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 2016

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 2016. This announcement, containing the full text of the 2016 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
NING Gaoning

Hong Kong, 29 March 2017

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. NING Gaoning (Chairman), Mr. YANG Lin, Dr. CHEN Guogang, 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. NING Gaoning *(Chairman)*

Executive Director
Mr. KONG Fanxing
(Vice Chairman, Chief Executive Officer)
Mr. WANG Mingzhe
(Chief Financial Officer)

Non-Executive Director
Mr. YANG Lin
Dr. CHEN Guogang
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 and Risk Management 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

Suite 6305, 63/F,
Central Plaza,
18 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

Suite 6305, 63/F,
Central Plaza,
18 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 fundamental industries 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 operational philosophy of "finance + industry", 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 national economic and sustainable social development. With the creative integration of industrial services and financial capital and with unique advantages in the organization of resources and value added services, we provide integrated finance, investment, trade, advisory and engineering services in healthcare, education, infrastructure construction, transportation, packaging, industrial machinery, electronic information, urban public utility as well as other fundamental sectors. The Group, headquartered in Hong Kong, has business 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, Kunming, Hefei and Nanning, forming a client service network that covers the national market. The Group has been successfully operating its multiple specialized business platforms in China and abroad in financial services, industrial investment, hospital investment and operations, equipment operation services, high-end education, 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

Far East Horizon Limited
Chairman of the Board

NING Gaoning

Dear Shareholders,

On behalf of the staff of Far East Horizon Limited ("the Company") and its subsidiaries ("the Group"), I would like to express my heartfelt thanks to all the shareholders for their understanding and support in the past year. The annual results for the year ended 31 December 2016 are presented as follows.

2016 was a year of challenges and opportunities. The global economy is still in the adjustment cycle as a whole, but the economies are clearly differentiated. American economy has established its recovery while other developed economies remained in the downward cycle. China's economy was still facing great challenges and its economic growth showed a stepwise regression state in "L" shape. The industrial restructuring remains at the crucial stage. Meanwhile, there is still a major historical opportunity in China's economy, with the vigorous promotion of all kinds of systematization and market-oriented reform, so various types of shackles unsuitable for economic development are bound to be broken. We have reason to believe that China's economy will utilize this adjustment to successfully achieve market-oriented reform and lay the foundation for long-term stable economic development. In addition, relying on the huge population base of China, all kinds of industry closely related to the daily life are also gradually showing the growth potential and the reasonable investment and policy guidance will stimulate the great vitality of the new economy, which will lead the Chinese economy into a "second leap".

Chairman's Statement

In 2016, the Group continued to adopt the innovative development model characterized by an "organic and effective combination of finance and industries", proactively employed the business strategy of "increasing market coverage and innovating services means with collaborative industry operations" which was formulated at the beginning of the year, and prudently implemented well-designed business plans with calm observation and careful argument. Thanks to the persistent efforts made by our staff, the Group again fulfilled anticipation and achieved all objectives set by the Board, delivering another record high of operating results and consolidating the operating base despite difficulties and challenges posed by the external environment.

As at the end of 2016, total assets of the Group reached approximately RMB166.0 billion, up by approximately 20% from the beginning of the year. Net profit attributable to shareholders amounted to approximately RMB2.88 billion for the year, representing a year-on-year increase of approximately 15%. Meanwhile, asset quality of the Group remained stable with non-performing assets less than 1% and the provision coverage ratio at over 200%, fulfilling our commitments to shareholders of maintaining asset security and healthy and sustained business growth.

With the ultimate goal of safeguarding shareholders' interest and maximizing shareholders' value in mind, the Board spared no efforts to enhance its corporate governance and optimize the management of the Company. In accordance with the requirements of Corporate Governance Code of the Stock Exchange, the Company convened a total of four regular Board meetings in 2016 to consider and approve issues on the annual results for 2015, interim results for 2016, strategic planning report for the next three years, annual operating budgets, labor costs budgets and continuing connected transactions. Meanwhile, the committees under the Board all exercised their rights and performed their duties authorized by the Board in respect of appointment of directors, optimization of the remuneration and incentive systems and improvement of corporate development strategies.

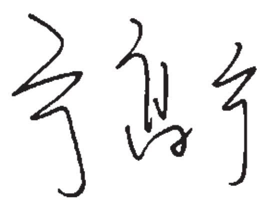
Chairman's Statement

Looking forward to 2017, the global economic situation is still complex and filled with challenges and opportunities. China's economy will continue to balance in the adjustment between traditional economy and new economy, where the challenges in traditional industries will continue to increase; but unprecedented opportunities will appear in the health care, education and other basic industries related to people's livelihood. In the face of many uncertainties and unknown challenges, the Group will continue to adhere to the strategic development direction of the "integrated industry operation services", proactively stay close to the market, timely adjust the business strategy and strive to achieve the established goal of "expanding market coverage, increasing product service competitiveness, and effective collaborating with financial business and industrial operations". We are committed to fulfill all the operation, management and budget objectives approved by the Board for 2017, so as to create greater value for all our shareholders and related parties.

Far East Horizon Limited

NING Gaoning

Chairman of the Board



29 March 2017

CEO's Statement

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

KONG Fanxing

Dear Shareholders,

In 2016, looking at the world, with sudden changes in economic pattern and fluctuation in economic markets, "uncertainty" has become the world economy keywords. China's economy is like sunrise and sunset, where challenges and opportunities coexist. Traditional industries, represented by manufacturing industry, are still in an adjusting period of cutting excessive industrial capacity and de-leveraging. Companies are facing the challenges of industrial transfer, upgrading and even recession, with the pressure of survival increasing. Meanwhile, the service industry has jumped to the largest pillar industry of the national economy and became more and more important in China's economic growth, taking a more apparent role as the main engine.

Facing the complex and changing environment, under the leadership and support of the Board, Far East Horizon Limited ("the Company"), and its subsidiaries ("the Group") made good results again in 2016. As at the end of 2016, the Group's total assets increased to approximately RMB166.0 billion (with total assets under management of approximately RMB200.0 billion), increasing approximately 20% from the beginning of the year. The operating revenue in 2016 amounted to approximately RMB13.9 billion, representing a year-on-year increase of approximately 18%; the net profit attributable to shareholders of ordinary shares in 2016 amounted to RMB2.88 billion, representing a year-on-year increase of approximately 15%. In terms of size, quality and implication, such results of operation are hard-won and very valuable.

First of all, this performance is an important affirmation of our business potential and competitiveness

Since 2001, the Group has adhered to the root of our establishment of "bringing together global capital to help China's industry". Based on changes of customer and market demand, we abide by the development strategy of "organic and effective combination of finance and industries", to innovate product and improve service, focusing on serving the quality customers. We also achieved invaluable results in the financial leasing industry. In July 2016, the Group was listed as "Top 500 Chinese Enterprises in 2016" by Fortune Magazine (Chinese version), which marked the Group's business scale officially entered the ranks

CEO's Statement

of large-size enterprises in China. But we also must be soberly aware that with the expansion of the volume base, every subsequent percentage growth will be more difficult. Time tries all. On the basis of the forward-looking strategic layout, the Group innovated products and services, strengthened market penetration and customer coverage and vigorously promoted the integrated and investment banking-like service method to serve the real economy and continue to provide customers with differentiated services according to their development needs. In 2016, asset size, operating revenue and net profit recorded a double-digit growth as always and hit a record high, achieving the business goals set for the year.

Meanwhile, this performance is obtained with the effective balance between asset securities and long-term interests of shareholders

The Group has achieved a higher growth rate of major financial indicators. Meanwhile, the Group maintained basically stable asset quality throughout the year, through introducing high-quality customers in the industry, strictly controlling investment in high-risk industries and reducing the risk exposure of individual customers. As at the end of year, the non-performing asset ratio was 0.99%, while the ratio of overdue interest-bearing assets past 30 days was approximately 0.98%, which was better than the industrial level. On top of this, the Group's provision coverage has remained at a level of more than 200% throughout the year, significantly different from the traditional financial sector. In terms of interest rate, exchange rate risk and liquidity risk management, the Group continues to use hedging instruments to reasonably match the duration of assets and liabilities, effectively control the negative impact of uncertain factors, and achieve the optimal combination of financing costs, risks and liquidity, ensuring the continuity of financial results and long-term interests of shareholders.

What is more valuable is that this performance is the result of our deep interaction within industries and its value is far greater than a single financial business, representing the advance of the Group's business content toward the unique pattern of finance+industry

In recent years, the Group has accumulated years of experience and customer base in the industry, concentrating our efforts and resources, to actively distribute industrial operations business in several major service industries closely related with the people's livelihood. In terms of healthcare service, the Group has initially set up a leading hospital operation and management group that covers more than 20 hospitals with more than 7,000 beds, which is featured with major specialties combined with small-scale general consultation service. Through the sharing and promotion of the advantagous discipline, import and integration of physician resources, transformation and upgrading of management processes, specifying management and intensive procurement and other measures, the operating capacity and management efficiency of the hospital group members during the period have been effectively improved. In addition, the Group has also integrated the high quality resources of the medical industry, explored the high-end maternity and rehabilitation services, and further expanded the Group's influence in the healthcare industry. With the progress of the above-mentioned business, the Group has gradually formed an organic composite operation system of financial services, consulting services, engineering services, investment management and hospital operation, which is "mutual cooperation and promotion". We have taken a solid and powerful step toward the goal of "comprehensive operator in medical industry".

CEO's Statement

In terms of high-end education service, the Group has made great efforts to grasp the development opportunities brought by the mismatched supply and demand of high-end education in China and clearly defined the operating positioning of"Chinese-western integration and elite creation for the people", focusing on high-end early childhood education and international high school education, in order to serve the customers positioned to afford elite education. At present, the Group has operated two full-time high-end international high school and four high-end international kindergarten and we will consider the timing to enter the education industry chain. In terms of construction engineering services, the Group's equipment operation and operating leasing services company has initially established a national operation network, supplemented by the Group's financial leasing, Public-Private-Partnership (PPP) and other financial business channels, rapidly developing equipment services and operating leasing market. It has initially established distribution advantages in the aerial work vehicles, high-end scaffolding and other related segments.

Due to the rapid progress of various industrial operations, the Group has become increasingly diversified in asset allocation, income structure and profit source, and has continuously improved the depth of integration with the industry, which has laid a good foundation for the future sustainable, healthy and stable development.

Looking forward, we will continue to adopt the innovative development model characterized by an "organic and effective combination of finance and industries" by optimizing the layout of traditional financial business assets and strengthening management of risks relating to assets to effectively safeguard assets security, while actively accelerating the expansion of our industrial operations. Our efforts in facilitating the organic synergy between our financing businesses and industrial operations businesses and in actively releasing their financial value will ultimately maximize shareholder value.

Finally, on behalf of the management and all of our staff, I would like to thank every shareholder, client and partner for their continued understanding and support.

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

Business Overview

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Total revenue	13,928,369	11,795,983	10,060,717	7,868,382	6,486,395
Financial services (interest income)	8,139,285	6,849,330	6,457,748	5,170,398	4,333,589
Advisory services (fee income)	3,820,487	3,850,659	2,709,366	2,245,431	1,525,721
Revenue from industrial operation	2,113,804	1,206,807	1,009,959	573,800	797,111
Business tax and surcharges	(145,207)	(110,813)	(116,356)	(121,247)	(170,026)
Cost of sales	(5,735,538)	(4,771,610)	(4,106,547)	(2,890,185)	(2,908,365)
Borrowing Costs	(4,131,599)	(3,963,282)	(3,422,599)	(2,464,876)	(2,208,405)
Costs for industrial operation	(1,603,939)	(808,328)	(683,948)	(425,309)	(699,960)
Pre-Provision Operating Profit[(1)]	5,330,998	4,440,828	3,961,209	3,135,357	2,427,047
Profit before tax	4,072,470	3,579,725	3,211,200	2,600,741	2,076,020
Profit for the year attributable to holders of ordinary shares of the Company	2,882,208	2,503,109	2,295,954	1,912,744	1,518,577
Basic earnings per share (RMB)	0.74	0.70	0.70	0.58	0.48
Diluted earnings per share (RMB)	0.74	0.70	0.70	0.58	0.48
Profitability indicators					
Return on average assets[(2)]	1.92%	2.06%	2.37%	2.61%	2.82%
Return on average equity[(3)]	13.00%	13.35%	15.19%	14.18%	13.72%
Net interest margin[(4)]	3.04%	2.62%	3.30%	3.91%	4.27%
Net interest spread[(5)]	1.79%	1.22%	2.01%	2.76%	3.02%
Cost to income ratio[(6)]	35.06%	36.04%	38.06%	37.86%	33.98%

Business Overview

	Year ended 31 December				
	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	166,560,921	139,312,889	110,726,124	86,512,872	60,570,275
Net interest-earning assets	139,798,341	121,970,478	100,828,572	80,745,756	57,587,210
Total liabilities	141,714,820	116,351,469	93,276,231	72,348,002	47,714,829
Interest-bearing bank and other borrowings	106,937,588	83,428,801	71,777,837	56,554,478	36,751,959
Gearing Ratio	85.08%	83.52%	84.24%	83.63%	78.78%
Total equity	24,846,101	22,961,420	17,449,893	14,164,870	12,855,446
Equity attributable to holders of ordinary shares of the Company	22,959,230	21,391,037	16,112,952	14,125,342	12,844,482
Net assets per share (RMB)	5.81	5.41	4.89	4.30	3.90
Duration matching of assets and Liabilities					
Financial assets	148,699,641	128,291,002	104,545,229	83,085,680	59,706,865
Financial liabilities	137,335,079	112,966,022	90,313,636	70,255,960	46,816,315
Quality of interest-earning assets					
Non-performing asset ratio(7)	0.99%	0.97%	0.91%	0.80%	0.73%
Provision coverage ratio(8)	212.13%	201.24%	218.66%	219.19%	213.87%
Write-off of non-performing assets ratio(9)	29.82%	27.39%	19.02%	2.47%	0.00%
Overdue interest-earning assets (over 30 days) ratio(10)	0.98%	1.08%	0.91%	0.45%	0.30%

Notes:

(1) Pre-Provision Operating Profit = Profit before tax + Provision for loans and accounts receivable,

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

(3) 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;

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

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

(6) Cost to income ratio = (selling and administrative expense – provision for other assets)/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 ratio = interest-earning bad debt 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 2016, the Chinese economy continues to go downward. GDP grew by 6.7% year on year, decreasing by 0.2% as compared to the previous year. For investment, the national fixed asset investment growth continued to slow down and grew by 8.1% year on year, being the lowest level in 15 years; among which, demand for proactive investment from corporations also decreased significantly and the private investment showed a cliff-like decline, with a growth rate of 3.2%, decreasing from 10.1% in 2015. For consumption, the total retail sales of social consumer goods declined steadily from 10.7% in 2015 to 10.4%. As for exports, the global economic downturn and weak external demand resulted in continuous negative growth of exports.

For financial environment, the monetary policy remained sound as a whole. During 2016, the total financing amount across the country increased year on year by RMB2.4 trillion to RMB17.8 trillion, among which RMB loans issued to the real economy significantly increased to RMB12.4 trillion, increasing 1.2 trillion as compared to the last year. The corporate bond financing increased slightly, accounting for 16.8% of the growth of social financing scale over the same period, decreasing by 2.2 percentage points as compared to the last year.

1.2 Industry Environment

The industrial restructuring continued to deepen. In 2016, the added value of the tertiary sector grew by 7.8%, which was 1.7 percentage points higher than that of the secondary sector. The tertiary sector accounted for 51.6% of GDP, accounting for more than 50% for the second consecutive year. The secondary industry, the core of which is the manufacturing industry, has not changed significantly. The added value continued to decrease throughout the year, increasing by 6.0% year on year.

In respect of various industries sectors served by the Group, the differentiation trend in their industry environment is becoming increasingly obvious. Industries including healthcare, education, urban public utilities and media maintained a stable and rapid development momentum. China's construction industry gradually went into saturation period, with a slowdown in the growth of industrial value. However, new urbanization and upgrade and improvement of infrastructure will create new growth space for the industry. Industrial equipment, textile, transportation, packaging industry were affected by the slowdown in economic growth, so the industry will continue to experience the adjustment, fluctuation and upgrade.

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Management Discussion and Analysis

1.3 The Leasing Industry

In 2016, with the support of national policies, China's financial leasing industry has achieved a rapid development. According to Tianjin Binhai Research Institute, as of the end of 2016, the total financial leasing companies in China amounted to 7,400, representing a year-on-year increase of 64%. With the number of leasing companies rapidly increasing, the capital and business scale of the industry grew rapidly as well. The total capital of the industry amounted to over RMB2.5 trillion and the balance of financial leasing contracts amounted to RMB5.3 trillion.

1.4 Company's solutions

Amidst the continuous macroeconomic downturn and the increasingly fierce competition of the financial industry, the Group adhered to the operation concept of "finance + industry" and focused on the real economies. It took advantages and features of the "focusing on industry" and deeply understood the customer's needs, to provide comprehensive and diversified products to realize a stable growth in the results. The specific measures are as follows:

First, to consolidate the market basis. The Group made full use of the accumulation and advantages of "focusing on industry" and strengthened the construction of the national marketing network system with an industrial perspective, to "get close to the market, the customers and the business" and strengthen the market basis. Meanwhile, we expanded the industry chain segments and markets which matched the new circle, for example, medicine, tourism, sports and urban environmental protection etc., to drive the growth of business.

Second, to innovate financial product. While continuing to expand its business scale, the Company set service integration as its goal, the Group further enriched its financial product and service portfolio by operating business similar to investment banking, in order to meet the multi-dimensional financial needs of real economic customers. In addition to the original leasing and factoring products, we added structured financing, PPP model, asset management and other innovative products, to further expand the customer base and form a stable business increment.

Third, to add comprehensive service. The Group facilitated its deployment on three major industries, namely healthcare, infrastructure construction and education and gradually built an organic management system. Take the healthcare industry as an example, in addition to continuous investment and merger of quality hospitals, strengthened the construction of organic collaborative service system of financial service, hospital operation, medical engineering and management consulting, to enrich the means of competition and strive to create a unique business model to promote the rapid development of financial business.

Fourth, to strengthen risk management and ensure asset security. We promoted the construction of two centres, namely "customer-based and customer manager-based", optimized the management system, strictly controlled the risk of entry and adapted to the new environment. In terms of asset disposals, we continued to optimize the regional system construction of asset management and expand external resources to accelerate the progress and efficiency of asset disposal, which will ultimately helps the Group to maintain a relatively stable level of asset quality.

Fifth, to strengthen the financing guarantee. With the high cost of foreign currency financing, the Group will further increase the scale of domestic financing. Meanwhile, we will continue to enrich the varieties of direct financing and enhance the proportion of direct financing. In addition to the protection of resources, we will gradually reduce new financing costs.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In 2016, the Group relied on China's real economy and continued to implement its operational philosophy of "finance + industry", which led to an overall healthy and steady growth in its results. The Group realized a profit before tax of RMB4,072,470,000, representing a growth of 13.76% from the previous, a year and the profit attributable to owners of the parent was RMB2,882,208,000 representing, a growth of 15.15% from the previous year. The following table sets forth the figures for 2015 for comparison.

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	For the year ended 31 December		
	2016	2015	
	RMB'000	RMB'000	Change %
Revenue	13,928,369	11,795,983	18.08%
Cost of sales	(5,735,538)	(4,771,610)	20.20%
Gross profit	8,192,831	7,024,373	16.63%
Other income and gains	477,443	510,032	-6.39%
Selling and administrative expenses	(2,875,622)	(2,556,557)	12.48%
Other expenses	(306,790)	(454,489)	-32.50%
Finance costs	(157,755)	(122,221)	29.07%
Gains and loss on investment in Joint Ventures	591	(310)	-290.65%
Gains and loss on investment in associates	300	–	N/A
Pre-Provision Operating Profit	5,330,998	4,400,828	21.14%
Provision for loans and accounts receivable	(1,258,528)	(821,103)	53.27%
Profit before tax	4,072,470	3,579,725	13.76%
Income tax expense	(1,130,683)	(999,734)	13.10%
Profit for the year	2,941,787	2,579,991	14.02%
Attributable to:			
Holders of ordinary shares of the Company	2,882,208	2,503,109	15.15%
Holders of senior perpetual securities	78,284	73,080	7.12%
Non-controlling interests	(18,705)	3,802	-591.98%

Management Discussion and Analysis

2.2 Revenue

In 2016, the Group realized revenue of RMB13,928,369,000, representing a growth of 18.08% from RMB11,795,983,000 as recorded in the previous year. It also recorded steady growth of income in both financial and advisory segment and industrial operation segment. In 2016, income (before business taxes and surcharges) of the financial and advisory segment was RMB11,959,772,000, accounting for 84.98% of the total income (before business taxes and surcharges), and representing a growth of 11.77% from the previous year. The Group also accelerated its pace in developing integrated industrial operation business with income derived from industrial operations grew by 75.16% as compared with last year.

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				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change%
Financial and advisory segment	11,959,772	84.98%	10,699,989	89.86%	11.77%
Financial services (interest income)	8,139,285	57.83%	6,849,330	57.52%	18.83%
Advisory services (fee income)	3,820,487	27.15%	3,850,659	32.34%	-0.78%
Industrial operation segment	2,113,804	15.02%	1,206,807	10.14%	75.16%
Total	14,073,576	100.00%	11,906,796	100.00%	18.20%
Business taxes and surcharges	(145,207)		(110,813)		31.04%
Income (after business taxes and surcharges)	13,928,369		11,795,983		18.08%

The Group also categorized income by industry, and the Group was mainly engaged in 9 industries covering healthcare, education, infrastructure construction, machinery, packaging, transportation, electronic information, urban utility business and comprehensive development for 2016. Meanwhile, with the promulgation of national macro-control policies and the further promotion of the industrial operation of the Group, the overall income of healthcare, education and infrastructure construction segments increased by 24.45%, 37.06% and 13.33% respectively as compared to the previous year. With the expansion of the industries covered, income of comprehensive development business segment increased by 42.43% as compared to the corresponding period of the previous year. In January 2016, in order to construct a value chain of living consumer goods covering production, distribution and consumption, the Group carried out continuous in-depth expansion in textiles, light industry, living consumption services and other relevant sectors, expanded the business scale, improved the operation ability in the industry, and renamed its textiles segment as comprehensive development segment.

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				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	3,766,582	26.76%	3,026,497	25.42%	24.45%
Education	2,326,356	16.53%	1,697,344	14.26%	37.06%
Infrastructure construction	2,882,294	20.48%	2,543,229	21.36%	13.33%
Transportation	1,013,900	7.20%	926,967	7.79%	9.38%
Packaging	929,889	6.61%	977,589	8.21%	-4.88%
Machinery	1,198,857	8.52%	1,055,890	8.87%	13.54%
Comprehensive development (formerly textiles)	522,897	3.72%	367,125	3.08%	42.43%
Electronic information	806,628	5.73%	774,200	6.50%	4.19%
Urban utilities	597,118	4.24%	533,033	4.48%	12.02%
Others	29,055	0.21%	4,922	0.03%	490.31%
Total	14,073,576	100.00%	11,906,796	100.00%	18.20%

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Management Discussion and Analysis

2.2.1 Financial Services (Interest Income)

The interest income (before business taxes and surcharges) from the financial and advisory segment of the Group rose 18.83% from RMB6,849,330,000 for 2015 to RMB8,139,285,000 for 2016, accounting for 57.83% of the Group's total revenue (before business taxes and surcharges).

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					
	2016			2015		
	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	31,118,740	2,074,103	6.67%	27,235,413	1,751,974	6.43%
Education	22,640,699	1,445,295	6.38%	17,062,899	1,087,631	6.37%
Infrastructure construction	19,508,453	1,235,132	6.33%	17,832,175	1,147,681	6.44%
Transportation	10,377,294	645,558	6.22%	9,614,874	585,171	6.09%
Packaging	12,393,265	726,396	5.86%	11,536,878	668,613	5.80%
Machinery	14,021,272	763,275	5.44%	11,058,754	624,802	5.65%
Comprehensive development (formerly textiles)	5,719,493	332,381	5.81%	3,693,743	178,030	4.82%
Electronic information	8,678,148	527,682	6.08%	6,923,040	468,443	6.77%
Urban utilities	7,140,038	380,961	5.34%	5,237,752	336,245	6.42%
Others	153,535	8,502	5.54%	80,324	740	0.92%
Total	131,750,937	8,139,285	6.18%	110,275,852	6,849,330	6.21%

Notes:

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

(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, mortgage 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

In 2016, the average balance of interest-earning assets of the Group increased by 19.47% from RMB110,275,852,000 for 2015 to RMB131,750,937,000 for 2016. Besides the continuous encouragement from the three major segments, namely healthcare, education and infrastructure construction, there were substantial growth in industrial machinery, comprehensive development and urban public utility for the period, representing an increase of 34.47% as compared to the corresponding period of the previous year. 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.

Analysis according to average yield

In 2016, the average yield of the Group was 6.18%, representing 0.03 percentage point lower than 6.21% as compared to the previous year. This was mainly due to the comprehensive effect of the following: (i) in 2015, the People's Bank of China reduced the benchmark interest rate for five times, which resulted in the benchmark interest rate of Renminbi loans with respective terms of 1 to 5 years decreased by 125 basis points from 6.00% to 4.75%, the effects of which showed during 2016, thus the average asset yield of the Group decreased by approximately 0.50 percentage point. In order to cope with the effect caused by lower interest rate, the Group promoted the business contract with fixed interest rate to some extent to reduce the adverse effect arising from the reduction of benchmark interest rate; and (ii) since 1 May 2016, the policy of "replacing business tax with value-added tax" has been implemented in the finance industry, resulting in the commodity turnover tax of leaseback projects decreasing from 17% to 6% and therefore increasing the Group's average yield of asset by 0.45 percentage points. At the same time, the Group continuously increased the investments in high-end quality customers, according to the statistics of newly contracted customers in 2016, customers who contributed revenue of more than RMB100 million accounted for 71.6%, up by 11.3 percentage points from 60.3% in the previous year.

The table below sets forth the breakdown of interest income by region in the indicated periods.

	For the year ended 31 December			
	2016		2015	
	RMB'000	% of total	RMB'000	% of total
Northeast China	708,644	8.71%	525,127	7.67%
Northern China	909,107	11.17%	701,016	10.23%
Eastern China	2,672,626	32.84%	2,660,500	38.85%
Southern China	779,281	9.57%	698,051	10.19%
Central China	1,171,247	14.39%	1,028,411	15.01%
Northwest China	434,057	5.33%	226,393	3.31%
Southwest China	1,464,323	17.99%	1,009,832	14.74%
Total	8,139,285	100.00%	6,849,330	100.00%

Management Discussion and Analysis

2.2.2 Advisory Services (Fee Income)

In 2016, fee income (before business taxes and surcharges) from financial and advisory segment was RMB3,820,487,000, which was flat as compared to 2015, accounting for 27.15% of the total revenue (before business taxes and surcharges) of the Group and representing a decrease as compared with 32.34% 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				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	840,816	22.01%	951,562	24.71%	-11.64%
Education	765,162	20.03%	599,755	15.58%	27.58%
Infrastructure construction	687,215	17.99%	736,960	19.14%	-6.75%
Transportation	200,507	5.25%	179,205	4.65%	11.89%
Packaging	203,493	5.33%	296,414	7.70%	-31.35%
Machinery	435,582	11.40%	416,963	10.83%	4.47%
Comprehensive development (formerly textiles)	190,516	4.99%	189,095	4.91%	0.75%
Electronic information	268,244	7.02%	283,917	7.37%	-5.52%
Urban utilities	216,156	5.66%	196,788	5.11%	9.84%
Others	12,796	0.32%	–	–	–
Total	3,820,487	100.00%	3,850,659	100.00%	-0.78%

Healthcare, education and infrastructure construction industry accounted for the greatest contribution to the aggregate growth of the Group's service charge income (before business taxes and surcharges). The overall service charge income of the Group for the year 2016 recorded slight decrease, which was mainly due to the fact that the change in customer base and their qualification and customers' higher requirements for the content of advisory services required, resulted in the Group to continuously improve its service ability and diversify the service offering, lengthen the cycle of certain advisory service, leading to income recognition for over one fiscal year. In the future, the Group will continue to improve its advisory service ability in existing sectors, meanwhile strengthening the expansion in new segments, establishing the ability in satisfying the new service demands and striving to maintain steady and healthy growth of advisory service income.

Management Discussion and Analysis

The table below sets forth the breakdown of the Group's service charge income (before business taxes and surcharges) by region in the indicated periods.

	For the year ended 31 December			
	2016		2015	
	RMB'000	% of total	RMB'000	% of total
Northeast China	263,015	6.88%	334,500	8.69%
Northern China	685,490	17.94%	372,202	9.67%
Eastern China	1,065,060	27.88%	1,281,912	33.29%
Southern China	310,402	8.12%	344,818	8.95%
Central China	457,061	11.96%	570,962	14.83%
Northwest China	244,100	6.39%	220,592	5.73%
Southwest China	795,359	20.83%	725,673	18.84%
Total	3,820,487	100.00%	3,850,659	100.00%

Management Discussion and Analysis

2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group for 2016 (before business taxes and surcharges) increased by 75.16% from RMB1,206,807,000 for 2015 to RMB2,113,804,000 for 2016, accounting for 15.02% of the total revenue (before business taxes and surcharges) of the Group.

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				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Income from industrial operation segment	2,113,804	100.00%	1,206,807	100.00%	75.16%
Including:					
Revenue from operating lease	830,314	39.28%	601,200	49.82%	38.11%
Revenue from hospital operation	626,028	29.62%	194,477	16.12%	221.90%
Revenue from trading	257,472	12.18%	120,356	9.97%	113.93%
Revenue from construction contracts	79,058	3.74%	96,620	8.01%	-18.18%
Revenue from educational institutions operation	115,898	5.48%	9,958	0.83%	1,063.87%

In 2016, the Group's operating leasing business development had established a complete preliminary marketing system and the assets scale has joined the front ranks in sub-markets such as engineering equipment and scaffolds. Revenue (before business taxes and surcharges) of RMB830,314,000, accounting for 39.28% of the revenue from industrial operation segment for the year, representing an increase of 38.11% as compared to the last year.

On the basis of continuing to speed up the investment in the hospital, the Group continued to deepen the promotion of the professional discipline construction, medical environment experience, operation process management and corporate culture integration of our existing hospitals. As of the end of 2016, the Group entered into agreements to invest or gained control over 11 hospitals, namely Nayong Xinli Hospital (納雍新立), Chongqing Yudong Hospital (重慶渝東), Deyang Fifth Hospital (德陽五院), Fengyang Gulou Hospital (鳳陽鼓樓), Zhoushan Cunde Hospital (舟山存德) (renamed as Putuo Guanghua Hospital (普陀廣華)), Siyang Xiehe Hospital (泗陽協和), Meizhou Tieluqiao Hospital (梅州鐵爐橋), Zhengzhou Renji Hospital (鄭州仁濟) and Shenzhen Zhonghai Hospital Group (深圳中海醫院集團)(including Shenzhen Zhonghai (深圳中海), Shenzhen Cihai (深圳慈海) and Dongguan Guanhua (東莞莞華)) through investment, merger and acquisition, as well as reorganization. We invested or gained control over 20 hospitals in total with over 7,000 beds available (2015: approximately 3,300 beds). According to the operation needs of the hospitals, nearly 4,400 beds were actually in use as at the end of 2016 (2015: approximately 2,000 beds). In terms of operation capability, the operating revenue of 2016 from the above 20 hospitals (including the hospitals which the Group is interested in and the hospitals for which the Group has entered into contracts but has not yet delivered) amounted to approximately RMB1,415 million, with an operating gross profit of approximately RMB455 million, a gross margin of approximately 32% and a net profit of RMB118 million. The Group will focus on the nature of medical care as the core, with the existing specialist advantages as the starting point, and optimize the synergies to expand the medical field, in order to establish a professional and technical leading hospital operation management group with extraordinary service awareness.

