364)	(72)	–	(1,239)
Exchange realignment	–	–	–	(1)	–	–	(1)
At 31 December 2013, net of accumulated depreciation	16,677	20,712	867,996	22,446	9,396	26,826	964,053
At 31 December 2013:							
Cost	45,009	23,105	916,770	56,612	16,554	26,826	1,084,876
Accumulated depreciation	(28,332)	(2,393)	(48,774)	(34,166)	(7,158)	–	(120,823)
Net carrying amount	16,677	20,712	867,996	22,446	9,396	26,826	964,053

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December 2014

	Leasehold improvements RMB'000	Office equipment and computers RMB'000	Total RMB'000
31 December 2013 at 1 January 2014:			
Cost	50	84	134
Accumulated depreciation	(50)	(52)	(102)
Exchange realignment	–	(3)	(3)
Net carrying amount	–	29	29
At 1 January 2014, net of accumulated depreciation	–	29	29
Additions	–	65	65
Depreciation provided during the year	–	(30)	(30)
Disposal	–	–	–
Exchange realignment	–	–	–
At 31 December 2014, net of accumulated depreciation	–	64	64
31 December 2014:			
Cost	50	149	199
Accumulated depreciation	(50)	(82)	(132)
Exchange realignment	–	(3)	(3)
Net carrying amount	–	64	64

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December 2013

	Leasehold improvements RMB'000	Office equipment and computers RMB'000	Total RMB'000
31 December 2012 at 1 January 2013:			
Cost	52	84	136
Accumulated depreciation	(47)	(32)	(79)
Net carrying amount	5	52	57
At 1 January 2013, net of accumulated depreciation	5	52	57
Additions	–	–	–
Depreciation provided during the year	(5)	(22)	(27)
Disposal	–	–	–
Exchange realignment	–	(1)	(1)
At 31 December 2013, net of accumulated depreciation	–	29	29
31 December 2013:			
Cost	50	84	134
Accumulated depreciation	(50)	(52)	(102)
Exchange realignment	–	(3)	(3)
Net carrying amount	–	29	29

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15. PREPAID LAND LEASE PAYMENTS

	2014 RMB'000	2013 RMB'000
Cost:		
At the beginning of the year	987,716	–
Additions	35,344	987,716
At the end of the year	1,023,060	987,716
Accumulated amortisation:		
At the beginning of the year	(13,869)	–
Addition	(21,313)	(13,869)
At the end of the year	(35,182)	(13,869)
Net carrying amount:		
At the end of the year	987,878	973,847
At the beginning of the year	973,847	–

The Group's leasehold lands are located in the Mainland China, and are held on leases of period ranging from 30 to 50 years. The amortisation of leasehold land has been charged to "administrative expenses".

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16. GOODWILL

Group

	RMB'000
At 1 January 2013:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2013, net of accumulated impairment	–
Impairment during the year	–
At 31 December 2013	–
At 31 December 2013:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2014, net of accumulated impairment	–
Acquisition of a subsidiary (Note 38)	64,164
Impairment during the year	–
Cost and net carrying amount at 31 December 2014	64,164
At 31 December 2014:	
Cost	64,164
Accumulated impairment	–
Net carrying amount	64,164

Goodwill through business combination is allocated to medical service cash-generating unit for impairment testing.

Notes to Financial Statements

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16. GOODWILL (continued)

The recoverable amount of medical service cash-generating unit has been determinded based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projection was 15%.

Assumptions were used in the value in use calculation of the medical service cash-generating unit for 31 December 2014. The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill.

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

Discount rate – the discount rate used is before tax and reflect specific risks relating to the unit.

The values assigned to the key assumptions on market development of medical industry, discount rate are consistent with external information sources.

17. OTHER ASSETS

Group

	2014 RMB'000	2013 RMB'000
Software (Note 17a)	23,870	18,226
Other assets	30,413	36,464
	54,283	54,690

Notes to Financial Statements

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17. OTHER ASSETS (continued)

17a. SOFTWARE

Group

	2014 RMB'000	2013 RMB'000
Cost:		
At the beginning of the year	35,396	20,511
Acquisition of a subsidiary	8,723	–
Additions	21,509	14,886
Disposals	–	–
Exchange differences	–	(1)
At the end of the year	65,628	35,396
Accumulated amortisation:		
At the beginning of the year	(17,170)	(12,698)
Acquisition of a subsidiary	(18,408)	–
Additions	(6,180)	(4,472)
Disposals	–	–
Exchange differences	–	–
At the end of the year	(41,758)	(17,170)
Net carrying amount:		
At the end of the year	23,870	18,226
At the beginning of the year	18,226	7,813

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18. INVESTMENTS IN SUBSIDIARIES

Company

	2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	9,345,504	8,727,502

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	Percentage of equity attributable to the Company Indirect	Principal activities
International Far Eastern Leasing Co. Ltd. (遠東國際租賃有限公司) (Note ii)	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	RMB430,000,000	–	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 Equipment & Engineering Co., Ltd. (上海宏信設備工程有限公司) (Note ii)	PRC/Mainland China 13 July 2011	RMB210,526,316	–	97.03	Operating leasing
Far East Horizon Mingrui (Shanghai) Ship 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 Dopont Industrial 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 Shipping Consulting Limited (遠東宏信祥瑞航運經紀(上海)有限公司) (Note ii)	PRC/Mainland China 5 September 2012	HK$15,000,000	–	100	Shipping brokerage
Tianjin Horizon Equipment Rental Co., Ltd. (天津宏信設備租賃有限公司) (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) (Note i)	Hong Kong 23 June 2011	HK$1	100	–	Trading
Far East Horizon Shipping Holdings Co., Ltd (遠東宏信航運控股有限公司) (Note i)	Cayman Islands 2 October 2009	US$1,000	100	–	Investment holding
Far East Healthcare Holding Limited (遠東醫療控股有限公司) (Note i)	Hong Kong 30 August 2012	HK$10,000,000	100	–	Investment holding

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18. INVESTMENTS IN SUBSIDIARIES

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		Principal activities
			Direct	Indirect	
Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司) (Note ii)	PRC/Mainland China 26 April 2013	RMB100,000,000	–	100	Investment holding
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司) (Note ii)	PRC/Mainland China 2 August 2013	RMB380,000,000/ RMB50,000,000	–	55	Operating leasing
Shanghai Doyi Industrial Co., Ltd. (上海德藝實業發展有限公司) (Note ii)	RPC/Mainland China 12 July 2013	RMB5,000,000	–	52.99	Manufacturing and trading
Shenyang Domin Medical Engineering Co. Ltd. (瀋陽德明醫用設備安裝有限公司) (Note ii)	PRC/Mainland China 7 June 2013	RMB8,000,000	–	88.31	Installation and engineering
Huakang Orthopaedics Hospital (惠州華康骨傷醫院有限公司) (Note ii)	PRC/Mainland China 20 Feb 2004	RMB200,000,000/ RMB35,130,000	–	70	Medical service
Horizon Education Investment Holding (Shanghai) Co., Ltd. (上海宏信教育投資控股有限公司) (Note ii)	PRC/Mainland China 17 July 2014	RMB100,000,000	–	100	Investment holding
Shanghai Horizon Construction Development Co., Ltd. (上海宏信建設發展有限公司) (Note ii)	PRC/Mainland China 14 April 2014	RMB400,000,000/ RMB240,000,000	–	100	Construction
Shanghai Rongshi Management Consulting Center (Limited Partnership) (上海榮實管理諮詢中心(有限合伙)) (Note ii)	PRC/Mainland China 11 June 2014	RMB10,680,000	–	40.45	Investment holding
Shanghai Tianxiang Investment Management Co.,Ltd. (上海添祥投資管理有限公司) (Note ii)	PRC/Mainland China 22 May 2014	RMB100,000/ RMB11,000	–	100	Investment holding
Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信(天津)融資租賃有限公司) (Note ii)	PRC/Mainland China 10 Dec 2013	RMB1,000,000,000	60	40	Finance leasing
Grand Flight Investment Management Ltd (宏翔投資管理有限公司) (Note i)	The British Virgin Islands, B.V.I 12 August 2014	US$1	–	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

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19. INVESTMENTS IN JOINT VENTURES

	Group 2014 RMB'000	Group 2013 RMB'000
Share of net assets	80,985	–

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shanghai Dongling investment, LLP (上海東翎投資合伙企業(有限合伙)) ("Dongling")	capital of RMB55,717,310	PRC/Mainland China	49.2	33.3*	49.2	Investment holding
Shanghai Dongsong investment, LLP (上海東松投資合伙企業(有限合伙)) ("Dongsong")	capital of RMB200,010,000	PRC/Mainland China	13.3	25^	13.3^	Investment holding
Weihai Haida hopital Co., Ltd (威海海大醫院有限公司) ("Haida")	Registered capital of RMB4,000,000	PRC/Mainland China	50	50	50	Medical Service

* The joint venture is held by a subdiary of the Company together with the other two independent partners sharing the equal voting power.

