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 2017

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 2017. This announcement, containing the full text of the 2017 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, 28 March 2018

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

Far East Horizon Plaza,
9 Yaojiang Road,
Pudong New Area,
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
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

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 and enormous 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 more than 10 years, the Group has been leading the development of the industry, and has been listed among the Fortune China 500 and Forbes Global 2000.

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, Nanning and Urumqi, 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

Dear shareholders,

On behalf of Far East Horizon Limited and its subsidiaries (hereinafter referred to as the "Group"), I hereby report to you on the annual results for the year ended 31 December 2017.

Looking back at the year of 2017, we found that the global economy was gradually recovering while the challenges were still relatively great. The Chinese economy has been experiencing a transition from the pursuit of high-speed growth to the pursuit of high-quality growth. Comprehensively deepening the reforms was still at a crucial stage. Meanwhile, the Chinese economy was still in the window of a major historical opportunity. Through the continuous deepening and promotion of comprehensive systematization and market-oriented reform measures, all kinds of problems and obstacles that have restricted and impeded China's economic development would be eliminated. As a participant in the Chinese economy, we firmly believe that under the leadership of the present Central Government, China will surely succeed in implementing the market-oriented reforms, inject vital incentives for the long-term, stable development of the national economy, and realize the great rejuvenation of the Chinese nation. At the same time, relying on China's huge domestic market and people's yearning for a better life, all types of industries related to daily life of residents have also shown great potential for development. The sufficient and effective market-based resource allocation together with the forward-looking industrial policy and guidance will certainly strengthen and enhance China's advantage in the global industrial ecosystem, and will also enable the Chinese economy to achieve a qualitative leap.

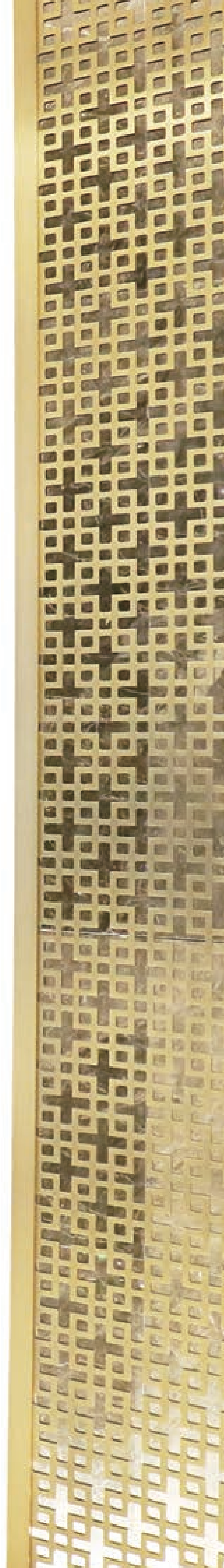
Far East Horizon Limited
Chairman of the Board

NING Gaoning

Chairman's Statement

In 2017, the Group still adhered to the "finance + industry" development strategy and strived to integrate industry resources to help the long-term development of China's basic industry customers. With every support of the community, all employees have done their job and spared no effort to overcome various internal and external difficulties and challenges. They lived up to the expectations and completed all the annual targets set by the board of directors of the Company (the "Board"), and our operating performance has reached new heights. Here, on behalf of the Board and all staff of the Group, I would like to express my sincere gratitude to all shareholders for their support and understanding in the past year.

The Group took advantage of market opportunities and achieved rapid growth. As of the end of 2017, the Group's total assets exceeded RMB227 billion, representing an increase of approximately 36% from the beginning of the year; and for the whole year of 2017, the profit attributable to ordinary shareholders was approximately RMB3.23 billion, representing a year-on-year growth of 12%. At the same time, the asset quality of the Group continued to improve, with the rate of non-performing assets falling to 0.91% and the provision coverage rate remaining above 210%. The budget targets issued by the Board at the beginning of the year have been achieved, and a good momentum of sustained, stable, and healthy development has been maintained as in the past few years.



Chairman's Statement

The Board has always abided by its fiduciary responsibilities, aiming at protecting the interests of all shareholders, promoting the healthy development of the company, and realizing the value of the shareholders. It has continuously improved the governance ability and level of the Group and supervised the management to improve the Group's operation system. In accordance with the requirements of Corporate Governance Code of the Stock Exchange, the Company convened four regular board meetings in 2017 to review and approve various subjects such as the 2016 annual results, the 2017 interim results, strategic planning reports for the next three years, annual operating budgets, labour cost budgets, continuing connected transactions, financing plans, and equity incentive plan awards. At the same time, the professional committees under the Board have performed well the rights and responsibilities endowed by the Board in the aspects of the management of directorship, the improvement of compensation incentive system and the improvement the Company's development strategy and etc.