Management Discussion and Analysis

The Group began its systematic deployment in the education industry in 2015. In 2016, the Group committed to the establishment of high-end kindergartens and expanded the layout of first-class international education at home and abroad. The Group entered into agreements in respect of 12 new high-end kindergarten sites in Shanghai and some other cities during the year and acquired three kindergartens and 2 international schools in 2015. As of the end of 2016, the Group operated 4 high-end kindergartens and 2 international schools with more than 930 students, representing an increase of approximately 100% as compared to last year. Revenue from education institutions amounted to RMB115,898,000 for 2016, representing an increase of 1,063.87% from RMB9,958,000 in 2015.

The Group's trade income for 2016 was RMB257,472,000, representing an increase of 113.93% as compared to the previous year. Trade income is mainly from the medical, construction-related equipment trade services.

2.3 Cost of sales

Cost of sales of the Group in 2016 was RMB5,735,538,000, representing an increase of 20.20% from RMB4,771,610,000 in the previous year. This was mainly due to the increase in costs of industrial operation segment, and the significant increase was mainly due to the fact that the Group's industrial operation was at its preliminary stage. Among them, the cost of the financial and advisory segment was RMB4,131,599,000, accounting for 72.04% of the total cost. The cost of the industrial operation segment was RMB1,603,939,000, accounting for 27.96% of the total cost.

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				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the finance and advisory segment	4,131,599	72.04%	3,963,282	83.06%	4.25%
Cost of the industrial operation	1,603,939	27.96%	808,328	16.94%	98.43%
Cost of sales	5,735,538	100.00%	4,771,610	100.00%	20.20%

Management Discussion and Analysis

2.3.1 Cost of the Financial and Advisory Segment

The cost of sales of the financial and advisory segment of the Group comprised solely of 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 rate of the Group in the indicated period.

	For the year ended 31 December					
	2016			2015		
	Average balance(1) RMB'000	Interest Expense RMB'000	Average cost rate(2)	Average balance(1) RMB'000	Interest expense RMB'000	Average cost rate(2)
Interest-bearing liabilities	94,172,927	4,131,599	4.39%	79,367,236	3,963,282	4.99%

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.

The cost of sales of financial and advisory increased from RMB3,963,282,000 for 2015 to RMB4,131,599,000 for 2016. The average cost rate of interest-bearing liabilities of the Group was 4.39% in 2016, a slight decrease from 2015. It is mainly due to the fact that: (i) the Group adhered to the "diversified resources" financing strategy, increasing the proportion of direct financing by issuing corporate bonds, short-term financial bonds, ultra-short and medium term notes, continuing to expand the proportion of direct financing, the proportion of direct financing increased from 26% at the end of 2015 to 41% at the end of 2016, thereby greatly reducing the financial cost of the Company; meanwhile, using the window period, to extract FT loans, foreign direct loans and other products, replacing with high-cost financing, effectively reducing the cost of finance, and the average cost rate decrease by approximately 0.26% due to the decrease in cost of new withdrawal; (ii) in the existing debt structure, about 42% of the loans are the ones fluctuating with the central bank's benchmark interest rate, so the average cost rate of the Group decreased by about 0.33% due to the lowering of the central bank's benchmark interest rate in 2015; (iii) since 1 May 2016, the policy of "replacing business tax with value-added tax" has been implemented in the finance industry, and the output value-added tax rate for financial institutions is 6%, which led to the decrease in amount of interest expense deductible for value-added tax, such effects resulted in an increase of approximately 0.29% of average cost rate; (iv) in order to accelerate the asset turnover and optimize the financial structure, the Group continuously facilitated the development of ABS assets sell-out business in 2016, which effectively reduced the financial expense, thereby resulting in the 0.30% decrease in average cost rate.

Management Discussion and Analysis

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 equipment operation, cost of hospital operation and cost of trading business.

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				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the industrial operational segments	1,603,939	100.00%	808,328	100.00%	98.43%
Of which:					
Cost of operating lease	559,180	34.86%	343,584	42.51%	62.75%
Cost of hospital operation	459,564	28.65%	132,362	16.37%	247.20%
Cost of trading	232,015	14.47%	114,263	14.14%	103.05%
Cost of construction contracts	60,314	3.76%	55,973	6.92%	7.76%
Cost of educational institutions operation	71,888	4.48%	5,971	0.74%	1,103.95%

Cost of operating lease of the Group increased by 62.75% to RMB559,180,000 in 2016 from RMB343,584,000 in 2015, mainly due to the addition in the leased assets as the result of the rapid growth of the operating leasing business of the Group.

In 2016, on the basis of continuing to accelerate the investment in hospitals, the Group increased the introduction and cultivation of medical personnel, strengthened the quality of medical care and service management, promoted the development and construction of disciplines and greatly increased the medical service capability and management level of the Group's hospitals.

In 2016, with the development and operation of high-end kindergartens and international schools, the labor costs of outstanding Chinese and foreign teachers and the housing leasing and decoration amortization were simultaneously increased. The operating cost of educational institutions in 2016 was RMB71,888,000, representing an increase of 1,103.95% as compared to RMB5,971,000 in 2015.

In 2016, the Group's cost of trading business was RMB232,015,000, representing an increase of 103.05% as compared to the previous year. The cost of trade is mainly for the medical, construction-related trade business equipment procurement and related tax costs.

Management Discussion and Analysis

2.4 Gross Profit

The gross profit of the Group in 2016 was RMB8,192,831,000, which increased by RMB1,168,458,000 or 16.63% from RMB7,024,373,000 in 2015. In 2016 and 2015, the gross profit margin of the Group was 58.82% and 59.55% respectively.

2.4.1 Gross Profit of the Financial and Advisory Segment

The gross profit margin of the financial and advisory segment of the Group for 2016 was 65.45%, up from 62.96% of the previous year. The gross profit margin of the financial 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		
	2016	2015	
	RMB'000	RMB'000	Change%
Interest income[1]	8,139,285	6,849,330	18.83%
Interest expense[2]	4,131,599	3,963,282	4.25%
Net interest income	4,007,686	2,886,048	38.86%
Net interest spread[3]	1.79%	1.22%	0.57%
Net interest margin[4]	3.04%	2.62%	0.42%

Notes:

(1) Interest income is the interest income of the financial and advisory segment of the Group.

(2) Interest expense is the borrowing cost of the financial and advisory segment of the Group.

(3) Calculated as the difference between the average yield and the average cost rate. 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.

Net interest spread of the Group for 2016 increased by 0.57 percentage point to 1.79% from 1.22% in the previous year. The increase in net interest spread was primarily due to the slight decrease of 3 basis points in the average yield on interest-earning assets of the Group while the decrease of 60 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 the discussion and analysis in paragraphs 2.2.1 and 2.3.1 of this section. Meanwhile, net interest income of the Group increased by 38.86% from RMB2,886,048,000 in 2015 to RMB4,007,686,000 in 2016, and the average total balance of interest-earning assets of the Group increased by 19.47% as compared to the previous year. As a result, the net interest margin of the Group of 3.04% increased by 0.42 percentage point as compared to 2.62% in 2015.

Management Discussion and Analysis

2.4.2 Gross Profit of the Industrial Operations Segment

The gross profit of the industrial operation segment increased by 27.95% to RMB509,865,000 during 2016 as compared with RMB398,479,000 for the 2015. Among which, the gross profit of the operating lease business and the hospital operation were RMB271,134,000 and RMB166,464,000 respectively, accounting for 53.18% and 32.65% of the total gross profit of the industrial operations segment.

Based on the rapid development of hospital operating income in 2016, the Group resulted in an increase in the cost of scientific management due to the construction of medical personnel, the improvement of medical quality and services and the construction of disciplines, which resulted in a slight decrease in gross margin from 31.94% in 2015 to 26.59% in 2016. The basic completion of preliminary investment and the further enhancement of internal operation efficiency are expected to have more positive effects on the gross profit margin in the future.

During 2016, the gross profit of the education institutions operation was RMB44,010,000, with gross profit margin of 37.97%. Recently, two kindergartens and one international school have fulfilled their enrolment quota and the remaining two kindergartens and one international school have not fulfilled their enrolment quota. The gross profit is expected to further increase after all kindergartens and international schools fulfilled their enrolment quota.

In 2016, the gross profit of the Group's trading business was RMB25,457,000 and the gross profit margin was 9.89%, which remained basically stable compared with that in 2015.

	For the year ended 31 December				
	2016		2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Gross profit of industrial operations segment	509,865	100.00%	398,479	100.00%	27.95%
Of which:					
Gross profit of operating lease	271,134	53.18%	257,616	64.65%	5.25%
Gross profit of hospital operation	166,464	32.65%	62,115	15.59%	167.99%
Gross profit of trading	25,457	4.99%	6,093	1.53%	317.81%
Gross profit of construction contracts	18,744	3.68%	40,647	10.20%	-53.89%
Gross profit of educational institutions operation	44,010	8.63%	3,987	1.00%	1,003.84%

Management Discussion and Analysis

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		
	2016 RMB'000	2015 RMB'000	Change%
Bank interest income	41,183	56,163	-26.67%
Gains from deductible inter-group loans(1)	43,129	188,114	-77.07%
Gains from structured financial products	18,871	6,597	186.05%
Government grants(2)	9,471	130,508	-92.74%
Net income from the holdings of off-balance-sheet assets(3)	100,279	–	N/A
Financial equity investment income(4)	141,817	11,898	1,091.94%
Net gains from the fair value of derivative instruments	13,293	48,235	-72.44%
Gains from the transfer of financial assets(5)	92,907	67,203	38.25%
Other income	16,493	1,314	1,155.18%
Total	477,443	510,032	-6.39%

Note:

(1) The decrease in the gains from deductible inter-group loans is mainly affected by the policy of "replacing business tax with value-added tax" for turnover tax in China in 2016. The difference between the payable tax rate and the deductible tax rate is significantly reduced after the implementation. Meanwhile, it was also affected by the decrease in cross-border financing transactions within the Group.

(2) The government grants of the Group in 2016 were lower than that of 2015, mainly due to the fact that certain subsidiaries were granted one-off government grants in 2015.

(3) For the holding of off-balance-sheet assets of the Group, the net income of the year was recognized according to the expected yield and expected loss rate of such holding.

(4) The Group's financial equity investment income was mainly gains on changes and transfer in the fair value of trading financial assets.

(5) The Group's gains from transfer of financial assets are the premium of interest-bearing assets gained from issuing asset-backed securities of the Group.

Management Discussion and Analysis

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group in 2016 were RMB2,875,622,000, representing an increase of RMB319,065,000 or 12.48% from the previous year. The change in selling and administrative expenses was mainly due to the cost regarding the remuneration and welfare of staff relating to the administrative expenses increased by RMB281,308,000 or 15.42% from the previous year, which was due to the effectively control of the costs by the Group in light of the increase in the headcount of fulltime staff. The total headcount of full-time staff of the Group increased from 6,084 in 2015 to 8,184 as at the end of 2016.

Cost to income ratio of the Group in 2016 was 35.06%, which was slightly lower as compared with 36.04% of the corresponding period of the previous year.

2.7 Other Expenses

Other expenses of the Group in 2016 amounted to RMB306,790,000, representing an decrease of RMB147,699,000 or 32.50% from the previous year. Other expenses comprised foreign exchange loss of RMB61,268,000, increasing by RMB44,781,000 as compared to RMB16,487,000 of the previous year. The foreign exchange loss in 2016 was mainly due to the cost of exchange rate difference on bank-side in the process of settlement and sale.

2.8 Income Tax Expense

Income tax expense of the Group in 2016 was RMB1,130,683,000, which increased by RMB130,949,000 or 13.10% from 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 2016 was 27.8%, which decreased by 0.1 percentage point from 27.9% for the previous year and remained stable. The following table sets forth a breakdown of particulars of the income tax rate:

	For the year ended 31 December		
	2016 RMB'000	2015 RMB'000	Change%
Domestic statutory tax rate	25.0%	25.0%	
Cross-border business withholding income tax (1)	2.1%	3.7%	-1.6%
Others(2)	0.7%	-0.8%	1.5%
Total	27.8%	27.9%	-0.1%

Note:

(1) The decrease in cross-border business withholding income tax was due to the increase in domestic financing ratio in 2016 and the decrease in the size of cross-border financing transactions within the Group;

(2) The increase in others was mainly due to the decline in the profit margins of overseas low-tax platforms.

Management Discussion and Analysis

2.9 Profit for the Year Attributable to Owners of the Parent

Based on the above discussion and analysis, profit for the period attributable to holders of ordinary shares of the Company was RMB2,882,208,000, which increased by RMB379,099,000 or 15.15% from the previous year. Net profit margin of the Group in 2016 was 21.12%, which remained stable as compared to 21.87% of the previous year.

3. Analysis of Financial Position

3.1 Assets (Overview)

As at 31 December 2016, the total assets of the Group increased by RMB27,248,032,000 or 19.56% from the end of the previous year to RMB166,560,921,000. Loans and accounts receivable increased by RMB18,235,068,000 or 15.12% from the end of the previous year to RMB138,801,377,000.

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

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Loans and accounts receivable	138,801,377	83.33%	120,566,309	86.54%	15.12%
Cash and cash equivalents	2,051,307	1.23%	2,500,665	1.79%	-17.97%
Restricted deposits	2,461,364	1.48%	2,640,891	1.90%	-6.80%
Prepayment and other accounts receivable	7,592,238	4.56%	3,636,873	2.61%	108.76%
Deferred tax assets	1,907,364	1.15%	1,300,724	0.93%	46.64%
Property, plant and equipment	4,995,714	3.00%	3,357,879	2.41%	48.78%
Prepaid land lease payments	1,215,828	0.73%	1,150,026	0.83%	5.72%
Investment in joint ventures	1,404,870	0.84%	1,187,975	0.85%	18.26%
Investment in associates	263,700	0.16%	–	–	N/A
Available-for-sale financial assets	289,889	0.17%	427,142	0.31%	-32.13%
Financial assets held for trading	721,239	0.43%	244,132	0.18%	195.43%
Derivative financial instruments	1,382,876	0.83%	1,117,234	0.80%	23.78%
Inventories	246,057	0.15%	114,793	0.08%	114.35%
Construction contracts	44,129	0.03%	42,387	0.03%	4.11%
Goodwill	748,821	0.45%	359,452	0.26%	108.32%
Assets with continuing involvement	2,398,981	1.44%	569,062	0.41%	321.57%
Other assets	35,167	0.02%	97,345	0.07%	-63.87%
Total assets	166,560,921	100.00%	139,312,889	100.00%	19.56%

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 83.34% of the total assets of the Group as of the end of 2016. In 2016, the Group adjusted development strategies for each industry based on dynamic environment and industry situation to develop relevant markets and strengthened its risk control in a prudent manner to, while safeguarding its assets, implement ongoing and stable expansion of the financial business 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 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-earning assets	139,798,341		121,970,478		14.62%
Less: interest-earning assets provisions	(2,946,686)		(2,380,751)		23.77%
Net interest-earning assets (1)	136,851,655	98.60%	119,589,727	99.19%	14.43%
Others(2)	1,949,722	1.40%	976,582	0.81%	99.65%
Net loans and accounts receivable	138,801,377		120,566,309		15.12%

Note:

(1) Interest-earning assets include receivable finance lease entrusted loans, mortgage 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.

3.2.1 Interest-earning Assets

Net interest-earning assets of the Group as of 31 December 2016 were RMB139,798,341,000, representing an increase of 14.62% as compared with RMB121,970,478,000 as of 31 December 2015. 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 and steady expansion of financial business of the Group on a basis of the Group's effective risk control in 2016.

Management Discussion and Analysis

3.2.2 Net Interest-earning Assets by Industry

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

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	31,584,432	22.59%	28,854,340	23.66%	9.46%
Education	25,262,019	18.07%	19,831,084	16.26%	27.39%
Infrastructure construction	20,408,257	14.60%	19,570,163	16.04%	4.28%
Transportation	11,305,210	8.09%	9,447,205	7.74%	19.67%
Packaging	12,570,982	8.99%	12,383,851	10.15%	1.51%
Machinery	15,155,313	10.84%	12,764,877	10.47%	18.73%
Comprehensive development (formerly textiles)	6,326,613	4.53%	4,800,342	3.94%	31.80%
Electronic information	9,722,460	6.95%	7,706,454	6.32%	26.16%
Urban utilities	7,281,104	5.21%	6,540,732	5.36%	11.32%
Others	181,951	0.13%	71,430	0.06%	154.73%
Total	139,798,341	100.00%	121,970,478	100.00%	14.62%

Net interest-earning assets for healthcare and education as of 31 December 2016 grew the most in amount among the target industries of the Group, namely by RMB2,730,092,000 and RMB5,430,935,000, respectively over those as at 31 December 2015. The increase was attributable to the business expansion and exploration in different industries, as well as contribution from enhanced promotion and marketing activities. Furthermore, the Group, in order to adapt to the market environment, made strategic moves to reduce allocation to certain sluggish industries, which led to lower growth rates for infrastructure construction and packaging.

Management Discussion and Analysis

3.2.3 Net Interest-earning Assets by Region

The table below sets forth net interest-earning assets of the Group by region as of the dates indicated.

	31 December 2016		31 December 2015	
	RMB'000	% of total	RMB'000	% of total
Northeast China	11,884,952	8.50%	9,653,007	7.91%
Northern China	18,197,391	13.02%	11,534,818	9.46%
Eastern China	43,638,738	31.22%	44,395,257	36.40%
Southern China	13,537,396	9.68%	12,530,028	10.27%
Central China	19,000,338	13.59%	18,659,555	15.30%
Northwest China	8,875,007	6.35%	5,830,127	4.78%
Southwest China	24,664,519	17.64%	19,367,686	15.88%
Total	139,798,341	100.00%	121,970,478	100.00%

3.2.4 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, categorized by the time elapsed since the effective date of the relevant leases, entrusted loans, mortgage loans, credit assignment and factoring contracts.

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Net interest-earning assets					
Within 1 year	80,457,796	57.55%	67,753,107	55.55%	18.75%
1 to 2 years	36,838,840	26.35%	31,936,459	26.18%	15.35%
2 to 3 years	13,728,718	9.82%	15,807,212	12.96%	-13.15%
3 years and beyond	8,772,987	6.28%	6,473,700	5.31%	35.52%
Total	139,798,341	100.00%	121,970,478	100.00%	14.62%

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 2016, net interest-earning assets within one year as set out in the table above represented 57.55% of net interest-earning assets of the Group, which remained stable as compared to the previous year.

Management Discussion and Analysis

3.2.5 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 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Maturity date					
Within 1 year	53,359,728	38.17%	46,742,416	38.32%	14.16%
1 to 2 years	39,550,951	28.29%	35,302,937	28.94%	12.03%
2 to 3 years	26,164,131	18.72%	22,085,071	18.11%	18.47%
3 years and beyond	20,723,531	14.82%	17,840,054	14.63%	16.16%
Total	139,798,341	100.00%	121,970,478	100.00%	14.62%

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 2016, net interest-earning assets due within one year as set forth in the table above represented 38.17% of the Group's net interest-earning assets as of each of the respective dates, which was flat as compared to the end of the previous year. This indicated that the maturity of the Group's net financial leasing receivable was widely spread and could provide the Group with consistent and sustainable cash inflows that facilitated the matching of our liabilities.

3.2.6 Asset Quality of Net Interest-earning Assets

3.2.6.1 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.

Management Discussion and Analysis

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.

Asset Management Measures

In 2016, both domestic and international economic environments were complicated, the PRC's economy was under structural transition, and industry upgrade was still in a crucial stage. Nevertheless, as the supply side structural reform gradually came into effect, the macro economy showed a slow yet steady trend, and the economy operated with a reasonable range. The Group continuously optimized the asset allocation, expanded the coverage of risk prevention, strengthened its asset process monitoring, and intensified risk asset disposal so as to maintain a stable position in its asset quality during the reporting period.

Management Discussion and Analysis

Continuously optimizing the asset allocation and comprehensively controlling the asset introduction risks

From the marco perspective, the Company continued to manage and control the industry risk, encouraged introduction of promising assets while preventing risky transactions, further increased the introduction of assets in industries encouraged by the government, strictly controlled the asset allocation to limited industries and below; for newly introduced industries with well-recognized potential, the Company made investment in an orderly manner and controlled the investment on both aggregate and individual basis. The Company carried out collective review and adjustment to the industry risk policy every six months to adapt to the change in external environment. From the medium perspective, on top of enhancing the quality of customer base, the Company continuously optimized the customer assessment model and optimized the key assessment and analysis of customers' credit limit based on the change in customer base, particularly increased the efforts in optimizing the credit management and methods for major customers, group customers and listed company customers, and formulated relevant operating patterns and assessment guidelines and procedures. The Company continued to implement the differentiation management for state-owned companies and non-state-owned companies, focused on preventing the investment in "zombie companies" for state-owned companies, and focused on control and management of credit limit under highly risky conditions for non-state-owned companies. The Company adhered to the concentration management of credit facilities granted to customers to prevent the grant of oversized credit facilities to major customers and repeating customers. For quality customers exceeded the customer concentration limit, the Company mainly granted facilities with guarantee terms and rejected the increase in credit limit. From the micro perspective, the Company implemented refined operation in the process of asset introduction with focus on non-state-owned companies, adhered to the double-post shift system for customer manager and dual attestation system on credit evaluation, and continued to improve the refined level of operation to minimize the operating risk. The Company also issued the operating rules for such type of customers, which provided detail requirements such as income verification, debt and investment verification and cash flow estimation, and continuously carried out risk awareness and skill training through the sharing of experience in risk cases.

Extending the management function and expanding the coverage of risk prevention

In 2016, the Company extended the management function, started to implement the prioritization/localization of credit sector on a trial basis, obtained further information of the market and customers, and minimized relevant risks from information asymmetry. With the comprehensive implementation of the Company's "finance + industry" strategy, the Company experienced rapid development in hospital, education and engineering equipment sectors, and the difficulties in risk management of relevant industrial business also gradual increased. As such, the Company focused on the management and control of key and major risks in principal business, and established a collective management system covering four levels, namely headquarter of the Group, industrial group, platform companies and physical enterprises, which strengthened the classified and collective management and control. Based on the operation management system of the principal business of platform companies or physical enterprises, the Company sorted out their systems, procedures, positions and corresponding responsibilities and authorization control in a systematic manner, strengthened the management of operating risk and internal control compliance risk, strengthened the supervision and inspection, and implemented differentiation risk management for different industries. Meanwhile, the Company adopted the HSE risk management as the main approach to build up the "friendly, respectable, trustworthy and reliable" brand image of the Company and keep the overall industrial safety risk under control.

Management Discussion and Analysis

Enhancing the effectiveness of process monitoring system and strengthening the risk prevention and mitigation

In 2016, the Company continued to construct a strict asset monitoring system. For the construction of asset management localization, the Company increased the regional footholds of assets, and increased the number of personnel for management of local assets in regional centers, which significantly expanded the customer coverage and sped up the response to abnormal matters. For internet monitoring system, the Company introduced new network risk information monitoring tools to enhance the monitoring frequency and expand the monitoring coverage and latitude, and implemented a comprehensive and ongoing information monitoring and warning feedback mechanism at the process management stage.

In 2016, based on the strict monitoring system, the Company strengthened the risk prevention and mitigation. Through the anticipation of risk exposure, the Company formulated targeted measures for risk prevention, seized the preemptive opportunity of risk mitigation, and took active approaches such as pre-litigation preservation, debt restructuring and increase of measures against risk to mitigate potential risk in a timely and effective manner and prevent the decline of asset quality.

Optimizing management mechanism on risk disposal to step up efforts to dispose of risk assets

In 2016, the Group continued to optimize the management mechanism on risk assets disposal, formed special teams to provide collective litigation support, established and implemented various supporting mechanisms, and enhanced the efficiency of cross-department collaboration; rapidly developed the regional disposal resources, and achieved remarkable results in national distribution; increased the efforts in resource allocation of competent courts in two places to ensure the litigation efficiency.

In 2016, for transportation and packaging divisions of which the safety of assets were subject to more severe situation, the Company continued to strengthen the work mechanism, specified the management responsibility and disposal target, implemented the mechanism combining incentives and restraints, and endeavored to dispose the risk assets with internal resources, which significantly improved the results of disposal.

Management Discussion and Analysis

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

	31 December 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	124,443,723	89.02%	105,643,641	86.61%	86,066,609	85.36%	68,819,144	85.23%
Special mention	13,965,494	9.99%	15,143,803	12.42%	13,841,631	13.73%	11,280,176	13.97%
Substandard	853,232	0.61%	793,889	0.65%	597,030	0.59%	259,905	0.32%
Doubtful	535,892	0.38%	389,145	0.32%	323,302	0.32%	386,531	0.48%
Loss	–	–	–	–	–	–	–	–
Net interest-earning assets	139,798,341	100.00%	121,970,478	100.00%	100,828,572	100.00%	80,745,756	100.00%
Non-performing assets	1,389,124		1,183,034		920,332		646,436	
Non-performing asset ratio	0.99%		0.97%		0.91%		0.80%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As at 31 December 2016, the Group's assets under special mention accounted for 9.99% of its net interest-earning assets, representing a decrease by 2.43% from 12.42% at the end of 2015 mainly as the Group actively adjusted and optimized its industry and asset deployment, strictly controlled the gain of customers of high risks, and significantly optimized the structure of its general customer base.

In particular, assets under special mention in the transportation industry accounted for the largest portion of 22.87%. In 2016, the growth of the demand of the shipping industry remained sluggish, and the problem of over-capacity could hardly be fundamentally resolved in the short term with the downturn and volatility of the shipping market expected to continue for a certain period. The Group prudently monitored assets in this sector and kept 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 16.47%, 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 machinery industry accounted for the third largest portion at 15.60%, mainly attributable to the economic downturn and industrial structure adjustments leading to the slowndown in the growth of industrial output. The Group prudently reclassified more assets in this sector as assets under special mention. Assets under special mention in the packaging industry accounted for the fourth largest portion at 13.32%, mainly attributable to the fact that some SME clients have low industry risk resistance with a fall in income, leading to tight liquidity. 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 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	2,299,614	16.47%	2,665,640	17.60%	2,163,851	15.63%	1,319,246	11.70%
Education	816,376	5.85%	1,228,615	8.11%	1,092,498	7.89%	893,569	7.91%
Infrastructure construction	1,286,848	9.21%	984,774	6.50%	1,208,022	8.73%	993,563	8.81%
Transportation	3,193,299	22.87%	3,803,153	25.11%	3,203,122	23.14%	3,005,841	26.65%
Packaging	1,860,066	13.32%	2,059,459	13.60%	2,002,526	14.47%	1,230,813	10.91%
Machinery	2,178,558	15.60%	1,988,419	13.13%	1,676,805	12.11%	997,917	8.85%
Comprehensive development (formerly textiles)	929,650	6.66%	464,485	3.07%	220,133	1.59%	78,540	0.70%
Electronic information	657,479	4.71%	1,027,950	6.79%	1,043,528	7.54%	1,069,806	9.48%
Urban utilities	743,604	5.31%	915,313	6.05%	1,145,490	8.28%	1,690,881	14.99%
Others	–	0.00%	5,995	0.04%	85,656	0.62%	–	–
Total	13,965,494	100.00%	15,143,803	100.00%	13,841,631	100.00%	11,280,176	100.00%

Management Discussion and Analysis

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

	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Pass	6.84%	6.60%	8.59%	15.55%
Special mention	40.15%	43.05%	51.83%	40.77%
Substandard	4.39%	2.18%	2.16%	0.22%
Doubtful	1.21%	1.42%	0.07%	0.39%
Loss	–	–	–	–
Recoveries	47.41%	46.75%	37.35%	43.07%
Total	100.00%	100.00%	100.00%	100.00%

The Group's asset quality remained favourable. The non-performing asset ratio slightly increased from 0.97% from the end of the previous year to 0.99% as of 31 December 2016.

The non-performing asset ratio for the transportation industry to total non-performing assets was 40.13%, mainly because certain clients remained at breakeven with tight liquidity under the prolonged downturn in the shipping market. Besides, the non-performing asset for for the transportation industry takes a longer disposal period. 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 22.55%, primarily because mostly SME corporates are strainded in operation with over-capacity while facing fierce competition and tight liquidity. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the industrial machinery accounted for 13.35% of the total non-performing assets, mainly due to the over-capacity in segments, such as the machinery and steel industries, with some clients encountering difficulties in operation and drop in profits. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the infrastructure construction industry accounted for 12.65% of the total non-performing assets, mainly because of the decrease in state fixed assets investment, the slowdown in the growth of the construction industry for houses and highways, and deteriorated operation of certain customers. The Group prudently reclassified the assets of the segment 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 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	25,244	1.82%	13,196	1.11%	8,116	0.88%	5,921	0.91%
Education	11,641	0.84%	1,607	0.14%	3,557	0.39%	8,071	1.25%
Infrastructure construction	175,729	12.65%	223,328	18.88%	101,783	11.06%	88,931	13.76%
Transportation	557,433	40.13%	422,961	35.75%	478,051	51.94%	212,565	32.88%
Packaging	313,235	22.55%	313,142	26.47%	184,098	20.00%	198,641	30.73%
Machinery	185,474	13.35%	97,468	8.24%	120,802	13.13%	81,259	12.57%
Comprehensive development (formerly textiles)	44,094	3.17%	25,371	2.14%	9,048	0.98%	19,788	3.06%
Electronic information	7,800	0.56%	20,526	1.74%	14,877	1.62%	31,260	4.84%
Urban utilities	5,000	0.36%	–	–	–	–	–	–
Others	63,474	4.57%	65,435	5.53%	–	–	–	–
Total	1,389,124	100.00%	1,183,034	100.00%	920,332	100.00%	646,436	100.00%

Management Discussion and Analysis

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

	31 December 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	17,986	2.10%	7,724	0.97%	3,403	0.57%	–	–
Education	–	–	–	–	1,779	0.30%	–	–
Infrastructure construction	94,396	11.06%	157,634	19.86%	56,582	9.48%	22,086	8.50%
Transportation	446,826	52.37%	281,559	35.46%	302,711	50.70%	108,819	41.87%
Packaging	217,532	25.50%	237,288	29.89%	119,926	20.09%	100,492	38.66%
Machinery	61,427	7.20%	61,742	7.78%	104,415	17.49%	21,855	8.41%
Comprehensive development (formerly textiles)	15,065	1.77%	21,287	2.68%	4,909	0.82%	3,949	1.52%
Electronic information	–	–	16,445	2.07%	3,305	0.55%	2,704	1.04%
Urban utilities	–	–	–	–	–	–	–	–
Others	–	–	10,210	1.29%	–	–	–	–
Total	853,232	100.00%	793,889	100.00%	597,030	100.00%	259,905	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 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	7,258	1.35%	5,472	1.41%	4,713	1.46%	5,921	1.53%
Education	11,641	2.17%	1,607	0.41%	1,778	0.55%	8,071	2.09%
Infrastructure construction	81,333	15.18%	65,694	16.88%	45,201	13.98%	66,845	17.29%
Transportation	110,607	20.64%	141,402	36.34%	175,340	54.23%	103,746	26.84%
Packaging	95,703	17.86%	75,854	19.49%	64,172	19.85%	98,149	25.39%
Machinery	124,047	23.15%	35,726	9.18%	16,387	5.07%	59,404	15.37%
Comprehensive development (formerly textiles)	29,029	5.42%	4,084	1.05%	4,139	1.28%	15,839	4.10%
Electronic information	7,800	1.46%	4,081	1.05%	11,572	3.58%	28,556	7.39%
Urban utilities	5,000	0.93%	–	–	–	–	–	–
Others	63,474	11.84%	55,225	14.19%	–	–	–	–
Total	535,892	100.00%	389,145	100.00%	323,302	100.00%	386,531	100.00%

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

	31 December 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	–	–	–	–	–	–	–	–
Education	–	–	–	–	–	–	–	–
Infrastructure construction	–	–	–	–	–	–	–	–
Transportation	–	–	–	–	–	–	–	–
Packaging	–	–	–	–	–	–	–	–
Machinery	–	–	–	–	–	–	–	–
Comprehensive development (formerly textiles)	–	–	–	–	–	–	–	–
Electronic information	–	–	–	–	–	–	–	–
Urban utilities	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–

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

	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
At the beginning of the year	1,183,034	920,332	646,436
Downgrades [(1)]	989,462	1,033,727	699,657
Upgrades	(94,433)	(37,013)	(32,440)
Recoveries	(336,154)	(481,950)	(270,397)
Write-offs	(352,785)	(252,062)	(122,924)
At the end of the year	1,389,124	1,183,034	920,332
NPA ratio	0.99%	0.97%	0.91%

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 classified in the current year to non-performing categories.