^ The joint venture is held by a subdiary of the Company together with the other three independent partners sharing the equal voting power, and the Group held a Subordinated Unit investment in the joint venture by 13.3%.

The Group's trade receivable balances due from the joint ventures are disclosed in Note 30 to the financial statements.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2014 RMB'000	2013 RMB'000
Share of the joint venture's loss for the year	(195)	–
Aggregate carrying amount of the Group's investments in the joint ventures	80,985	–

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20. INVESTMENTS IN AN ASSOCIATE

	Group	
	2014	2013
	RMB'000	RMB'000
Share of net assets	94,154	80,643

The Group holds 4.9% equity interest in an associate engaged in the manufacture and sale of moulds as at 31 December 2014. As at September 2013, the Group acquired the associate at the cash consideration of RMB72,750,000, which was approximately equal to 4.9% of the fair value of the net assets of the associate. Although the Group holds less than 20% of the voting power of the associate, the Group has the power to exercise significant influence over this company as it has board representation and participates in key operating, financial and investing decisions at the company.

The financial statements of the associate for the year ended 31 December 2014 were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's shareholdings in the associate is held through a wholly-owned subsidiary of the Company.

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2014	2013
	RMB'000	RMB'000
Unlisted equity investments, at cost	394,253	–

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets.

As at 31 December 2014, unlisted equity investments with a carrying amount of RMB394,253,000 (2013: Nil) were stated at cost because the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

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22. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2014		2013	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross-currency interest rate swaps	204,770	(56,978)	–	(66,818)
Forward currency contracts	73,501	(166,969)	–	–
Call options	12,006	–	968	–
	290,277	(223,947)	968	(66,818)
Portion classified as non-current:				
Cross-currency interest rate swaps	145,166	(48,280)	–	(54,986)
Forward currency contracts	69,861	(166,894)	–	–
Call options	12,006	–	968	–
	227,033	(215,174)	968	(54,986)
Current portion	63,244	(8,773)	–	(11,832)
	290,277	(223,947)	968	(66,818)

Company

	2014		2013	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross-currency interest rate swaps	204,770	(56,978)	–	(66,818)
Forward currency contracts	73,501	(166,969)	–	–
	278,271	(223,947)	–	(66,818)
Portion classified as non-current:				
Cross-currency interest rate swaps	145,166	(48,280)	–	(54,986)
Forward currency contracts	69,861	(166,894)	–	–
	215,027	(215,174)	–	(54,986)
Current portion	63,244	(8,773)	–	(11,832)
	278,271	(223,947)	–	(66,818)

During the year, the Group designated 21 (2013: nil) cross-currency interest rate swap contracts and 29 (2013: nil) forward currency contracts designated as hedges in respect of future repayments of borrowings which will be settled in US Dollar, Singapore Dollar, Japanese Yen or Australian Dollar, and some of which bear floating interest rate.

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22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The terms of the cross-currency interest rate swap contracts and forward currency contracts substantially match the terms of the borrowing contracts. The cash flow hedges relating to expected future repayments were assessed to be highly effective and a net gain of RMB411,106,000 was included in the hedging reserve as follows:

	2014 RMB'000
Total fair value gains included in the hedging reserve	111,377
Deferred tax impact on fair value gains	(18,378)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	380,966
Deferred tax on reclassifications to profit or loss	(62,859)
Net gains included in hedging reserve	411,106

(a) As at 31 December 2014, the Group has entered into 11 (2013: 10) cross-currency interest rate swap contracts and 3 (2013: nil) forward currency contracts to manage its exchange rate exposures and interest rate exposures which were not designed for hedge accounting. Fair value gains of non-hedging financial derivatives amounting to RMB9,735,000 (2013: Fair value loss, RMB60,737,000) were credited to the statement of profit or loss during the year.

(b) Cross-currency interest rate swaps, with a total net fair value of RMB204,770,000 (2013: nil) as of 31 December 2014, were designated as hedging instruments in cash flow hedges of cash flow interest rate risks and currency risks arising from floating rate loans (with remaining maturity from 1 years to 3 years) denominated in US$ and other foreign currencies. Forward currency contracts, with total negative net fair value of RMB93,393,000 (2013: nil) as of 31 December 2014, were designated as hedging instruments in cash flow hedges of currency risks arising from loans (with remaining maturity from 1 year to 5 years) denominated in US$ and other foreign currencies.

(c) In September 2014, the Group entered into a call option agreement (the "Agreement") with a target company registered in PRC ("Target Company"). According to the Agreement, the Group shall have the right to purchase certain percentage of shares of the Target Company at any time between the date of signing the Agreement and 2.8 years from the date of offer of the share options or a qualified IPO defined in the Agreement, if earlier.

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23. LOANS AND ACCOUNTS RECEIVABLES

Group

	2014 RMB'000	2013 RMB'000
Loans and accounts receivables due within 1 year	39,284,977	31,045,952
Loans and accounts receivables due after 1 year	60,156,452	48,641,068
	99,441,429	79,687,020

Company

	2014 RMB'000	2013 RMB'000
Loans and accounts receivables due within 1 year	2,128,933	2,259,387
Loans and accounts receivables due after 1 year	26,901,264	18,273,422
	29,030,197	20,532,809

Notes to Financial Statements

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23. LOANS AND ACCOUNTS RECEIVABLES

23a. Loans and accounts receivables by nature

Group

	2014 RMB'000	2013 RMB'000
Lease receivables (Note 23b)	108,061,474	88,630,514
Less: Unearned finance income	(11,002,267)	(10,043,367)
Net lease receivables (Note 23b)*	97,059,207	78,587,147
Lease interest receivables*	445,803	386,220
Notes receivable	132,877	140,889
Accounts receivable (Note 23d)*	503,586	223,291
Factoring receivable (Note 23f)	2,692,583	1,450,632
Entrusted loans	214,573	232,026
Long term receivables	6,883	6,690
Mortgage loans	409,523	83,041
Subtotal of loans and accounts receivables	101,465,035	81,109,936
Less:		
Provision for lease receivables (Note 23c)	(1,963,443)	(1,390,630)
Provision for accounts receivable (Note 23e)	(11,213)	(6,020)
Provision for factoring receivable (Note 23g)	(40,654)	(21,435)
Provision for entrusted loans (Note 23h)	(2,236)	(3,645)
Provision for long term receivables (Note 23i)	(26)	(48)
Provision for mortgage loans (Note 23j)	(6,034)	(1,138)
	99,441,429	79,687,020

* These balances included balances with related parties which are disclosed in Note 23(k).

Notes to Financial Statements

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23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23a. Loans and accounts receivables by nature (continued)

Company

	Notes	2014 RMB'000	2013 RMB'000
Due from related parties			
Directly held subsidiaries:			
Interest receivables		1,303,897	820,837
Accounts receivable (Note 23d)	(i)	3,055	11,637
Loans	(ii)	24,973,340	16,970,338
Indirectly held subsidiaries:			
Interest receivables		360,345	207,510
Accounts receivable (Note 23d)	(i)	8,432	–
Loans	(ii)	2,419,804	2,561,163
Provision for loans		(38,676)	(38,676)
		29,030,197	20,532,809

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 ranging from 2.95% to 6.55%.

Notes to Financial Statements

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23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23b(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

	2014 RMB'000	2013 RMB'000
Lease receivables:		
Within 1 year	58,484,542	51,423,424
1 to 2 years	32,158,492	22,651,643
2 to 3 years	11,080,172	10,519,918
3 to 5 years	6,338,268	4,035,529
Total	108,061,474	88,630,514

	2014 RMB'000	2013 RMB'000
Net lease receivables:		
Within 1 year	52,162,646	45,384,245
1 to 2 years	29,278,065	20,270,979
2 to 3 years	10,064,580	9,310,084
3 to 5 years	5,553,916	3,621,839
Total	97,059,207	78,587,147

Notes to Financial Statements

31 December 2014

23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23b(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

	2014 RMB'000	2013 RMB'000
Lease receivables:		
Due within 1 year	43,171,525	35,082,592
Due in 1 to 2 years	32,400,660	25,455,971
Due in 2 to 3 years	18,829,129	16,407,465
Due in 3 to 5 years	13,660,160	11,684,486
Total	108,061,474	88,630,514

	2014 RMB'000	2013 RMB'000
Net lease receivables:		
Due within 1 year	37,413,399	29,893,379
Due in 1 to 2 years	29,202,653	22,582,580
Due in 2 to 3 years	17,415,795	15,081,793
Due in 3 to 5 years	13,027,360	11,029,395
Total	97,059,207	78,587,147

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.