Looking into 2018, we are optimistic about the global economic situation. However, major economies face different challenges. Under the leadership of the new session of government, China's economy needs to seek a dynamic balance in stabilizing growth and adjusting its connotation. With the premise of reducing overcapacity and comprehensive upgrading, the traditional industry will face greater challenges in how to effectively allocate policies and resources. Driven by the big trend of consumption upgrading, manufacturing upgrading, transportation and logistics upgrading, and urban operation services upgrading, the basic industries that are closely related to the national economy and people's livelihood will surely face historic opportunities. Many great companies with market position and social position will emerge. Facing the future, the Group will adhere to its strategic mission of "converging global resources to help China's industries", maintain harmony with China's economic trends, focus on industrial customer services, take the initiative to get close to the market, adjust its operating strategies, strive to achieve the goals set by the Board, and create greater value for all shareholders and all parties of the society.

NING Gaoning
Chairman of the Board
Far East Horizon Limited

CEO's Statement

Dear Shareholders,

Looking back at 2017, "complicated and fluctuating" remained to be the keywords of global economy for the year. After several years of continuous stimulation, the global economy seemed to be back on track of recovery and growth. However, issues such as geopolitics and trade disputes were still challenging. The new session of China's government has determined the development direction and growth model in the future to shift from high-speed growth to high-quality growth. Enterprises across different industries were exploring and strengthening their respective basic drivers of development. Traditional industries, especially manufacturing industry, though under the pressure of overcapacity reduction as well as transformation and upgrade, were still the core foundation and driving force of the development of China's economy. Meanwhile, industries that are related to the national economy and people's livelihood registered favourable growth driven by the trend of consumption upgrade and technology upgrade, and became the major drivers of China's economic growth.

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

KONG Fanxing

Facing the opportunities and challenges, under the correct leadership and great support of the Board, Far East Horizon Limited ("the Group" or "Far East Horizon") once again delivered satisfactory results in 2017 with indicators optimized, core competitiveness enhanced continuously and business foundation reinforced. As at the end of 2017, the Group's total assets reached approximately RMB227.4 billion (with total assets under management of approximately RMB272.2 billion), representing a year-on-year increase of approximately 36.5%. The operating revenue in 2017 amounted to approximately RMB18.8 billion, representing a year-on-year increase of approximately 34.8%. Asset quality remained favourable with non-performing asset ratio of 0.91% and provision coverage ratio of 219.71% for the year, which were at a healthy level. Net profit for the year attributable to shareholders of ordinary shares amounted to RMB3.23 billion, representing a year-on-year increase of approximately 12 %. In terms of growth, profitability and safety, the management and all staff of the Company, as always, fulfilled their commitment and fiduciary duties to the Board and shareholders with diligence and perseverance. Looking back at the year 2017, we have come up with many thoughts:

The business results stemmed from the correct development strategy

Since 2001, the Group has been adhering to the development strategy of "Finance + Industry", focusing on China's basic industry customers and providing "one-stop" integrated operation services. Regardless of how the economic cycle and external environment evolved, the Group has consistently integrated its industry, market and customer superiority resources and made full use of the organic collaboration and mutual promotion between finance and industry, and thus achieved product innovation, service upgrades and new highs of financial values. In 2017, the Group became one of the Forbes Global 2000 and was included in the FTSE4Good Index. It indicates that the scale of the Group's business has officially entered the ranks of important companies in the world, and the business model and operating results have been widely recognized in the global market.

CEO's Statement

The business results stemmed from the pursuit of long-term value for shareholders

Since its establishment, the Group has set a development goal of "building an excellent enterprise", and achieved continuous and incremental value creation for shareholders and the community. In 2017, while pursuing the growth of various financial indicators for the current period, the Group was more concerned with long-term asset safety and risk control. We dynamically adjusted the industrial layout of financial assets through constantly optimizing the distribution of financial and industrial assets. We introduced high-quality customers, strictly controlled high-risk industries and customer delivery, and dispersed of the risk exposure of the monomer and etc. Thus, the annual asset quality has improved; the non-performing loan ratio at the end of the year was 0.91% and the 30-day overdue loan ratio was approximately 0.72%.

At the same time, the provision coverage ratio of the Group remained at a stable level of over 210%, which was significantly higher than the average level of the traditional financial industry. In respect of the risk management of interest rate, exchange rate and liquidity, the Group continued to use risk hedging tools to effectively match the duration of assets and liabilities, and strived to achieve the optimal combination of cost, risk and liquidity, and again effectively protected the continuation of financial results and the long-term interests of shareholders.

The business results stemmed from the firm implementation of the strategic approach

At the beginning of 2017, the Group formulated a strategic policy of "finance business: integrating services and operating like an investment bank; industrial business: expanding scale continuously and establishing layout advantages in the market". All employees have been working diligently and responsibly under the guidance of this policy. In the direction of financial business, the Group continued to deepen its efforts in the regional market and its customer coverage grew steadily. In addition to this, customer demand-oriented financial products and innovations of services have also continued to advance, and gains have also been obtained in innovative businesses such as PPP and debt fund. Financial business has achieved rapid growth during the year.