Management Discussion and Analysis

3.2.6.2 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 2016		31 December 2015		31 December 2014		31 December 2013	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Interest-earning Assets Provisions:								
Individual assessment	558,366	18.95%	392,455	16.48%	407,940	20.27%	312,024	22.02%
Collective assessment	2,388,320	81.05%	1,988,296	83.52%	1,604,453	79.73%	1,104,872	77.98%
Total	2,946,686	100.00%	2,380,751	100.00%	2,012,393	100.00%	1,416,896	100.00%
Non-performing assets	1,389,124		1,183,034		920,332		646,436	
Provision coverage ratio	212.13%		201.24%		218.66%		219.19%	

3.2.6.3 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 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000
Write-off	352,785	252,062	122,924	10,389
Non-performing assets as at the end of the previous year	1,183,034	920,332	646,436	420,520
Write-off ratio [(1)]	29.82%	27.39%	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.

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In 2016, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB352,785,000, mainly distributed in the transportation, packaging, construction, and machinery industries, which respectively account for RMB129,169,000, RMB106,438,000, RMB56,700,000, and RMB53,098,000. On the one hand, due to the continuous sluggish in shipping market, certain clients suffered from long-term operating loss while shipping prices kept on dropping, resulting in loss from discounts in prices. On the other hand, under the impacts of the macro-economic downturn and industrial structure adjustments, certain SME clients suffered from deteriorated operations. The mutual insurance of companies went bankruptcy and their pledged equipment has low value and was sealed for multiple rounds. The bankruptcy reorganization was slow and there was no effective disposal means. Despite the Group's effort in collection through judicial means, exercisable assets were unable to cover risk exposure of projects at the moment. Although the Group is not required to write-off the bad debts of the relevant non-performing assets pursuant to the requirements of the accounting standards, the Group has not stopped collecting assets. From 2011 to the end of 2016, the written-off bad debts amounted RMB738,159,000 and RMB15,843,000 has been recovered.

3.2.6.4 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 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000
Overdue ratio (over 30 days)	0.98%	1.08%	0.91%	0.45%

As a result of the Group's prudent risk control and asset management, with the customer base moving upwards and the implementation of more effective process regulation and control, the general asset quality remains stable. The Group's lease overdue ratio (over 30 days) was 0.98% as at 31 December 2016, representing 0.1 percentage point lower than 1.08% as of the end of 2015.

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

	31 December 2016		31 December 2015	
	RMB'000	% of total	RMB'000	% of total
Healthcare	198,831	14.55%	7,928	0.60%
Education	13,865	1.01%	4,623	0.35%
Infrastructure construction	259,141	18.96%	133,061	10.09%
Transportation	279,028	20.42%	649,426	49.25%
Packaging	223,406	16.35%	342,669	25.98%
Machinery	131,508	9.62%	69,062	5.24%
Comprehensive development (formerly textiles)	39,702	2.91%	26,276	1.99%
Electronic information	7,800	0.57%	20,305	1.54%
Urban utilities	149,684	10.95%	–	–
Others	63,474	4.66%	65,435	4.96%
Total	1,366,439	100.00%	1,318,785	100.00%

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

	31 December 2016		31 December 2015	
	RMB'000	% of total	RMB'000	% of total
Special mention	586,898	42.95%	655,258	49.69%
Substandard	274,200	20.07%	369,224	28.00%
Doubtful	505,341	36.98%	294,303	22.31%
Loss	–	–	–	–
Total	1,366,439	100.00%	1,318,785	100.00%

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3.3 Assets other than Loans and Accounts Receivable

On 31 December 2016, the Group's cash and cash equivalent amounted to RMB2,051,307,000. The Group maintains sufficient cash to support its business development and ensure its liquidity safety. The Group had restricted deposits of RMB2,461,364,000, mainly consisting of restricted security deposit.

Prepayments and other receivables of the Group amounted to RMB7,592,238,000, comprised mainly of prepayments of RMB4.0 billion for suppliers of machinery and equipment and the secondary share of securitized asset products of the Group being held and the holding of off-balance-sheet assets of RMB2.4 billion. The Group's total principal amount of interest-bearing assets sold in the period of 2015 and 2016 through the issuance of asset-backed securities was approximately RMB42.9 billion. The corresponding off-balance-sheet assets which the Group held as of the end of 2016 was approximately RMB29.3 billion, among which the non-performing assets accounted for less than 0.07% and the assets past due of 30 days and above accounted for less than 0.03%. As the asset management service provider of the off-balance-sheet assets, the Group implemented the same sound management policy as the on-balance-sheet assets and strengthened the monitoring process of assets. In 2016, the quality of off-balance-sheet assets was stable and there was no significant asset quality abnormality.

Assets with continuing involvement of the Group amounted to RMB2,398,981,000, representing an increase of RMB1,829,919,000 or 321.57% as compared to the end of last year. Pursuant to specific requirements of accounting standards, the Group should continue to recognise assets and liabilities with continuing involvement in relation to such activities due to risk associated with subordinate and enhanced credit facilities held by the Group.

Deferred tax assets of the Group amounted to RMB1,907,364,000, mainly for the deferred income tax provided for the time difference between accounting and taxation.

Property, plant and equipment of the Group amounted to RMB4,995,714,000, comprised mainly of equipment and instruments for operating leasing and plants and medical equipment of subsidiary hospitals.

Prepaid lease payments and other receivables of the Group amounted to RMB1,215,828,000, comprised mainly of those for the land use right for the construction of its main office building acquired in 2013.

Investment in associates of the Group amounted to RMB1,404,870,000, comprised mainly of equity investments in Guangzhou Kangda, Weihai Haida Hospital and Kunming Broadhealthcare.

The balance of tradable financial assets of the Group was RMB721,239,000, mainly due to the financial equity investment invested by the Group.

The balance of derivative financial instruments of the Group is RMB1,382,876,000, mainly for the financial instruments such as exchange rate forwards and currency swaps of the Group. These instruments are mainly used to hedge the foreign exchange exposure of the Group.

The balance of the Group's goodwill amounted to RMB748,821,000, which was mainly the goodwill recognized for the acquisition of nine medical and five educational institutions.

Management Discussion and Analysis

3.4 Liabilities (Overview)

On 31 December 2016, total liabilities of the Group amounted to RMB141,714,820,000, representing an increase of RMB25,363,351,000 or 21.80% 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 75.46% of the total, representing a decrease as compared to 71.70% of the end of last year.

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

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	106,937,588	75.46%	83,428,801	71.70%	28.18%
Other payables, accruals and liabilities	28,177,195	19.88%	22,693,575	19.51%	24.16%
Trade and bills payables	2,887,321	2.04%	8,337,635	7.17%	-65.37%
Tax Payable	1,002,600	0.71%	644,112	0.55%	55.66%
Derivative financial instruments	92,217	0.07%	288,114	0.25%	-67.99%
Deferred tax liabilities	70,850	0.05%	129,392	0.11%	-45.24%
Liabilities for continuing involvement	2,398,981	1.69%	569,062	0.49%	321.57%
Deferred revenue	148,068	0.10%	260,778	0.22%	-43.22%
Total Liabilities	141,714,820	100.00%	116,351,469	100.00%	21.80%

Management Discussion and Analysis

3.5 Interest-bearing Bank and Other Borrowings

In 2016, as the complex financial environment at home and overseas faced the Group, the Group adhered to the established strategy of "resources globalization", 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.

With respect to direct financing, the Group further enriched the bond portfolios at home, having formed the continued issuing trend. The issuance of the year amounted to 14, with the cumulative amount of RMB26 billion, including RMB13 billion of corporate bonds, RMB8 billion of Private Placement Notes (PPNs), RMB2 billion of ultra short financing bills, RMB2 billion of short financing bills and RMB1 billion of other bonds.

Within the market 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. In terms of remote credit, the scale of credit in Tianjin platform increased rapidly, increasing from RMB8.5 billion at the end of 2015 to RMB24.3 billion at the end of 2016. In the marketplace, the credit facility with main cooperative banks was further expanded, and the strategic cooperation with them was also further strengthened. Reasonable layouts were set for products in syndicated loans, bilateral loans, factoring and other types. We also made full use of the window period the Free Trade Zone and actively imported low-cost capital, realizing a withdrawal of RMB14.6 billion.

In terms of off-balance-sheet financing, the Group achieved the breakthrough in quantity in 2016, which gradually showed the effect of scale. The financing amount of asset securitization business in 2016 accumulated to RMB27.7 billion, which was 1.8 times of that of 2015, which enabled us to be the most active financial leasing company with the issue of asset-backed securities products in China. Off-balance-sheet financing diversified funding sources, optimized liability structure and improved management on financial statements. Meanwhile, in the situation that the off-balance-sheet financing cost had been continuously reducing, we achieved the best issuance of products in the same category in the period. Currently, the Group is fully equipped with the continuous and effective issue ability, enabling it to establish the market standard, solidify the project model and set up the image of a mature issuer in the capital market.

In conclusion, 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, decentralization of financing regions and acquisition of long term finance resources. The Group was confident that with the global financing network as well as resource advantage, the Group can further improve its competitiveness in liability side.

As at 31 December 2016, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB106,937,588,000, representing an increase of 28.18% as compared with RMB83,428,801,000 as of the end of last year, mainly resulting from the increase of interest-bearing liabilities for supporting of the expansion of the Group's business.

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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 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Current	53,545,549	50.07%	41,699,533	49.98%	28.41%
Non-current	53,392,039	49.93%	41,729,268	50.02%	27.95%
Total	106,937,588	100.00%	83,428,801	100.00%	28.18%

As at 31 December 2016, the Group's current interest-bearing bank and other borrowings (including short-term loans and portions that are due within one year in long-term loans) as a percentage of the Group's total interest-bearing bank and other borrowings was 50.07%, representing a slight increase as compared with 49.98% as of 31 December 2015, with a sound financing strategy and reasonable liability structure.

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

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	12,719,705	11.89%	13,055,751	15.65%	-2.57%
Unsecured	94,217,883	88.11%	70,373,050	84.35%	33.88%
Total	106,937,588	100.00%	83,428,801	100.00%	28.18%

The Group prudently managed its funding risk in 2016. As at 31 December 2016, the proportion of the Group's interestbearing bank and other borrowings that were unsecured accounted for 88.11% of the Group's total interest-bearing bank and other borrowings, higher than that of the end of last year, mainly due to the fact that the Group's remnant secured loan reduced continuously and the newly-added finance were introduced with optimized conditions, indicating the strengthened financing capacity of the Group.

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

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank loans	61,819,996	57.81%	57,708,184	69.17%	7.13%
Other loans	45,117,592	42.19%	25,720,617	30.83%	75.41%
Total	106,937,588	100.00%	83,428,801	100.00%	28.18%

The proportion of the Group's other loans as a percentage to the Group's total interest-bearing bank and other borrowings increased slightly as at 31 December 2016, as the Group explored new channels for direct financing by introducing financing products such as medium-term notes, short-term financing coupon and PPN in order to increase the proportion of direct financing.

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 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
China	88,511,044	82.77%	51,766,734	62.05%	70.98%
Overseas	18,426,544	17.23%	31,662,067	37.95%	-41.80%
Total	106,937,588	100.00%	83,428,801	100.00%	28.18%

As at 31 December 2016, the proportion of the Group's borrowings from overseas as a percentage to the Group's total interest-bearing banks and other borrowings was 17.23%, which significantly shrunk as compared with that at the end of last year as the Group, taking into the consideration of the uncertainty in overseas market and the relevant hedging costs, proactively expanded various direct financing channels such as PPN and corporate bonds in China.

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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 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
RMB	88,265,386	82.54%	56,311,765	67.50%	56.74%
US$	12,069,354	11.29%	21,163,378	25.37%	-42.97%
Borrowings in other currencies	6,602,848	6.17%	5,953,658	7.13%	10.90%
Total	106,937,588	100.00%	83,428,801	100.00%	28.18%

As at 31 December 2016, the proportion of the Group's borrowings as a percentage to the Group's total interest-bearing bank and other borrowings in RMB was 82.54%, representing an increase from the end of last year as the Group, taking into the consideration of the uncertainty in overseas market, proactively promoted, expanded, and consolidated financing in RMB.

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 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	43,690,437	40.86%	22,050,220	26.43%	98.14%
Indirect financing	63,247,151	59.14%	61,378,581	73.57%	3.04%
Total	106,937,588	100.00%	83,428,801	100.00%	28.18%

As at 31 December 2016, the proportion of the Group's direct borrowings as a percentage to the Group's total interestbearing banks and other borrowings was 40.86%, representing an increase from the end of last year as the Group proactively expanded the bonds market in China by issuing medium-term notes, short-term financial bonds, corporate bonds and PPN.

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3.6 Shareholders' Equity

As at 31 December 2016, the total equity of the Group was RMB24,846,101,000, representing an increase of RMB1,884,681,000 or 8.21% from the end of last year.

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

	31 December 2016		31 December 2015		
	RMB'000	% of total	RMB'000	% of total	Change %
Issued share capital	10,213,017	41.11%	10,210,572	44.47%	0.02%
Reserve	12,746,213	51.29%	11,180,465	48.70%	14.00%
Equity attributable to ordinary shareholders of the Company	22,959,230	92.40%	21,391,037	93.17%	7.33%
Senior perpetual securities(1)	1,231,881	4.96%	1,227,203	5.34%	0.38%
Non-controlling interests	654,990	2.64%	343,180	1.49%	90.86%
Total Equity	24,846,101	100.00%	22,961,420	100.00%	8.21%

Note:

(1): On 23 June 2014, the Group issued US$200,000,000 senior perpetual capital securities ("Perpetual Securities") at an initial distribution rate of 5.55%. 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 be reset, on the 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.

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4. 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 maximize shareholder value. In 2016, no change was made to the objectives, policies or processes for managing capital.

4.1 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 2016 RMB'000	31 December 2015 RMB'000
Total assets (A)	166,560,921	139,312,889
Total liabilities (B)	141,714,820	116,351,469
Total equity	24,846,101	22,961,420
Gearing ratio (C=B/A)	85.08%	83.52%

In 2016, the Company 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 2016, our gearing ratio, which was maintained at a reasonable level, was 85.08%.

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4.2 Ratio of Assets at Risk to Equity

In accordance with the requirements of the Measures on the Administration of Foreign Investment in the Leasing Industry, the risk assets of International Far Eastern Leasing Co., Ltd. and Far East Horizon (Tianjin) Financial Leasing Co., Ltd. should not exceed 10 times of its equity.

As at 31 December 2016, the ratios of risk assets to equity of International Far Eastern Leasing Co., Ltd. and Far East Horizon (Tianjin) Financial Leasing Co., Ltd. were 6.55 and 5.29 respectively, which was in compliance with the ratio of risk assets to equity requirements of the measures.

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

International Far Eastern Leasing Co., Ltd.

	31 December 2016 RMB'000	31 December 2015 RMB'000
Total assets	136,256,718	119,918,073
Less: Cash	2,408,413	2,721,314
Total assets at risk	133,848,305	117,196,759
Equity	20,449,035	19,263,095
Ratio of assets at risk to equity	6.55	6.08

Far East Horizon (Tianjin) Financial Leasing Co., Ltd.

	31 December 2016 RMB'000	31 December 2015 RMB'000
Total assets	40,167,598	27,874,004
Less: Cash	1,510,316	1,078,277
Total assets at risk	38,657,282	26,795,727
Equity	7,313,405	3,789,068
Ratio of assets at risk to equity	5.29	7.07

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5. Capital Expenditures

The Group's capital expenditure was RMB2,988,094,000 in 2016, which was mainly used for expenditures for additions of property, plant and equipment, and external equity investments.

6. Risk Management

6.1 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, factoring 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. In order to further mitigate the interest risk exposure, the Group vigorously promoted the development of leasing and factoring business with fixed rates in its business direction and strengthened the real-time monitoring process. Through the efforts made in 2016, the proportion of fixed rate products of the Group increased largely from 25.92% at the end of 2015 to 51.59% as at 31 December 2016.

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	
	As at 31 December 2016 RMB'000	As at 31 December 2014 RMB'000
Change in basis points		
+100basis points	65,369	277,617
-100basis points	(65,369)	(277,617)

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6.2 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. In order to control currency risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. It proactively hedged against foreign exchange exposure based on the currency and terms through using the operation of financial instruments such as foreign exchange forwards and currency swaps. According to relevant statistics, as of 31 December 2016, the Group's actual exposure to foreign exchange risk (including senior perpetual securities) approximately amounted to US$2,468 million, hedges against foreign exchange exposure amounted to US$2,260 million or increasing from 91% at the end of 2015 to 92% at the end of 2016 (percentage of the aforesaid two items). Thus, the Group's actual exposure to foreign exchange risk is limited.

The table below demonstrates the effect of reasonable potential changes in exchanges rates of US$ and HK$ against RMB arising from actual exposure to foreign exchange risk (including senior perpetual securities), with all other variables held constant, on the Group's equity interest.

		Increase/(decrease) in equity interest of the Group	
Currency	**Change in currency rate**	**As at 31 December 2016 RMB'000**	**As at 31 December 2015 RMB'000**
US$ and HK$ – effect on the profit before tax (excluding senior perpetual securities)	-1%	**117**	**8,387**
US$ – direct effect of senior perpetual securities on the equity	-1%	**13,874**	**12,987**
		13,991	**21,374**

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.

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6.3 Liquidity Risk

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

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

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

	On demand RMB'000	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 2016		
Total financial assets	2,722,640	19,490,692	44,910,081	96,673,418	714,573	164,511,404
Total financial liabilities	109,165	23,521,554	42,508,404	75,213,310	647,880	142,000,313
Net liquidity gap	2,613,475	(4,030,862)	2,401,677	21,460,108	66,693	22,511,091
				As of 31 December 2015		
Total financial assets	2,449,884	16,602,376	40,378,365	83,112,148	173,954	142,716,727
Total financial liabilities	50,726	18,359,243	39,150,463	59,511,689	867,080	117,939,201
Net liquidity gap	2,399,158	(1,756,867)	1,227,902	23,600,459	(693,126)	24,777,526

7. Charge on Group Asset

As at 31 December 2016, the Group had lease receivables in the amount of RMB12,886,076,000, cash in the amount of RMB99,542,000, property, plant and equipment of RMB748,439,000 and prepaid lease payments of RMB902,756,000 pledged to the bank in order to secure or pay the bank borrowings, and cash of RMB232,077,000 was pledged for bank acceptances, letter of credit and etc.

8. Material Investments, Acquisitions or Disposals

In 2016, the Group completed the acquisition of Siyang Chinese Medicine Hospital (泗陽中醫), Xinli Hospital (納雍新立), Chongqing Yudong Hospital (重慶渝東), Deyang Fifth Hospital (德陽五院) and Zhoushan Cunde Hospital (舟山存德) (renamed as Putuo Guanghua Hospital (普陀廣華)) which then became under the control of the Group. Furthermore, the Group entered into contracts with Fengyang Gulou Hospital (鳳陽鼓樓), Siyang Xiehe Hospital (泗陽協和), Meizhou Tieluqiao Hospital (梅州鐵爐橋), Zhengzhou Renji Hospital (鄭州仁濟) and Shenzhen Zhonghai Hospital Group (深圳中海醫院集團) in 2016. At present, the Group has signed contracts to control or holds equity interest in a total of 20 hospitals. The Group will focus on the nature of medical care as the core, with the existing specialist advantages as the starting point, and optimize the synergies to expand the medical field, in order to establish a professional and technical leading hospital management set with extraordinary service awareness.

In 2016, the Group entered into agreements in respect of 12 new high-end kindergarten sites in Shanghai, Hangzhou, Xiamen, Wuhan and Chongqing and acquired 3 kindergartens and 2 international schools in 2015. Investment and acquisition of the above kindergartens and schools are the important achievements of the Group in the operation of education industry. The expansion of the Group in the high-end education has gradually appeared in scale. The Group is committed to speeding up the industry layout, in order to gradually build up the industry brand of a private education system with high reputation, strong service ability and most unique features.

9. Human Resources

As at 31 December 2016, the Group had 8,184 full-time employees, an increase of 2,100 full-time employees compared with 6,084 by the end of 2015.

The Group believes it has a high quality work force with specialized industry expertise. As at 31 December 2016, approximately 59.25% of the Group's employees had bachelor's degrees and above, and approximately 21.65% 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.

With a view to promoting the Group to establish and complete the medium-long term stimulation and restriction system for fully arousing the enthusiasm of the management, attracting and retaining the excellent management talents, and effectively integrate the interests of shareholders, the Company and the management to guarantee the long, stable and healthy development, the board of the Company considered and passed the programme of setting up the equity incentive plan (including the restricted stock incentive plan and stock option plan) 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 2016 the Group complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

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

10.1 Contingent Liabilities

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Legal proceedings:		
Claimed amounts	4,257	2,103

10.2 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 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	535,261	370,454
Capital expenditure for equity investment	386,500	103,593
Irrevocable credit commitments	5,432,647	4,840,547

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

Capital expenditure for equity investment mainly represents investment in equity joint ventures Siyang Chinese Medicine Hospital (泗陽中醫), Xinli Hospital (納雍新立), Deyang Fifth Hospital (德陽五院), Fengyang Gulou Hospital (鳳陽鼓樓), Meizhou Tieluqiao Hospital (梅州鐵爐橋), Shenzhen Zhonghai Hospital Group (深圳中海醫院集團) and Siyang Xiehe Hospital (泗陽協和).

Management Discussion and Analysis

11.Future Outlook

Looking forward, the global economy and politics still face great uncertainty. From the domestic perspective, the potential economic growth of China continues to decline and the future will remain in the bottom stage of the L-shaped growth. Meanwhile, China will still be in the process of transformation and upgrading for a long time in the future. The supply-side structural reform has a long way to go, and the contradictions between the weak demand and the excess capacity are still prominent. Although China's economy is facing multiple challenges, it has formed a huge capacity and potential scale of demand, as well as establishing the world's most complete industrial chain structure and supporting system, therefore forming a relatively competitive advantage. As a big country, China's future lies in the real economy and the cornerstone of long-term economy lies in the real industry. Although China's economic growth is declining, the quality of economic growth is gradually improving, which will be savings energy for the Chinese economy to get out of the cycle.

In this context, the Group will adhere to the business model of "financial + industry", serving the real economy as the core, adhering to the root of the industry, giving play to advantages including focusing on industry, exploring the industry, grasping the customer of industry and constantly "evolving" service capabilities and methods, protect the sustainable development space. In terms of finance industry, we will deep plow the area and keep the operation in local place, in order to deeply understand the real industry involved. Meanwhile, setting the service integration as the goal, through the operation of business similar to investment banking, we will enrich the financial products, upgrade the comprehensive service capabilities, form our own differentiated characteristics and enhance the values creation. In terms of industry, relying on industrial accumulation, we will speed up the strategic operation of healthcare, education and other industry, which will be gradually collaborating with the financial business, in order to establish a unique business model to protect the sustained and stable growth of the Group as a whole.

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 2016.

Corporate Governance Practices

The Board 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 safeguard the interests of shareholders, to enhance corporate value, 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 to 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 2016, 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.

明孔雀綠琉璃雞形瓦

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 2016.

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 for the year ended 31 December 2016.

Corporate Governance Report

Board of Directors

The Board currently comprises 12 members, consisting of 2 executive directors, 6 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 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. Ning Gaoning *(Chairman)*
Mr. Yang Lin
Mr. Liu Haifeng David
Mr. John Law
Mr. Kuo Ming-Jian
Dr. Chen Guogang

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.

Note: During the year ended 31 December 2016, Mr. Liu Deshu resigned as a non-executive director and the Chairman of the Board on 30 March 2016, and Mr. Ning Gaoning was appointed as a non-executive director and the Chairman of the Board on the same date.

Corporate Governance Report

Chairman and Chief Executive Officer

Mr. Ning Gaoning is a non-executive director and the Chairman of the Board. Mr. Kong Fanxing is the Chief Executive Officer. 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 as delegated by the Board.

Independent Non-executive Directors

During the year ended 31 December 2016, 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.

During the year ended 31 December 2016, Mr. Ning Gaoning was appointed as the non-executive director on 30 March 2016 and was re-elected at the annual general meeting held on 2 June 2016.

According to the articles of association of the Company, each of the directors of the Company as appointed under a general meeting of the Company is appointed for a specific term of 3 years and he/she may serve consecutive terms if re-elected by the Company in general meeting upon the expiration of his/her term. No director of the Company is subject to retirement by rotation in 2017.

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.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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

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 coverage 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 shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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.

Corporate Governance Report

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

During the year ended 31 December 2016, 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 Material	Attending Seminars/Visiting/ Interviewing Key Management
Executive Directors		
Mr. Kong Fanxing	✓	✓
Mr. Wang Mingzhe	✓	✓
Non-Executive Directors		
Mr. Ning Gaoning	✓	✓
Mr. Yang Lin	✓	✓
Dr. Chen Guogang	✓	✓
Mr. Liu Haifeng David	✓	✓
Mr. Kuo Ming-Jian	✓	✓
Mr. John Law	✓	✓
Mr. Liu Deshu (resigned on 30 March 2016)	✓	✓
Independent Non-Executive Directors		
Mr. Cai Cunqiang	✓	✓
Mr. Han Xiaojing	✓	✓
Mr. Liu Jialin	✓	✓
Mr. Yip Wai Ming	✓	✓

Corporate Governance Report

Board Committee

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

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

Audit and Risk Management Committee

The Audit and Risk Management Committee comprises 3 members, including 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 accounting or related financial management expertise.

The main duties of the Audit and Risk Management 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 and Risk Management Committee held 5 meetings during the year ended 31 December 2016 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 and Risk Management Committee are set out under "Attendance Record of Directors and Committee Members" on page 74.

The Audit and Risk Management Committee also met the external auditors 5 times without the presence of the Executive Directors.

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit and Risk Management Committee.

Corporate Governance Report

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises 3 members including 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
- 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

Corporate Governance Report

The criteria adopted by the Remuneration and Nomination Committee in considering whether the relevant personnel are suitable for directorship 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 or 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 2 times during the year ended 31 December 2016 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 74.

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 2016, 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 74.

Corporate Governance Report

Attendance Record of Directors and Committee Members

During the year ended 31 December 2016, 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 during their tenure of office at the Board and Board Committee meeting(s) and the general meeting of the Company held during the year ended 31 December 2016 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director [Note]	Board	Audit and Risk Management Committee	Remuneration and Nomination Committee	Strategy and Investment Committee	Annual General Meeting
Executive Directors					
Mr. Kong Fanxing	4/4	Not applicable	Not applicable	0/0	1/1
Mr. Wang Mingzhe	4/4	Not applicable	Not applicable	Not applicable	1/1
Non-Executive Directors					
Mr. Ning Gaoning	4/4	Not applicable	Not applicable	Not applicable	0/1
Mr. Yang Lin	4/4	Not applicable	Not applicable	Not applicable	0/1
Mr. Liu Haifeng David	3/4	Not applicable	Not applicable	0/0	0/1
Mr. John Law	4/4	4/4	Not applicable	Not applicable	0/1
Mr. Kuo Ming-Jian	4/4	Not applicable	2/2	Not applicable	0/1
Dr. Chen Guogang	3/4	Not applicable	Not applicable	Not applicable	0/1
Mr. Liu Deshu	0/0	Not applicable	Not applicable	Not applicable	0/0
Independent Non-Executive					
Mr. Cai Cunqiang	3/4	Not applicable	Not applicable	0/0	0/1
Mr. Han Xiaojing	4/4	4/4	1/2	Not applicable	0/1
Mr. Liu Jialin	4/4	Not applicable	2/2	Not applicable	0/1
Mr. Yip Wai Ming	4/4	4/4	Not applicable	Not applicable	0/1

Note: Mr. Liu Deshu resigned as a director on 30 March 2016.
Mr. Ning Gaoning was appointed as a director on 30 March 2016.

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 24 Aug 2016.

Corporate Governance Report

Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

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

The Audit and Risk Management Committee oversees risk management processes within the Group. The main duties and responsibilities of the Audit and 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 and Risk Management 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, relevant function and efficiency 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.

The Company takes the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong as the Company's basis of identification of inside information, to ensure the timely report of inside information to the executive directors and maintain communication with the Board.

Meanwhile, the Company handle and disseminate the inside information according to the related policy to ensure that the inside information is kept confidential before being approved for dissemination and the relevant information will be released effectively and conformably.

The management has confirmed to the Board and the Audit and Risk Management Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

Corporate Governance Report

The Board, as supported by the Audit and Risk Management Committee as well as the management report, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

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 2016.

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 110-115.

Where appropriate, a statement will be submitted by the Audit and Risk Management 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 and Risk Management 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 2016 is set out in the Independent Auditors' Report on page 110-115.