Notes to Financial Statements

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23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23c. Change in provision for lease receivables

Group

	Individually assessed		Collectively assessed		Total	
	2014	2013	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	308,874	189,891	1,081,756	696,545	1,390,630	886,436
Charge for the year	131,087	129,909	583,053	387,024	714,140	516,933
Disposal	–	–	(21,772)	–	(21,772)	–
Write-off	(119,924)	(10,389)	–	–	(119,924)	(10,389)
Exchange difference	67	(537)	302	(1,813)	369	(2,350)
At end of year	320,104	308,874	1,643,339	1,081,756	1,963,443	1,390,630

	2014	2013
	RMB'000	RMB'000
Lease receivables:		
Individually assessed (Note (i))	1,002,592	719,822
Collectively assessed	107,058,882	87,910,692
Total	108,061,474	88,630,514

	2014	2013
	RMB'000	RMB'000
Net lease receivables:		
Individually assessed (Note (i))	909,168	642,238
Collectively assessed	96,150,039	77,944,909
Total	97,059,207	78,587,147

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

Note (ii) As at 31 December 2014, the carrying value of the lease receivables pledged or charged as security for the Group's borrowings amounted to RMB19,688,387,000 (2013: RMB20,699,613,000) (Note 31).

23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23d. 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

	2014 RMB'000	2013 RMB'000
Within 1 year	488,531	208,450
More than 1 year	15,055	14,841
Total	503,586	223,291

Company

	2014 RMB'000	2013 RMB'000
Within 1 year	11,487	–
More than 1 year	–	11,637
Total	11,487	11,637

23e. Change in provision for accounts receivable

Group

	2014 RMB'000	2013 RMB'000
At beginning of year	6,020	1,631
Acquisition of a subsidiary	203	–
Charge for the year	10,198	4,324
Write-off	(5,218)	–
Exchange difference	10	65
At end of year	11,213	6,020

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23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23f. An aged analysis of factoring receivable as at the end of the reporting period is as follows:

Group

	2014 RMB'000	2013 RMB'000
Within 1 year	2,104,827	1,416,766
More than 1 year	587,756	33,866
	2,692,583	1,450,632

23g. Change in provision for factoring receivable

Group

	2014 RMB'000	2013 RMB'000
At beginning of year	21,435	5,483
Charge for the year	22,219	15,952
Write-off	(3,000)	–
At end of year	40,654	21,435

23h. Change in provision for entrusted loans

Group

	2014 RMB'000	2013 RMB'000
At beginning of year	3,645	7,246
Reversal for the year	(1,409)	(3,601)
At end of year	2,236	3,645

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23. LOANS AND ACCOUNTS RECEIVABLE (continued)

23i. Change in provision for long term receivables

Group

	2014 RMB'000	2013 RMB'000
At beginning of year	48	195
Reversal for the year	(22)	(147)
At end of year	26	48

23j. Change in provision for mortgage loans

Group

	2014 RMB'000	2013 RMB'000
At beginning of year	1,138	–
Charge for the year	4,883	1,155
Exchange difference	13	(17)
At end of year	6,034	1,138

23k. The balances of loans and accounts receivables of the Group included the balances with related parties as follows:

	Notes	2014 RMB'000	2013 RMB'000
An Associate:	(i)		
– Net lease receivables		61,887	80,089
– Lease interest receivables		121	147
		62,008	80,236

(i) Balances of net lease receivables were interest-bearing at annual interest rates ranging from 6.25% to 8.29%.

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	2014 RMB'000	2013 RMB'000
Current assets:			
Prepayments		252,035	74,673
Leased assets*		1,592,954	198,285
Other receivables		140,919	111,703
Provision for other receivables		–	–
Deposit from cross-currency interest rate swap contracts		–	34,082
Input VAT		149,972	174,344
VAT refund receivable		–	258,595
Due from related parties	(24a)	16,972	17,004
		2,152,852	868,686
Non-current assets:			
Deposit for cross-currency interest rate swap contracts		–	–
Rental deposit due after 1 year		5,157	5,398
Deduction of output VAT		89,957	75,597
Project quality guarantee deposit		533	–
Due from related parties	(24a)	–	–
		95,647	80,995
		2,248,499	949,681

* 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 lease contracts 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 leases to customers. Once the terms of a 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.

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Company

	Note	2014 RMB'000	2013 RMB'000
Current assets:			
Due from related parties	(24a)	619,186	196,497
Prepayment		–	297
Deposit from cross-currency interest rate swap contracts		–	34,082
Deposit from bank loans		9,949	–
Others		44	56
		629,179	230,932
Non-current asset:			
Deposit from cross-currency interest rate swap contracts		–	–
		629,179	230,932

24a. BALANCES WITH RELATED PARTIES

		Group		Company	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Due from related parties:					
Subsidiaries of the ultimate holding company of a shareholder with significant influence:					
China Jin Mao Group Co., Ltd.	(i)	14,041	13,898	–	–
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,668	–	–
Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")	(i)	438	438	438	438
Directly held subsidiaries		–	–	122	16,671
Indirectly held subsidiaries		–	–	618,626	179,388
		16,972	17,004	619,186	196,497

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

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25. DEFERRED TAX

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

Group

Deferred tax assets

	Contingent Liability RMB'000	Share Based Payments RMB'000	Allowances for impairment losses RMB'000	Salary and welfare payable RMB'000	Losses available for offsetting against future taxable profits RMB'000	Safety production cost RMB'000	Government special subsidy RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2014	–	–	328,737	222,609	3,872	168	49,952	605,338
Credited to the statement of profit or loss during the year	350	2,699	168,348	129,312	(705)	(168)	23,478	323,314
Exchange differences	–	–	63	–	3	–	–	66
Gross deferred tax assets at 31 December 2014	350	2,699	497,148	351,921	3,170	–	73,430	928,718
Gross deferred tax assets at 1 January 2013	–	–	204,052	80,406	1,506	73	17,125	303,162
Credited to the statement of profit or loss during the year	–	–	125,075	142,203	2,434	95	32,827	302,634
Exchange differences	–	–	(390)	–	(68)	–	–	(458)
Gross deferred tax assets at 31 December 2013	–	–	328,737	222,609	3,872	168	49,952	605,338

25. DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from Call option RMB'000	Lease deposits RMB'000	Withholding income tax RMB'000	Withholding Interest tax RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2014	–	–	–	21,385	83,026	41,456	145,867
(Credited)/Charged to the statement of profit or loss during the year	(175)	–	3,002	–	(36,021)	–	(33,194)
Settled with interest receivables	–	–	–	–	–	(41,456)	(41,456)
Charge to reserve	9,490	81,236	–	–	–	–	90,726
Exchange differences	–	–	–	–	–	–	–
Gross deferred tax liabilities at 31 December 2014	9,315	81,236	3,002	21,385	47,005	–	161,943

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from Call option RMB'000	Lease deposits RMB'000	Withholding tax RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2013	–	–	–	38,885	92,093	130,978
(Credited)/Charged to the statement of profit or loss during the year	–	–	–	(17,500)	32,598	15,098
Exchange differences	–	–	–	–	(209)	(209)
Gross deferred tax liabilities at 31 December 2013	–	–	–	21,385	124,482	145,867

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25. DEFERRED TAX (continued)

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:

	2014 RMB'000	2013 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	904,331	583,953
Net deferred tax liabilities recognised in the consolidated statement of financial position	137,556	124,482

As at 31 December 2014, the Group had tax losses arising in Hong Kong of RMB2,171,000 (31 December 2013: RMB6,407,000) that is available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB18,743,000 (31 December 2013: RMB18,766,000) 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 mentioned above. Aside from this, as at 31 December 2014, the Group did not recognise deferred tax assets arising in the Mainland China and Hong Kong in respect of unutilised tax losses of RMB6,976,000 (31 December 2013: RMB15,989,000) and RMB74,335,000 (31 December 2013: RMB113,485,000), respectively, due to uncertainty in their recoverability.

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 the 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 2014, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB206,880,000(2013: RMB92,887,000).

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26. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	3,861,561	2,925,231	1,040,058	143,632
Time deposits	410,094	211,374	–	–
	4,271,655	3,136,605	1,040,058	143,632
Less:				
Pledged deposits	953,805	463,129	–	–
Time deposits with original maturity of more than 3 months	–	–	–	–
Cash and cash equivalents	3,317,850	2,673,476	1,040,058	143,632

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB2,457,253,000 (2013: 2,655,974,000). 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 2014, cash of RMB478,557,000 (2013: RMB463,129,000) was pledged for bank and other borrowings (Note 31(b)).

As at 31 December 2014, cash of RMB475,248,000 (2013: nil) was pledged for bank acceptances, letter of credit and etc.

As at 31 December 2014, cash of RMB325,833,000 (2013: RMB764,130,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

27. INVENTORIES

Group

	2014	2013
	RMB'000	RMB'000
Commodity goods	78,708	27,461

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28. CONSTRUCTION CONTRACTS

	2014 RMB'000	2013 RMB'000
Gross amount due from contract customers	82,339	53,951
Contract costs incurred plus recognised profits less recognised losses to date	208,300	153,738
Less: Progress billings	(125,961)	(99,787)
	82,339	53,951

29. TRADE AND BILLS PAYABLES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Bills payable	2,632,580	1,538,501	1,406	815
Trade payables	856,491	760,845	1,147	1,142
	3,489,071	2,299,346	2,553	1,957

An aged analysis of the trade and bills payables as at the end of the reporting period is as follows:

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within 1 year	3,338,978	2,178,539	–	1,142
1 to 2 years	102,991	80,923	1,406	815
2 to 3 years	24,310	11,871	1,147	–
3 years and beyond	22,792	28,013	–	–
	3,489,071	2,299,346	2,553	1,957

The trade payables are non-interest-bearing and are repayable within the normal operating cycle or on demand.