In the direction of industrial operation business, the Group continued to promote integrated industrial operation services. Through continuous acquisition and integration, the Group has risen in the field of medical and health services. As of the end of 2017, its medical service organizations have reached 32, and the number of beds that can be opened has exceeded 12,000, bringing the Group to the first camp of private medical institutions in China in terms of scale. At the same time, through the integration of resources and the use of synergies, the operating efficiency and service quality of our medical service organizations have been greatly improved.

In the field of infrastructure construction, the Group's equipment management operations and engineering services in the areas of high-altitude vehicles, new formworks, and turnover materials have already taken the lead in the industry. The related equipment operation and service capabilities are widely recognized in the world-class projects such as the BRICS conference and the Guangdong-Hong Kong-Macao Bridge.

In the field of education, the Group has integrated education industry resources, explored high quality education of K12 system, made breakthroughs in high-end quality kindergartens, international bilingual high schools, etc., and the advantage of industrial layout has gradually taken shape.

CEO’s Statement

Facing the future, the Group will continue to maintain a high degree of resonance with China’s economic development. Under the policy of “Unswervingly consolidate and develop the public owned economy; unswervingly encourage, support and guide of the non-public economy” issued by the current session of government, the Group will treat “serving the industrial upgrading and serving the city upgrading” as the main strategic direction of the Group for the next stage.

In 2018, the Group will continue to adhere to the development strategy of “Finance + Industry”. In the direction of financial business, the Group will continue to use its innovative resource organization to provide services for the next round of industry upgrading and urban service upgrading through its business practices of “integrating services and operating like an investment bank ”. In the direction of industrial operations, the Group will strive to enhance the interoperability between finance and industry continuously and build an industrial ecosystem with the Group’s own characteristics. In the medical and health industry, we will adhere to the concept of supplementing the public health care system, expand the scale of medical service organizations, and accelerate the implementation of innovative medical operating models of “a set of system, a network and a hospital”. In the field of infrastructure construction, we will realize integration of industrial chain resources and continuously upgrade the integrated service capabilities of investment, financing, construction management, and operation and maintenance. In the field of education, we will accelerate the distribution of high-end quality education assets of K12 system and form a large-scale, intensive and efficient operating system. In a short time, there will be more blossoms in the industrial operation business, effective interaction and collaboration with financial businesses will be realized, and greater value for all shareholders will be created ultimately.

Finally, on behalf of all the staff of the Group, I would like to thank all customers, partners and shareholders sincerely for their continuous understanding and support of the Group’s work.

KONG Fanxing
Vice Chairman and CEO
Far East Horizon Limited

Business Overview

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Total revenue	18,782,314	13,928,369	11,795,983	10,060,717	7,868,382
Financial services (interest income)	10,972,384	8,139,285	6,849,330	6,457,748	5,170,398
Advisory services (fee income)	4,661,303	3,820,487	3,850,659	2,709,366	2,245,431
Revenue from industrial operation	3,254,433	2,113,804	1,206,807	1,009,959	573,800
Tax and surcharges	(105,806)	(145,207)	(110,813)	(116,356)	(121,247)
Cost of sales	(8,106,962)	(5,735,538)	(4,771,610)	(4,106,547)	(2,890,185)
Borrowing Costs	(5,801,693)	(4,131,599)	(3,963,282)	(3,422,599)	(2,464,876)
Costs for industrial operation	(2,305,269)	(1,603,939)	(808,328)	(683,948)	(425,309)
Pre-Provision Operating Profit(1)	6,739,557	5,333,732	4,426,148	3,961,209	3,135,357
Profit before tax	4,787,188	4,072,470	3,579,725	3,211,200	2,600,741
Profit for the year attributable to holders of ordinary shares of the Company	3,229,057	2,882,208	2,503,109	2,295,954	1,912,744
Basic earnings per share (RMB)	0.84	0.74	0.70	0.70	0.58
Diluted earnings per share (RMB)	0.84	0.74	0.70	0.70	0.58
Profitability indicators					
Return on average assets(2)	1.73%	1.92%	2.06%	2.37%	2.61%
Return on average equity(3)	13.37%	13.00%	13.35%	15.19%	14.18%
Net interest margin(4)	3.09%	3.04%	2.62%	3.30%	3.91%
Net interest spread(5)	1.96%	1.79%	1.22%	2.01%	2.76%
Cost to income ratio(6)	36.64%	35.07%	36.04%	38.06%	37.86%