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 2016 is set out below:–

Type of services provided by the external auditors	Amount of fees RMB'000
Audit services	4,230
Non-audit service	3,927
Total	8,157

Corporate Governance

The Audit and Risk Management 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, continued to be 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, 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 6305, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Fax:	86-21-50490066
Email:	IR-Horizon@fehorizon.com
Attention:	Board of Directors

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 2 June 2016 (the "2016 AGM"), Mr. Ning Gaoning (Chairman of the Board), Mr. Yip Wai Ming (Chairman of the Audit and Risk Management 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 2016 AGM, Mr. Kong Fanxing (Vice Chairman, executive director, Chief Executive Officer and a member of the Strategy and Investment Committee of the Company) chaired the 2016 AGM and Mr. Wang Mingzhe (executive director and the Chief Financial Officer) also attended the 2016 AGM to answer questions where necessary.

Biographies of Directors and Senior Management

Mr. NING Gaoning (寧高寧) – Non-Executive Director and Chairman of the Board

Mr. NING Gaoning (寧高寧), aged 58, holds a Bachelor's degree in Economics from Shandong University in China and a Master of Business Administration degree from University of Pittsburgh in the United States. Mr. Ning currently serves as the chairman of the board of directors of Sinochem Group, being one of the substantial shareholders of the Company.

Mr. Ning served as the chairman of the board of directors of COFCO Corporation ("COFCO") from December 2004 to January 2016, and also served as a director of certain subsidiaries of COFCO. Before joining COFCO, Mr. Ning held various positions such as vice chairman, director and general manager at China Resources (Holdings) Company Limited and certain of its subsidiaries.

In the last three years, Mr. Ning was a non-executive director of China Agri-Industries Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 606), a non-executive director of China Foods Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 506) ("China Foods"), a non-executive director of CPMC Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 906) and the chairman of the board of directors and a non-executive director of China Mengniu Dairy Company Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 2319) until February 2016. Mr. Ning was a director of BOC International Holdings Limited, an independent non-executive director of Bank of China (Hong Kong) Limited and an independent non-executive director of BOC Hong Kong (Holdings) Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 2388) until October 2014. Mr. Ning was also an independent director of Huayuan Property Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600743) until November 2014 and an executive director of China Foods until November 2013.

Mr. Ning has rich business management experience and extensive knowledge about economic activities of capital market.

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

Mr. LIU Deshu (劉德樹), aged 65, was appointed as a non-executive director and the Chairman of the Company in December 2010, and resigned as a non-executive director and the Chairman of the Company in March 2016. 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.

Mr. Liu served as 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), and retired in December 2015.

Mr. Liu has over 30 years of experience in foreign trade, machinery and petrochemical industry.

Biographies of Directors and Senior Management

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

Mr. KONG Fanxing (孔繁星), aged 53, is an executive director, the Vice Chairman and the Chief Executive Officer of the Company. Mr. Kong received an EMBA degree from Peking University in March 2005, 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 of China National Chemicals Import & Export Corporation (中國化工進出口總公司), 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 22 years of experience in enterprise management.

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

Mr. WANG Mingzhe (王明哲), aged 46, 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 a 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 21 years of experience in finance management.

Biographies of Directors and Senior Management

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

Mr. YANG Lin (楊林), aged 53, 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, Trade Trust Co., Ltd and Sinochem Finance Co., Ltd..

Mr. Yang has approximately 21 years of experience in finance and treasury management.

Dr. CHEN Guogang (陳國鋼) – Non-Executive Director

Dr. CHEN Guogang (陳國鋼), aged 56, was appointed as a Non-executive Director of the Company in December 2015. He obtained a doctorate degree in economics from Xiamen University (廈門大學) in 1988. Dr. Chen is currently the vice-president of China Minsheng Investment Corp., Ltd.. From February 1999 to April 2010, Dr. Chen subsequently served as the deputy chief accountant, general manager of the finance department, and chief accountant of Sinochem Group. He was a director of Sinofert Holdings Limited and Sinochem International Corporation prior to 2010. Since 2010, Dr. Chen has joined New China Life Insurance Company Ltd., and act as several roles such as the vice president and chief financial officer.

Dr. Chen is currently the first vice chairman and executive director of China Minsheng Financial Holding Corporation Limited (中國民生金融控股有限公司) (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 245), an independent non-executive director of China Dongxiang (Group) Co., Ltd. (中國動向(集團)有限公司) (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 3818) and Guotai Junan Securities Co. Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 601211)). Dr. Chen is also the vice president of China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) and the chairman of CMI Capital Co., Ltd. (中民投資本管理有限公司).

Other than doctorate degree in economics, Dr. Chen is also the Senior Accountant granted by Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China, and Certified Public Accountant granted by the Chinese Institute of Certified Public Accountants.

Biographies of Directors and Senior Management

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

Mr. LIU Haifeng David (劉海峰), aged 47, has been a non-executive director of the Company since October 2009. Mr.Liu previously served as Partner of KKR, Co-head of KKR Asia Private Equity and CEO of KKR Greater China. Mr. Liu was 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 China International Capital Corporation Limited which is a listed company in Hong Kong, and Qingdao Haier which is an A-share listed Company.

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

Mr. KUO Ming-Jian (郭明鑑), aged 55, 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 was an independent director of Cathay Financial Holdings Co., Ltd. and Cathay Life Insurance Co., Ltd..

Mr. Kuo is currently 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 66, 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 more than 30 years' experience in finance.

Biographies of Directors and Senior Management

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

Mr. CAI Cunqiang (蔡存強), aged 67, 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 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).

Mr. Cai is admitted to practicing law in the PRC. Mr. Cai has 40 years of experience in the shipping industry.

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

Mr. HAN Xiaojing (韓小京), aged 62, 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 30 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 54, 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 28 years of experience in finance and securities industry.

Mr. Liu also serves as the independent non-executive director of China Merchants Securities Co., Ltd..

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.

Biographies of Directors and Senior Management

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

Mr. YIP Wai Ming (葉偉明), aged 52, was appointed as an independent non-executive director of the Company in March 2011. Mr. Yip graduated from the University of Hong Kong (香港大學) with a bachelor of social sciences degree in November 1987. He also obtained a degree of bachelor of laws from the University of London (倫敦大學) 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 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 26 years of experience in accounting and finance.

Mr. CAO Jian (曹健) – Senior Vice President

Mr. CAO Jian (曹健), aged 42, 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 was a manager of the human resources department in Sinochem Group. He joined International Far Eastern Leasing Co., Ltd. in September 2002, and served as the deputy general manager, the standing deputy general manager and the general manager of the healthcare business division, and the assistant of general manager and the deputy general manager 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 14 years of experience in the financial leasing industry.

Biographies of Directors and Senior Management

Mr. SHANG Bing (尚兵) – Vice President

Mr. SHANG Bing (尚兵), aged 50, is the Vice President of our Company. Mr. Shang graduated from Sichuan University (四川大學) 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 27 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 63, is the Vice President of the Company. Mr. Wang graduated from East China Normal University (華東師範大學) majoring in history in September 1989 and obtained an EMBA degree from Peking University (北京大學) 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 25 years of experience in enterprise management.

Mr. WU Zhijiun (吳志軍) – Vice President

Mr. WU Zhijun (吳志軍), aged 44, is the Vice 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 a MBA degree from Northeastern University (東北大學) in July 2002. Prior to joining Far East in November 2001, 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., the general manager of the healthcare business division, and the assistant to the president of the Company, thus has an extensive management experience. Mr. Wu was appointed as the Vice President of the Company in February 2015.

Mr. Wu has over 15 years of experience in the financial leasing industry.

Biographies of Directors and Senior Management

Mr. WANG Jiayin (王佳音) – Assistant President

Mr. WANG Jiayin (王佳音), aged 44, 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 February 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 14 years of experience in the financial leasing industry.

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

Mr. CAI Jianjun (蔡建軍), aged 54, is the Chief Information 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 32 years of experience in Computer Technology and management.

Mr. ZHU Guojie (朱國傑) – Assistant President

Mr. ZHU Guojie (朱國傑), aged 39, is the Assistant President of the Company. Mr. Wang graduated from Nanjing University (南京大學) majoring in International Finance with a bachelor degree in July 1998 and obtained an MBA degree from Fudan University (復旦大學) in July 2004. Prior to joining Far East in August 2004, Mr. Zhu worked at Bank of China Nantong Branch (中國銀行南通分行) and Shanghai Media Group (上海文廣集團). In Far East, he worked as the assistant general manager of healthcare division, the deputy general manager of quality control department, the deputy general manager and the general manager of strategy management department, and the deputy general manager and the general manager of the education business division. Mr. Zhu was appointed as the Assistant President of the Company in July 2016.

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

Directors' Report

The Board is pleased to present the Directors' Report of the year 2016 together with the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities and Business Review

The principal business activities of the Group are financial leasing and advisory services, and the principal business activities of its subsidiaries are hospital investment and operation, equipment operation services, high-end preschool education and international high school operation management, trading and brokerage services as well as engineering advisory services, etc. An analysis of the Group's operational status for the year by business segments is detailed in Note 4 to the financial statements.

The Group has accumulated years of industry expertise and has expanded its customer base in its target industries by organizing and operating its financial leasing services, sales and marketing, and risk management systems through an industry-focused approach. It has also sufficiently lowered the risk associated with its interest-bearing assets to develop a sustainable financial service business model through its safe and steady operational philosophy, rigorous risk control, diversified asset management approaches and other measures. By leveraging its profound industry experience and understanding of its customers' long-term internal needs in each target industry, the Group also provides extended value-added services primarily comprising advisory, engineering, trading and brokerage services to its customers, which have generated synergy with its financial services. This has enabled it to continuously provide an integrated range of customized services, develop deeper customer relationships, enhance the effectiveness of its risk management systems, and leverage its accumulated industry and management expertise to expand into other target industries in China with promising growth potential, including investment and operation of certain quality assets, and to construct the foundation of its stable long-term strategic development of "finance + industry".

Furthermore, the sustainability of the Group's development and its further growth depend to a great extent on its ability to effectively respond to or manage major risks and uncertainties such as quality risk of interest-bearing assets, liquidity risk, interest rate and exchange rate, the ability to attract and retain qualified persons and so forth. In its long operation, the Group has consistently adhered to the philosophy of steady and prudent operation and has accumulated advanced risk management capability and experience of practices in the industry. In the foreseeable future, it believes that the impact of the risks and uncertainties will remain manageable and will not cause any material adverse effect on its long-term healthy development.

Further discussion and analysis as required by Schedule 5 to the Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group's business, are set out in the "Chairman's Statement", "CEO's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to Financial Statements" sections of this Annual Report. The above sections form part of the Directors' Report.

Results and Dividends

The results of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Profit or Loss on page 116 of this annual report.

The Board recommends the payment of a final dividend of HK$0.23 (2015: HK$0.23) per share in respect of the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on Friday, 16 June 2017. The proposed final dividend will be paid on Wednesday, 28 June 2017, following approval at the Annual General Meeting ("AGM") to be held on Wednesday, 7 June 2017.

Directors' Report

Closure of Share Register

The AGM of the Company is scheduled to be held on Wednesday, 7 June 2017. For determining the entitlement to attend and vote at the AGM, the Register of Members of the Company will be closed from Friday, 2 June 2017 to Wednesday, 7 June 2017, 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. (Hong Kong time) on Thursday, 1 June 2017, being the last registration date.

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, 14 June 2017 to Friday, 16 June 2017, 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, 16 June 2017. 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. (Hong Kong time) on Tuesday, 13 June 2017, being the last registration date.

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 is set out on pages 246 to 248 to this annual report. This summary does not form a part of the audited financial statements.

Environmental Policies and Performance

The Group believes that environment, health and safety are indispensable pillars for sustainable business. The Group advocates for "Green Finance" and adjusts industry credit granting system according to the environmental performance. The Group's investment direction turned to the national policies and livelihood, avoiding enterprises with "high pollution and high environmental risk", enterprises with outdated technology and enterprises with safety risks. During the year, the Group further reduced credit granting to engineering machinery, mine smelting machinery, oil equipment, ferrous metal smelting and chemical industry as they had higher environmental risks. The Group gradually raised credit granting to railway, rail transit and energy-saving equipment industry. Meanwhile, with continuous expansion of the industry sector, the Group conducted a unified planning on the health, safety and environment issues of the relevant operating system and pushed forward the work related to environment and safety as an important part for enhancing industry value. During the year, the Group's business achieved environmentally friendly and safe operation and no related accident occurred.

Compliance with Laws and Regulations

During the year, to the best knowledge of the Directors, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group.

Property, Plant and Equipment

The movements in the Group's property, plant and equipment for the year are set out in Note 13 to the financial statements.

Directors' Report

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 2016.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 120 to 123 of this annual report and Note 36 to the financial statements respectively.

Permitted Indemnity

Pursuant to the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all liabilities (to the fullest extent permitted by the Companies Ordinance) which he may incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has taken out insurance against all liabilities associated with defending any proceedings which may be brought against Directors and other officers of the Company.

Charitable Donations

The Group's external charitable donations for the year amounted to RMB3,800,000 (2015: RMB4,000,000).

Changes in Directors' Biographical Details

Changes in director's biographical details since the date of the 2015 annual report of the Company up to the date of this annual report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Name of director	Details of changes
Mr. KUO Ming-Jian	Resigned as an independent director of Cathay Life Insurance Co., Ltd., with effect from 31 March 2016 and resigned as an independent director of Cathay Financial Holdings Co., Ltd., with effect from 1 April 2016
Dr. CHEN Guogang	Appointed as an independent non-executive director of China Dongxiang (Group) Co., Ltd., with effect from June 2016 and appointed as an executive director of China Minsheng Financial Holding Corporation Limited, with effect from January 2017

Directors' Report

Directors

During the year and as at the date of this annual report, directors of the Company were as follows:

Executive Directors
Mr. KONG Fanxing
Mr. WANG Mingzhe

Non-Executive Directors
Mr. NING Gaoning (appointed on 30 March 2016)
Mr. YANG Lin
Dr. CHEN Guogang
Mr. LIU Haifeng David
Mr. KUO Ming-Jian
Mr. John LAW
Mr. LIU Deshu (resigned on 30 March 2016)

Independent Non-Executive Directors
Mr. HAN Xiaojing
Mr. LIU Jialin
Mr. CAI Cunqiang
Mr. YIP Wai Ming

Biographical Details of the Directors and Senior Management

Biographical details of the directors and senior management are set out on pages 80 to 87 of this annual report.

Directors' Service Contracts

As at 31 December 2016, 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.

Directors' Report

Executive Directors

Each of the executive directors has entered into a service contract with the Company. Each of their appointments is for a term of 3 years commencing from 11 March 2017. Either party has the right to give not less than three months' written notice to terminate the service contract.

Each of the executive directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of the Board, and social welfare benefits provided under the relevant PRC laws and regulations. The aggregate amount of the annual salaries of the two executive directors is RMB11,071,000.

Non-Executive Directors

Each of the non-executive directors has entered into an appointment letter with the Company.

Each of the appointments of Mr. NING Gaoning, Mr. YANG Lin, Mr. LIU Haifeng David, Dr. CHEN Guogang, Mr. KUO Ming-Jian and Mr. John LAW is for a term of 3 years commencing from 11 March 2017.

Under the relevant appointment letters, the Company shall pay HK$420,000 p.a. as director's fee to each of Mr. LIU Haifeng David, Dr. CHEN Guogang, Mr. KUO Ming-Jian and Mr. John LAW. No payment shall be made by the Company to Mr. NING Gaoning and Mr. YANG Lin 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 of Mr. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming is for a term of three years commencing from 30 March 2017.

Under the relevant appointment letters, the Company shall pay HK$420,000 p.a. as director's fee to each of Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming. No payment shall be made by the Company to Mr. CAI Cunqiang under the relevant appointment letter.

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 2016 are set out in Note 8 to the consolidated financial statements of the Group.

Directors' Report

Directors' Interests in Contracts of Significance

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 2016, 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.

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.

Directors' Report

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.

For the year ended 31 December 2016, options entitling the holders thereof to subscribe for an aggregate of 4,345,968 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 28,578,032 Shares were granted to 245 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, 4 and 5)	Outstanding as at 1 January 2016	Granted	Exercised (Note 6)	Lapsed	Cancelled	Outstanding as at 31 December 2016
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
KONG Fanxing, CEO and executive Director	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	1,856,913	–	–	–	–	1,856,913
KONG Fanxing, CEO and executive Director	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	–	3,292,400	–	–	–	3,292,400
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
WANG Mingzhe, CFO and executive Director	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	594,212	–	–	–	–	594,212
WANG Mingzhe, CFO and executive Director	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	–	1,053,568	–	–	–	1,053,568
SUBTOTAL FOR DIRECTORS					**4,229,021**	**4,345,968**	**–**	**–**	**–**	**8,574,989**
Employees	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	9,811,357	–	383,817	–	171,206	9,256,334
Employees	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	14,823,923	–	–	–	372,589	14,451,334
Employees	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	–	28,578,032	–	–	227,176	28,350,856
TOTAL					**28,864,301**	**32,924,000**	**383,817**	**–**	**770,971**	**60,633,513**

Directors' Report

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.

Note 4: The exercise price is not less than the higher of (i) the closing price of HK$6.88 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 3 July 2015 (i.e. the grant date) and (ii) the average closing price of HK$7.17 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 3 July 2015. The Share does not carry nominal value.

Note 5: The exercise price is not less than the higher of (i) the closing price of HK$5.60 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 15 June 2016 (i.e. the grant date) and (ii) the average closing price of HK$5.714 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 15 June 2016. The Share does not carry nominal value.

Note 6: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK$7.1172.

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.

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. For the year ended 31 December 2016, the Company granted 49,385,993 Shares under the Award Scheme and as of 31 December 2016, the Company granted an aggregate of 98,254,133 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' Report

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 2016, 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 (Chapter 571 of the Laws of Hong Kong) (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(1)	Approximate percentage of interest in the Company
KONG Fanxing	The Company	Beneficial owner	17,035,684(L)(2)	0.43%
		Interest in a controlled corporation	265,552,000(L)(3)	6.72%
WANG Mingzhe	The Company	Beneficial owner	5,757,791(L)(4)	0.15%

Notes:

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

(2) The interest includes 6,466,273 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme and 9,699,411 underlying shares in respect of the awarded shares granted pursuant to the Company's Restricted Share Award Scheme. In addition to the share interest in respect of the share options, awarded shares granted and interest in a controlled corporation (see note (3) below), to the best of the Directors' knowledge, information and belief, having made all reasonable enquires, Kong Fanxing is interested in 870,000 ordinary shares of the Company as at 31 December 2016. Please refer to the Company's 2016 Annual Report for the details of both schemes and the announcements of the Company dated 11 July 2014, 3 July 2015 and 15 June 2016 respectively for the details of the grants of share options.

(3) The interest is Mr. Kong Fanxing's indirect beneficial interest in 265,552,000 shares through his 70% shareholding in Aim Future Limited.

(4) The interest includes 2,108,716 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme and 3,263,075 underlying shares in respect of the awarded shares granted pursuant to the Company's Restricted Share Award Scheme. In addition to the share interest in respect of the share options and awarded shares granted, to the best of the Directors' knowledge, information and belief, having made all reasonable enquires, Wang Mingzhe is interested in 386,000 ordinary shares of the Company as at 31 December 2016. Please refer to the Company's 2016 Annual Report for the details of both schemes and the announcements of the Company dated 11 July 2014, 3 July 2015 and 15 June 2016 respectively for the details of the grants of share options.

Save as disclosed above, as at 31 December 2016, 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 2016 (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 2016, 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	919,914,440(L)	23.28%
Greatpart Limited(2)	Beneficial owner	919,914,440(L)	23.28%
Prime Capital Management (Cayman) Limited	Investment manager	205,911,000(L)	5.21%
JPMorgan Chase & Co.	Beneficial owner	2,641,997(L)	0.06%
	Investment manager	15,000(L)	0.00%
	Custodian	411,225,745(P)	10.40%
Cathay Life Insurance Co., Ltd.	Beneficial owner	296,316,000(L)	7.50%
China Minsheng Investment Corp., Ltd.	Interest in a controlled corporation	528,600,000(L)	13.38%
Kong Fanxing	Beneficial owner	17,035,684(L)	0.43%
	Interest in a controlled corporation	265,552,000(L)(3)	6.72%
Aim Future Limited	Beneficial owner	265,552,000(L)(3)	6.72%

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) Kong Fanxing holds 70% of the issued share capital of Aim Future Limited and is therefore deemed to be interested in the shares held by Aim Future Limited.

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.

Directors' Report

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 2016, in domestic direct financing market, the Group further enriched its bond portfolios, increased the sizes of issuance, reduced financing costs and formed a continued trend of issuance. The Group completed 14 issuances in the year, with an aggregate amount of RMB26.0 billion, including corporate bonds of RMB13.0 billion, PPNs of RMB8.0 billion, ultra-short financial bonds of RMB2.0 billion, short-term financial bonds of RMB2.0 billion and other bonds of RMB1.0 billion as follows:

On 18 March 2016, it completed the issuance of 1-year short-term financial bonds in an amount of RMB2.0 billion at an interest rate of 2.79% per annum in China.

On 24 March 2016, it completed the issuance of 3-year corporate bonds in an amount of RMB2.0 billion at an interest rate of 3.03% per annum in China.

On 25 March 2016, it completed the issuance of 3-year corporate bonds in an amount of RMB2.0 billion at an interest rate of 3.8% per annum in China.

On 12 April 2016, it completed the issuance of 1-year ultra-short financial bonds in an amount of RMB2.0 billion at an interest rate of 2.95% per annum in China.

On 25 May 2016, it completed the issuance of 1-year PPN in an amount of RMB2.0 billion at an interest rate of 4.2% per annum in China.

On 6 June 2016, it completed the issuance of 3-year PPN in an amount of RMB2.0 billion at an interest rate of 4.05% per annum in China.

On 8 July 2016, it completed the issuance of 3-year corporate bonds in an amount of RMB2.0 billion at an interest rate of 3.15% per annum in China.

On 29 August 2016, it completed the issuance of 3-year corporate bonds in an amount of RMB4.0 billion at an interest rate of 3.46% per annum in China.

Directors' Report

On 30 August 2016, it completed the issuance of 3-year debt financing scheme in an amount of RMB0.5 billion at an interest rate of 4% per annum in China.

On 19 September 2016, it completed the issuance of 3-year PPN in an amount of RMB2.0 billion at an interest rate of 3.74% per annum in China.

On 13 October 2016, it completed the issuance of 3-year debt financing scheme in an amount of RMB0.5 billion at an interest rate of 3.97% per annum in China.

On 3 November 2016, it completed the issuance of 3-year PPN in an amount of RMB2.0 billion at an interest rate of 3.56% per annum in China.

On 15 January 2016, it completed the issuance of 5-year corporate bonds in an amount of RMB1.0 billion at an interest rate of 3% per annum in China.

On 28 January 2016, it completed the issuance of 3-year corporate bonds in an amount of RMB2.0 billion at an interest rate of 4% per annum in China.

Major Customers and Suppliers

The information of the customers and suppliers is as follows:

	For the year ended 31 December 2016 Percentage of the total income (before business taxes and surcharges) (%)
Top five customers	3.02
The largest customer	0.37

	Percentage of total costs (%)
Top five suppliers	27.20
The largest supplier	10.67

As far as the directors are aware, none of the directors of the Company, their close 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.

Directors' Report

Key Relationships with Employees, Customers, Suppliers and Others

The Company is committed to building harmonious and mutual relationships with employees, customers, suppliers, investors, the government and the whole society and promotes the healthy, sustainable, stable and harmonious development of the industry economy and the whole society through value sharing and supply. The Company regards employees as valuable assets. For details of talent development and remuneration policy, please refer to the section headed "Human Resources" under Management Discussion and Analysis. The Company upholds the principle of honesty and trustworthiness, strives to provide customers with quality services and creates a reliable service environment for customers. The Company puts emphasis on the selection of suppliers, encourages fair and open competition and establishes long-term cooperation with quality suppliers on the basis of mutual trust. For the year ended 31 December 2016, the Company has had no significant dispute with its employees, customers or suppliers.

Connected Transactions

The Company entered into certain connected transactions (including 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.

Non-exempt Connected Transactions

Finance Lease with CRRC Qingdao Sifang Co., Ltd. ("CRRC Sifang", formerly known as 南車青島四方機車車輛股份有限公司) and 中化國際招標有限責任公司 ("Sinochem Tendering")

On 10 June 2015, Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司) ("Far East (Tianjin)"), an indirect wholly-owned subsidiary of the Company, entered into a lease contract with 南車青島四方機車車輛股份有限公司 ("CSR Sifang") ("2015 Lease Contract") and a supplementary agreement to the 2015 Lease Contract with CSR Sifang and Sinochem Tendering ("2015 Supplementary Agreement"), in relation to a finance lease arrangement for the lease and repurchase of certain equipment. The transaction constitutes connected transaction of the Company and details are set out in the 2015 annual report of the Company.

On 15 January 2016, Far East (Tianjin) entered into a new lease contract with CRRC Sifang ("2016 Lease Contract") and a new supplementary agreement with CRRC Sifang and Sinochem Tendering ("2016 Supplementary Agreement"), in relation to a finance lease arrangement for the lease and repurchase of certain equipment ("Equipment").

Directors' Report

The 2016 Lease Contract and the 2016 Supplementary Agreement were agreed following arm's length negotiations and are based on normal commercial terms. Pursuant to the 2016 Lease Contract, Far East (Tianjin) will lease the Equipment to CRRC Sifang for a term of 37 months. The first rental of RMB19,271,980 shall be paid within five (5) working days upon the commencement date of the lease. The monthly rental will be RMB1,900,000 totaling RMB87,671,980 for the entire term of lease. CRRC Sifang will also pay Far East (Tianjin) a one-time fee in the amount of RMB6,937,845 at the end of the next month upon issuing the relevant invoice by Far East (Tianjin) after the 2016 Lease Contract is signed. Pursuant to the 2016 Supplementary Agreement, upon the completion of the performance by CRRC Sifang of all its duties under the 2016 Lease Contract, Sinochem Tendering shall repurchase the Equipment in an amount of RMB19,584,396 and Far East (Tianjin) will transfer the title of the Equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing assets as at the repurchase date.

Sinochem Tendering was designated by CRRC Sifang as the repurchase party under the 2016 Supplementary Agreement given their existing and long term business relationship. The repurchase arrangement in respect of the finance lease benefits Far East (Tianjin) as the lessor and the relevant terms of the repurchase arrangement, including the repurchase price, are entered into by Far East (Tianjin), CRRC Sifang and Sinochem Tendering after arm's length negotiations and are fair and reasonable.

中國中化集團公司 ("**Sinochem Group**") is a substantial shareholder of the Company and therefore a connected person of the Company. Sinochem Tendering is an indirect subsidiary of Sinochem Group and therefore an associate of Sinochem Group and hence a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the finance lease arrangement contemplated under the 2016 Lease Contract and the 2016 Supplementary Agreement constitutes connected transaction of the Company.

As the 2016 Lease Contract and the 2016 Supplementary Agreement, as well as the 2015 Lease Contract and the 2015 Supplementary Agreement were entered into among the same parties within a twelve month period, the new finance lease arrangement under the 2016 Lease Contract and the 2016 Supplementary Agreement as well as the finance lease arrangement under the 2016 Lease Contract and the 2015 Supplementary Agreement will be aggregated as a series of transactions pursuant to Rule 14A.81 and 14A.82(1) of the Listing Rules and shall be subject to the applicable requirements in relation to connected transactions under Chapter 14A of the Listing Rules.

Please refer to the announcements of the Company dated 10 June 2015 and 15 January 2016 relating to this series of transactions.

Directors' Report

Non-exempt Continuing Connected Transactions

Framework agreement for the provision of financial services from 中化集團財務有限公司 ("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 ("**2011 Sinochem Finance Framework Agreement**"). Subsequently, upon the expiry of the 2011 Sinochem Finance Framework Agreement on 16 June 2014, the Company entered into a new framework agreement with Sinochem Finance ("**2014 Sinochem Finance Framework Agreement**") with a term of one year to renew the continuing connected transactions of provision of financial services by Sinochem Finance to the Group under the 2011 Sinochem Finance Framework Agreement on substantially the same terms. As the 2014 Sinochem Finance Framework Agreement expired in June 2015, the Company entered into a new framework agreement with Sinochem Finance ("**2015 Sinochem Finance Framework Agreement**") with a term of three years effective from 17 June 2015 to renew the continuing connected transactions of provision of financial services by Sinochem Finance to the Group under the 2014 Sinochem Finance Framework Agreement on substantially the same terms. 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.

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 2011 Sinochem Finance Framework Agreement, the 2014 Sinochem Finance Framework Agreement and the 2015 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 RMB958 million during the term of the 2015 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 applicable annual cap was not exceeded for the year ended 31 December 2016.

The annual caps on the financial consultancy service fees under the 2015 Sinochem Finance Framework Agreement for the three years ending 31 December 2017 are RMB9.75 million, RMB14.6 million and RMB21.9 million per annum, respectively. These annual caps are based primarily on the historical transaction amounts and an expected growth of approximately 50% in the demand of the financial consultancy services for each of the three years ending 31 December 2017. The applicable annual cap was not exceeded for the year ended 31 December 2016.

Please refer to the announcements of the Company dated 17 June 2011, 11 June 2014 and 10 June 2015 relating to these transactions.

Directors' Report

Framework agreement for the provision of ship chartering services to 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 applicable annual cap was not exceeded for the year ended 31 December 2016.

Please refer to the announcements of the Company dated 5 December 2012 and 3 December 2014 relating to these transactions.

Framework agreement for the provision of property leasing services from 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.

Directors' Report

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 RMB75,000,000 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 applicable annual cap was not exceeded for the year ended 31 December 2016.

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.

Details of related party transactions of the Company for the year ended 31 December 2016 are set out in Note 43 to the consolidated financial statements. Save for the related party transactions with joint ventures as set out under item (vii) and the related party transactions in respect of senior management (non-director) compensation under item (xi), all the related party transactions constitute connected transactions under Chapter 14A of the Listing Rules. The Company confirms that all such related party transactions complied with the applicable requirements under Chapter 14A of the Listing Rules.

Confirmation of Independent Non-Executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions 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.

Directors' Report

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 2016.

Audit and Risk Management Committee

Audit and Risk Management 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 2016.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2016 have been audited by Ernst & Young, the auditor of the Company.

Auditor

Pursuant to the resolution of the AGM of the Company in 2016, the Company reappointed Ernst & Young as the auditor of the Company in 2016. The proposal of reappointing Ernst & Young as the auditor of the Company will be put forward at the AGM to be held on Wednesday, 7 June 2017 for consideration and approval.

By order of the Board
NING Gaoning
Chairman
29 March 2017

Corporate Social Responsibility Report

Philosophy of Responsibility

Sharing of value created for the building of harmonious development

We believe that the essence of corporate social responsibility lies with the sharing and achieving a “win-win” situation for all stakeholders, including investors, customers, partners, employees, governments and the community as a whole. Though sharing and achieving a “win-win” situation, the Corporation whole-heartedly promoted the industrial economy as well as the wellness, sustainability, stability and harmonious development of the society as a whole

Accountable to Investors

Valuable in-depth cooperation to share the growth in China

Through providing integrated industry operations services to fundamental industries, Far East Horizon combined their own development with the growth of economy in China, and achieved growth in business and value enhancement. Over the past years, Far East Horizon brought to investors value of growth that exceeded a sustained and stable return.