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30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Current:				
Leases deposits, entrusted loans deposits and factoring deposits due within 1 year	1,775,765	1,567,652	–	–
Salary payables	889,304	867,618	27,850	1,546
Welfare payables	26,178	32,577	994	–
Advances from customers	470,996	366,551	–	–
Due to related parties (Note (30a))	8,956	1,465	18,498	126,958
Other taxes payable	169,667	46,027	39	33,505
Interest payable	512,884	246,972	203,431	76,653
Other payables	350,951	54,802	186,371	6,667
Dividend payables	54	–	54	–
	4,204,755	3,183,664	437,237	245,329
Non-current:				
Leases, entrusted loans and factoring deposits due after 1 year	12,289,594	9,297,873	–	–
Interest payable	2,048	–	–	–
Due to related parties (Note (30a))	9,271	14,053	3,157	10,446
Other payables	1,400	–	–	–
Quality guarantee deposit	4,515	–	–	–
	12,306,828	9,311,926	3,157	10,446
	16,511,583	12,495,590	440,394	255,775

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30. OTHER PAYABLES AND ACCRUALS (continued)

30a. BALANCES WITH RELATED PARTIES

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Due to related parties:				
Subsidiaries of the ultimate holding company of a shareholder with significant influence:				
Sinochem Finance Co., Ltd.	284	356	–	–
Sinochem Corporation	685	1,109	–	1,109
An Associate:	17,258	14,053	–	–
Direct subsidiary: Far Eastern leasing	–	–	14,941	1,366
Indirectly held subsidiaries	–	–	6,714	134,929
	18,227	15,518	21,655	137,404

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

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2014			2013		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	–	–	–	2.44~5.60	2014	1,172,907
Current portion of long term bank loans – secured	3.38~7.00	2015	7,086,848	2.71~6.72	2014	8,311,837
Bank loans – unsecured	2.23~7.50	2015	9,191,888	1.65~6.30	2014	7,097,549
Current portion of long term bank loans – unsecured	2.58~8.30	2015	10,762,241	1.39~6.77	2014	8,000,708
Current portion of loans from subsidiaries of the ultimate holding company of a shareholder with significant influence						
– unsecured	–	–	–	6.15	2014	174,401
Other loans – secured	6.30~6.42	2015	280,000	5.40~8.00	2014	1,431,383
Other loans – unsecured	6.46	2015	2,080,672	5.70	2014	498,648
Bonds – secured	–	–	–	–	–	–
Bonds – unsecured	4.00~5.50	2015	871,221	3.90	2014	596,234
			30,272,870			27,283,667
Non-current						
Bank loans – secured	3.38~7.00	2016~2021	5,948,731	2.71~6.72	2015~2020	8,528,108
Bank loans – unsecured	2.58~8.30	2016~2021	22,957,211	1.39~6.77	2015~2021	15,054,842
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	–	–	–	–	–	–
Other loans – secured	6.30~6.42	2016~2017	415,000	6.15~8.00	2015~2016	420,000
Other loans – unsecured	3.23~8.30	2016	304,058	–	–	–
Bonds – unsecured	3.70~6.95	2016~2022	11,879,967	3.70~6.95	2015~2017	5,267,861
			41,504,967			29,270,811
			71,777,837			56,554,478

Notes to Financial Statements

31 December 2014

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Company

	2014			2013		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	2.23~4.35	2015	2,105,811	2.04~4.31	2014	1,702,290
Current portion of long term bank loans – unsecured	2.55~5.50	2015	3,990,054	1.39~5.21	2014	2,975,898
Loans from indirectly held subsidiaries – unsecured	–	–	–	2.47~3.97	2014	187,175
Current portion of loans from indirectly held subsidiaries – unsecured	–	–	–	3.97	2014	57,746
Bonds – unsecured	4.00~5.50	2015	871,221	3.90	2014	596,234
			6,967,086			5,519,343
Non-current						
Bank loans – secured	–	–	–	–	–	–
Bank loans – unsecured	1.39~5.21	2016~2021	11,551,340	1.39~5.21	2015~2021	8,693,140
Loans from indirectly held subsidiaries – unsecured	–	–	–	3.31	2015	266,472
Loans from directly held subsidiaries – unsecured	–	–	–	4.20	2015	243,876
Bonds – unsecured	3.70~6.95	2016~2022	10,403,795	3.70~6.95	2015~2017	5,267,861
			21,955,135			14,471,349
			28,922,221			19,990,692

Notes to Financial Statements

31 December 2014

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	27,040,977	24,583,001	6,095,865	4,678,188
In the second year	19,190,570	12,232,655	8,249,928	2,315,040
In the third to fifth years, inclusive	9,359,370	11,132,337	3,099,432	6,378,100
Beyond five years	356,002	217,958	201,980	–
	55,946,919	48,165,951	17,647,205	13,371,328
Loans repayable from subsidiaries of the ultimate holding company of a shareholder with significant influence:				
Within one year	–	174,401	–	–
In the second year	–	–	–	–
In the third to fifth years, inclusive	–	–	–	–
	–	174,401	–	–
Loans from indirectly holding subsidiaries repayable:				
Within one year	–	–	–	244,921
In the second year	–	–	–	266,472
In the third to fifth years, inclusive	–	–	–	–
	–	–	–	511,393
Loans from directly holding subsidiaries repayable:				
Within one year	–	–	–	–
In the second year	–	–	–	243,876
In the third to fifth years, inclusive	–	–	–	–
	–	–	–	243,876
Other borrowings repayable:				
Within one year	3,231,893	2,526,265	871,221	596,234
In the second year	3,484,230	2,227,515	2,844,230	2,047,515
In the third to fifth years, inclusive	8,750,973	3,460,346	7,195,743	3,220,346
Beyond five years	363,822	–	363,822	–
	15,830,918	8,214,126	11,275,016	5,864,095
	71,777,837	56,554,478	28,922,221	19,990,692

Notes to Financial Statements

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(a) As at 31 December 2014, the Group's bank and other borrowings secured by the pledge of or the transfer of certain of the Group's lease receivables amounting to RMB17,651,132,000 (2013: RMB18,679,073,000). As at 31 December 2014, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB19,688,387,000 (2013: RMB20,699,613,000).

(b) As at 31 December 2014, the Group's bank borrowings pledged by cash amounted to RMB1,475,835,000 (2013: RMB1,147,722,000).

(c) As at 31 December 2014, no property, plant and equipment of the Group was provided as collateral for borrowings nor had the Group provided any guarantees for other entities.

32. DEFERRED REVENUE

Group

	Service fee		Government special subsidy	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
At the beginning of year	4,184	7,208	199,807	68,499
Additions during the year	–	–	126,716	200,626
Amortised to the statement of profit or loss	(2,567)	(3,024)	(32,259)	(69,318)
At the end of year	1,617	4,184	294,264	199,807

(i) Service fee

The Group recognised the revenue in accordance with the progress of the services rendered.

(ii) Government special subsidy

As at 31 December 2014, Far Eastern Leasing received a government special subsidy of RMB126,716,000 (2013: RMB200,626,000), which was granted in accordance with the policies on Shanghai Pudong New Area government financial subsidy of the 12th five-year plan. The special subsidy is required to be used for certain purpose. The amortisation of special subsidy reduced the expense to which it related or reduced the depreciation charges of the related assets.

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33. SHARE CAPITAL

	Number of shares	Amounts HK$
Authorised ordinary shares:		
At 31 December 2013 (HK$0.01 each)	10,000,000,000	100,000,000
At 31 December 2014	–	–
Issued and fully paid ordinary shares:		
At 31 December 2013 (HK$0.01 each)	3,292,400,000	32,924,000
At 31 December 2014 (note(iii))	3,292,400,000	8,531,380,000

Notes:

(i) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

(iii) The Company purchased its own shares through a trust under a share award scheme (Note 35), which were presented as shares held for share award scheme.