Business Overview

	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000
Assets and liabilities					
Total assets	227,454,273	166,560,921	139,312,889	110,726,124	86,512,872
Net interest-earning assets	193,977,583	139,798,341	121,970,478	100,828,572	80,745,756
Total liabilities	191,046,481	141,714,820	116,351,469	93,276,231	72,348,002
Interest-bearing bank and other borrowings	144,899,680	106,937,588	83,428,801	71,777,837	56,554,478
Gearing Ratio	83.99%	85.08%	83.52%	84.24%	83.63%
Total equity	36,407,792	24,846,101	22,961,420	17,449,893	14,164,870
Equity attributable to holders of ordinary shares of the Company	25,340,869	22,959,230	21,391,037	16,112,952	14,125,342
Net assets per share (RMB)	6.41	5.81	5.41	4.89	4.30
Duration matching of assets and liabilities					
Financial assets	208,240,849	152,479,868	128,291,002	104,545,229	83,085,680
Financial liabilities	183,911,170	136,157,626	112,966,022	90,313,636	70,255,960
Quality of interest-earning assets					
Non-performing asset ratio[7]	0.91%	0.99%	0.97%	0.91%	0.80%
Provision coverage ratio[8]	219.71%	212.13%	201.24%	218.66%	219.19%
Write-off of non-performing assets ratio[9]	5.21%	29.82%	27.39%	19.02%	2.47%
Overdue interest-earning assets (over 30 days) ratio[10]	0.72%	0.98%	1.08%	0.91%	0.45%

Notes:

(1) Pre-Provision Operating Profit = Profit before tax + Provision for assets;

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

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

(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/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

During 2017, the Chinese macro-economy was better than the market expectation, with gross domestic product (GDP) growing year on year by 6.9%. Looking at the top three demands, the growth of fixed assets investment was slowing down, with a year-on-year increase of 7.2%, representing a decrease of 0.9 percentage points as compared to the corresponding period of last year. With the solid advancement of "cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness", the national industrial capacity utilization rose to 77%, the highest level in five years. The annual PPI rose by 6.3% year on year, ending a five-year decline in the continuous trend since 2012. The total national retail sales of social consumer goods increased by 10.2% year on year. The total imports and exports for the year rebounded after declining for two years, increasing by 14.2% over the previous year.

For financial environment, the slightly tight liquidity and rising interest rates were resulted from the "stable and neutral" monetary policy and strict regulatory policy throughout the year. Meanwhile, the central bank repeatedly put emphasis on "enhancement of financial risk prevention and control". Throughout the year 2017, the growth of overall money supply continued to decline, with a balance of M2 of RMB167.68 trillion, increasing by 8.2%, which was a historical low.

1.2 Industry Environment

With the transformation and upgrading of the Chinese economy and further deepening of industrial restructuring, the growth of the tertiary sector continued to outpace that of the secondary sector. In 2017, the production value of the tertiary sector grew by 8%, which was 1.9 percentage points higher than that of the secondary sector and a wider spread over the previous year. In respect of accumulative year-on-year contribution rate to GDP, the contribution rates of the secondary and tertiary sectors were 35.2% and 60% respectively.

In respect of various industries sectors served by the Group, the differentiation trend in their industry environment continued. Sunrise industries with rigid demand and weak periodicity, including healthcare and education, maintained an upward development amid the aging population, the "Two-child Policy" and consumption upgrade. The construction industry as a whole maintained a low level of operation, but investment and construction in the infrastructure sector grew steadily. With the accelerating urbanization process, the urban supporting infrastructure upgrades and the rapidly growing demand for living services, the urban public and livelihood consumer sectors have plenty of room for market development. As the new technologies and new kinetic energy such as high-end manufacturing and new energy vehicles are developing, the traditional industrial equipment industry is undergoing continuous adjustment and upgrading.

Management Discussion and Analysis

1.3 The Leasing Industry

In 2017, the financial leasing industry maintained a good stable development trend. The number of new financial leasing companies rapidly increased with increasing capital amount and business scale. The overall operation was stable and there were no signs of systemic and regional risk of the industry.

According to the statistics of China Leasing Union, in 2017, the total financial leasing companies in China (excluding single-project companies, branches, SPV companies and acquired overseas companies) amounted to approximately 9,090, representing a year-on-year increase of 27.4% or 1,954 from 7,136 at the end of last year. The overall registered capital of the industry amounted to approximately RMB3.2 trillion, representing a year-on-year increase of 25.3%. The balance of financial leasing contracts in China amounted to approximately RMB6.06 trillion, representing a year-on-year increase of 13.7%.