Accountable to Industries

Support industries upgrade and resurrection of the Chinese culture

Far East Horizon focuses on serving the eight fundamental industries, namely medical, packaging, education, construction, transportation, industrial equipment, textile, information technologies, and build industry-specific operation and security systems that closely adhere to the needs of customer. The Corporation provides customization of specialized financial services and products, as well as industrial investment operations, operating leasing, trade brokers, management consulting, engineering services and other industries integrated operations services.

In the healthcare field, Far East Horizon adheres to the value of “serving Chinese healthcare industry and concerning national health”, and after many years of development, the Corporation has already preliminarily formed an integrated operation system with synergistic effect and supply capacity: Far East Horizon is striving to create a large health industry ecosystem with openness as concept, innovation as drivers, coordination as support and winwin as objective, in order to ultimately make more quality healthcare services available to the public.

In the education sector, the Corporation promoted the improvement of teaching conditions at schools and advancement of the education businesses through the provision of advanced teaching facilities and equipment. We also actively promoted the investment operations and deployed strategic layout at high-end kindergarten and private school, and explored training and online education.

Corporate Social Responsibility Report

High-end resources platform was established to promote industry management upgrade

While putting funds into industries and helping the industry to achieve hardware upgrades, the Corporation constantly helps customers improve their competitiveness and enhance development levels and competitiveness for the entire industry, in order to promote the sound development of the national economy. We had been proactively engaged in the following activities:

In 2007, we founded the Mingliu Club and Top Alliance to actively create mutual trust and a win-win industry exchange atmosphere. In industry fields such as healthcare and machinery, based on the concept of "work together to promote industry development", we worked with mainstream manufacturers at home and abroad to build manufacturer alliance platforms and promote the transformation of China a from manufacturing power to a creation power.

Since 2008, we have organized multiple Far East high-level Ship Financing Forums each year to invite leading experts and scholars in shipping and financial sectors from both home and abroad to give serial lectures, contributing to the training of high-end financial talents for the Chinese shipping and shipbuilding industries. Meanwhile, we held multiple construction enterprises summit forums, gathered construction enterprises in the fields of municipal, transport and industrial construction to build a cooperation platform for strategic cooperation and information exchange and promote the process of China's urbanization.

In 2009, we launched the Far East Printing Elite Program and regularly organized training events for printing enterprises in the aspects of finance, management and printing technology, etc., in order to help them upgrade operation capacities.

In 2009, we founded the Far East Healthcare Managers Institute, which aims to help hospitals enhance their management advantages and improve talent competitiveness by building a high-end exchange platform and introducing advanced hospital management concepts and experience. Thus helping hospital managers open up their minds, quickly enhance comprehensive management levels and further promote the development of hospitals and the entire healthcare industry in China. So far, the trainees reached nearly 500 person-times.

In 2010, the Corporation founded the Far East Educational Alliance. Since then, we held alliance meetings and forums each year to actively build a bridge among members for advantage complementation and resource sharing, and build a bridge between alliance and government to make suggestions for the development of National education, in order to ultimately promote the constant progress of education in China.

In 2015, we continued to hold the Far East Finance Summit Forum, covering industries such as: construction, public transport, passenger transport, thermal supply and textiles, etc. We have successfully hosted 4 textile industry summit forums, which focused on hot topics and issues in the industries. Communication was established with global end-user brands and had assisted the Corporation to seek cooperation opportunities. There were several thousand participants that had joined the forum in total.

In 2016, the Construction Summit Forum invited reputable experts and nearly 100 senior officers from more than 50 infrastructure construction enterprises at different provinces, municipalities and autonomous regions to discuss the direction of development for the industry and their enterprises under the "new state".

In 2016, the Third Urban Passenger Transportation Finance Summit Forum was held, which invited nearly 100 senior officers from more than 40 passenger transportation enterprises in China. The summit forum focused on the restructuring and upgrade of passenger transportation enterprises under the prevailing complex and volatile environment.

Corporate Social Responsibility Report

Employee Responsibilities

Employee value was respected and care devoted to the growth of employees

Over the years, Far East Horizon earnestly listened to voices of staff, and provided diverse, inclusive, open, equal and vigorous work environments and a broad stage for their career fulfillment. Furthermore, Far East Horizon has tirelessly worked towards alleviating their worries, whilst nurturing trust, respect and encouraging greater employee cooperation and collaboration.

Employee rights

Far East Horizon calls on all employees to take ownership and encourages employees to participate in enterprise management. At the same time the Corporation set up multiple channels such as mailbox to the president, rationalization of the proposal platforms, so as to protect the right of the employee representatives in consultation, participation and supervision of the management.

Far East Horizon is devoted to providing fair development opportunities for employees and abiding by current national laws and regulations. The Corporation duly pays the five social insurances and one housing fund for employees on time and in full. We adopt multivariate policies and ensure that employees are not discriminated against because of their gender, age, background, ethnicity, race or religion. All employees are under the same career growth mechanism and their salary and benefits are consistent across different offices in the country. Male and female employees in the same post enjoy the same salaries and starting salaries are significantly higher than the local minimum wage.

Employee development

The Corporation actively encourages employees to fully explore their advantages and interests based on company development requirements in order to realize individual values. We formulated diversified channels for staff promotion, so as to cater the needs for development of professional and technical talents. Through Far East College, Far East E Learning Platform and training information management system, the Corporation renovated in the development of a learning organization focusing in self-review, self-driven, self-enhancement, which created a team environment featuring all staff on a, lifelong basis.

Employee care

”Far East Wellness Bonus Program” is a multi-faceted, interactive physical and mental health protection platform, which provides tailor-made health fund, regular staff health check, and organizes all kinds of physical and mental health workshop for women workers, parenting and health issues. These initiatives effectively identified the risk of physical and mental health of employees, mitigated the stress on work and life for the staff, and fulfilled the health needs of employees.

The Corporation advocates staff to balance work and life. We formulated mechanism to ensure that employees can enjoy reasonable rest and leave, and gave employees at least five more wellness leave other than the statutory leave dates. The Corporation also relied on community activities to encourage employees in actively participating various fitness activities.

By adhering to the principle of “helping the poor, caring and loving”, the Corporation set up a “Caring Fund” under the workers’ union, which administered a “assistance plan for the loved ones” and “milk bottle assistance plan” that covered special care to family members of staff and fresh graduate staff.

Corporate Social Responsibility Report

Social Welfare Activities

To give distressed groups "hope", and promote a healthy, stable, sustainable and harmonious development in the society

In 2016, Horizon Public Welfare Foundation continued to carry out a series of social welfare activities in the areas of education, medical care, poverty alleviation that are most closely related to the livelihood of people, and sent sunshine and warmth to the distressed groups. Horizon Public Welfare Foundation organized social welfare projects covering 17 cities nationwide, which raised more than RMB3.7 million of funds in aggregate with more than 5,000 people being benefitted.

Education subsidy

- Horizon Scholarship project: It was established for the provision of scholarship to nearly 300 students that are excellent in academics and conduct at 17 reputable colleges and universities in China. Other than the provision of scholarships, the project also sought to motivate the college students to study diligently through a number of activities such as the "Face to Face meeting between Entrepreneurs and Students ", "Career Planning Seminars" and "Charity Run", so that the students will continuously innovate, care and help others and to be distinguish.

- Extensive Grassland Scholarship project: We organized nearly 50 volunteers from more than 20 universities nationwide and travelled to Longyuan area in Gansu and carried out social welfare activities. These volunteers sent loving materials such as books, teaching aids and sports equipment to local students so that they can learn new courses and acquire knowledge and hope.

- Caring Library project: We subsidized to build nine "Caring Libraries" at Kashi in Xinjiang and Yongcheng in Henan, so that distressed children can grow up happily and healthily with these caring initiatives.

Medical assistance

- Hand in Hand on the Road to Treatment – This is a pediatric urology social welfare training program, which cooperated with the Shanghai Children's Medical Center, and launched the first social welfare project in China for the training of surgeon. Whilst enhancing the clinical skills and professional expertise of the surgeons in the children's medical center, this project also gave assistance to the pediatric urologists at the medical institutions in the remote areas that have needs to improve the standards of diagnosis and treatment of pediatric urological disease, thereby reaching out to more children in need.

- Kashi hearing aid project: We cooperated with Communist Youth League Shanghai Municipal Committee, and install hearing aid for the poor and hearing impaired children at Kashi area, Xinjiang. We also assisted more than 200 disabled children in hearing recovery training so as to hear the wonderful sounds of the world again.

- Loving Ward project: We cooperated with five hospitals, namely Huizhou Huakang Bone Hospital, Binhai New Mercy Hospital, Siping Cancer Hospital, Anda Jiren Hospital and Zhoushan Dinghai Guanghua Hospital, to carry out Loving Ward project, and provided subsidy on hospitalization for a total of 30 poor patients with critical illnesses. The project helped these patients to recover from the illnesses and relieved from hardship.

- Nayong Xinli Hospital Focused Medical and Poverty Alleviation Project: In cooperation with Nanyi County Xinli Hospital, we carried out a focused medical and poverty alleviation project, which sought to alleviate the economic pressure caused by medical treatment for poor patients, and helped them to receive get timely treatment, aiming early recovery in health and improved living standards.

Corporate Social Responsibility Report

Helping the poor

- Poverty alleviation project at Yongcheng, Henan: We provided living supplies such as edible oil, rice, flour and scholarship to nearly 400 poor elderly people and students in the neighbourhood.

- “Light and Hope” project: We cooperated with the Association of Disabled People in Shanghai, and provided subsidy to children of 20 poor families with disabilities, and encouraged them to tap into the future with courage and devotion.

Volunteer services

- In 2016, the Foundation newly recruited nearly 50 volunteers internally from the Corporation, making the total number of volunteers in Horizon team reaching 300 people. The team visited and served at Chongming ZTE Town, Shanghai Zoo, Shanghai Children’s Welfare Institute, Gao Zexiang Garden Farm, delivering care to vulnerable children and let them feel the concern and warmth of the community. The volunteers dedicated themselves in these activities and achieved growth and value in their personal development.

Award recognition

- “2016 Annual Intellectual Disability Distinguished Social Organization” awarded by Association of Disabled People in Shanghai;

- “2016 Most Transparent Foundation of the Year” awarded by the Center of Foundation;

- “2016 Public Welfare Group Award” awarded by the 6th Organizing Committee of China Public Welfare Festival

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Far East Horizon Limited (the "Company") and its subsidiaries (the "Group") set out on pages 116 to 245, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and accounts receivable	
The Group's loans and accounts receivable consists of lease receivables, lease interest receivables, notes receivable, accounts receivable, factoring receivables, entrusted loans, long-term receivables and secured loans, and accounted for 83.33% of the Group's total assets. The assessment of impairment of loans and receivables is considered to be a matter of most significance as it requires the application of judgement and use of subjective assumptions by management. The Group assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant and then recognises both collective and individual impairment allowances of loans and receivables based comprehensively on historical loss data, current financial conditions of the debtors, external market information and other relevant factors. The accounting policies, disclosures of the allowance for impairment of loans and receivables and the related credit risk are included in notes 2.4, 23 and 46 to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls relating to approval, post approval monitoring, the credit grading management, and loan impairment assessment, etc. We adopted a risk-based sampling approach in our tests of the allowances for impairment of loans and receivables. We selected samples of performing loans considering size, risk factors, industry trends for our tests on the reasonableness of loan grading and measurement of impairment. For a sample of non-performing loans, we assessed management's forecast of future repayments and current financial conditions of the debtors, based on historical experience, value of collaterals (if any) and observable external data, etc. We also evaluated the parameters and assumptions used in the collective impairment measurement, based on historical data, observable economic data, market information and industry trends. We also assessed the adequacy of the Group's disclosure of the allowance for impairment of loans and receivables and the related credit risk in note 23 and note 46 to the consolidated financial statements.
Business combinations	
During the year ended 31 December 2016, the Group acquired several hospitals and educational institutions for a total purchase consideration of RMB606 million and resulted in recognition of significant amount of goodwill of RMB385 million. The management used significant judgements and estimates in accounting for those acquisitions, especially preparation of the necessary purchase price allocations. The accounting policies and disclosures of the business combination are included in notes 2.4 and 38 to the consolidated financial statements.	In our audit of the accounting for those acquisitions, we reviewed the sales/purchase agreements and other related documents to assess management's judgement that the controls over such companies are acquired in the transactions. We also tested the estimated fair values of acquired assets and liabilities used in purchase price allocations based on common valuation methods, and we involved our valuation specialists in such tests. We have also assessed the adequacy of the Group's disclosure on the business combinations in note 38 to the consolidated financial statements.
Impairment assessment of goodwill	
As at 31 December 2016, goodwill amounted to RMB749 million, representing 0.45% of total assets, and 3.01% of net assets. The goodwill arose from the Group's acquisition of companies in recent years. The annual impairment assessment on such goodwill was complex and involved the use of various significant assumptions and estimates in respect of future profitability and discount rates, etc. The accounting policies and disclosures of the Impairment assessment of goodwill are included in notes 2.4 and 15 to the consolidated financial statements.	Our audit procedures included, amongst others, assessing and testing the assumptions, methodologies, and data used by the Group in performing the impairment assessment. We involved our valuation specialists in performing these procedures. We specifically focused on assessing the reasonableness of the forecasted future profitability and discount rates used. We also assessed the historical accuracy of the management's forecasts. We also assessed the adequacy of the Group's disclosures included in note 15 to the consolidated financial statements about the key assumptions.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	13,928,369	11,795,983
Cost of sales	7	(5,735,538)	(4,771,610)
Gross profit		8,192,831	7,024,373
Other income and gains	5	477,443	510,032
Selling and distribution costs		(1,545,606)	(1,452,611)
Administrative expenses		(2,588,544)	(1,925,049)
Other expenses		(306,790)	(454,489)
Finance costs	6	(157,755)	(122,221)
Share of net profit of:			
Associates		300	–
Share of net profit/(losses) of:			
Joint ventures		591	(310)
PROFIT BEFORE TAX	7	4,072,470	3,579,725
Income tax expense	10	(1,130,683)	(999,734)
PROFIT FOR THE YEAR		2,941,787	2,579,991
Attributable to:			
Ordinary shareholders of the parent		2,882,208	2,503,109
Holders of perpetual securities	37	78,284	73,080
Non-controlling interests		(18,705)	3,802
		2,941,787	2,579,991
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE PARENT	12	RMB	RMB
Basic and diluted			
– Earnings per share		0.74	0.70

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	2,941,787	2,579,991
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	83,860	–
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	866,887	742,402
Reclassification to the consolidated statement of profit or loss	(1,072,484)	(849,733)
Income tax effect	34,099	17,710
	(87,638)	(89,621)
Exchange differences on translation of foreign operations	9,113	(30,629)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(78,525)	(120,250)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(78,525)	(120,250)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,863,262	2,459,741
Attributable to:		
Ordinary shareholders of the parent	2,803,683	2,382,859
Holders of perpetual securities	78,284	73,080
Non-controlling interests	(18,705)	3,802
	2,863,262	2,459,741

Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	4,995,714	3,357,879
Prepaid land lease payments	14	1,215,828	1,150,026
Goodwill	15	748,821	359,452
Other assets	16	2,434,148	666,407
Investments in joint ventures	18	1,404,870	1,187,975
Investment in associates	19	263,700	–
Available-for-sale investments	20	289,889	427,142
Equity investments at fair value through profit or loss	21	721,239	244,132
Derivative financial instruments	22	478,789	696,858
Loans and accounts receivables	23	84,721,981	73,856,030
Prepayments, deposits and other receivables	24	2,431,140	579,575
Deferred tax assets	25	1,907,364	1,300,724
Restricted deposits	26	12,600	96,137
Total non-current assets		101,626,083	83,922,337
CURRENT ASSETS			
Inventories	27	246,057	114,793
Construction contracts	28	44,129	42,387
Derivative financial instruments	22	904,087	420,376
Loans and accounts receivables	23	54,079,396	46,710,279
Prepayments, deposits and other receivables	24	5,161,098	3,057,298
Restricted deposits	26	2,448,764	2,544,754
Cash and cash equivalents	26	2,051,307	2,500,665
Total current assets		64,934,838	55,390,552
CURRENT LIABILITIES			
Trade and bills payables	29	2,887,266	8,337,635
Other payables and accruals	30	8,378,115	6,431,179
Derivative financial instruments	22	61,059	–
Interest-bearing bank and other borrowings	31	53,545,549	41,699,533
Taxes payable		1,002,600	644,112
Total current liabilities		65,874,589	57,112,459
NET CURRENT LIABILITIES		(939,751)	(1,721,907)

Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		100,686,332	82,200,430
NON-CURRENT LIABILITIES			
Trade and bills payables	29	55	–
Interest-bearing bank and other borrowings	31	53,392,039	41,729,268
Derivative financial instruments	22	31,158	288,114
Deferred tax liabilities	25	70,850	129,392
Other payables and accruals	30	19,729,080	16,262,396
Deferred revenue	32	148,068	260,778
Other liabilities	47	2,468,981	569,062
Total non-current liabilities		75,840,231	59,239,010
Net assets		24,846,101	22,961,420
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	33	10,213,017	10,210,572
Reserves	36	12,746,213	11,180,465
		22,959,230	21,391,037
Holders of perpetual securities	37	1,231,881	1,227,203
Non-controlling interests		654,990	343,180
Total equity		24,846,101	22,961,420

Kong Fanxing
Director

Wang Mingzhe
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to ordinary shareholders of the parent													
	Share capital 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	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Senior perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	10,210,572	2,114,978	(252,505)	76,965	1,215	121,913	321,485	-	607,670	8,188,744	21,391,037	1,227,203	343,180	22,961,420
Profit for the year	-	-	-	-	-	-	-	-	-	2,882,208	2,882,208	78,284	(18,705)	2,941,787
Other comprehensive income for the period:														
Cash flow hedges, net of tax	-	-	-	-	-	-	(171,498)	-	-	-	(171,498)	-	-	(171,498)
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	83,860	-	-	83,860	-	-	83,860
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	9,113	-	9,113	-	-	9,113
Total comprehensive income for the year	-	-	-	-	-	-	(171,498)	83,860	9,113	2,882,208	2,803,683	78,284	(18,705)	2,863,262
Purchase of shares under share award scheme	-	-	(633,176)	-	-	-	-	-	-	-	(633,176)	-	-	(633,176)
Final 2015 dividend declared (net of dividends received from shares held for share award scheme)	-	-	-	-	-	-	-	-	-	(769,673)	(769,673)	-	-	(769,673)
Distribution paid to holders of senior perpetual securities	-	-	-	-	-	-	-	-	-	-	-	(73,606)	-	(73,606)
Shares vested under restricted share award scheme	-	-	33,222	(24,647)	-	-	-	-	-	(8,575)	-	-	-	-

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to ordinary shareholders of the parent													
	Share capital 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	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Senior perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
Transfer of share option reserve upon exercise of share options	2,445	-	-	(508)	-	-	-	-	-	-	1,937	-	-	1,937
Recognition of equity – settled share-based payments	-	-	-	166,320	-	-	-	-	-	-	166,320	-	-	166,320
Special reserve – safety fund appropriation	-	-	-	-	521	-	-	-	-	(578)	(57)	-	57	-
Special reserve – safety fund utilisation	-	-	-	-	(1,080)	-	-	-	-	1,115	35	-	(35)	-
Capital injection by non-controlling shareholders	-	26	-	-	-	-	-	-	-	-	26	-	146,161	146,187
Waiver of debt by shareholders	-	-	-	-	-	-	-	-	-	-	-	-	2,802	2,802
Increase in non-controlling interests in net assets of subsidiaries without loss of control, net	-	3,074	-	-	-	-	-	-	-	-	3,074	-	9,312	12,386
Purchase of non-controlling interests	-	(3,976)	-	-	-	-	-	-	-	-	(3,976)	-	(2,704)	(6,680)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	174,922	174,922
At 31 December 2016	10,213,017	2,114,102*	(852,459)*	218,130*	656*	121,913*	149,987*	83,860*	616,783*	10,293,241*	22,959,230	1,231,881	654,990	24,846,101

* These reserve accounts comprise the consolidated reserves of RMB12,746,213,000 (2015: RMB11,180,465,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to ordinary shareholders of the parent												
	Share capital 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	Senior perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	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
Profit for the year	–	–	–	–	–	–	–	–	2,503,109	2,503,109	73,080	3,802	2,579,991
Other comprehensive income for the year													
Cash flow hedges, net of tax	–	–	–	–	–	–	(89,621)	–	–	(89,621)	–	–	(89,621)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(30,629)	–	(30,629)	–	–	(30,629)
Total comprehensive income for the year	–	–	–	–	–	–	(89,621)	(30,629)	2,503,109	2,382,859	73,080	3,802	2,459,741
Issue of shares	3,580,765	–	–	–	–	–	–	–	–	3,580,765	–	–	3,580,765
Share issue expenses	(53,944)	–	–	–	–	–	–	–	–	(53,944)	–	–	(53,944)
Purchase of shares under share award scheme	–	–	(116,245)	–	–	–	–	–	–	(116,245)	–	–	(116,245)
Final 2014 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(592,476)	(592,476)	–	–	(592,476)

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to ordinary shareholders of the parent												
	Share capital 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	Senior perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
Distribution paid to holders of senior perpetual securities	–	–	–	–	–	–	–	–	–	–	(104,047)	–	(104,047)
Recognition of equity-settled share-based payments	–	–	–	58,971	–	–	–	–	–	58,971	–	–	58,971
Special reserve – safety fund appropriation	–	–	–	–	835	–	–	–	(835)	–	–	–	–
Special reserve – safety fund utilisation	–	–	–	–	(685)	–	–	–	685	–	–	–	–
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	154,484	154,484
Decrease in ownership interests in subsidiaries without loss of control	–	17,342	–	–	–	–	–	–	–	17,342	–	6,978	24,320
Waiver of debt by non-controlling shareholders	–	813	–	–	–	–	–	–	–	813	–	1,447	2,260
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	97,698	97,698
At 31 December 2015	10,210,572	2,114,978*	(252,505)*	76,965*	1,215*	121,913*	321,485*	607,670*	8,188,744*	21,391,037	1,227,203	343,180	22,961,420

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,072,470	3,579,725
Adjustments for:			
Finance costs and bank charges		4,289,354	4,085,503
Interest income		(41,183)	(56,163)
Share of net profit of an associate		(300)	–
Share of net (gains)/losses of joint ventures		(591)	310
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	5	(13,293)	(12,570)
Realised fair value losses/(gains), net	7	41,402	(35,665)
Fair value loss on a call option		–	12,006
Gain on disposal of available-for-sale investment	5	(30,648)	(11,898)
Gain on structured financial products	5	(18,871)	(6,597)
Loss/(gain) on disposal of property, plant and equipment, net		41,167	(843)
Depreciation		355,664	228,147
Provision for impairment of loans and accounts receivables	23	1,258,528	821,103
Provision for impairment of other assets		2,734	25,320
Amortisation of intangible assets and other assets		51,747	47,498
Equity-settled share-based payment expenses	7	166,320	58,971
Foreign exchange loss, net		61,268	16,487
Impairment of goodwill	7	700	–
Waiver of debt by shareholders		2,802	–
Dividend income from available-for-sale investments	5	(4,153)	–
Fair value gains, net:			
equity investments at fair value through profit or loss	5	(107,016)	–
Interest income from subordinated tranches of asset-backed securities	5	(81,424)	–
		10,046,677	8,751,334
Increase in derivative instruments – transactions qualifying as hedges		–	(19,823)
Increase in inventories		(115,434)	(25,928)
(Increase)/decrease in construction contracts		(1,742)	39,952
Increase in loans and accounts receivables		(19,356,949)	(21,819,428)
Increase in prepayments, deposits and other receivables		(3,920,063)	(1,337,568)
Increase in restricted cash related to asset securitisations		(1,080,325)	(1,049,420)
Increase in other assets		(1,702,444)	(580,410)
(Decrease)/increase in trade and bills payables		(5,531,718)	4,810,286
Increase in other payables and accrued liabilities		4,873,383	5,841,442
Increase in other liabilities		1,634,018	531,882
Net cash flows used in operating activities before tax		(15,154,597)	(4,857,681)
Interest paid		(4,482,880)	(3,898,775)
Interest received		41,183	56,163
Income tax paid		(1,412,910)	(1,589,416)

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows used in operating activities		(21,009,204)	(10,289,709)
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on structured financial products	5	18,871	6,597
Realised gain on derivative financial instruments not qualifying as hedges		3,119	48,227
Proceeds from disposal of property, plant and equipment		166,652	14,386
Acquisition of subsidiaries	38	(252,869)	(193,742)
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(1,884,923)	(1,876,373)
Purchase of shareholding for joint ventures		(263,400)	(1,071,180)
Purchase of shareholding for associates		(219,358)	–
Dividend received from joint ventures		878	1,751
Dividend income from available-for-sale investments	5	4,153	–
Proceeds from disposal of joint ventures		2,040	5,403
Purchase of available-for-sale investments		–	(103,556)
Proceeds from disposal of available-for-sale investments		258,589	204,999
Purchase of equity investments at fair value through profit or loss		(367,545)	(244,132)
Net cash flows used in investing activities		(2,533,793)	(3,207,620)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		1,937	–
Proceeds from issue of new shares		–	3,580,765
Share issue expenses		–	(53,944)
Capital injection from non-controlling shareholders		146,187	154,484
Purchase of non-controlling shareholders		(6,680)	–
Cash received as a result of increase in non-controlling interests in subsidiaries without loss of control		15,594	24,320
Cash received from borrowings		97,000,177	80,704,161
Repayments of borrowings		(74,108,878)	(70,310,149)
Dividends paid		(769,673)	(592,476)
Decrease/(increase) in pledged deposits		1,259,852	(637,666)
Realised fair value gains from derivative financial instruments in hedges for borrowings		347,012	83,778
Purchase of shares held for the share award scheme	35	(633,176)	(116,245)
Distribution paid to holders of senior perpetual securities	37	(73,606)	(104,047)
Cash received for other financing activities		–	5,759
Net cash flows from financing activities		23,178,746	12,738,740
NET DECREASE IN CASH AND CASH EQUIVALENTS		(364,251)	(758,589)
Cash and cash equivalents at beginning of year		2,500,665	3,317,850
Effect of exchange rate changes on cash and cash equivalents		(85,107)	(58,596)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,051,307	2,500,665

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP 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 6305, Central Plaza, 18 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, entrusted loan arrangements, factoring, the provision of advisory services, equipment operation business, industrial operation business and other services as approved by the Ministry of Commerce (the "MOFCOM") 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"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments 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 2016. 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.

Notes to Financial Statements

31 December 2016

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

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

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

Notes to Financial Statements

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant effect on the consolidated financial statements of the Group. The Company changed its accounting policy for investments in subsidiaries upon adoption of the Amendments to HKAS 27 in its separate financial statements as detailed below:

The Amendments to HKAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. For the year ended 31 December 2016, the Company changed its accounting for investments in subsidiaries from cost method to equity method in its separate financial statements, and apply the change retrospectively according to the Amendments to HKAS 27. Such a change only impacted the separate financial statements (see note 50) and did not affect Group's consolidated financial statements as investments in subsidiaries are eliminated upon consolidation.

Notes to Financial Statements

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019
[4] No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that may significantly affect the consolidated financial statements of the 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 that the adoption of HKFRS 9 may have an impact on the classification, measurement and impairment of the Group's financial assets. The Group expects to adopt HKFRS 9 on 1 January 2018 and is currently assessing the impact of HKFRS 9 upon adoption.

Notes to Financial Statements

31 December 2016

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

HKFRS 15 establishes a new five-step model to account for 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. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

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

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

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

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

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

An assessment is made at the end of each reporting period as to whether there is 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.

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(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);

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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	1.90-19.40%
Equipment, tools and moulds	9.00-33.33%
Office equipment and computers	9.50-33.33%
Motor vehicles	9.00-32.33%
Vessels	3.20-16.72%
Others	10.00-50.00%

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.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

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

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.

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31 December 2016

2.4 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, available-for-sale investments, equity investments at fair value through profit or loss, 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.

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 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (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 administrative 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 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

If a reliable measure becomes available for available-for-sale financial investments for which such a measure was previously not available, the asset shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.

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.

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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.

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 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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

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

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

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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.

Current versus non-current classification

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

- Where the Group 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.

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

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

Treasury shares

Own equity instruments which are required and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Provisions

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 the 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 reporting date and recognised as income when the services have been rendered and the revenue can be reasonably estimated;

(c) from the 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;

(f) rental income, on a time proportion basis over the lease terms; and

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

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

Revenue from fixed price construction contracts is recognised using 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 using 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.

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

Employee benefits

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

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

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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

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 RMB at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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 a functional currency other than RMB which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 2016 was RMB748,821,000 (31 December 2015: RMB359,452,000). Further details are given in note 15.

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 2016

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 an 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:

Notes to Financial Statements

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between finance leases and operating leases

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

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 leased 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 financial and advisory business and the industrial operation business, based on internal organisational structure, management requirement and the internal reporting system:

- The financial and advisory business comprises (a) direct finance leasing; (b) sale-leaseback; (c) factoring; (d) entrusted loans; and (e) advisory services.
- The industrial operation business comprises primarily (a) import and export trade and domestic trade of medical equipment, as well as the provision of trade agency services primarily within the machinery industry; (b) the ship brokerage services; (c) medical engineering; (d) equipment operation; (e) hospital and healthcare management and (f) education consulting and 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.

Notes to Financial Statements

31 December 2016

4. OPERATING SEGMENT INFORMATION (continued)

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

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

As at and for the year ended 31 December 2016

	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	11,800,744	2,127,625	–	13,928,369
Intersegment sales	137,578	39,846	(177,424)	–
Cost of sales	(4,308,009)	(1,585,071)	157,542	(5,735,538)
Other income and gains	330,369	173,975	(26,901)	477,443
Selling and distribution costs and administrative expenses	(3,655,852)	(516,712)	38,414	(4,134,150)
Other expenses	(233,854)	(72,419)	(517)	(306,790)
Finance costs	–	(157,755)	–	(157,755)
Share of profits or losses of Associates	–	300	–	300
Share of profits or losses of joint ventures	–	591	–	591
Profit before tax	4,070,976	10,380	(8,886)	4,072,470
Income tax expense	(1,140,961)	10,278	–	(1,130,683)
Profit after tax	2,930,015	20,658	(8,886)	2,941,787
Segment assets	163,614,496	12,953,138	(10,006,713)	166,560,921
Segment liabilities	(141,615,753)	(9,664,602)	9,565,535	(141,714,820)
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,206,860	54,402	–	1,261,262
Depreciation and amortisation	54,845	352,566	–	407,411
Capital expenditure	1,057,405	1,930,689	–	2,988,094

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31 December 2016

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2015

	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	10,571,802	1,224,181	–	11,795,983
Intersegment sales	102,534	16,294	(118,828)	–
Cost of sales	(4,066,663)	(808,387)	103,440	(4,771,610)
Other income and gains	498,471	15,128	(3,567)	510,032
Selling and distribution costs and administrative expenses	(3,105,272)	(290,333)	17,945	(3,377,660)
Other expenses	(455,742)	1,253	–	(454,489)
Finance costs	–	(122,221)	–	(122,221)
Share of profits or losses of joint ventures	(6,133)	5,823	–	(310)
Profit before tax	3,538,997	41,738	(1,010)	3,579,725
Income tax expense	(984,131)	(15,603)	–	(999,734)
Profit after tax	2,554,866	26,135	(1,010)	2,579,991
Segment assets	136,517,966	7,813,466	(5,018,543)	139,312,889
Segment liabilities	(115,772,841)	(5,156,501)	4,577,873	(116,351,469)
Other segment information:				
Impairment losses recognised in the statement of profit or loss	830,360	16,063	–	846,423
Depreciation and amortisation	56,575	219,071	–	275,646
Capital expenditure	1,280,164	2,208,819	–	3,488,983

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	13,740,931	11,579,614
Hong Kong	166,617	184,884
Other countries or regions	20,821	31,485
	13,928,369	11,795,983

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

(b) Non-current assets

	2016 RMB'000	2015 RMB'000
Mainland China	10,505,918	6,281,776
Hong Kong	557,163	439,963
	11,063,081	6,721,739

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 was derived amounted to 10% or more of the total revenue of the Group during the year.