Notes to Financial Statements

31 December 2014

33. SHARE CAPITAL (continued)

The movements in share capital and share premium account were as follows:

	Number of shares in issue HK$'000	Share capital HK$'000	Share premium account RMB'000	Equivalent Share capital RMB'000	Equivalent Share premium account RMB'000	Total
At 1 January 2014 and 31 December 2013	3,292,400,000	32,924	8,498,456	27,570	7,067,502	7,095,072
Effect of change in functional currency during the year (Note 2.3)	–	–	–	(1,798)	(409,523)	(411,321)
Transition to no-par value regime on 3 March 2014 (Note (a))	–	8,498,456	(8,498,456)	6,657,979	(6,657,979)	–
As at 31 December 2014	3,292,400,000	8,531,380	–	6,683,751	–	6,683,751

Note(a): In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

34. SHARE OPTION SCHEME

On 11 July 2014, the Board of directors ("the Board") announced that, the Company has resolved to offer to grant share options ("Share Options") to certain qualified participants (the "Grantees") under the share option scheme ("Share Option Scheme") of the Company adopted on 7 July 2014 by the general meeting ("GM") to subscribe for a total of 13,169,600 ordinary shares in the capital of the Company.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include senior and middle management personnel, as well as other key employees of the Company or any Subsidiary. The total number of new shares in respect of which Options may be granted under the Share Option Scheme shall not exceed 4% of the Company's issued share capital as at the date of approval of the Share Option Scheme by the Shareholders at the GM, which is 131,696,000 shares and which will be valid for 10 years from the date of its adoption.

The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the Grantees Subject to any early termination, the Option Scheme will remain in force for a period of 10 years commencing on the date on which the Option Scheme is approved by the Shareholders of the Company. The vesting of the Share Options is mainly subject to fulfilment of Company's performance targets, Grantees remaining at all times after the offer date and on each vesting date as an employee of the Group, as well as achieving specified level in annual personal performance evaluations.

Notes to Financial Statements

31 December 2014

34. SHARE OPTION SCHEME (continued)

The exercise price in respect of any option shall be such price as determined by the Board or the Administration Committee of the Share Option Scheme and notified to the Grantees and which shall not be less than the higher of: (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares as at the Offer Date.

The following share options were outstanding under the Share Option Scheme during the year:

	Weighted average exercise price HK$ per share	Number of options
At 1 January 2014	–	–
Granted during the year	5.86	13,169,600
Forfeited during the year	5.86	(46,088)
Exercised during the year	–	–
Expired during the year	–	–
At 31 December 2014	5.86	13,123,512

No share options were vested or exercised during the year. The exercise prices and exercise periods of the share options outstanding as at that end of the reporting period are as follows:

2014

Number of options	Exercise price HK$ per share	Exercise period
4,374,464	5.86	11 July 2016 to 11 July 2024
4,374,464	5.86	11 July 2017 to 11 July 2024
4,374,584	5.86	11 July 2018 to 11 July 2024
13,123,512		

Notes to Financial Statements

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34. SHARE OPTION SCHEME (continued)

The fair value of the Share Options that were outstanding as at 31 December 2014 was RMB17,799,000 (RMB1.32, RMB1.36 and RMB1.38 each for three tranches with two-year, three-year and four-year vesting periods, respectively), of which the Group recognised a share option expense of RMB3,198,000 during the year ended 31 December 2014 in employee benefit expense.

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

	2014
Expected dividend yield (%)	4.00
Expected volatility (%)	38.34
Risk-free interest rate (%)	2.02
Share price (HK$ per share)	5.86
Expected exercise trigger multiple	2.00

The expected volatility is based on the historical volatility reflecting the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected exercise trigger multiple is also estimated and is not necessarily indicative of the exercise patterns that may occur.

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

At 31 December 2014, the Company had 13,123,512 non-vested share options (including 1,777,896 non-vested share options granted to certain executive directors, 3,094,856 non-vested share options granted to certain employees among five highest paid employees and 4,082,576 non-vested share options granted to certain key management personnel) outstanding under the Share Option Scheme. Should all of them be vested, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 13,123,512 additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 13,123,512 share options outstanding under the Share Option Scheme, which represented approximately 0.40% of the Company's shares in issue as at that date.

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35. RESTRICTED SHARE AWARD SCHEME

On 11 June 2014, the Board announced that it has adopted an share award scheme (the "Share Award Scheme"), under which, some restricted shares (the "Restricted Shares") will be held on trust for the relevant selected grantees (the "Selected Grantees") until such Restricted Shares are vested with the relevant Selected Grantees in accordance with the Share Award Scheme rules. The number of Restricted Shares under the Share Award Scheme shall not exceed 197,544,000, accounting for 6% of the Company's issued share capital as at the date of approval of the Share Award Scheme by the Board. The Share Award Scheme shall be effective from its adoption until it is terminated by the Board or Shareholders in GM.

Pursuant to the rules of the Share Award Scheme, the Company has set up a trust, and a third party company acts as the trustee (the "Trustee"). The Company's shares may be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the Selected Grantees until such shares are vested with the Selected Grantees in accordance with the provisions of the Share Award Scheme.

The vesting of the Restricted Shares under the Share Award Scheme is mainly subject to the fulfilment of Company's performance targets, Selected Grantees remaining as an employee of the Group, as well as achieving specified level in annual personal performance evaluations.

The following restricted shares were outstanding under the Share Award Scheme during the year:

	Number of options
At 1 January 2014	–
Granted during the year	19,754,400
Forfeited during the year	(69,146)
Vested during the year	–
Expired during the year	–
At 31 December 2014	19,685,254

No restricted shares were vested during the year. The vesting periods of the restricted shares outstanding as at that end of the reporting period are as follows:

2014

Number of restricted shares	Vesting period
6,561,736	11 July 2014 to 11 July 2016
6,561,736	11 July 2014 to 11 July 2017
6,561,782	11 July 2014 to 11 July 2018
19,685,254	

35. RESTRICTED SHARE AWARD SCHEME (continued)

At 31 December 2014, the Company had 19,685,254 non-vested restricted shares (including 2,666,844 non-vested restricted shares granted to certain executive directors, 4,642,284 non-vested restricted shares granted to certain employees among five highest paid employees and 6,123,864 non-vested restricted shares granted to certain key management personnel) outstanding under the Share Award Scheme.

Under the Share Award Scheme, there were total non-vested shares of 25,456,000 amounting to RMB136,260,000, i.e. at a weighted average price of RMB5.35, held by the trust at 31 December 2014. The movement of the shares held for Share Award Scheme is as follows:

	Number of Shares '000	Amount RMB'000
At 1 January 2014	–	–
Purchase of shares under Share Award Scheme	25,456	136,260
At 31 December 2014	25,456	136,260

The fair value of the Restricted Shares that were outstanding as at 31 December 2014 was RMB81,189,000 (RMB4.29, RMB4.12 and RMB3.96 each for three tranches with two-year, three-year and four-year vesting periods, respectively), of which the Group recognised of RMB14,796,000 in employee benefit expense during the year ended 31 December 2014.

The fair value of the Restricted Shares granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the main inputs to the model used:

	2014
Expected dividend yield (%)	4.00
Share price (HK$ per share)	5.86

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36. RESERVES

(a) Group

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

The Group's capital reserve 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.

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as 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.

Special reserve mainly represents funds set aside for the purpose of certain safety production activities. Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the subsidiaries Shanghai Horizon Construction Engineering Equipment Co., Ltd. and Tianjin Horizon Equipment & Engineering Ltd. set aside funds mainly for construction service activities at prescribed rates. These funds can be used for maintenance and/or improvements of safety of these activities, and are not available for distribution to shareholders.

(b) Company

	Capital reserve RMB'000	Shares held for share award scheme RMB'000	Share-based Compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2013	9,982,129	–	–	(431,246)	614,578	10,165,461
Profit for the year	–	–	–	–	604,584	604,584
Other comprehensive income	–	–	–	(307,935)	–	(307,935)
Final 2013 dividend declared (Note 12)	–	–	–	–	(602,714)	(602,714)
At 31 December 2013 and 1 January 2014	9,982,129	–	–	(739,181)	616,448	9,859,396
Profit for the year	–	–	–	–	603,755	603,755
Other comprehensive income	411,106	–	–	–	–	411,106
Effect of change in functional currency during the year	(716,309)	–	–	739,181	(21,074)	1,798
Purchase of shares under share award scheme	–	(136,260)	–	–	–	(136,260)
Transition to no-par value regime	(6,657,979)	–	–	–	–	(6,657,979)
Recognition of equity settled share-based payments	–	–	17,994	–	–	17,994
Final 2013 dividend declared (Note 12)	–	–	–	–	(600,849)	(600,849)
At 31 December 2014	3,018,947	(136,260)	17,994	–	598,280	3,498,961

Notes to Financial Statements

31 December 2014

36. RESERVES (continued)

The Capital reserve of the Company comprises the recognition of the equity-settled share-based payment under the Share Options and the Share Award Scheme which are yet to be exercised. The amount will either be transferred to the share premium account when the related share options or awards are exercised, or be transferred to retained profits should the related options or awards expire or be forfeited.

37. PERPETUAL SECURITIES

On 23 June 2014, the Company issued US$200,000,000 senior perpetual capital securities ("Perpetual Securities") at initial distribution rate of 5.55%. Perpetual Securities are unsecured.

The direct transaction costs attributable to the Perpetual Securities amounted to RMB8,426,000.

Distributions of the Perpetual Securities may be paid semi-annually in arrears on 23 June and 23 December in each year with the exception of the first distribution payment date which is 23 January 2015 ("Distribution Payment Date") and may be deferred at the discretion of the Company unless a compulsory distribution payment event (including distributions to ordinary shareholders of the Company) has occurred. Following a deferral, arrears of distributions are cumulative.