1.4 Company's Solutions

In response to the new economic situation in China, the Group continued to upgrade the business model of finance plus industry. In terms of the financial business, through 18 offices and 105 business units all over the country, the Group strengthened its local operations, deepened its business network and enhanced its customer coverage. Meanwhile, we broke through the scope of traditional leasing business and continued to expand our financial products and services. We aim for the service integration and strive to form our differentiated features through innovation products of operating business similar to investment banking, in order to further enhancing resources value-added capabilities and market competitiveness. With tight funding and increased costs, we rely on strategic advantages, constantly innovate our fund-raising techniques and strengthen our fund-raising advantages to ensure adequate supply of resources.

In terms of industry operations, the Group strives to take advantage of the window period of industry upgrading, accelerates the promotion of three key industries of healthcare, construction and education, in order to gradually establish an operation system of organic collaboration of finance and industry.

In 2017, the Group continued to invest in and acquire quality hospitals nationwide with an aggregate investment in or holding of 32 hospitals and over 12,000 hospital beds, preliminarily forming a national hospital operation network in regions including East China, Southern China, Northern China, Southwest and Northeast China. Meanwhile, Huangshi Hongyue Maternity Hospital and Jinhua Rehabilitation Hospital, the first high-end maternity hospital and the rehabilitation hospital built in Greenland mode, were completed in 2017, which was marked as an important step for the advancement of the medical and health strategy of the Group.

In terms of construction industry, the Group relies on more than 10 years of industrial accumulation, focusing on infrastructure investment, and continued to explore integrated operation services such as equipment operation, engineering service and PPP, in order to upgrade the service system of collaboration of investment, financing, construction and operation. As of the end of 2017, the scale of assets of construction of operational leasing ranked the first in the domestic industry and top 100 in the world. We maintain our leading position in the operation scale of sub-sectors of industrial equipment, turnover materials, pavement equipment and power equipment.

The Group continued to establish K12 high-end quality education brand through the resource integration of education industry chain. In terms of preschool education, we signed 15 quality kindergartens (seven of them are already under operation) in Shanghai, Xiamen, Hangzhou, Wuhan, Chongqing, Chengdu and Qingdao and we have been actively exploring to set the chain layout in other major cities of China. In terms of international school, the qualities of schools in Chengdu and Qingdao has been improved. 100% of graduates have been admitted to top 100 schools in the world. In addition, the Group established a new private school covering education from primary school to high school. We will introduce advanced education systems and excellent teaching faculty, to form the high-quality flagship school of the Group in Shanghai.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In 2017, the Group relied on China's real economy and continued to implement its operational philosophy of "integrating finance and industry", which led to an overall healthy and steady growth in its results. The Group realized a profit before tax of RMB4,787,188,000, representing a growth of 17.55% as compared to the corresponding period of the previous year. The profit attributable to holders of ordinary shares of the Company during the period was RMB3,229,057,000, representing a growth of 12.03% as compared to the corresponding period of the previous year. The following table sets forth the figures for 2017 and the comparative figures for 2016.

	For the year ended 31 December		
	2017 RMB'000	2016 RMB'000	Change %
Revenue	18,782,314	13,928,369	34.85%
Cost of sales	(8,106,962)	(5,735,538)	41.35%
Gross profit	10,675,352	8,192,831	30.30%
Other income and gains (i)	637,738	477,443	33.57%
Selling and administrative expenses	(3,911,745)	(2,872,888)	36.16%
Other expenses (i)	(422,743)	(306,790)	37.80%
Finance costs	(225,372)	(157,755)	42.86%
Gains and loss on investment in joint ventures	(23)	591	-103.89%
Gains and loss on investment in associates	(13,650)	300	-4,650.00%
Pre-provision operating profit	6,739,557	5,333,732	26.36%
Provision for assets	(1,952,369)	(1,261,262)	54.79%
Profit before tax	4,787,188	4,072,470	17.55%
Income tax expense	(1,377,623)	(1,130,683)	21.84%
Profit for the year	3,409,565	2,941,787	15.90%
Attributable to:			
Holders of ordinary shares of the Company	3,229,057	2,882,208	12.03%
Holders of perpetual securities	231,264	78,284	195.42%
Non-controlling interests	(50,756)	(18,705)	171.35%

Note:

(1) Other income and gains, together with other expenses, have deducted the financial equity investment income attributable to other limited partners of approximately RMB63 million.

Management Discussion and Analysis

2.2 Revenue

In 2017, the Group realized revenue of RMB18,782,314,000, representing a growth of 34.85% from RMB13,928,369,000 as compared to the corresponding period of the previous year. It also recorded steady growth of income in financial and advisory segment and industrial operation segment. In 2017, income (before taxes and surcharges) of the financial and advisory segment was RMB15,633,687,000, accounting for 82.77% of the total income (before taxes and surcharges) and representing a growth of 30.72% as compared to the corresponding period of the previous year. Income derived from advisory services grew by 22.01% due to the Group's active efforts in providing comprehensive value-added services encompassing financial management, business operation, management advisory services and others. The Group also accelerated its pace in developing integrated industrial operation business with income derived from industrial operations grew by 53.96% as compared to the corresponding period of the previous year.