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31 December 2016

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns and trade discounts; 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	2016 RMB'000	2015 RMB'000
Revenue			
Finance lease income		7,924,132	6,603,955
Service fee income		3,820,487	3,850,659
Factoring income		215,153	245,375
Sale of goods		257,472	120,356
Chartering and brokerage income		171,335	166,225
Construction contract revenue		79,058	96,620
Equipment operation income		830,314	601,200
Healthcare service income		626,028	194,477
Education service income		115,898	9,958
Other income		33,699	17,971
Business tax and surcharges		(145,207)	(110,813)
		13,928,369	11,795,983
Other income and gains			
Bank interest income		41,183	56,163
Gains on structured financial products		18,871	6,597
Gains on disposal of available-for-sale investments		30,648	11,898
Fair value gains from derivative instruments - transactions not qualifying as hedges		13,293	48,235
Gains on disposal of property, plant, and equipment		7,271	1,163
Government grants		9,471	130,508
Tax benefits from intra-group borrowings		43,129	188,114
Gains on transfers of loans and accounts receivables		92,907	67,203
Fair value gains from equity investments at fair value through profit or loss		107,016	–
Gains on transfers of subordinated tranches of asset-backed securities		18,855	–
Interest income from subordinated tranches of asset-backed securities		81,424	–
Dividend income from available-for-sale investments		4,153	–
Others		9,222	151
		477,443	510,032

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6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans, overdrafts and other loans for industrial operation business	153,015	120,506
Interest on finance leases for industrial operation business	6,780	1,875
Total interest expense on financial liabilities not at fair value through profit or loss	159,795	122,381
Less: Interest capitalised	(2,040)	(160)
	157,755	122,221

7. PROFIT BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
Cost of borrowings included in cost of sales	4,131,599	3,963,282
Cost of inventories sold	232,015	114,263
Cost of construction contracts	60,314	55,973
Cost of equipment operation	559,180	343,584
Cost of chartering	187,480	149,332
Cost of healthcare service	459,564	132,362
Cost of education service	71,888	5,971
Cost of others	33,498	6,843

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7. PROFIT BEFORE TAX (continued)

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

	2016 RMB'000	2015 RMB'000
Depreciation	28,370	24,355
Amortisation of intangible assets and other assets:		
Current year expenditure	52,575	46,827
Less: Government grants released*	(1,378)	(1,378)
	51,197	45,449
Rental expenses	129,804	114,470
Auditors' remuneration		
– audit services	4,230	4,380
– other services	3,927	1,919
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
Current year expenditure	2,592,698	1,758,053
Less: Government grants released*	(933,123)	(277,330)
	1,659,575	1,480,723
– Equity-settled share-based payment expense	166,320	58,971
– Pension scheme contributions	82,816	68,378
– Other employee benefits	196,304	215,635
	2,105,015	1,823,707
Impairment of loans and accounts receivable (Note 23)	1,258,528	821,103
Impairment of other receivables	1,608	4,855
Impairment of inventories	1,126	33
Impairment of property, plant and equipment	–	20,432
Entertainment expenses	66,195	55,481
Business travelling expenses	179,847	167,359
Consultancy fees	54,159	68,117

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7. PROFIT BEFORE TAX (continued)

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

	2016 RMB'000	2015 RMB'000
Office expenses	33,595	38,073
Advertising and promotional expenses	18,621	11,419
Transportation expenses	10,968	11,077
Communication expenses	22,690	21,457
Other miscellaneous expenses:		
Current year expenditure	150,806	131,314
Less: Government grants released*	(194)	(16,190)
	150,612	115,124
Litigation expenses	13,658	28,850
Impairment of goodwill**	700	–
Losses on disposal of property, plant and equipment	48,438	320
Donation	4,160	4,500
Bank commission expenses	99,239	120,366
Derivative instruments – fair value loss on a call option	–	12,006
Foreign exchange losses/(gains), net:		
Cash flow hedges (transfer from equity to offset foreign exchange losses)	(1,072,484)	(849,733)
Others	1,133,752	866,220
Derivative instruments – transactions not qualifying as hedges	41,402	–
Losses on transfers of loans and accounts receivables	45,744	300,810
Other expenditure	5,839	–

* Government grants have been received by a subsidiary of the Company from the local government for improvement of technology, staff training and development, etc. The government grants received 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).

** The impairment of goodwill is included in "Other expenses" in the consolidated statement of profit or loss.

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2016 RMB'000	2015 RMB'000
Fees	2,632	2,052
Other emoluments:		
Salaries, allowances and benefits in kind	6,110	6,116
Performance related bonuses*	4,300	3,500
Pension scheme contributions	661	657
	11,071	10,273
	13,703	12,325

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

During 2016, 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, respectively.

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. Cai Cunqiang	–	–
Mr. Han Xiaojing	376	342
Mr. Liu Jialing	376	342
Mr. Yip Wai Ming	376	342
	1,128	1,026

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

(b) Non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. Ning Gaoning	–	–
Mr. Yang Lin	–	–
Mr. Chen Guogang	376	–
Mr. Liu Haifeng	376	342
Mr. Luo Qiang	376	342
Mr. Guo Mingjian	376	342
	1,504	1,026

(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 2016					
Executive directors:					
Mr. Kong Fanxing	–	3,873	2,500	425	6,798
Mr. Wang Mingzhe	–	2,237	1,800	236	4,273
	–	6,110	4,300	661	11,071
Year ended 31 December 2015					
Executive directors:					
Mr. Kong Fanxing	–	3,876	2,000	423	6,299
Mr. Wang Mingzhe	–	2,240	1,500	234	3,974
	–	6,116	3,500	657	10,273

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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	
	2016	2015
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2015: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2015: three) non-directors, highest paid employees for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	5,766	5,751
Performance related bonuses	3,900	3,900
Pension scheme contributions	446	442
	10,112	10,093

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

	Number of employees	
	2016	2015
HK$3,500,001 to HK$4,000,000 (Equivalent to RMB3,031,526 to RMB3,464,600)	2	2
HK$4,000,001 to HK$4,500,000 (Equivalent to RMB3,464,601 to RMB3,897,675)	–	–
HK$4,500,001 to HK$5,000,000 (Equivalent to RMB3,897,676 to RMB4,330,750)	1	1
	3	3

During the year ended 31 December 2016, 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, respectively.

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9. FIVE HIGHEST PAID EMPLOYEES (continued)

The Group adopted collective economic-gain bonus schemes (the "Schemes") since 2014. According to the Schemes, the Group paid a portion of employee bonus to separate funds (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. As at 31 December 2016, the above information of the five highest paid employees has not taken into employees' potential entitlement under the Schemes.

10. INCOME TAX

	2016 RMB'000	2015 RMB'000
Current – Hong Kong		
Charge for the year	141,093	168,937
Current – Mainland China		
Charge for the year	1,622,626	1,227,458
Deferred tax (Note 25)	(633,036)	(396,661)
Total tax charge for the year	1,130,683	999,734

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 tax rate of 25% (2015: 25%) on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

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%.

On 30 October 2015, Shanghai Horizon Equipment & Engineering Co., Ltd. was recognised as a high-technology enterprise by the Shanghai Science and Technology Commission. Since then, Shanghai Horizon Equipment & Engineering Co., Ltd. has enjoyed a preferential tax rate of 15%.

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:

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10.INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

	2016 RMB'000	2015 RMB'000
Profit before tax	4,072,470	3,579,725
Tax at the statutory income tax rates	1,025,268	876,612
Effect of lower tax rate enacted by local authority	(2,927)	(559)
Expenses not deductible for tax	31,808	42,472
Income not subject to tax	(9,276)	(25,837)
Adjustment on current income tax in respect of prior years	(1,483)	(371)
Utilisation of previously unrecognised tax losses	(2,915)	(9,542)
Unrecognised tax losses	9,708	2,135
Effect of recognition of deductible temporary differences that were not recognised in prior years	(5,346)	–
Effect of withholding tax on the distributable profits of the Group's subsidiaries in Mainland China	–	31,149
Effect of withholding tax on interest on intra-group balances	85,846	83,675
Income tax expense as reported in the consolidated statement of profit or loss	1,130,683	999,734

11.DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final dividend – HK$0.23 (2015: HK$0.23) per ordinary share	783,990	752,096

A final dividend for the year 2016 of HK$0.23 per share was proposed at the meeting of the Board of directors ("the Board") held on 29 March 2017. As at 31 December 2016, based on the total number of outstanding ordinary shares of 3,810,634,899 (2015: 3,903,149,860) (excluding the 140,148,918 (2015: 47,250,140) shares held for share award scheme (note 35)), the proposed final dividend amounted to approximately HK$876,446,000 (2015: HK$897,724,000) (equivalent to RMB783,990,000 (2015: RMB752,096,000)). 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.

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

The calculation of basic earnings per share for the year 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 3,879,589,066 (2015: 3,562,109,103) outstanding during the year.

The calculation of the diluted earnings per share amounts is based on the consolidated net profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share option (Note 34). For the share option, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculation of basic and diluted earnings per share is based on:

Earnings

	2016 RMB'000	2015 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	2,882,208	2,503,109

Shares

	Number of shares 2016	2015
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	3,879,589,066	3,562,109,103
Effect of dilution – weighted average number of ordinary shares:		
Share options	255,680	–
Weighted average number of ordinary shares for diluted earnings per share	3,879,844,746	3,562,109,103

For the year ended 31 December 2016, the unvested share options under the Share Option Scheme (Note 34) and the unvested restricted shares under the Restricted Share Award Scheme (Note 35) have no dilutive effect on earnings per share. The Group had no other potentially dilutive ordinary shares in issue. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these financial statements.

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13.PROPERTY, PLANT AND EQUIPMENT

31 December 2016

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Vessels RMB'000	Others RMB'000	Total RMB'000
At 31 December 2015 and at 1 January 2016									
Cost	57,734	384,594	2,618,128	102,491	41,135	300,883	442,208	–	3,947,173
Accumulated depreciation and impairment	(51,385)	(42,006)	(365,783)	(66,602)	(20,091)	–	(43,427)	–	(589,294)
Net carrying amount	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	–	3,357,879
At 1 January 2016, net of accumulated depreciation	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	–	3,357,879
Acquisition of subsidiaries	345	149,432	94,327	6,031	5,799	45,546	–	6,563	308,043
Additions	99,776	2,515	970,697	23,061	10,361	478,991	265,087	9,996	1,860,484
Depreciation provided during the year	(14,192)	(12,470)	(277,582)	(16,309)	(7,764)	–	(22,326)	(5,021)	(355,664)
Transfers	1,272	23,938	2,265	213	–	(34,673)	–	6,985	–
Disposals	–	–	(37,075)	(552)	(271)	–	(169,922)	–	(207,820)
Exchange realignment	–	–	–	–	–	3,157	29,635	–	32,792
Impairment	–	–	–	–	–	–	–	–	–
At 31 December 2016, net of accumulated depreciation and impairment	93,550	506,003	3,004,977	48,333	29,169	793,904	501,255	18,523	4,995,714
At 31 December 2016:									
Cost	159,587	573,597	3,686,731	135,571	60,127	793,904	533,460	27,425	5,970,402
Accumulated depreciation and impairment	(66,037)	(67,594)	(681,754)	(87,238)	(30,958)	–	(32,205)	(8,902)	(974,688)
Net carrying amount	93,550	506,003	3,004,977	48,333	29,169	793,904	501,255	18,523	4,995,714

As at 31 December 2016, the Group has not obtained the property ownership certificates for one building (31 December 2015: five) with a net book value of RMB9,254,000 (31 December 2015: RMB58,242,000).

The Group was in the process of applying for the property ownership certificates for the above building as at 31 December 2016.

As at 31 December 2016, property, plant and equipment with a net carrying amount of RMB748,439,000 (31 December 2015: Nil), were pledged to secure general banking facilities granted to the Group.

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13.PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2015

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Vessels RMB'000	Total RMB'000
At 31 December 2014 and at 1 January 2015:								
Cost	49,978	159,635	1,457,156	59,379	26,400	130,868	91,324	1,974,740
Accumulated depreciation	(47,686)	(24,923)	(112,852)	(36,985)	(12,957)	–	(6,168)	(241,571)
Net carrying amount	2,292	134,712	1,344,304	22,394	13,443	130,868	85,156	1,733,169
At 1 January 2015, net of accumulated depreciation	2,292	134,712	1,344,304	22,394	13,443	130,868	85,156	1,733,169
Acquisition of subsidiaries	–	110,621	46,222	17,428	3,502	–	–	177,773
Additions	7,847	103,272	1,058,762	10,101	8,923	226,595	275,299	1,690,799
Depreciation provided during the year	(3,790)	(6,712)	(186,526)	(10,973)	(4,759)	–	(15,387)	(228,147)
Transfers	–	695	–	–	–	(60,731)	60,036	–
Disposals	–	–	(10,417)	(3,061)	(65)	–	–	(13,543)
Exchange realignment	–	–	–	–	–	4,151	14,109	18,260
Impairment	–	–	–	–	–	–	(20,432)	(20,432)
At 31 December 2015, net of accumulated depreciation and impairment	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	3,357,879
At 31 December 2015:								
Cost	57,734	384,594	2,618,128	102,491	41,135	300,883	442,208	3,947,173
Accumulated depreciation and impairment	(51,385)	(42,006)	(365,783)	(66,602)	(20,091)	–	(43,427)	(589,294)
Net carrying amount	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	3,357,879

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14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	1,210,583	1,023,060
Additions	17,333	167,604
Acquisition of subsidiaries	77,118	19,919
At the end of the year	1,305,034	1,210,583
Accumulated amortisation:		
At the beginning of the year	(60,557)	(35,182)
Addition	(26,714)	(25,025)
Acquisition of subsidiaries	(1,935)	(350)
At the end of the year	(89,206)	(60,557)
Net carrying amount:		
At the end of the year	1,215,828	1,150,026
At the beginning of the year	1,150,026	987,878

As at 31 December 2016, the Group has not obtained the land ownership certificate for one parcel (31 December 2015: one) of land with a net book value of RMB22,713,000 (31 December 2015: RMB2,479,000).

The Group was in the process of applying for the land ownership certificate for the above parcel of land as at 31 December 2016.

As at 31 December 2016, the Group's leasehold land of approximately RMB902,756,000 (31 December 2015: Nil) was pledged to secure general banking facilities granted to the Group.

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15. GOODWILL

	RMB'000
At 1 January 2015:	
Cost	64,164
Accumulated impairment	–
Net carrying amount	64,164
Cost at 1 January 2015, net of accumulated impairment	64,164
Acquisition of subsidiaries	295,288
Impairment during the year	–
Cost and net carrying amount at 31 December 2015	359,452
At 31 December 2015:	
Cost	359,452
Accumulated impairment	–
Net carrying amount	359,452
Cost at 1 January 2016, net of accumulated impairment	359,452
Acquisition of subsidiaries (Note 38)	385,257
Adjustment during the measurement period	4,812
Impairment during the year	(700)
Cost and net carrying amount at 31 December 2016	748,821
At 31 December 2016:	
Cost	749,521
Accumulated impairment	(700)
Net carrying amount	748,821

During the measurement period, the Group adjusted the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date for Shanghai Shengyi Yuanhong Investment Co., Ltd., which lead to the adjustments of the identifiable assets acquired, liabilities assumed and non-controlling interest and the resulting goodwill increase by RMB4,812,000 in respect of Shanghai Shengyi Yuanhong Investment Co., Ltd..

Goodwill acquired through business combinations is allocated to each acquired subsidiary (Note 38) as the cash-generating units ("CGUs") within medical service industry and educational service industry for impairment testing, which for the purpose of the presentation were grouped as follows:

- Medical service industry; and
- Education service industry.

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15.GOODWILL (continued)

For cash-generating units within medical service industry

The recoverable amount of each CGU within the medical service industry has been determined 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 post-tax discount rate applied to the cash flow projections is 13%~13.5% (2015: 13%). The implied pre-tax discount rates for the cash flow projections are 15.8% to 17.8% (2015: 16.7% to 17.8%). As at 31 December 2016, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill (RMB102,105,000) arising from the acquisition of Anda Jiren Hospital Co., Ltd. ("Anda Hospital") was higher than its recoverable amount (RMB101,405,000). Considering the fact that the actual healthcare service income was below previously expected financial budget, the management thus estimated that the future cash flows of Anda Hospital that could be generated from its healthcare service would probably be reduced than originally expected, resulting in a decrease in value-in-use calculation. As a result, the Company provided an impairment loss of approximately RMB700,000(2015: Nil) in the Group's consolidated financial statements for the year ended 31 December 2016.

For cash-generating units within educational service industry

The recoverable amount of each CGU within the educational service industry has been determined 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 post-tax discount rate applied to the cash flow projections is 14% (2015: 14%). The implied pre-tax discount rates for the cash flow projections are 16.5% to 18.3% (2015: 16.5% to 17.5%).

The carrying amounts of goodwill are as follows:

	Medical service industry		Education service industry		Total	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amounts of goodwill	553,538	237,161	195,283	122,291	748,821	359,452

Assumptions were used in the value in use calculation of each CGU within the medical service industry and educational service industry for 31 December 2016 and 31 December 2015. The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill.

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

Discount rates – the discount rates used reflect specific risks relating to the units.

The values assigned to the key assumptions on market development of the medical service industry and the educational service industry, and the discount rates are comparable to external information sources.

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16. OTHER ASSETS

	2016 RMB'000	2015 RMB'000
Software (Note 16a)	21,322	19,558
Continuing involvement in transferred assets (Note 47a)	2,398,981	569,062
Others	13,845	77,787
	2,434,148	666,407

16a. Software

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	66,386	65,628
Acquisition of subsidiaries	2,488	1,022
Additions	7,059	7,033
Disposals	(36)	(7,342)
Exchange differences	53	45
At the end of the year	75,950	66,386
Accumulated amortisation:		
At the beginning of the year	(46,828)	(41,758)
Acquisition of subsidiaries	(712)	(404)
Additions	(7,097)	(5,575)
Disposals	36	922
Exchange differences	(27)	(13)
At the end of the year	(54,628)	(46,828)
Net carrying amount:		
At the end of the year	21,322	19,558
At the beginning of the year	19,558	23,870

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17. SCOPE OF CONSOLIDATION

As at 31 December 2016, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) (Note ii)	PRC/Mainland China 13 September 1991	US$1,816,710,922	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	RMB700,000,000/ 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	–	91.65	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	–	96.81	Operating leasing
Shanghai Dopont Industrial Co., Ltd. (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB200,000,000/ 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	–	96.81	Operating leasing
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
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	RMB500,000,000/ RMB361,500,000	–	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/ RMB292,410,000	–	55	Operating leasing
Yiyang Yuhong Infrastructure Construction & Development Co., Ltd. (益陽市昱宏基礎設施建設發展有限公司) (Note ii)	PRC/Mainland China 26 November 2015	RMB30,000,000	–	100	Construction
Pan Xian Yuhong Infrastructure Investment Co., Ltd. (盤縣昱宏基礎設施投資有限公司) (Note ii)	PRC/Mainland China 7 November 2015	RMB80,000,000/ RMB79,361,698	–	100	Investment holding
Shanghai Doyi Industrial Co., Ltd. (上海德藝實業發展有限公司) (Note ii)	PRC/Mainland China 12 July 2013	RMB5,000,000	–	54.99	Manufacturing and trading
Huakang Orthopaedics Hospital (惠州華康骨傷醫院有限公司) (Note ii)	PRC/Mainland China 20 February 2004	RMB35,130,000	–	69.30	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

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2016, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

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	
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/ RMB373,330,000	–	100	Construction
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 December 2013	RMB5,000,000,000	46.36	53.64	Finance leasing
Grand Flight Investment Management Limited (宏翔投資管理有限公司) (Note i)	British Virgin Islands 12 August 2014	US$1	–	100	Investment holding
Shanghai Thrive Kind Healthcare Investment Co., Ltd. (上海臻慈醫療投資有限公司) (Note ii)	PRC/Mainland China 10 February 2015	RMB400,000,000/ RMB81,050,000	–	51	Investment holding
Tianjin Renju Investment Management Co., Ltd. (天津仁聚投資控股有限公司) (Note ii)	PRC/Mainland China 12 January 2015	US$300,000,000/ US$60,000,000	–	100	Investment holding
Guangzhou Horizon Equipment & Engineering Co., Ltd. (廣州宏途設備工程有限公司) (Note ii)	PRC/Mainland China 23 March 2015	RMB200,000,000	–	96.81	Operating leasing
Siping Cancer Institute & Hospital (四平市腫瘤醫院有限公司) (Note ii)	PRC/Mainland China 23 April 2014	RMB58,823,990	–	58.48	Medical service
Binhai Xinrenci Hospital (濱海新仁慈醫院有限公司) (Note ii)	PRC/Mainland China 20 January 2015	RMB1,612,900	–	66.06	Medical service
Anda Jiren Hospital (安達市濟仁醫院有限責任公司) (Note ii)	PRC/Mainland China 9 April 2015	RMB20,460,878	–	50.44	Medical service
Zhoushan Dinghai Guanghua Hospital (舟山定海廣華醫院有限責任公司) (Note ii)	PRC/Mainland China 17 May 2012	RMB18,200,205	–	42.20	Medical service
Shanghai Montessori Academy Co., Ltd. (上海森勝蒙世教育投資有限公司) (Note ii)	PRC/Mainland China 2 April 2015	RMB49,062,500	–	44.18	Investment holding
Shanghai Xi Wei Investment Consulting Co., Ltd. (上海習威投資諮詢有限公司) (Note ii)	PRC/Mainland China 21 November 2012	RMB4,000,000	–	26.51	Investment holding
Montessori Academy Biyun Campus (上海浦東新區民辦習威幼兒園) (Note ii)	PRC/Mainland China 8 October 2014	RMB2,000,000	–	26.51	Education service
Shanghai Sunflower Language Co., Ltd. (上海太陽花語言培訓有限公司) (Note ii)	PRC/Mainland China 7 March 2002	RMB1,000,000	–	44.18	Education service
Chengdu Anren Confucius International School (成都安仁孔裔外國語學校) (Note ii)	PRC/Mainland China 11 November 2015	RMB1,000,000	–	60	Education service
Chengdu Confucius Investment Co., Ltd. (成都孔裔投資有限公司) (Note ii)	PRC/Mainland China 11 November 2015	RMB1,000,000	–	60	Investment holding

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2016, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Confucius International School Qingdao (青島牛津外語專修學校) (Note ii)	PRC/Mainland China 28 April 2010	RMB1,200,000	–	70	Education service
Qingdao Confucian Education Investment Consulting Co., Ltd. (青島孔裔教育投資顧問有限公司) (Note ii)	PRC/Mainland China 28 April 2010	RMB2,600,000	–	70	Advisory service
Horizon Healthcare Management (Shanghai) Co., Ltd. (上海宏信醫院管理有限公司) (Note ii)	PRC/Mainland China 27 December 2012	RMB5,000,000	–	100	Advisory service
Deyang The Fifth Hospital (德陽第五醫院股份有限公司) (Note ii)	PRC/Mainland China 6 January 2012	RMB39,090,000	–	70	Medical service
Nayong Xinli Hospital (納雍新立醫院有限公司) (Note ii)	PRC/Mainland China 12 May 2016	RMB11,381,469	–	51	Medical service
Zhoushan Putuo Guanghua Hospital (舟山市普陀廣華醫院有限責任公司) (Note ii)	PRC/Mainland China 17 December 2013	RMB20,000,000	–	29.54	Medical service
Siyang Hospital of Traditional Chinese Medicine (泗陽縣中醫院有限公司) (Note ii)	PRC/Mainland China 6 January 2016	RMB30,000,000	–	50	Medical service
Chongqing Yudong Hospital (重慶渝東醫院有限責任公司) (Note ii)	PRC/Mainland China 7 December 2007	RMB29,154,515	–	51	Medical service
Grand Flight Investment Management (遠翼投資管理有限公司)(Note ii)	PRC/Mainland China 5 Nov 2015	RMB50,000,000/ RMB10,000,000	–	90	Investment management
Tian Jin Grand Flight Hooyoung Asset Management Co.,Ltd (天津遠翼宏揚資產管理有限公司)(Note ii)	PRC/Mainland China 21 Dec 2015	RMB2,000,000	–	90	Assets Management
Tian Jin Grand Flight Hooyoung Asset Management Centre (Limited Partnership) (天津遠翼開元資產管理（有限合夥）) (Note ii, Note iii)	PRC/Mainland China 31 March 2016	RMB704,510,000/ RMB630,190,200	–	88.89	Assets Management

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

Note iii: Consolidated structured entity

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18.INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	1,324,918	1,108,023
Excess of consideration over share of net assets acquired	79,952	79,952
	1,404,870	1,187,975

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 Profit sharing	Principal activities
Shanghai Dongling Investment, LLP (上海東翎投資合夥企業（有限合夥）)	Registered capital of RMB55,717,310	PRC/Mainland China	49.2	49.2	Investment holding
Shanghai Dongsong Investment, LLP (上海東松投資合夥企業（有限合夥）)	Registered capital of RMB40,100,000	PRC/Mainland China	66.50	#	Investment holding
Weihai Haida Hospital Co., Ltd. (威海海大醫院有限公司)	Registered capital of RMB5,000,000	PRC/Mainland China	50	50	Medical service
Weihai Haida Nursing Hospital Co., Ltd. (威海海大護理院有限公司)	Registered capital of RMB1,000,000	PRC/Mainland China	50	50	Medical service
Kunming Broadhealthcare Investment Co., Ltd. (昆明博健醫療投資有限公司)	Registered capital of RMB14,333,328	PRC/Mainland China	33.3837	33.3837	Healthcare investment and management
Guangzhou Kangda Industrial Technology Co., Ltd. 廣州康大工業科技產業有限公司 ("Kangda")	Registered capital of HK$200,000,000	PRC/Mainland China	60	60	Development and construction
Skycity (Shanghai) Business Co., Ltd. (天空之城（上海）實業有限公司)	Registered capital of RMB5,230,000	PRC/Mainland China	49.7	49.7	Electronic products
Kunming Boyue Maternal and Infant Care Co., Ltd. (昆明博悦母嬰護理有限責任公司)	Registered capital of RMB5,555,600	PRC/Mainland China	28.36	28.36	Medical service
Grand Flight Holdings Co., Ltd. (遠翼控股有限公司)	Authorised capital of US$50,000	British Virgin Islands	70	70	Investment holding

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18. INVESTMENTS IN JOINT VENTURES (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
Grand Flight Hooyoung Investment Management Co., Ltd. (遠翼宏揚投資管理有限公司)	Authorised capital of US$50,000	Cayman Islands	70	70	Investment holding
Grand Flight Hooyoung Investment L.P. (遠翼宏揚投資有限合夥)	US$53,321,241.36	Cayman Islands	55	55	Investment holding
Teamway Shipping Limited (匯聯船務有限公司)	HK$10,000	Hong Kong	50	50	Shipping service
Gold Chance Shipping Limited (金運船務有限公司)	HK$10,000	Hong Kong	50	50	Shipping service

The voting powers are equally shared by three joint venture partners (a subsidiary of the Group and two third party investors). All decisions about the activities that wound significantly affect its returns require unanimous consent of all joint venture partners.

The Group's loan and account receivable balances due from the joint ventures are disclosed in Note 23 to the financial statements.

Kangda, which is considered a material joint venture of the Group, is mainly engaged in the development and construction business in Mainland China and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Kangda adjusted for any differences in accounting policies and reconciled to the fair value of the net assets in the financial statements.

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18.INVESTMENTS IN JOINT VENTURES (continued)

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	72,021	112,427
Other current assets	1,903,672	1,618,325
Current assets	1,975,693	1,730,752
Non-current assets	4,066	3,906
Financial liabilities, excluding trade and other payables	(250,000)	–
Trade and other payables	(155,079)	(151,112)
Current liabilities	(405,079)	(151,112)
Net assets	1,574,680	1,583,546
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	60%	60%
Carrying amount of the investment	944,808	950,128

	2016 RMB'000	2015 RMB'000
Administrative expenses	(12,374)	(13,900)
Other expenses	(1,445)	(170)
Loss and total comprehensive income for the year	(13,819)	(14,070)

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

	2016 RMB'000	2015 RMB'000
Share of the joint ventures' profit for the year	8,882	8,132
Aggregate carrying amount of the Group's investments in the joint ventures	460,062	237,847

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19. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	263,700	–

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

	2016 RMB'000	2015 RMB'000
Share of the associates' profit for the year	300	–
Aggregate carrying amount of the Group's investments in the associates	263,700	–

20. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Listed equity investments, at fair value	186,334	–
Unlisted equity investments, at cost	103,555	427,142
	289,889	427,142

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB83,860,000 (2015: Nil).

As at 31 December 2016, unlisted equity investments with a carrying amount of RMB103,555,000 (31 December 2015: RMB427,142,000) were stated at cost because the directors are of the opinion that their fair value cannot be measured reliably.

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

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21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at fair value	597,239	244,132
Unlisted equity investments, at cost	124,000	–
	721,239	244,132

The above equity investments were designated by the Group, upon initial recognition, as financial assets at fair value through profit or loss.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross-currency interest rate swaps	1,034,720	–	844,702	(4,989)
Forward currency contracts	348,156	(90,150)	272,532	(283,125)
Interest rate swaps	–	(2,067)	–	–
	1,382,876	(92,217)	1,117,234	(288,114)
Portion classified as non-current:				
Cross-currency interest rate swaps	458,150	–	491,078	(4,989)
Forward currency contracts	20,639	(29,091)	205,780	(283,125)
Interest rate swaps	–	(2,067)	–	–
	478,789	(31,158)	696,858	(288,114)
Current portion	904,087	(61,059)	420,376	–
	1,382,876	(92,217)	1,117,234	(288,114)

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22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cross-currency interest rate swap contracts, forward currency contracts and interest rate swaps contracts – cash flow hedges

During the year, the Group designated 23 (2015: 36) cross-currency interest rate swap contracts and 24 (2015: 29) forward currency contracts as hedges of future cash flows arising from borrowings which will be settled in US Dollar, Singapore Dollar, Japanese Yen, Hong Kong Dollar or Australian Dollar, and some of which bear floating interest rates; the Group designated 3 (2015: Nil) interest rate swap contracts as hedges of future cash flows arising from finance lease receivables which bear floating interest rates.