The Perpetual Securities have no fixed maturity date and are callable at the Company's option in whole on 23 June 2017 ("First Call Date") or any Distribution Payment Date falling after the First Call Date at their principal amounts together with any accrued, unpaid or deferred distributions. The applicable distribution rate will reset, on First Call Date and every three years after the First Call Date, to the sum of the initial spread of 4.606%, the Treasury Rate and a step-up margin of 5.00% per annum.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of Perpetual Securities other than an unforeseen liquidation of the Company.

For the year ended 31 December 2014, the profit attributable to holders of perpetual securities, based on the applicable distribution rate, was RMB36,036,000, where any distribution could be deferred at the discretion of the Company unless a compulsory distribution payment event (including distributions to ordinary shareholders of the Company) has occurred. No such event has occurred as of 31 December 2014.

38. BUSINESS COMBINATIONS

In February 2014, the Group acquired 70% of the voting shares of Huizhou Huakang Orthopaedics and Traumatology Hospital Co. Ltd. ("Huakang Hospital"), which is mainly specialised in Chinese orthopaedic treatment. The purchase consideration for the acquisition was in the form of cash, with RMB65,130,000 paid at the acquisition date and the remaining RMB64,870,000 paid after the date of acquisition.

The Group has elected to measure the non-controlling interest in Huakang Hospital at non-controlling interest's proportionate share of Huakang Hospital's identifiable net assets.

Notes to Financial Statements

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38. BUSINESS COMBINATIONS (continued)

The fair values of the identifiable assets and liabilities of Huakang Hospital as at the date of acquisition were as follows:

	Note	Fair value recognised on acquisition (Unaudited) RMB'000
Assets		
Property, plant and equipment		127,361
Prepaid land lease payments		13,446
Cash		16,933
Trade receivables		7,658
Prepayments, deposits and other receivables		66,169
Inventories		2,069
Other assets		1,254
		234,890
Liabilities		
Trade payables		(8,968)
Other payables and accruals		(10,144)
Interest-bearing bank and other borrowings		(112,238)
Deferred tax liability		(9,489)
		(140,839)
Total identifiable net assets at fair value		94,051
Non-controlling interests		(28,216)
Goodwill on acquisition	16	64,164
Satisfied by cash		130,000

The Group incurred transaction costs of RMB900,000 for this acquisition. The transaction costs have been expensed and are included in other general expenses in the consolidated statement of profit or loss.

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38. BUSINESS COMBINATIONS (continued)

An analysis of cash flows in respect of acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(65,130)
Cash and bank balance acquired	16,933
Net outflows of cash and cash equivalents Included in cash flows from investing activities	(48,197)
Transaction costs of the acquisition included in cash flows from operating activities	(900)
	(49,097)

Since the acquisition, Huakang Hospital has contributed RMB60,964,000 to the the Group's revenue and RMB8,320,000 to the consolidated profit for the year ended 31 December 2014.

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

39. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities that not provided for in the financial statements were as follow:

Group

	2014 RMB'000	2013 RMB'000
Claimed amounts	–	614

40. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 23, 26 and 31 to the financial statements.

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41. 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 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	2014 RMB'000	2013 RMB'000
Within one year	43,135	15,808
In the second to fifth years, inclusive	–	–
	43,135	15,808

(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 more than five years.

At 31 December 2014, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within one year	71,035	80,572	–	1,754
In the second to fifth years, inclusive	117,264	18,060	–	–
More than five years	3,004	2,240	–	–
	191,303	100,872	–	1,754

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42. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in Note 41 above, the Group had the following capital commitments at the end of the reporting period:

Group

	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of plant and machinery	63,826	59,487
Purchase of shareholding	120,000	–
	183,826	59,487

(b) Credit commitments

The Group's irrevocable credit commitments at the end of the reporting period are as follows:

Group

	2014 RMB'000	2013 RMB'000
Irrevocable credit commitments:	3,693,206	5,116,140

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.

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43. 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 Jin Mao Group Co., Ltd.
Beijing Chemsunny Property Co., Ltd.
Jin Mao (Shanghai) Property Management Service Co., Ltd.
Sinochem Jinmao Property Management (Beijing) Co., Ltd.
Sinochem Corporation
Sinochem International (Overseas) Pte. Ltd.
Sinochem International Tendering Co.,Ltd.

Associate
Changchun Engley Automobile Industry Co., Ltd.

In addition to the transactions and balances in Notes 23, 24, 26, 30 and 31 to the financial statements, the Group had the following material transactions with related parties during the year.

(i) Interest income from cash at banks:

	2014 RMB'000	2013 RMB'000
Sinochem Finance Co., Ltd.	–	5,889

The interest income was charged at rates ranging from 0.39% to 1.49% per annum.

Notes to Financial Statements

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43. RELATED PARTY TRANSACTIONS (continued)

(ii) Service fee income:

	2014 RMB'000	2013 RMB'000
Sinochem International (Overseas) Pte. Ltd.	25,182	22,823
Changchun Engley Automobile Industry Co., Ltd.	–	81
	25,182	22,904

Services were provided based on prices mutually agreed between the parties.

(iii) Interest expense on borrowings:

	2014 RMB'000	2013 RMB'000
Sinochem Finance Co., Ltd.	17,695	21,707

The interest expenses were charged at rate of 6.15% per annum.

(iv) Commission fee:

	2014 RMB'000	2013 RMB'000
Sinochem Finance Co., Ltd.	5,946	3,332

(v) Rental expenses:

	2014 RMB'000	2013 RMB'000
China Jin Mao Group Co., Ltd.	43,333	43,282
Beijing Chemsunny Property Co., Ltd.	7,766	4,229
Jin Mao (Shanghai) Property Management Services Co., Ltd.	2,022	2,020
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	578	426
Sinochem Hong Kong	1,617	1,038
	55,316	50,995

These rentals were charged based on rates mutually agreed between the parties.

Notes to Financial Statements

31 December 2014

43. RELATED PARTY TRANSACTIONS (continued)

(vi) Information and technology services:

	2014 RMB'000	2013 RMB'000
Sinochem Corporation	850	850

The information and technology service expenses were charged based on prices mutually agreed between the parties.

(vii) Lease interest income

	2014 RMB'000	2013 RMB'000
Changchun Engley Automobile Industry Co., Ltd.	4,433	753

(viii) Non-cancellable operating leases:

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2014 RMB'000	2013 RMB'000
China Jin Mao Group Co., Ltd.	145,834	41,271
Beijing Chemsunny Property Co., Ltd.	–	9,974
Sinochem Hong Kong	–	1,754
	145,834	52,999

Notes to Financial Statements

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43. RELATED PARTY TRANSACTIONS (continued)

(ix) Tendering service fee:

	2014 RMB'000	2013 RMB'000
Sinochem International Tendering Co., Ltd.	367	–

The tendering service fee was charged based on prices mutually agreed between the parties.

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) and notes (iii) to (v) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

	2014 RMB'000	2013 RMB'000
Short term employee benefits	29,224	21,819

During 2014, certain key management personnel of the Group were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, further details of which are set out in note 34 and note 35 to the financial statements.

Further details of directors' emoluments are set out in Note 8 to the financial statements.

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44. 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 2014

Financial assets

	Loans and receivables RMB'000	Available for sale financial Assets RMB'000	Financial instruments at fair value through profit or loss RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Total RMB'000
Loans and accounts receivables	99,441,429	–	–	–	99,441,429
Deposits and other receivables	147,615	–	–	–	147,615
Restricted deposits	953,805	–	–	–	953,805
Derivative instruments-cash flow hedges	–	–	–	278,271	278,271
Derivative financial instruments	–	–	12,006	–	12,006
Available-for-sale investments	–	394,253	–	–	394,253
Cash and cash equivalents	3,317,850	–	–	–	3,317,850
	103,860,699	394,253	12,006	278,271	104,545,229

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	3,489,071	–	–	3,489,071
Other payables and accruals	14,822,781	–	–	14,822,781
Interest-bearing bank and other borrowings	71,777,837	–	–	71,777,837
Derivative instruments – cash flow hedges	–	166,894	–	166,894
Derivative s not designated as hedges	–	–	57,053	57,053
	90,089,689	166,894	57,053	90,313,636

Notes to Financial Statements

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44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

As at 31 December 2013

Financial assets

	Loans and receivables RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Loans and accounts receivables	79,687,020	–	79,687,020
Deposits and other receivables	261,087	–	261,087
Restricted deposits	463,129	–	463,129
Derivative financial instruments	–	968	968
Cash and cash equivalents	2,673,476	–	2,673,476
	83,084,712	968	83,085,680

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	2,299,346	–	2,299,346
Other payables and accruals	11,335,318	–	11,335,318
Interest-bearing bank and other borrowings	56,554,478	–	56,554,478
Derivative financial instruments	–	66,818	66,818
	70,189,142	66,818	70,255,960

Notes to Financial Statements

31 December 2014

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

As at 31 December 2014

Financial assets

	Loans and receivables RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Loans and accounts receivables	29,030,197	–	29,030,197
Deposits and other receivables	628,725	–	628,725
Dividend receivable	777,506	–	777,506
Cash and cash equivalents	1,040,058	–	1,040,058
Derivative financial instruments	–	278,271	278,271
	31,476,486	278,271	31,754,757

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	2,553	–	2,553
Other payables and accruals	225,086	–	225,086
Interest-bearing bank and other borrowings	28,922,221	–	28,922,221
Derivative financial instruments	–	223,947	223,947
	29,149,860	223,947	29,373,807

Notes to Financial Statements

31 December 2014

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (continued)

As at 31 December 2013

Financial assets – Loans and receivables

	Total RMB'000
Loans and receivables	20,532,809
Deposits and other receivables	230,635
Dividend receivable	608,760
Cash and cash equivalents	143,632
	21,515,836

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	1,957	–	1,957
Other payables and accruals	220,724	–	220,724
Interest-bearing bank and other borrowings	19,990,692	–	19,990,692
Derivative financial instruments	–	66,818	66,818
	20,213,373	66,818	20,280,191

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, restricted deposits, loans and accounts receivables, financial assets included in deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and borrowings.