The table below sets forth the composition and the change of Group's revenue by business segments in the indicated periods.

	For the year ended 31 December				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Financial and advisory segment	15,633,687	82.77%	11,959,772	84.98%	30.72%
Financial services (interest income)	10,972,384	58.09%	8,139,285	57.83%	34.81%
Advisory services (fee income)	4,661,303	24.68%	3,820,487	27.15%	22.01%
Industrial operation segment	3,254,433	17.23%	2,113,804	15.02%	53.96%
Total	18,888,120	100.00%	14,073,576	100.00%	34.21%
Taxes and surcharges	(105,806)		(145,207)		-27.13%
Income (after taxes and surcharges)	18,782,314		13,928,369		34.85%

The Group also categorized income by industry, and the Group was mainly engaged in 9 industries covering healthcare, education, infrastructure construction, industrial machinery, packaging, transportation, electronic information, urban public utility and comprehensive development for 2017. In 2017, with the promulgation of national macro-control policies and the further promotion of the industrial operation of the Group, we achieved steady growth for all industries, among which the overall income of healthcare, education and infrastructure construction segments increased by 31.11%, 30.05% and 26.66% respectively as compared to the corresponding period of the previous year. With the expansion of the industries covered, income of comprehensive development business segment increased by 77.88% as compared to the corresponding period of the previous year.

Management Discussion and Analysis

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

	For the year ended 31 December				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	4,938,240	26.14%	3,766,582	26.76%	31.11%
Education	3,025,404	16.02%	2,326,356	16.53%	30.05%
Infrastructure construction	3,650,593	19.33%	2,882,294	20.48%	26.66%
Transportation	1,421,494	7.53%	1,013,900	7.20%	40.20%
Packaging	1,236,225	6.54%	929,889	6.61%	32.94%
Industrial machinery	1,520,462	8.05%	1,198,857	8.52%	26.83%
Comprehensive development	930,131	4.92%	522,897	3.72%	77.88%
Electronic information	1,189,523	6.30%	806,628	5.73%	47.47%
Urban public utility	948,362	5.02%	597,118	4.24%	58.82%
Others	27,686	0.15%	29,055	0.21%	-4.71%
Total	18,888,120	100.00%	14,073,576	100.00%	34.21%

Management Discussion and Analysis

2.2.1 Financial Services (Interest Income)

The interest income (before taxes and surcharges) from the financial and advisory segment of the Group rose by 34.81% from RMB8,139,285,000 for the 2016 to RMB10,972,384,000 for 2017, accounting for 58.09% of the Group's total revenue (before 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					
	2017			2016		
	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	36,180,266	2,617,837	7.24%	31,118,740	2,074,103	6.67%
Education	29,861,354	2,093,459	7.01%	22,640,699	1,445,295	6.38%
Infrastructure construction	22,967,928	1,442,613	6.28%	19,508,453	1,235,132	6.33%
Transportation	14,575,711	949,093	6.51%	10,377,294	645,558	6.22%
Packaging	14,485,558	880,045	6.08%	12,393,265	726,396	5.86%
Industrial machinery	17,069,875	953,755	5.59%	14,021,272	763,275	5.44%
Comprehensive development	9,925,619	629,641	6.34%	5,719,493	332,381	5.81%
Electronic information	12,189,942	851,146	6.98%	8,678,148	527,682	6.08%
Urban public utility	10,091,746	546,872	5.42%	7,140,038	380,961	5.34%
Others	175,923	7,923	4.50%	153,535	8,502	5.54%
Total	167,523,922	10,972,384	6.55%	131,750,937	8,139,285	6.18%

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 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, factoring receivables and respective interest accrued but not received.

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Analysis according to average balance of interest-earning assets

The average balance of interest-earning assets of the Group increased by 27.15% from RMB131,750,937,000 for 2016 to RMB167,523,922,000 for 2017. Besides the continuous encouragement from the three major segments, namely healthcare, education and infrastructure construction, there were substantial growth in comprehensive development, transportation and electronic information for the period, representing an increase of 48.10% 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 2017, the average yield of the Group was 6.55%, representing 0.37 percentage point higher than 6.18% as compared to the corresponding period of the previous year. This was mainly due to the fact that (i) 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 approximately 0.18 percentage points; (ii) in 2017, the Group actively adjusted its pricing strategy according to the change in market environment. In this year, the percentage of the balance of additional interest-earning assets to the balance of interest-earning assets in 2017 amounted to approximately 40%, and the pulling effect of the pricing of the additional interest-earning assets on average yield will gradually show in future, which increased the average yield of interest-earning assets of the Group by 0.13 percentage points; (iii) in 2017, the Group disposed some low-yield projects through asset-backed security business, which increased the average yield of interest-earning assets of the Group by 0.06 percentage points. Meanwhile, the Group continued to maintain business opportunities from high-end customers to maintain the continuous stability of the overall asset quality. According to the statistics, customers who contributed revenue of more than RMB100 million accounted for 83.5% of the newly contracted customers in 2017, up by 11.9 percentage points from 71.6% in 2016.