The terms of the cross-currency interest rate swap contracts and forward currency contracts substantially match the terms of the borrowing contracts, and the terms of the interest rate swap contracts substantially match the terms of the finance lease contracts. The cash flow hedges relating to expected future payments or receivables were assessed to be highly effective and a net loss of RMB171,498,000 (2015: a net loss of RMB89,621,000) was included in the hedging reserve as follows:

	2016 RMB'000	2015 RMB'000
Total fair value gains included in the hedging reserve	866,887	742,402
Deferred tax impact on fair value gains	(142,861)	(122,496)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	(1,072,484)	(849,733)
Deferred tax on reclassifications to profit or loss	176,960	140,206
Net loss included in the hedging reserve	(171,498)	(89,621)

(a) As at 31 December 2016, the Group has only entered into 1 (31 December 2015: 1) cross-currency interest rate swap contract 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 RMB13,293,000 (31 December 2015: RMB12,570,000) 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 RMB1,009,732,000 (31 December 2015: RMB828,017,000) as of 31 December 2016, 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 3 months to 2 years) denominated in US$ and other foreign currencies. Forward currency contracts, with a total net fair value of RMB258,006,000 (31 December 2015: a total negative net fair value of RMB10,593,000) as of 31 December 2016, were designated as hedging instruments in cash flow hedges of currency risks arising from loans (with remaining maturity from 3 months to 3 years) denominated in US$ and other foreign currencies. RMB-denominated interest rate swaps, with a total negative net fair value of RMB2,067,000 (31 December 2015: Nil) as of 31 December 2016, were designated as hedging instruments in cash flow hedges of interest rate risks arising from floating rate lease receivables (with remaining maturity from 2 years to 3 years) denominated in RMB.

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23.LOANS AND ACCOUNTS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Loans and accounts receivables due within 1 year	54,079,396	46,710,279
Loans and accounts receivables due after 1 year	84,721,981	73,856,030
	138,801,377	120,566,309

23a. Loans and accounts receivables by nature

	2016 RMB'000	2015 RMB'000
Lease receivables (Note 23b)*	129,219,522	121,510,395
Less: Unearned finance income	(12,353,786)	(11,176,329)
Net lease receivables (Note 23b)	116,865,736	110,334,066
Interest receivables*	614,129	499,516
Notes receivable	757,552	273,136
Accounts receivable (Note 23d)	1,274,555	721,736
Factoring receivable (Note 23f)	3,883,666	2,865,765
Entrusted loans (Note 23h)*	17,751,946	7,764,446
Long term receivables	363,394	82,014
Secured loans	319,470	424,671
Subtotal of loans and accounts receivables	141,830,448	122,965,350
Less:		
Provision for lease receivables (Note 23c)	(2,527,157)	(2,196,194)
Provision for accounts receivable (Note 23e)	(82,385)	(18,290)
Provision for factoring receivable (Note 23g)	(81,282)	(48,526)
Provision for entrusted loans (Note 23h)	(326,359)	(126,726)
Provision for long term receivables (Note 23i)	–	(17)
Provision for secured loans (Note 23j)	(11,888)	(9,288)
	138,801,377	120,566,309

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

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23.LOANS AND ACCOUNTS RECEIVABLES (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:

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Within 1 year	71,561,617	64,529,387
1 to 2 years	34,267,676	33,383,755
2 to 3 years	14,137,570	16,727,905
3 to 5 years	9,252,659	6,869,348
Total	129,219,522	121,510,395

	2016 RMB'000	2015 RMB'000
Net lease receivables:		
Within 1 year	63,929,750	57,461,542
1 to 2 years	31,049,667	30,760,089
2 to 3 years	13,176,400	15,668,454
3 to 5 years	8,709,919	6,443,981
Total	116,865,736	110,334,066

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23.LOANS AND ACCOUNTS RECEIVABLES (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:

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Due within 1 year	51,465,438	48,144,680
Due in 1 to 2 years	36,723,765	35,367,796
Due in 2 to 3 years	23,387,457	21,503,262
Due in 3 to 5 years	17,642,862	16,494,657
Total	129,219,522	121,510,395

	2016 RMB'000	2015 RMB'000
Net lease receivables:		
Due within 1 year	45,418,293	42,517,720
Due in 1 to 2 years	33,109,052	32,149,451
Due in 2 to 3 years	21,547,706	19,930,297
Due in 3 to 5 years	16,790,685	15,736,598
Total	116,865,736	110,334,066

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

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23c. Change in provision for lease receivables

	Individually assessed		Collectively assessed		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
At beginning of year	262,681	320,104	1,933,513	1,643,339	2,196,194	1,963,443
Charge for the year	446,288	194,362	485,462	472,823	931,750	667,185
Disposal	–	–	(277,331)	(189,331)	(277,331)	(189,331)
Write-off	(312,913)	(252,062)	(22,872)	–	(335,785)	(252,062)
Exchange difference	1,904	277	10,425	6,682	12,329	6,959
At end of year	397,960	262,681	2,129,197	1,933,513	2,527,157	2,196,194

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Individually assessed (Note (i))	1,343,183	1,165,083
Collectively assessed	127,876,339	120,345,312
Total	129,219,522	121,510,395

	2016 RMB'000	2015 RMB'000
Net lease receivables:		
Individually assessed (Note (i))	1,253,853	1,094,651
Collectively assessed	115,611,883	109,239,415
Total	116,865,736	110,334,066

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

Note (ii) As at 31 December 2016, the carrying value of the lease receivables pledged or charged as security for the Group's borrowings amounted to RMB12,886,076,000 (31 December 2015: RMB13,793,514,000) (Note 31).

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23. LOANS AND ACCOUNTS RECEIVABLES (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 for major customers can be extended to 180 days.

	2016 RMB'000	2015 RMB'000
Within 1 year	1,057,077	640,135
More than 1 year	217,478	81,601
Total	1,274,555	721,736

23e. Change in provision for accounts receivable

	2016 RMB'000	2015 RMB'000
At beginning of year	18,290	11,213
Acquisition of subsidiaries	18,031	4,583
Charge for the year	51,583	8,169
Write-off	(5,626)	(5,936)
Exchange difference	107	261
At end of year	82,385	18,290

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

	2016 RMB'000	2015 RMB'000
Within 1 year	2,720,475	1,990,549
More than 1 year	1,163,191	875,216
	3,883,666	2,865,765

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23g. Change in provision for the factoring receivable

	2016 RMB'000	2015 RMB'000
At beginning of year	48,526	40,654
Charge for the year	49,756	18,442
Disposal	–	(10,570)
Write-off	(17,000)	–
At end of year	81,282	48,526

23h(1). An aged analysis of entrusted loans, determined based on the age of the receivables since the effective dates of the relevant loan contracts, as at the end of the reporting period, is as follows:

	2016 RMB'000	2015 RMB'000
Entrusted loans:		
Within 1 year	12,950,500	7,625,066
1 to 2 years	4,725,530	109,661
2 to 3 years	64,416	–
After 3 years	11,500	29,719
Total	17,751,946	7,764,446

23h(2).The table below illustrates the net amounts of entrusted loans the Group expects to receive in the following three consecutive accounting years:

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Due within 1 year	4,834,857	2,078,171
Due in 1 to 2 years	5,173,124	2,050,040
Due in 2 to 3 years	4,081,715	1,629,375
Due in 3 to 5 years	3,662,250	2,006,860
Total	17,751,946	7,764,446

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23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23h(3). Change in provision for entrusted loans

	2016 RMB'000	2015 RMB'000
At beginning of year	126,726	2,236
Charge for the year	223,487	124,490
Disposal	(23,854)	–
At end of year	326,359	126,726

23i. Change in provision for long term receivables

	2016 RMB'000	2015 RMB'000
At beginning of year	17	26
Reversal for the year	(17)	(9)
At end of year	–	17

23j. Change in provision for secured loans

	2016 RMB'000	2015 RMB'000
At beginning of year	9,288	6,034
Charge for the year	1,969	2,826
Exchange difference	631	428
At end of year	11,888	9,288

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23k. Balances with related parties

		2016 RMB'000	2015 RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	225,000	75,000
Interest receivables		8,786	3,533
– Weihai Haida hospital Co., Ltd.			
Entrusted loan	(i)	30,000	30,000
Lease receivables	(ii)	10,000	10,000
Interest receivables		525	1,765
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Interest receivables		95	86
		324,406	170,384

(i) Balances of entrusted loans were interest-bearing at annual interest rates ranging from 5.655% to 15% (31 December 2015: from 5.655% to 6.955%).

(ii) Balances of lease receivables were interest-bearing at annual interest rates 12.77% (31 December 2015: 12.77%).

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Current assets:			
Prepayments		452,297	339,896
Leased assets*		3,977,861	2,246,183
Rental and Project deposit		235,474	33,016
Other receivables		58,373	143,439
Input VAT		336,125	259,107
Due from related parties	(24a)	100,968	35,657
		5,161,098	3,057,298
Non-current assets:			
Rental deposit due after 1 year		2,784	25,282
Amounts deductible against output VAT		4,146	17,289
Subordinated tranches of Asset-backed securities/notes (Note 47a)		2,350,662	520,726
Others		73,548	16,278
		2,431,140	579,575
		7,592,238	3,636,873

* 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)

24a. Balances with Related Parties

	Note	2016 RMB'000	2015 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)	16,337	16,337
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,668
Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")	(i)	–	602
Jin Mao (Shanghai) Property Management Service Co., Ltd.	(i)	2	7
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	175
Joint Ventures:			
Gold Chance Shipping Limited	(i)	41,154	7,934
Teamway Shipping Limited	(i)	40,807	7,934
		100,968	35,657

(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:

Deferred tax assets

	Government special subsidy 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	Cash flow hedge RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2016	128,204	17,442	635,281	506,019	8,468	–	5,310	1,300,724
Credited to the statement of profit or loss during the year	179,710	46,079	205,468	146,079	40,806	–	(16,907)	601,235
Credited to reserve	–	–	–	–	–	517	–	517
Exchange differences	–	–	2,893	–	1,995	–	–	4,888
Gross deferred tax assets at 31 December 2016	307,914	63,521	843,642	652,098	51,269	517	(11,597)	1,907,364

	Government special subsidy 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	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2015	73,430	2,699	497,148	351,921	3,170	350	928,718
Credited to the statement of profit or loss during the year	54,774	14,743	140,291	154,109	7,008	4,960	375,885
Exchange differences	–	–	(2,158)	(11)	(1,710)	–	(3,879)
Gross deferred tax assets at 31 December 2015	128,204	17,442	635,281	506,019	8,468	5,310	1,300,724

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25.DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from a call option RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2016	14,582	63,526	–	51,284	–	129,392
(Credited)/charged to the statement of profit or loss during the year	(794)	–	10,702	(41,899)	190	(31,801)
Arising from acquisition of subsidiaries	6,841	–	–	–	–	6,841
Credited to reserve	–	(33,582)	–	–	–	(33,582)
Gross deferred tax liabilities at 31 December 2016	20,629	29,944	10,702	9,385	190	70,850

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from a call option RMB'000	Lease deposits RMB'000	Withholding income tax RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2015	9,315	81,236	3,002	21,385	47,005	161,943
(Credited)/charged to the statement of profit or loss during the year	(668)	–	(3,002)	(21,385)	4,279	(20,776)
Arising from acquisition of subsidiaries	5,935	–	–	–	–	5,935
Credited to reserve	–	(17,710)	–	–	–	(17,710)
Gross deferred tax liabilities at 31 December 2015	14,582	63,526	–	–	51,284	129,392

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31 December 2016

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:

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,907,364	1,300,724
Net deferred tax liabilities recognised in the consolidated statement of financial position	70,850	129,392

As at 31 December 2016, the Group had tax losses arising in Hong Kong of RMB106,794,000 (31 December 2015: RMB48,807,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB114,770,000 (31 December 2015: RMB11,771,000) 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. Apart from this, as at 31 December 2016, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB41,471,000 (31 December 2015: RMB56,702,000) and RMB276,000 (31 December 2015: RMB1,691,000), 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 2016, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB387,363,000 (31 December 2015: RMB285,115,000).

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26.CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	4,426,996	4,257,953
Time deposits	85,675	883,603
	4,512,671	5,141,556
Less:		
Pledged deposits	331,619	1,591,471
Restricted bank deposits related to asset securitisations	2,129,745	1,049,420
Cash and cash equivalents	2,051,307	2,500,665

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB4,095,014,000 (31 December 2015: RMB4,506,478,000). 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 2016, cash of RMB99,542,000 (31 December 2015: RMB331,907,000) was pledged for bank and other borrowings (Note 31(b)).

As at 31 December 2016, cash of RMB232,077,000 (31 December 2015: RMB1,259,564,000) was pledged for bank acceptances, letters of credit and etc.

As at 31 December 2016, cash of RMB245,558,000 (31 December 2015: RMB500,351,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

27.INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	147,649	54,235
Work in process	14,239	15,768
Raw materials	84,169	44,790
	246,057	114,793

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28. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Gross amount due from contract customers	44,129	42,387
Contract costs incurred plus recognised profits less recognised losses to date	240,890	227,542
Less: Progress billings	(196,761)	(185,155)
	44,129	42,387

29. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Current:		
Bills payable	1,748,770	7,086,325
Trade payables	1,138,496	1,251,310
	2,887,266	8,337,635
Non-current:		
Trade payables	55	–
	2,887,321	8,337,635

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

	2016 RMB'000	2015 RMB'000
Within 1 year	2,682,301	8,169,543
1 to 2 years	115,622	92,102
2 to 3 years	44,090	52,157
3 years and beyond	45,308	23,833
	2,887,321	8,337,635

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

	2016 RMB'000	2015 RMB'000
Current:		
Lease deposits, entrusted loan deposits and factoring deposits due within 1 year	3,115,304	2,736,728
Salary payables	134,920	664,812
Welfare payables	37,556	49,657
Advances from customers	879,759	546,443
Due to related parties (Note (30a))	814	6,719
Other taxes payable	684,301	442,191
Interest payable	1,026,974	515,457
Restricted bank deposits to be passed under asset-backed securitizations	2,129,745	1,049,420
Other payables	368,679	419,695
Dividend payables	63	57
	8,378,115	6,431,179
Non-current:		
Lease deposits, entrusted loan deposits and factoring deposits due after 1 year	19,674,329	16,072,919
Interest payable	–	143,579
Other payables	54,736	45,781
Quality guarantee deposit	15	117
	19,729,080	16,262,396
	28,107,195	22,693,575

30a. Balances with Related Parties

	2016 RMB'000	2015 RMB'000
Due to related parties:		
Subsidiaries of the ultimate holding company of a shareholder with significant influence: Sinochem Finance Co., Ltd.	814	6,719
	814	6,719

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

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31.INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Current portion of long term bank loans – secured	2.78~5.94	2017	6,054,392	2.78~6.46	2016	8,127,439
Bank loans – unsecured	1.85~4.75	2017	14,017,000	1.57~6.55	2016	10,735,668
Current portion of long term bank loans – unsecured	2.08~6.15	2017	19,032,705	1.39~7.04	2016	15,623,723
Other loans – secured	4.00~5.08	2017	370,000	4.75~5.08	2016	440,000
Other loans – unsecured	4.75	2017	315,103	4.75~8.50	2016	2,030,000
Bonds – unsecured	2.79~5.75	2017	13,756,349	3.40~6.95	2016	4,742,703
			53,545,549			41,699,533
Non-current						
Bank loans – secured	2.78~5.94	2018~2023	5,591,411	2.78~6.46	2017~2023	4,288,312
Bank loans – unsecured	2.50~4.28	2018~2026	17,124,488	2.08~7.04	2017~2021	18,933,042
Other loans – secured	5.08~7.00	2018	703,902	4.75~5.08	2017~2018	200,000
Other loans – unsecured	5.64~7.09	2018	38,150	4.75~7.00	2017~2018	1,000,397
Bonds – unsecured	3.00~6.13	2018~2022	29,934,088	3.80~6.13	2017~2022	17,307,517
			53,392,039			41,729,268
			106,937,588			83,428,801

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

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	39,104,097	34,486,830
In the second year	15,033,642	16,780,262
In the third to fifth years, inclusive	7,579,826	6,192,611
Beyond five years	102,431	248,481
	61,819,996	57,708,184
Other borrowings repayable:		
Within one year or on demand	14,441,452	7,212,703
In the second year	984,467	8,036,476
In the third to fifth years, inclusive	29,356,493	9,996,455
Beyond five years	335,180	474,983
	45,117,592	25,720,617
	106,937,588	83,428,801

(a) As at 31 December 2016, the Group's bank and other borrowings were secured by the pledge of or the transfer of certain of the Group's lease receivables amounting to RMB12,059,285,000 (31 December 2015: RMB12,461,793,000). As at 31 December 2016, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB12,886,076,000 (31 December 2015: RMB13,793,514,000).

(b) As at 31 December 2016, the Group's bank borrowings amounting to RMB312,165,000 (31 December 2015: RMB2,776,663,000) were secured by the pledge of cash.

(c) As at 31 December 2016, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB348,255,000 (31 December 2015: Nil). The Group had not provided any guarantees for other entities (31 December 2015: Nil).

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32. DEFERRED REVENUE

	Service fee		Government special subsidy	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
At the beginning of year	14,053	1,617	246,725	294,264
Additions during the year	123,732	14,844	740,462	247,359
Amortised to the statement of profit or loss	(42,209)	(2,408)	(934,695)	(294,898)
At the end of year	95,576	14,053	52,492	246,725

(i) Service fee

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

(ii) Government special subsidy

For the year ended 31 December 2016, the Group received a government special subsidy of RMB187,113,000 (2015: RMB247,359,000), which was mainly granted in accordance with the policies on Shanghai Pudong New Area government financial subsidy. In addition, the Group also received a government special subsidy of RMB553,199,000 (2015: Nil) due to policies to support finance lease industry of the Tianjin Dongjiang bonded port area. Those special subsidies are required to be used for certain purposes. The amortisation of those special subsidies reduced the expense to which it related or reduced the amortisation charges of the related assets.

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33. SHARE CAPITAL

	Number of shares	Amounts HK$
Issued and fully paid ordinary shares:		
At 31 December 2015 (note(i))	3,950,400,000	13,003,080,000
At 31 December 2016 (note(i))	3,950,783,817	13,005,970,000

Note:

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

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

	Number of shares in issue	Share capital HK$'000	Equivalent share capital RMB'000
At 1 January 2016 and 31 December 2015	3,950,400,000	13,003,080	10,210,572
Share options exercised (note(ii))	383,817	2,890	2,445
As at 31 December 2016	3,950,783,817	13,005,970	10,213,017

Note:

(ii) The subscription rights attaching to 383,817 share options were exercised at the subscription price of HK$5.86 per share (note 34), resulting in the issue of 383,817 shares for a total cash consideration, before expenses, of HK$2,249,000. An amount of HK$641,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

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34. SHARE OPTION SCHEME

Pursuant to a resolution in writing passed on 7 July 2014 by the shareholders of the Company, a share option scheme (the "Share Option Scheme") has been adopted by the Company.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants certain qualified participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include senior and middle management personnel, as well as other key employees of the Company or any Subsidiary (the "Grantees"). The total number of new shares in respect of which options may be granted under the Share Option Scheme 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 General Meeting, 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 ("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 share option scheme will remain in force for a period of 10 years commencing on the date on which the share option scheme is approved by the shareholders of the Company. The vesting of the share options is mainly subject to fulfilment of the Company's performance targets, the Grantees remaining at all times after the offer date and on each vesting date as an employee of the Group, as well as achieving a specified level in annual personal performance evaluations.

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

On 15 June 2016, the Board announced that, the Company has resolved to the offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 32,924,000 ordinary shares in the capital of the Company.

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34. SHARE OPTION SCHEME (continued)

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

Expiry date	Exercise price* per share option HK$	Number of share options 2016	2015
11 July 2024	5.86	11,034,230	11,589,253
3 July 2025	7.17	16,902,459	17,275,048
15 June 2026	5.714	32,696,824	–
		60,633,513	28,864,301

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

Exercise price per share option (HK$)	Date of grant	Outstanding as at 1 January 2015	Granted during the year ended 31 December 2015	Forfeited during the year ended 31 December 2015	Outstanding as at 31 December 2015	Granted during the year ended 31 December 2016	Forfeited during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Outstanding as at 31 December 2016
5.86	11 July 2014	13,123,512	–	(1,534,259)	11,589,253	–	(171,206)	(383,817)	11,034,230
7.17	3 July 2015	–	18,569,020	(1,293,972)	17,275,048	–	(372,589)	–	16,902,459
5.714	15 June 2016	–	–	–	–	32,924,000	(227,176)	–	32,696,824
Total number at the end of the year		13,123,512	18,569,020	(2,828,231)	28,864,301	32,924,000	(770,971)	(383,817)	60,633,513
Weighted average exercise price (HK$)		5.86	7.17	6.46	6.64	5.714	6.45	5.86	6.15

3,446,308 share options which were granted on 11 July 2014 were vested and exercisable, but not yet exercised during the year (2015: Nil).

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34. SHARE OPTION SCHEME (continued)

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2016 was RMB83,691,000 (31 December 2015: RMB43,795,000). The weighted average fair values were RMB1.35, RMB1.39 and RMB1.41 per option (31 December 2015: RMB1.48, RMB1.53 and RMB1.55 per option) each for three tranches with two-year, three-year and four-year vesting periods, respectively. And the Group recognised a share option expense of RMB22,577,000 (2015: RMB10,317,000) during the year ended 31 December 2016 in employee benefit expense.

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

	2016	2015
Expected dividend yield (%)	4.11	3.40
Expected volatility (%)	37.34	37.91
Risk-free interest rate (%)	1.13	1.92
Share price (HK$ per share)	5.60	6.88
Expected exercise trigger multiple	2.00	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 values of the share options granted in the year were incorporated into such measurement.

At 31 December 2016, the Company had 57,202,569 (31 December 2015: 28,864,301) non-vested share options (including 7,982,358 (31 December 2015: 4,229,021) non-vested share options granted to certain executive directors,12,981,449 (31 December 2015: 6,681,989) non-vested share options granted to certain employees among five highest paid employees and 17,583,827 (31 December 2015: 8,913,839) 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 57,202,569 (31 December 2015: 28,864,301) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 60,633,513 (2015: 28,864,301) share options outstanding under the Share Option Scheme, which represented approximately 1.59% (2015: 0.74%) 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 a 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, representing 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 a general meeting.

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 a specified level in annual personal performance evaluations.

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

	Number of Restricted Shares
At 1 January 2015	**19,685,254**
Granted	**29,113,740**
Forfeited	**(4,242,365)**
At 31 December 2015 and 1 January 2016	**44,556,629**
Granted	**49,386,000**
Vested	**(5,745,222)**
Forfeited	**(1,306,273)**
At 31 December 2016	**86,891,134**

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35. RESTRICTED SHARE AWARD SCHEME (continued)

5,745,222 restricted shares were vested during the year. The vesting periods of the restricted shares outstanding as at the end of the reporting period are as follows:

2016

Number of restricted shares	Vesting period
5,702,422	11 July 2014 to 11 July 2017
5,702,462	11 July 2014 to 11 July 2018
8,871,197	3 July 2015 to 3 July 2017
8,871,197	3 July 2015 to 3 July 2018
8,871,477	3 July 2015 to 3 July 2019
16,290,780	15 June 2016 to 15 June 2017
16,290,780	15 June 2016 to 15 June 2018
16,290,819	15 June 2016 to 15 June 2019
86,891,134	

2015

Number of restricted shares	Vesting period
5,794,608	11 July 2014 to 11 July 2016
5,794,608	11 July 2014 to 11 July 2017
5,794,651	11 July 2014 to 11 July 2018
9,057,489	3 July 2015 to 3 July 2017
9,057,489	3 July 2015 to 3 July 2018
9,057,784	3 July 2015 to 3 July 2019
44,556,629	

At 31 December 2016, the Company had 86,891,134 (31 December 2015: 44,556,629) non-vested restricted shares (including 12,073,538 (31 December 2015: 6,443,534) non-vested restricted shares granted to certain executive directors, 19,872,179 (31 December 2015: 10,422,991) non-vested restricted shares granted to certain employees among five highest paid employees and 26,975,752 (31 December 2015: 13,970,772) non-vested restricted shares granted to certain key management personnel) outstanding under the Share Award Scheme.

Notes to Financial Statements

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35. RESTRICTED SHARE AWARD SCHEME (continued)

Under the Share Award Scheme, there were non-vested shares of 140,148,918 (31 December 2015: 47,250,140) in total amounting to RMB852,459,000 (31 December 2015: RMB252,505,000), i.e. at a weighted average price of RMB6.08 (2015: RMB5.34), held by the trust at 31 December 2016. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount RMB'000
At 1 January 2015	25,456,000	136,260
Purchase of shares under the Share Award Scheme	21,794,140	116,245
At 31 December 2015 and 1 January 2016	47,250,140	252,505
Purchase of shares under the Share Award Scheme	98,644,000	633,176
Vested	(5,745,222)	(33,222)
At 31 December 2016	140,148,918	852,459

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2016 was RMB391,066,000 (31 December 2015: RMB204,972,000). The weighted average fair values were RMB4.75, RMB4.49 and RMB4.32 per share (31 December 2015: RMB4.77, RMB4.60 and RMB4.44 per share) each for three tranches with two-year, three-year and four-year vesting periods, respectively. The Group recognised an amount of RMB143,743,000 (2015: RMB48,654,000) in employee benefit expense during the year ended 31 December 2016.

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

	2016	2015
Expected dividend yield (%)	4.11	3.40
Share price (HK$ per share)	5.60	6.88

Notes to Financial Statements

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36.RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the 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 subsidiary, Shanghai Horizon Construction Engineering Equipment Co., 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.

Share-based compensation reserve of the Group comprises the recognition of the equity-settled share-based payments under the Share Option Scheme and the Share Award Scheme which are yet to be exercised. The amount will either be transferred to the share capital 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.

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37.PERPETUAL SECURITIES

On 23 June 2014, the Company issued US$200,000,000 senior perpetual capital securities ("Perpetual Securities") at an 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 (the "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 (the "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 be reset, on the 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 the Perpetual Securities other than an unforeseen liquidation of the Company.

For the year ended 31 December 2016, the profit attributable to holders of the Perpetual Securities, based on the applicable distribution rate, was RMB78,284,000 (2015: RMB73,080,000) and the distribution made by the Group to the holders of Perpetual Securities was RMB73,606,000 (2015: RMB104,047,000).

38.BUSINESS COMBINATIONS

In March 2016, the Group acquired 50% of the voting shares of Siyang Traditional Chinese Medicine Company Limited ("Siyang Hospital") and 70% of the voting shares of Qingdao Confucius Education Investment Consulting Company Limited ("Qingdao Confucius").

In July 2016, the Group acquired 51% of the voting shares of Nayong Xinli Hospital Company Limited ("Nayong Hospital") and 51% of the voting shares of Chongqing Yudong Hospital Company Limited ("Yudong Hospital").

In August 2016, the Group acquired 70% of the voting shares of Deyang Fifth Hospital Company Limited ("Deyang Hospital") and 70% of the voting shares of Zhoushan Putuo Guanghua hospital Company Limited ("Putuo Hospital").

All these acquisitions have been accounted for using the acquisition method. The consolidated financial statements include the results of those acquired subsidiaries since their respective acquisition dates.

Notes to Financial Statements

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Siyang Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	125,734
Prepaid land lease payments	19,783
Cash	22,248
Trade receivables	30,308
Prepayments, deposits and other receivables	125,654
Inventories	8,219
Other assets	945
	332,891
Liabilities	
Trade payables	(48,411)
Other payables and accruals	(54,776)
Interest-bearing bank and other borrowings	(122,230)
Taxes payable	(686)
Deferred tax liabilities	(1,550)
	(227,653)
Total identifiable net assets at fair value	105,238
Non-controlling interests	(52,619)
Goodwill arising on acquisition	97,381
Purchase consideration transferred	150,000
Including: Consideration paid upon acquisition	20,000
Consideration paid after acquisition	26,667
Consideration paid as additional capital injection to the subsidiary	66,667
Consideration to be paid after acquisition	20,000
Consideration to be paid as additional capital injection to the subsidiary	16,666
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	22,248
Cash paid	(46,667)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(24,419)
Transaction costs of the acquisition included in cash flows from operating activities	(748)
	(25,167)

Since the acquisition, Siyang Hospital has contributed RMB129,712,000 to the Group's revenue and a net profit of RMB11,027,000 to the consolidated profit for the year ended 31 December 2016.

Notes to Financial Statements

31 December 2016

38. BUSINESS COMBINATIONS (continued)

Acquisition of Qingdao Confucius

The fair values of the identifiable assets and liabilities of Qingdao Confucius as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	4,171
Cash	2,297
Prepayments, deposits and other receivables	23,916
Inventories	543
	30,927
Liabilities	
Other payables and accruals	(27,538)
Taxes payable	(789)
	(28,327)
Total identifiable net assets at fair value	2,600
Non-controlling interests	(780)
Goodwill arising on acquisition	68,180
Purchase consideration transferred	70,000
Including: Consideration paid upon acquisition	14,000
Consideration paid after acquisition	56,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,297
Cash paid	(70,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(67,703)
Transaction costs of the acquisition included in cash flows from operating activities	(35)
	(67,738)

Since the acquisition, Qingdao Confucius has contributed RMB41,553,000 to the Group's revenue and a net profit of RMB5,282,000 to the consolidated profit for the year ended 31 December 2016.

Notes to Financial Statements

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38.BUSINESS COMBINATIONS (continued)

Acquisition of Nayong Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	46,878
Prepaid land lease payments	2,268
Cash	20,902
Trade receivables	6,705
Prepayments, deposits and other receivables	2,073
Inventories	4,132
	82,958
Liabilities	
Trade payables	(5,235)
Other payables and accruals	(8,408)
Taxes payable	(271)
Deferred tax liabilities	(127)
	(14,041)
Total identifiable net assets at fair value	68,917
Non-controlling interests	(33,769)
Goodwill arising on acquisition	55,403
Purchase consideration transferred	90,551
Including: Consideration paid upon acquisition	59,945
Consideration paid as additional capital injection to the subsidiary	21,551
Consideration to be paid after acquisition	9,055
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	20,902
Cash paid	(59,945)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(39,043)
Transaction costs of the acquisition included in cash flows from operating activities	(926)
	(39,969)

Since the acquisition, Nayong Hospital has contributed RMB34,099,000 to the Group's revenue and a net profit of RMB432,000 to the consolidated profit for the year ended 31 December 2016.