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Cash and cash balances, current portion of financial assets included in deposits and other receivables, trade and bill payables, short-term borrowings and current portion of financial liabilities included in other payables and accruals

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

Loans and accounts receivables, interest-bearing bank and other borrowing except for bonds issue and short-term borrowings and restricted deposits

Substantially all of loans and accounts receivables, restricted deposit and interest-bearing bank and other borrowing except for bonds issued and short-term borrowings are on floating rate terms, bear interest at prevailing market interest rates and their carrying values approximate their fair value.

Notes to Financial Statements

31 December 2014

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Financial instruments not measured at fair value (continued)

Bonds issued

The fair values of the bonds issued are calculated based on a discounted cash flow model that is used based on a current yield curve appropriate for the remaining term to maturity.

The table below summarises the carrying amounts and fair values of bonds issued which included in interest-bearing bank and other borrowings not presented at fair value on the statement of financial position.

Group

	Carrying amounts		Fair values	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	12,751,188	5,864,095	12,972,462	5,714,366

Company

	Carrying amounts		Fair values	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	11,275,016	5,864,095	11,457,634	5,714,366

Non-current portion of financial assets included in in prepayments deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals

The fair values of the non-current portion of financial assets included in prepayments deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The difference between the carrying amounts and fair values of those financial assets and liabilities are not significant.

Notes to Financial Statements

31 December 2014

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Financial instruments measured at fair value

Non-deliverable cross-currency swaps

Non-deliverable cross-currency swaps are measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Call options

Call options are measured using valuation techniques including the Binomial Lattice model and Black-Scholes model. The models incorporate various inputs including the value of the underlying equity interest. The valuation of the underlying equity interest requires management to make certain assumptions about the unobservable inputs of the model, which are disclosed in the table below:

	31 December 2014
Expected volatility	18%
Expected dividend yield	0%
Risk-free interest rate	5%

The fair value of the call option is not significantly sensitive to the changes in the value of the underlying equity interest which could be caused by a reasonable change in the net profit volatility, terminal growth rate or risk-free interest rate.

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

31 December 2014

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy: (continued)

Assets and Liabilities measured at fair value:

Group

As at 31 December 2014

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps-assets	–	204,770	–	204,770
Cross-currency interest rate swaps – liabilities	–	(56,978)	–	(56,978)
Forward currency contracts – assets	–	73,501	–	73,501
Forward currency contracts – liabilities	–	(166,969)	–	(166,969)
Call options – assets	–	–	12,006	12,006

As at 31 December 2013

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – liability	–	(66,818)	–	(66,818)
Call options – assets	–	–	968	968

Notes to Financial Statements

31 December 2014

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy: (continued)

Assets and Liabilities measured at fair value: (continued)

The movements in fair value measurements in Level 3 during the year were as follows (see Note 22 for further details):

Group (continued)

	RMB'000
Call option:	
At 31 December 2013 and 1 January 2014	968
Addition	12,006
Expired	(969)
Exchange difference	1
At 31 December 2014	12,006
At 31 December 2012 and 1 January 2013	998
Addition	–
Exchange difference	(30)
At 31 December 2013	968

Notes to Financial Statements

31 December 2014

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy: (continued)

Assets and Liabilities measured at fair value: (continued)

Company

As at 31 December 2014

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – assets	–	204,770	–	204,770
Cross-currency interest rate swaps – liabilities	–	(56,978)	–	(56,978)
Forward currency contracts – assets	–	73,501	–	73,501
Forward currency contracts – liabilities	–	(166,969)	–	(166,969)

As at 31 December 2013

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – liabilities	–	(66,818)	–	(66,818)

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 (2013: Nil).

Notes to Financial Statements

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45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy: (continued)

Liabilities for which fair values are disclosed:

Group

As at 31 December 2014

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	12,972,462	–	12,972,462

As at 31 December 2013

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	5,714,366	–	5,714,366

Company

As at 31 December 2014

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	11,457,634	–	11,457,634

As at 31 December 2013

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	5,714,366	–	5,714,366

Notes to Financial Statements

31 December 2014

46. 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 and derivative financial instruments. 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, lease receivables and other loans.

A principal objective 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. For example, the Group enters into cross currency interest rate swaps to mitigate the interest rate risk as well as currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 22).

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 the reporting period subject to repricing within the coming year.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Group

	Increase/(decrease) in profit before tax	
	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Change in basis points		
+100 basis points	512,555	301,473
– 100 basis points	(512,555)	(301,473)

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.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the operating activities of the Group (when receipt or payment is settled using a currency that is different from the functional currency).

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and, to a lesser extent, other currencies. The Group's exposure to treasury operations mainly arises from its transactions in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. For example, the Group enters into cross currency interest rate swaps and forward currency contracts to mitigate the currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 22).

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

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31 December 2014

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

Group

		increase in profit before tax As at 31 December	
		2014	2013
Currency	Change in currency rate	RMB'000	RMB'000
US$	+/-1%	10,564/(10,564)	(5,665)/5,665
HK$	+/-1%	(19,501)/19,501	35/(35)
Subtotal	+/-1%	(8,937)/8,937	(5,630)/5,630

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 is equal to the carrying amounts of these assets.

Credit risk is often greater when lessees are concentrated in one single industry or geographical location or have comparable economic characteristics. Customers of the Group are mainly located in Mainland China. Lessees of the Group are from different industries as follows:

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31 December 2014

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

	As at31 December 2014		As at31 December 2013	
	RMB'000	%	RMB'000	%
Net lease receivables				
Healthcare	22,811,933	24	17,235,826	22
Printing	11,556,067	12	11,479,550	14
Shipping	9,400,843	10	9,045,651	11
Infrastructure construction	15,034,584	15	11,448,183	15
Machinery	9,987,989	10	6,813,078	8
Education	15,065,680	16	12,282,050	16
Textile	3,185,635	3	2,244,726	3
Electronic information	5,734,543	6	4,430,869	6
Others	4,281,933	4	3,607,214	5
	97,059,207	100	78,587,147	100
Less: Impairment provision on lease receivables	(1,963,443)		(1,390,630)	
Net	95,095,764		77,196,517	

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 23, Note 22 and Note 24 respectively.

Notes to Financial Statements

31 December 2014

46. 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	
	2014 RMB'000	2013 RMB'000
Lease receivables	95,242,583	77,816,897
Notes receivable	132,877	140,889
Accounts receivable	224,591	210,882
Factoring receivable	2,679,601	1,447,132
Entrusted loans	214,573	232,026
Mortgage loans	409,523	83,041
Lease interest receivables	445,803	386,220
Derivative financial instruments	290,277	968
Deposits and other receivables	147,615	261,087
Long term receivables	6,883	6,690

As 31 December 2014, the assets which were past due but were not considered impaired amounted to RMB910,681,000 (2013: RMB128,010,000). The aging analysis is as below:

2014	Less than 90 days RMB'000	90 days to 1 year RMB'000	1 year to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Loans and accounts receivables	910,681	–	–	–	910,681

2013	Less than 90 days RMB'000	90 days to 1 year RMB'000	1 year to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Loans and account receivables	128,010	–	–	–	128,010

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31 December 2014

46. 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 of with regard to the maturity of financial assets and liabilities.