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

	For the year ended 31 December			
	2017		2016	
	RMB'000	% of total	RMB'000	% of total
Northeast China	1,388,307	12.65%	708,644	8.71%
Northern China	1,153,690	10.51%	909,107	11.17%
Eastern China	2,830,077	25.79%	2,672,626	32.84%
Southern China	2,098,402	19.12%	779,281	9.57%
Central China	1,298,695	11.84%	1,171,247	14.39%
Northwest China	1,152,670	10.51%	434,057	5.33%
Southwest China	1,050,543	9.58%	1,464,323	17.99%
Total	10,972,384	100.00%	8,139,285	100.00%

Management Discussion and Analysis

2.2.2 Advisory Services (Fee Income)

In 2017, fee income (before taxes and surcharges) from financial and advisory segment grew by 22.01% from RMB3,820,487,000 for 2016 to RMB4,661,303,000 for 2017, accounting for 24.68% of the total revenue (before taxes and surcharges) of the Group.

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

	For the year ended 31 December				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	872,589	18.72%	840,816	22.01%	3.78%
Education	784,671	16.83%	765,162	20.03%	2.55%
Infrastructure construction	706,758	15.16%	687,215	17.99%	2.84%
Transportation	341,211	7.32%	200,507	5.25%	70.17%
Packaging	356,180	7.64%	203,493	5.33%	75.03%
Industrial machinery	566,707	12.16%	435,582	11.40%	30.10%
Comprehensive development	300,490	6.45%	190,516	4.99%	57.72%
Electronic information	314,597	6.75%	268,244	7.02%	17.28%
Urban public utility	401,490	8.61%	216,156	5.66%	85.74%
Others	16,610	0.36%	12,796	0.32%	29.81%
Total	4,661,303	100.00%	3,820,487	100.00%	22.01%

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Healthcare, education and infrastructure construction accounted for the greatest contribution to the aggregate growth of the Group's service charge income (before taxes and surcharges). The distribution of the industries of service charge income generally remained stable. The Group continued to strengthen the access to business opportunities with more quality customers. High-end customers' requirements for the content of advisory services and means of services experienced certain changes. At the same time, the complexity of some advisory services were increasing, which resulted in the stable service fee income of healthcare, education and infrastructure construction industries as a whole. Meanwhile, the Group strengthened the introduction of high-quality customers to other industries, and the number of consulting services customers increased. As a result, the service fees of transportation, packaging, industrial machinery, comprehensive development and urban public utilities have increased significantly. The Group will gradually enhance its service capabilities, enrich the scope and means of service based on the changes of customers' requirements, and strive to remain steady and healthy growth of service charge income of the business.

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

	For the year ended 31 December			
	2017		2016	
	RMB'000	% of total	RMB'000	% of total
Northeast China	418,559	8.98%	263,015	6.88%
Northern China	544,778	11.69%	685,490	17.94%
Eastern China	1,213,921	26.04%	1,065,060	27.88%
Southern China	983,842	21.11%	310,402	8.12%
Central China	541,193	11.61%	457,061	11.96%
Northwest China	525,932	11.28%	244,100	6.39%
Southwest China	433,078	9.29%	795,359	20.83%
Total	4,661,303	100.00%	3,820,487	100.00%

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2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group, before taxes and surcharges, increased by 53.96% from RMB2,113,804,000 for 2016 to RMB3,254,433,000 for 2017, accounting for 17.23% of the total revenue of the Group (before taxes and surcharges).

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

	For the year ended 31 December				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Revenue from industrial operation segment	3,254,433	100.00%	2,113,804	100.00%	53.96%
Including:					
Revenue from hospital operation[1]	1,314,168	40.38%	626,028	29.62%	109.92%
Revenue from operating lease	1,259,195	38.69%	830,314	39.28%	51.65%
Revenue from trading	263,040	8.08%	257,472	12.18%	2.16%
Revenue from education institution operation	146,631	4.51%	115,898	5.48%	26.52%

Note:

(1) For details of revenue from hospital operation, please see the discussion and analysis in Paragraph 12.1 of this section.

In 2017, the Group's equipment operation business development had established a relatively optimized complete preliminary marketing system and the assets scale has joined the front ranks in sub-markets such as engineering equipment and scaffolds. Revenue (before taxes and surcharges) amounted to RMB1,259,195,000, accounting for 38.69% of the revenue from industrial operation segment for the year and representing an increase of 51.65% as compared to the same period last year.