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Yudong Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	52,002
Prepaid land lease payments	15,165
Cash	30,948
Trade receivables	13,772
Prepayments, deposits and other receivables	57,227
Inventories	1,361
Deferred tax assets	906
	171,381
Liabilities	
Trade payables	(11,176)
Other payables and accruals	(41,955)
Interest-bearing bank and other borrowings	(846)
Taxes payable	(427)
Deferred tax liabilities	(622)
Other liabilities	(677)
	(55,703)
Total identifiable net assets at fair value	115,678
Non-controlling interests	(56,682)
Goodwill arising on acquisition	45,086
Purchase consideration transferred	104,082
Including: Consideration paid upon acquisition	5,000
Consideration paid as additional capital injection to the subsidiary	89,082
Consideration to be paid as additional capital injection to the subsidiary	10,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	30,948
Cash paid	(5,000)
Net inflow of cash and cash equivalents included in cash flows from investing activities	25,948
Transaction costs of the acquisition included in cash flows from operating activities	(775)
	25,173

Since the acquisition, Yudong Hospital has contributed RMB24,755,000 to the Group's revenue and a net profit of RMB1,969,000 to the consolidated profit for the year ended 31 December 2016.

Notes to Financial Statements

31 December 2016

38.BUSINESS COMBINATIONS (continued)

Acquisition of Deyang Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	73,408
Prepaid land lease payments	20,685
Cash	8,480
Trade receivables	21,767
Prepayments, deposits and other receivables	13,308
Inventories	2,163
Other assets	1,362
	141,173
Liabilities	
Trade payables	(15,013)
Other payables and accruals	(37,289)
Interest-bearing bank and other borrowings	(2,079)
Taxes payable	(619)
Deferred tax liabilities	(4,527)
Other liabilities	(1,089)
	(60,616)
Total identifiable net assets at fair value	80,557
Non-controlling interests	(24,167)
Goodwill arising on acquisition	118,610
Purchase consideration transferred	175,000
Including: Consideration paid upon acquisition	52,500
Consideration paid after acquisition	87,500
Consideration to be paid after acquisition	35,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	8,480
Cash paid	(140,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(131,520)
Transaction costs of the acquisition included in cash flows from operating activities	(556)
	(132,076)

Since the acquisition, Deyang Hospital has contributed RMB44,445,000 to the Group's revenue and a net profit of RMB2,482,000 to the consolidated profit for the year ended 31 December 2016.

Notes to Financial Statements

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Putuo Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	5,850
Prepaid land lease payments	17,282
Cash	451
Trade receivables	677
Prepayments, deposits and other receivables	16
Inventories	539
	24,815
Liabilities	
Trade payables	(1,513)
Other payables and accruals	(269)
Taxes payable	(1)
Deferred tax liabilities	(15)
	(1,798)
Total identifiable net assets at fair value	23,017
Non-controlling interests	(6,905)
Goodwill arising on acquisition	597
Purchase consideration transferred	16,709
Including: Consideration paid upon acquisition	8,400
Consideration paid after acquisition	8,183
Consideration to be paid after acquisition	126
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	451
Cash paid	(16,583)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(16,132)
Transaction costs of the acquisition included in cash flows from operating activities	(55)
	(16,187)

Since the acquisition, Putuo Hospital has contributed RMB2,894,000 to the Group's revenue and a net profit of RMB277,000 to the consolidated profit for the year ended 31 December 2016.

Notes to Financial Statements

31 December 2016

38. BUSINESS COMBINATIONS (continued)

If the acquisitions had taken place at the beginning of the period, revenue of the Group would have been RMB14,110,245,000 and net profit of the Group for the year would have been RMB2,931,650,000.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Siyang Hospital, Qingdao Confucius, Nayong Hospital, Yudong Hospital, Deyang Hospital and Putuo Hospital with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of RMB3,095,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The Group acquired Siping Cancer Institute & Hospital Co., Ltd., Binhai Xinrenci Hospital Co., Ltd., Shanghai Montessori Academy Co., Ltd., Anda Jiren Hospital Co., Ltd., Shanghai Sunflower Language Co., Ltd., Kunshan Yi Ze Education Consulting Co., Ltd., Zhoushan Dinghai Guanghua Hospital Co., Ltd. and Shanghai Shengyi Yuanhong Investment Co., Ltd. during the year ended 31 December 2015.

39. CONTINGENT LIABILITIES

At 31 December 2016, contingent liabilities that are not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Claimed amounts	4,257	2,103

40. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 13, 14, 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 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	671,916	292,762
In the second to fifth years, inclusive	420,871	227,648
	1,092,787	520,410

(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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	154,533	119,395
In the second to fifth years, inclusive	192,695	135,611
More than five years	99,669	20,362
	446,897	275,368

Notes to Financial Statements

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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:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	535,261	370,454
Purchase of shareholding	386,500	103,593
	921,761	474,047

(b) Credit commitments

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

	2016 RMB'000	2015 RMB'000
Irrevocable credit commitments:	5,432,647	4,840,547

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. ("Sinochem Tendering")

Joint ventures
Weihai Haida Hospital Co., Ltd.
Guangzhou Kangda Industrial Technology Co., Ltd.
Kunming Broadhealthcare Investment Co., Ltd.
Teamway Shipping Limited
Gold Chance Shipping Limited

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:

	2016 RMB'000	2015 RMB'000
Sinochem Finance Co., Ltd.	3,371	4,522

The interest income was charged at rates ranging from 0.35% to 1.15% per annum.

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43. RELATED PARTY TRANSACTIONS (continued)

(ii) Service fee income:

	2016 RMB'000	2015 RMB'000
Sinochem International (Overseas) Pte. Ltd.	2,642	10,435

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

(iii) Interest expense on borrowings:

	2016 RMB'000	2015 RMB'000
Sinochem Finance Co., Ltd.	4,426	11,036

The interest expenses were charged at a rate of 3.60% to 4.35% per annum.

(iv) Commission fee:

	2016 RMB'000	2015 RMB'000
Sinochem Finance Co., Ltd.	6,159	7,264

(v) Rental expenses:

	2016 RMB'000	2015 RMB'000
China Jin Mao Group Co., Ltd.	50,563	50,462
Beijing Chemsunny Property Co., Ltd.	5,955	8,192
Jin Mao (Shanghai) Property Management Services Co., Ltd.	1,575	2,265
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	430	596
Sinochem Hong Kong	2,801	2,810
	61,324	64,325

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

Notes to Financial Statements

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43. RELATED PARTY TRANSACTIONS (continued)

(vi) Information and technology services:

	2016 RMB'000	2015 RMB'000
Sinochem Corporation	–	165

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

(vii) Interest income

	2016 RMB'000	2015 RMB'000
Weihai Haida Hospital Co., Ltd.	354	1,519
Guangzhou Kangda Industrial Technology Co., Ltd.	4,438	3,533
Kunming Broadhealthcare Investment Co., Ltd.	3,067	878
	7,859	5,930

(viii) Non-cancellable operating leases:

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
China Jin Mao Group Co., Ltd.	50,937	101,244
Beijing Chemsunny Property Co., Ltd.	8,773	15,353
Sinochem Hong Kong	–	2,562
	59,710	119,159

(ix) Tendering service fee:

	2016 RMB'000	2015 RMB'000
Sinochem International Tendering Co., Ltd.	857	703

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

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43. RELATED PARTY TRANSACTIONS (continued)

(x) Finance lease with CRRC Qingdao Sifang Co., Ltd. ("CRRC Sifang") and Sinochem Tendering

On 10 June 2015, the Group entered into (i) the Lease Contract with CSR Sifang and (ii) the Supplementary Agreement with CSR Sifang and Sinochem Tendering. Pursuant to the Supplementary Agreement, upon the completion of the performance by CSR Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB11,738,000 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

On 15 January 2016, the Group entered into (i) the New Lease Contract with CRRC Sifang and (ii) the New Supplementary Agreement with CRRC Sifang and Sinochem Tendering. Pursuant to the New Supplementary Agreement, upon the completion of the performance by CRRC Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB19,584,396 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

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.

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

	2016 RMB'000	2015 RMB'000
Short term employee benefits	84,208	47,952

During 2016, 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.

Save for the related party transactions with joint ventures as set out in note (vii) and the related party transactions in respect of compensation of key management personnel in note (xi), all the related party transactions disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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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:

As at 31 December 2016

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	138,801,377	–	–	–	138,801,377
Deposits and other receivables	2,793,955	–	–	–	2,793,955
Restricted deposits	2,461,364	–	–	–	2,461,364
Derivative instruments – cash flow hedges	–	–	–	1,357,888	1,357,888
Derivatives not designated as hedges	–	–	24,988	–	24,988
Available-for-sale investments	–	289,889	–	–	289,889
Equity investments at fair value through profit or loss	–	–	721,239	–	721,239
Cash and cash equivalents	2,051,307	–	–	–	2,051,307
	146,108,003	289,889	746,227	1,357,888	148,502,007

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44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2016 (continued)

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	2,887,321	–	–	2,887,321
Other payables and accruals	26,170,500	–	–	26,170,500
Interest-bearing bank and other borrowings	106,937,588	–	–	106,937,588
Derivative instruments – cash flow hedges	–	92,217	–	92,217
Other liabilities	–	–	70,000	70,000
	135,995,409	92,217	70,000	136,157,626

As at 31 December 2015

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	120,566,309	–	–	–	120,566,309
Deposits and other receivables	794,629	–	–	–	794,629
Restricted deposits	2,640,891	–	–	–	2,640,891
Derivative instruments – cash flow hedges	–	–	–	1,105,539	1,105,539
Derivatives not designated as hedges	–	–	11,695	–	11,695
Available-for-sale investments	–	427,142	–	–	427,142
Equity investments at fair value through profit or loss	–	–	244,132	–	244,132
Cash and cash equivalents	2,500,665	–	–	–	2,500,665
	126,502,494	427,142	255,827	1,105,539	128,291,002

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44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2015 (continued)

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	8,337,635	–	–	8,337,635
Other payables and accruals	20,903,452	–	–	20,903,452
Interest-bearing bank and other borrowings	83,428,801	–	–	83,428,801
Derivative instruments – cash flow hedges	–	288,114	–	288,114
	112,669,888	288,114	–	112,958,002

Notes to Financial Statements

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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, and 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 bills payables, short term borrowings and current portion of financial liabilities included in other payables and accruals

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

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

Substantially all of the loans and accounts receivables, restricted deposits and interest-bearing bank and other borrowings, 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 to their fair values.

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 are included in interest-bearing bank and other borrowings not presented at fair value on the statement of financial position.

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

Financial instruments not measured at fair value (continued)

Bonds issued (continued)

	Carrying amounts		Fair values	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	43,690,437	22,050,220	43,697,168	22,409,695

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

The fair values of the non-current portion of financial assets included in prepayment 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 the fair values of those financial assets and liabilities are not significant.

Equity investments at fair value through profit or loss and available-for-sale investments

As at 31 December 2016, the fair value has not been disclosed for certain equity investments at fair value through profit or loss and available-for-sale investments in unlisted equity instruments that do not have a quoted market price in an active market and is measured at cost less any impairment because their fair value cannot be measured reliably. The reason why the fair value cannot be measured reliably is that the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The carrying amount of these equity investments at fair value through profit or loss and available-for-sale investments was RMB124,000,000(31 December 2015:Nil) and RMB103,555,000 (31 December 2015: RMB427,142,000), respectively. All of them are unlisted equity investments held by the Group in China, which are intended to be disposed of by the Group after getting listed on the designated stock exchanges in the future.

During the year ended 31 December 2016, the available-for-sale investments whose fair value could not be reliably measured with a carrying amount of RMB228,318,000 was derecognised and the relevant gain on disposal amounted to RMB27,908,000 was recognised in the consolidated statement of profit or loss.

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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.

Equity investments at fair value through profit or loss

The valuations of the equity investments at fair value through profit or loss were based on information known to the Group and market conditions existing at the end of the reporting period. The fair values were determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; making reference to the current market value of another instrument that is substantially the same and net assets making as much use of available and supportable market data as possible.

Available-for-sale investments

The fair values of available-for-sale investments of listed equity investments are based on quoted market prices.

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)

Assets and liabilities measured at fair value
As at 31 December 2016

	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
Available-for-sale investments – equity investments	186,334	–	–	186,334
Cross-currency interest rate swaps – assets	–	1,034,720	–	1,034,720
Forward currency contracts – assets	–	348,156	–	348,156
Forward currency contracts – liabilities	–	(90,150)	–	(90,150)
Interest rate swaps – liabilities	–	(2,067)	–	(2,067)
Equity investments at fair value through profit or loss	–	597,239	–	597,239
Other liabilities	–	(70,000)	–	(70,000)

Notes to Financial Statements

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

Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

As at 31 December 2015

	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	–	844,702	–	844,702
Cross-currency interest rate swaps – liabilities	–	(4,989)	–	(4,989)
Forward currency contracts – assets	–	272,532	–	272,532
Forward currency contracts – liabilities	–	(283,125)	–	(283,125)
Equity investments at fair value through profit or loss	–	244,132	–	244,132

The movements in fair value measurements in Level 3 during the year were as follows:

	RMB'000
Call option:	
At 31 December 2014 and 1 January 2015	12,006
Addition	–
Total losses recognised in the statement of profit or loss	(12,006)
Exchange difference	–
At 31 December 2015	–
At 31 December 2015 and 1 January 2016	–
Addition	–
Total losses recognised in the statement of profit or loss	–
Exchange difference	–
At 31 December 2016	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

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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

As at 31 December 2016

	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	–	43,697,168	–	43,697,168

As at 31 December 2015

	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	–	22,409,695	–	22,409,695

Notes to Financial Statements

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46.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise lease receivables, entrusted loans, 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, entrusted loans, trade receivables and trade payables are directly related to the Group's operating activities.

The Group also enters into derivative transactions, including principally cross-currency interest rate swaps, forward currency contracts and RMB-denominated interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign 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.

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46.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/(decrease) in profit before tax As at 31 December	
	2016 RMB'000	2015 RMB'000
Change in basis points		
+100 basis points	65,369	277,617
– 100 basis points	(65,369)	(277,617)

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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46.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

Group

		Increase in profit before tax As at 31 December	
	Change in	2016	2015
Currency	currency rate	RMB'000	RMB'000
US$	+/-1%	17,786/(17,786)	(2,391)/2,391
HK$	+/-1%	(17,903)/17,903	(5,996)/5,996

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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46.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

	As at 31 December 2016 RMB'000	%	As at 31 December 2015 RMB'000	%
Net lease receivables				
Healthcare	27,529,840	25	27,207,144	25
Packaging	9,762,118	8	11,003,910	10
Transportation	10,320,475	9	8,993,212	8
Infrastructure construction	17,926,400	15	17,275,090	16
Machinery	11,836,274	10	10,759,272	10
Education	22,740,745	19	19,324,385	18
Comprehensive development (formerly textile)	4,135,572	4	3,699,584	3
Electronic information	7,415,747	6	6,717,174	6
Others	5,198,565	4	5,354,295	4
	116,865,736	100	110,334,066	100
Less: Impairment provision of lease receivables	(2,527,157)		(2,196,194)	
Net	114,338,579		108,137,872	

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

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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:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Lease receivables	114,921,325	107,555,743
Notes receivable	755,552	267,874
Accounts receivable	1,274,555	657,037
Factoring receivable	3,814,163	2,837,201
Entrusted loans	17,543,787	7,699,011
Secured loans	294,465	422,627
Interest receivables	613,180	495,378
Derivative financial instruments	1,382,876	1,117,234
Deposits and other receivables	2,991,589	794,629
Long term receivables	363,394	82,014

As 31 December 2016, the assets which were past due but were not considered impaired amounted to RMB874,433,000 (31 December 2015: RMB1,738,203,000). The aging analysis is as follows:

2016	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	874,433	–	–	–	874,433

2015	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	1,738,203	–	–	–	1,738,203

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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 execution 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 financial assets and liabilities based on the contractual undiscounted cash flows:

	As at 31 December 2016					
	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	670,943	16,620,558	44,053,564	92,741,843	714,573	154,801,481
Deposits and other receivables	–	255,667	111,294	2,426,994	–	2,793,955
Restricted deposits	390	2,254,502	201,101	14,664	–	2,470,657
Derivative financial instruments	–	359,965	544,122	478,789	–	1,382,876
Available-for-sale investments	–	–	–	289,889	–	289,889
Equity investments at fair value through profit or loss	–	–	–	721,239	–	721,239
Cash and cash equivalents	2,051,307	–	–	–	–	2,051,307
Total financial assets	2,722,640	19,490,692	44,910,081	96,673,418	714,573	164,511,404
FINANCIAL LIABILITIES:						
Trade and bills payables	–	1,347,001	1,540,265	55	–	2,887,321
Other payables and accruals	109,165	2,452,885	3,879,370	19,664,829	64,251	26,170,500
Interest-bearing bank and other borrowings	–	19,721,668	37,027,710	55,517,268	513,629	112,780,275
Derivative financial instruments	–	–	61,059	31,158	–	92,217
Other liabilities	–	–	–	–	70,000	70,000
Total financial liabilities	109,165	23,521,554	42,508,404	75,213,310	647,880	142,000,313
Net liquidity gap	2,613,475	(4,030,862)	2,401,677	21,460,108	66,693	22,511,091

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	As at 31 December 2015					
	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	449,219	13,959,650	39,277,560	81,075,930	173,954	134,936,313
Deposits and other receivables	–	231,003	630	562,996	–	794,629
Restricted deposits	–	1,814,321	776,607	105,090	–	2,696,018
Derivative financial instruments	–	96,808	323,568	696,858	–	1,117,234
Available-for-sale investments	–	–	–	427,142	–	427,142
Equity investments at fair value through profit or loss	–	–	–	244,132	–	244,132
Cash and cash equivalents	2,000,665	500,594	–	–	–	2,501,259
Total financial assets	2,449,884	16,602,376	40,378,365	83,112,148	173,954	142,716,727
FINANCIAL LIABILITIES:						
Trade and bills payables	19,055	4,379,821	3,934,944	3,815	–	8,337,635
Other payables and accruals	31,671	1,726,485	2,882,901	16,151,094	111,301	20,903,452
Interest-bearing bank and other borrowings	–	12,252,937	32,332,618	43,068,666	755,779	88,410,000
Derivative financial instruments	–	–	–	288,114	–	288,114
Total financial liabilities	50,726	18,359,243	39,150,463	59,511,689	867,080	117,939,201
Net liquidity gap	2,399,158	(1,756,867)	1,227,902	23,600,459	(693,126)	24,777,526

Notes to Financial Statements

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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 the reporting dates are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank and other borrowings	106,937,588	83,428,801
Total equity	24,846,101	22,961,420
Total equity and net debt	131,783,689	106,390,221
Gearing ratio	81%	78%

Notes to Financial Statements

31 December 2016

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 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 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 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 the reporting dates are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total assets	136,256,718	119,918,073
Less: Cash	(2,408,413)	(2,721,314)
Total assets at risk	133,848,305	117,196,759
Equity	20,449,035	19,263,095
Ratio of assets at risk to equity	6.55	6.08

47. OTHER LIABILITIES

	2016	2015
	RMB'000	RMB'000
Continuing involvement in transferred assets (Note 47a)	2,398,981	569,062
Payables to non-controlling interests of consolidated structured entities	70,000	–
	2,468,981	569,062

Notes to Financial Statements

31 December 2016

47a. TRANSFERS OF FINANCIAL ASSETS AND INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group enters into securitization transactions in the normal course of business whereby it transfers loans and accounts receivable to special purpose entities. These special purpose entities are structured entities established with the narrow and well-defined objectives to provide investors opportunities to invest in those loans and accounts receivable, they generally finance the purchase of the loans and accounts receivable by issuing asset-backed securities to investors. The Group assessed and determined that those structured entities need not be consolidated as the Group has no control over them.

The Group may acquire some subordinated tranches of those asset-backed securities and/or provide certain level of liquidity support and accordingly may retain portions of the risks and rewards of the transferred loans and accounts receivable. The Group would determine whether or not to derecognise the transferred loans and accounts receivable mainly by evaluating the extent to which it retains the risks and rewards of the transferred assets.

During the year ended 31 December 2016, the Group transferred an aggregate carrying amount of RMB276,714,000 (2015: RMB1,688,391,000) of loans and accounts receivable to some unconsolidated structured entities, which qualified for full derecognition. Hence, the Group derecognized those assets. The Group did not provide liquidity support to these unconsolidated structured entities. There is no exposure to losses. (31 December 2015: The Group provided liquidity support up to RMB235,322,000 which approximate the maximum exposure to losses.)

During the year ended 31 December 2016, the Group also transferred an aggregate carrying amount of RMB27,187,667,000 (2015: RMB13,709,872,000) of loans and accounts receivable to other unconsolidated structured entities, whereby the Group retained continuing involvement in the transferred assets. As a result, as at 31 December 2016, in addition to recognition of its acquisition of subordinated tranches of asset-backed securities issued by the structured entities of amounting to RMB2,350,662,000, in other receivables (31 December 2015: RMB520,726,000), the Group recognized the transferred assets to the extent of its continuing involvement, amounting to RMB2,398,981,000 as other assets (31 December 2015: RMB569,062,000), and also recognized associated liabilities amounting to RMB2,398,981,000 as other liabilities (31 December 2015: RMB569,062,000), which approximate the maximum exposure to losses from its involvement in such securitization arrangements and the unconsolidated structured entities.

As a result of the above securitization transactions, the Group recognized gains of RMB92,907,000 and losses of RMB45,744,000 (2015: gains of RMB67,203,000 and losses of RMB300,810,000) from transfers of loans and accounts receivable.

48. EVENTS AFTER THE REPORTING PERIOD

There were no material subsequent events undertaken by the Group after 31 December 2016.

49. COMPARATIVE AMOUNTS

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

Notes to Financial Statements

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50.STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)*
NON-CURRENT ASSETS		
Property, plant and equipment	913	40
Investments in subsidiaries	25,156,478	21,635,556
Deferred tax assets	10,177	10,177
Loans and accounts receivables	14,127,466	26,703,472
Prepayments, deposits and other receivables	430,010	–
Derivative financial instruments	478,789	696,858
Total non-current assets	40,203,833	49,046,103
CURRENT ASSETS		
Loans and accounts receivables	1,706,909	1,567,487
Prepayments, deposits and other receivables	2,142,356	1,709,492
Dividend receivable from subsidiaries	13,174	1,112,926
Restricted deposits	14,942	16,555
Cash and cash equivalents	287,333	918,147
Derivative financial instruments	904,087	420,376
Total current assets	5,068,801	5,744,983
CURRENT LIABILITIES		
Trade and bills payables	–	1,218
Other payables and accruals	214,488	418,555
Derivative financial instruments	61,059	–
Tax payable	(36,073)	(24,279)
Interest-bearing bank and other borrowings	13,327,914	13,736,802
Total current liabilities	13,567,388	14,132,296
NET CURRENT LIABILITIES	(8,498,587)	(8,387,313)
TOTAL ASSETS LESS CURRENT LIABILITIES	31,705,246	40,658,790

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50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows (continued):

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	7,454,908	17,688,909
Derivative financial instruments	29,091	288,114
Deferred tax liabilities	30,136	63,527
Total non-current liabilities	7,514,135	18,040,550
Net assets	24,191,111	22,618,240
EQUITY		
Share capital	10,213,017	10,210,572
Reserves	12,746,213	11,180,465
	22,959,230	21,391,037
Holders of perpetual securities	1,231,881	1,227,203
Total equity	24,191,111	22,618,240

Kong Fanxing
Director

Wang Mingzhe
Director

Notes to Financial Statements

31 December 2016

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve# RMB'000	Special reserve RMB'000	Reserve fund RMB'000	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015										
As previously reported	2,607,841	(136,260)	17,994	–	–	411,106	–	–	598,280	3,498,961
Changes in accounting policies (note 2.2)	(511,018)	–	–	1,065	121,913	–	–	638,299	5,679,981	5,930,240
As restated*	2,096,823	(136,260)	17,994	1,065	121,913	411,106	–	638,299	6,278,261	9,429,201
Profit for the year	–	–	–	–	–	–	–	–	2,503,109	2,503,109
Other comprehensive income for the year	–	–	–	–	–	(89,621)	–	(30,629)	–	(120,250)
Total comprehensive income for the year	–	–	–	–	–	(89,621)	–	(30,629)	2,503,109	2,382,859
Purchase of shares under share award scheme	–	(116,245)	–	–	–	–	–	–	–	(116,245)
Final 2014 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(592,476)	(592,476)
Recognition of equity-settled share-based payments	–	–	58,971	–	–	–	–	–	–	58,971
Special reserve – safety fund appropriation	–	–	–	835	–	–	–	–	(835)	–
Special reserve – safety fund utilisation	–	–	–	(685)	–	–	–	–	685	–
Changes in the Company's share of net assets in the subsidiaries due to transactions with non-controlling interests	18,155	–	–	–	–	–	–	–	–	18,155
At 31 December 2015	2,114,978	(252,505)	76,965	1,215	121,913	321,485	–	607,670	8,188,744	11,180,465

Notes to Financial Statements

31 December 2016

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: (continued)

A summary of the Company's reserves is as follows (continued):

	Capital reserve	Shares held for share award scheme	Share-based compensation reserve#	Special reserve	Reserve fund	Hedging reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016										
As previously reported	2,607,841	(252,505)	76,965	–	–	321,485	–	–	890,083	3,643,869
Change in accounting policies (note 2.2)	(492,863)	–	–	1,215	121,913	–	–	607,670	7,298,661	7,536,596
As restated*	2,114,978	(252,505)	76,965	1,215	121,913	321,485	–	607,670	8,188,744	11,180,465
Profit for the year	–	–	–	–	–	–	–	–	2,882,208	2,882,208
Other comprehensive income for the year	–	–	–	–	–	(171,498)	83,860	9,113	–	(78,525)
Total comprehensive income for the year	–	–	–	–	–	(171,498)	83,860	9,113	2,882,208	2,803,683
Purchase of shares under share award scheme	–	(633,176)	–	–	–	–	–	–	–	(633,176)
Final 2015 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(769,673)	(769,673)
Shares vested under restricted share award scheme	–	33,222	(24,647)	–	–	–	–	–	(8,575)	–
Transfer of share option reserve upon exercise of share options	–	–	(508)	–	–	–	–	–	–	(508)
Recognition of equity-settled share-based payments	–	–	166,320	–	–	–	–	–	–	166,320
Special reserve – safety fund appropriation	–	–	–	521	–	–	–	–	(578)	(57)
Special reserve – safety fund utilisation	–	–	–	(1,080)	–	–	–	–	1,115	35
Changes in the Company's share of net in the subsidiaries due to transactions with non-controlling interests	(876)	–	–	–	–	–	–	–	–	(876)
At 31 December 2016	2,114,102	(852,459)	218,130	656	121,913	149,987	83,860	616,783	10,293,241	12,746,213

* Certain comparative amounts have been restated to reflect the change in accounting policy as a result the adoption of Amendments to HKAS 27 to use the equity method to account for investments in subsidiaries, details are disclosed in Note 2.2 to the financial statements.

The 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 capital 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.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2017.

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				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	13,928,369	11,795,983	10,060,717	7,868,382	6,486,395
Cost of Sales	(5,735,538)	(4,771,610)	(4,106,547)	(2,890,185)	(2,908,365)
Gross profit	8,192,831	7,024,373	5,954,170	4,978,197	3,578,030
Other income and gains	477,443	510,032	523,689	318,178	119,845
Selling and administrative expenses	(2,875,622)	(2,556,557)	(2,265,899)	(1,884,669)	(1,215,751)
Other expenses	(306,790)	(454,489)	(249,400)	(282,972)	(52,939)
Finance costs	(157,755)	(122,221)	(14,667)	(1,270)	(2,138)
Profit or loss on investment in joint ventures	591	(310)	(195)	–	–
Profit or loss on investment in associates	300	–	13,511	7,893	–
Pre-provision Operating Profit	5,330,998	4,440,828	3,961,209	3,135,357	2,427,047
Provision for loans and accounts receivable	(1,258,528)	(821,103)	(750,009)	(534,616)	(351,027)
Provision before tax	4,072,470	3,579,725	3,211,200	2,600,741	2,076,020
Income tax expense	(1,130,683)	(999,734)	(869,026)	(684,668)	(558,652)
Profits for the year	2,941,787	2,579,991	2,342,174	1,916,073	1,517,368
Attributable to:					
Holders of ordinary shares of the Company	2,882,208	2,503,109	2,295,954	1,912,744	1,518,577
Holders of senior perpetual securities	78,284	73,080	36,036	–	–
Non-controlling interests	(18,705)	3,802	10,184	3,329	(1,209)
	2,941,787	2,579,991	2,342,174	1,916,073	1,517,368

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				
	2016	2015	2014	2013	2012
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	2,074,125	1,870,508	1,647,151	1,270,898	1,030,699
Cost of sales	(854,100)	(756,642)	(672,328)	(466,822)	(462,144)
Gross profit	1,220,025	1,113,866	974,823	804,076	568,555
Other income and gains	71,098	80,877	85,739	51,392	19,044
Selling and administrative expenses	(428,219)	(405,397)	(370,976)	(304,411)	(193,185)
Other expenses	(45,685)	(72,069)	(40,832)	(45,705)	(8,411)
Finance costs	(23,492)	(19,381)	(2,401)	(205)	(340)
Profit or loss on investment in joint ventures	88	(49)	(32)	–	–
Profit or loss on investment in associates	45	–	2,212	1,275	–
Pre-provision Operating Profit	793,859	697,847	648,533	506,422	385,663
Provision for loans and accounts receivable	(187,412)	(130,204)	(122,792)	(86,351)	(55,779)
Profit before tax	606,447	567,643	525,741	420,071	329,884
Income tax expense	(168,374)	(158,530)	(142,278)	(110,587)	(88,771)
Profits for the year	438,073	409,113	383,463	309,484	241,113
Attributable to:					
Holders of ordinary shares of the Company	429,200	396,922	375,896	308,946	241,305
Holders of perpetual securities	11,658	11,588	5,900	–	–
Non-controlling interests	(2,785)	603	1,667	538	(192)
	438,072	409,113	383,463	309,484	241,113

Financial Summary

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	166,560,921	139,312,889	110,726,124	86,512,872	60,570,275
Total liabilities	(141,714,820)	(116,351,469)	(93,276,231)	(72,348,002)	(47,714,829)
Perpetual securities	(1,231,881)	(1,227,203)	(1,258,170)	–	–
Non-controlling interests	(654,990)	(343,180)	(78,771)	(39,528)	(10,964)
	22,959,230	21,391,037	16,112,952	14,125,342	12,844,482

The following table sets forth the assets, liabilities and non-controlling interests of the Group converted into US$ at the respective average rate as at the end of each period[(1)] as of the dates indicated.

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	24,010,512	21,453,876	18,095,461	14,189,649	9,636,509
Total liabilities	(20,428,834)	(17,917,868)	(15,243,705)	(11,866,359)	(7,591,255)
Senior perpetual securities	(177,581)	(188,987)	(205,617)	–	–
Non-controlling interests	(94,420)	(52,849)	(12,873)	(6,483)	(1,744)
	3,309,677	3,294,172	2,633,266	2,316,807	2,043,510

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	Average exchange rate
31 December 2012	6.2855	6.2932
31 December 2013	6.0969	6.1912
31 December 2014	6.1190	6.1080
31 December 2015	6.4936	6.3063
31 December 2016	6.9370	6.7153