The Group manages its liquidity risk through daily executive of 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 2014					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	416,076	12,039,475	33,578,634	66,198,299	557,005	112,789,489
Deposits and other receivables	–	30,515	112,564	4,536	–	147,615
Restricted deposits	–	314,894	527,845	134,977	–	977,716
Derivative financial instruments	–	–	63,244	227,033	–	290,277
Available-for-sale investments	–	–	–	394,253	–	394,253
Cash and cash equivalents	3,317,850	–	–	–	–	3,317,850
Total financial assets	3,733,926	12,384,884	34,282,287	66,959,098	557,005	117,917,200
FINANCIAL LIABILITIES:						
Trade and bills payables	317,899	1,211,739	1,642,602	305,805	11,026	3,489,071
Other payables and accruals	61,164	416,087	2,037,604	12,223,866	84,060	14,822,781
Interest-bearing bank and other borrowings	–	10,942,707	21,520,300	42,219,020	747,784	75,429,811
Derivative financial instruments	–	–	8,773	215,174	–	223,947
Total financial liabilities	379,063	12,570,533	25,209,279	54,963,865	842,870	93,965,610
Net liquidity gap	3,354,863	(185,649)	9,073,008	11,995,233	(285,865)	23,951,590

Notes to Financial Statements

31 December 2014

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group (continued)

	As at 31 December 2013					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	246,983	9,420,894	26,648,995	52,827,792	795,095	89,939,759
Deposits and other receivables	–	79,945	175,981	5,398	–	261,324
Restricted deposits	–	131,609	247,159	92,411	–	471,179
Derivative financial instruments	–	–	–	968	–	968
Cash and cash equivalents	2,673,476	–	–	–	–	2,673,476
Total financial assets	2,920,459	9,632,448	27,072,135	52,926,569	795,095	93,346,706
FINANCIAL LIABILITIES:						
Trade and bills payables	43,310	1,179,748	1,076,288	–	–	2,299,346
Other payables and accruals	82,663	443,540	1,623,903	9,610,467	60,081	11,820,654
Interest-bearing bank and other borrowings	318	9,990,801	19,281,930	30,451,464	385,878	60,110,391
Derivative financial instruments	–	–	11,832	54,986	–	66,818
Total financial liabilities	126,291	11,614,089	21,993,953	40,116,917	445,959	74,297,209
Net liquidity gap	2,794,168	(1,981,641)	5,078,182	12,809,652	349,136	19,049,497

Notes to Financial Statements

31 December 2014

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	As at 31 December 2014					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	2,551,200	136,012	2,016,802	29,173,312	911,863	34,789,189
Deposits and other receivables	–	628,260	465	–	–	628,725
Dividend receivable	777,506	–	–	–	–	777,506
Cash and cash equivalents	1,040,058	–	–	–	–	1,040,058
Derivative financial instruments	278,271	–	–	–	–	278,271
Total financial assets	4,647,035	764,272	2,017,267	29,173,312	911,863	37,513,749
FINANCIAL LIABILITIES:						
Trade and bills payables	1,405	1,148	–	–	–	2,553
Other payables and accruals	719	178,930	42,279	3,158	–	225,086
Interest-bearing bank and other borrowings	–	3,182,872	4,199,125	21,582,228	728,441	29,692,666
Derivative financial instruments	223,947	–	–	–	–	223,947
Total financial liabilities	226,071	3,362,950	4,241,404	21,585,386	728,441	30,144,252
Net liquidity gap	4,420,964	(2,598,678)	(2,224,137)	7,587,926	183,422	7,369,497

Notes to Financial Statements

31 December 2014

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company (continued)

	As at 31 December 2013					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	46,412	7,850	2,268,007	21,899,164	177,220	24,398,653
Deposits and other receivables	–	27	230,608	–	–	230,635
Dividend receivable	–	–	608,760	–	–	608,760
Cash and cash equivalents	143,632	–	–	–	–	143,632
Total financial assets	190,044	7,877	3,107,375	21,899,164	177,220	25,381,680
FINANCIAL LIABILITIES:						
Trade and bills payables	–	1,957	–	–	–	1,957
Other payables and accruals	10,992	177,192	22,093	10,447	–	220,724
Interest-bearing bank and other borrowings	6,415	2,381,878	3,460,130	15,125,696	158,257	21,132,376
Derivative financial instruments	–	–	11,832	54,986	–	66,818
Total financial liabilities	17,407	2,561,027	3,494,055	15,191,129	158,257	21,421,875
Net liquidity gap	172,637	(2,553,150)	(386,680)	6,708,035	18,963	3,959,805

Notes to Financial Statements

31 December 2014

46. 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 defined by management as 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 are as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Bank and other borrowings	71,777,837	56,554,478
Total equity	17,449,893	14,164,870
Total equity and debt	89,227,730	70,719,348
Gearing ratio	80%	80%

Notes to Financial Statements

31 December 2014

46. 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 program of business development and capital management 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 in light of risks confronted. 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 ratios of assets at risk to equity as at each of the reporting dates are as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Total assets	102,816,856	82,357,521
Less: Cash	(2,796,205)	(2,751,163)
Total assets at risk	100,020,651	79,606,358
Equity	15,195,810	13,065,484
Ratio of assets at risk to equity	6.58	6.09

47. EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2014.

48. COMPARATIVE AMOUNTS

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

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2015.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past few financial years, as extracted from the published audited financial information and financial statements, is set out below.

Results

	For the year ended 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
REVENUE	10,060,717	7,868,382	6,486,395	4,716,436	2,198,610
Cost of sales	(4,106,547)	(2,890,185)	(2,908,365)	(2,214,078)	(792,688)
Gross profit	5,954,170	4,978,197	3,578,030	2,502,358	1,405,922
Other income and gains	523,689	318,178	119,845	75,131	66,784
Selling and distribution costs	(1,356,023)	(1,124,955)	(703,143)	(449,295)	(252,971)
Administrative expenses	(1,659,885)	(1,294,330)	(863,635)	(624,514)	(299,881)
Other expenses	(249,400)	(282,972)	(52,939)	(24,871)	(23,163)
Finance costs	(14,667)	(1,270)	(2,138)	–	–
Loss on investment in joint ventures	(195)	–	–	–	–
Gains on investment in associates	13,511	7,893	–	–	–
Profit before tax	3,211,200	2,600,741	2,076,020	1,478,809	896,691
Income tax expense	(869,026)	(684,668)	(558,652)	(369,945)	(201,158)
Profit for the year	2,342,174	1,916,073	1,517,368	1,108,864	695,533
Attributable to:					
Holders of ordinary shares of the Company	2,295,954	1,912,744	1,518,577	1,107,630	697,759
Holders of senior perpetual securities	36,036	–	–	–	–
Non-controlling interests	10,184	3,329	(1,209)	1,234	(2,226)
	2,342,174	1,916,073	1,517,368	1,108,864	695,533

Financial Summary

The following table sets forth the results of the Group converted into US$ at the respective average exchange rate as at the end of each period[1] as of the dates indicated.

	For the year ended 31 December				
	2014	2013	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
REVENUE	1,647,151	1,270,898	1,030,699	729,895	326,909
Cost of sales	(672,328)	(466,822)	(462,144)	(342,641)	(117,864)
Gross profit	974,823	804,076	568,555	387,254	209,045
Other income and gains	85,739	51,392	19,044	11,627	9,930
Selling and distribution costs	(222,010)	(181,702)	(111,731)	(69,531)	(37,614)
Administrative expenses	(271,758)	(209,060)	(137,233)	(96,647)	(44,589)
Other expenses	(40,832)	(45,705)	(8,411)	(3,849)	(3,444)
Finance costs	(2,401)	(205)	(340)	–	–
Loss on investment in joint ventures	(32)	–	–	–	–
Gains on investment in associates	2,212	1,275	–	–	–
PROFIT BEFORE TAX	525,741	420,071	329,884	228,854	133,328
Income tax expense	(142,278)	(110,587)	(88,771)	(57,251)	(29,910)
Profit for the year	383,463	309,484	241,113	171,603	103,418
Attributable to:					
Holders of ordinary shares of the Company	375,896	308,946	241,305	171,412	103,749
Holders of senior perpetual securities	5,900	–	–	–	–
Non-controlling interests	1,667	538	(192)	191	(331)
	383,463	309,484	241,113	171,603	103,418

Financial Summary

Assets, Liabilities and Non-controlling Interests

	At 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	110,726,124	86,512,872	60,570,275	47,097,345	25,326,291
Total liabilities	(93,276,231)	(72,348,002)	(47,714,829)	(37,795,575)	(21,833,929)
Senior perpetual Securities	(1,258,170)	–	–	–	–
Non-controlling interests	(78,771)	(39,528)	(10,964)	(4,019)	(2,782)
	16,112,952	14,125,342	12,844,482	9,297,751	3,489,580

The following table sets forth the assets, liabilities and non-controlling interests of the Group converted into US$ at the respective exchange rate as at the end of each period[(1)] as of the dates indicated.

	At 31 December				
	2014	2013	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	18,095,461	14,189,649	9,636,509	7,474,702	3,824,164
Total liabilities	(15,243,705)	(11,866,359)	(7,591,255)	(5,998,442)	(3,296,832)
Senior perpetual securities	(205,617)	–	–	–	–
Non-controlling interests	(12,873)	(6,483)	(1,744)	(638)	(420)
	2,633,266	2,316,807	2,043,510	1,475,622	526,912

Financial Summary

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	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
2013	6.0969	6.1912
2014	6.1190	6.1080