The Group committed to the establishment of quality kindergartens and steadily promoted the layout of first-class international education at home and abroad in 2017. The Group also further enhanced the curriculum system, operation flow management and corporate culture integration of kindergartens and schools within the Group. In 2017, the Group entered into agreements in respect of 3 new quality kindergarten sites, 1 new school site and opened 3 kindergartens. As of the end of 2017, together with 4 operating kindergartens and 2 schools from last year, the Group operated 7 high-end kindergartens (among which, 3 kindergartens had fulfilled their enrolment quota after optimization of curriculum and operation systems) and 2 high schools (among which, 1 had fulfilled its enrolment quota) with nearly 1,090 students, representing an increase of approximately 16.51% as compared to 2016. Revenue from education institutions amounted to RMB146,631,000 in 2017, representing an increase of 26.52% as compared to 2016. As of the end of 2017, the Group has signed up for sites of 8 kindergartens and 1 school, which have not yet been put in operation.

The Group's revenue from trading for 2017 was RMB263,040,000, representing an increase of 2.16% as compared to the corresponding period of the previous year. Revenue from trading is mainly from the medical, construction-related equipment trade services.

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2.3 Cost of sales

Cost of sales of the Group for 2017 was RMB8,106,962,000, representing an increase of 41.35% from RMB5,735,538,000 in the corresponding period of the previous year. Among them, the cost of the financial and advisory segment was RMB5,801,693,000, accounting for 71.56% of the total cost and representing an increase of 40.42% from RMB4,131,599,000 in the corresponding period of the previous year, mainly due to the rapid growth of the financial leasing business of the Group. During the period, the proportion of investment in interest-earning assets through debt financing increased while the additional financing cost in the surrounding financing market rapidly increased. Interest expenditure of the financial and advisory segment recorded a rapid growth due to the increases in financing size and additional financing cost. The cost of the industrial operation segment was RMB2,305,269,000, accounting for 28.44% of the total cost and representing an increase of 43.73% from RMB1,603,939,000 in the corresponding period of the previous year. This was mainly due to the fact that the Group's industrial operations in respect of healthcare, education and operating lease were at their preliminary stage and their economies of scale were not sufficient. The rapid business expansion led to the significant growth in cost of sales for industrial operation. The Group will, through group management, gradually enhance operating efficiency of each industrial operation companies, to transform the cost of sales of industrial operation into its revenue in a highly-effective manner.

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				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the finance and advisory segment	5,801,693	71.56%	4,131,599	72.04%	40.42%
Cost of the industrial operation segment	2,305,269	28.44%	1,603,939	27.96%	43.73%
Cost of sales	8,106,962	100.00%	5,735,538	100.00%	41.35%

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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 of the Group in the indicated period.

	For the year ended 31 December					
	2017			2016		
	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	126,344,136	5,801,693	4.59%	94,172,927	4,131,599	4.39%

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 segment increased from RMB4,131,599,000 for 2016 to RMB5,801,693,000 for 2017. The average cost rate of the Group was 4.59% for 2017, representing an increase as compared to 2016. It is mainly due to the fact that: (i) in 2017, in the external market where the overall liquidity was tight with increasing financing cost, the Group deepened the core channels of banks and actively expanded bank resources, resulting in the increase of 0.16% in the average cost rate in 2017 due to new domestic bank withdrawals; (ii) as compared with 2016, the Group began to seize the opportunities and introduce low-cost funds from overseas to expand overseas financing channels, resulting in the increase of proportion of new overseas withdrawals from 4 % in 2016 to 16% this year, which led to the decrease of average cost rate of 0.05%; (iii) the Group adhered to the financing strategy of diversified resources, completed the issuance of various products such as corporate bonds, oriented financing instruments, short-term financial bonds and medium term notes in 2017. However, the overall yields of bond market continued to rise, the average cost rate increased 0.09% in 2017.

As the proportion of lower-cost liabilities of the Group in 2016 and before was decreasing gradually over time, the average cost rate for the year 2017 has been increased as compared to that in the first half of 2017 and 2016. With decreasing balance of stock lower-cost liabilities and increasing proportion of the additional liabilities with higher finance cost in the year, the subsequent average cost rate was expected to increase but remained more competitive than the other industry players.

In 2018, under the strategy of "resources globalization", the Group will continue to optimize its liability structure and effectively control its finance costs. Our major measures are as follows: (i) the Group will deepen the cooperation with major banks and non-bank institutions to enlarge the credit size for future development; (ii) the Group will actively pay attention to the international market, strengthen communication with rating agencies and investors and seize the opportunities to introduce overseas funds; (iii) the Group will continue to explore new channels and products, to enrich our source of funds.

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2.3.2 Cost of the Industrial Operation Segment

The cost of sales of industrial operation segment of the Group is primarily derived from the cost of hospital operation, cost of operating lease and cost of education institution operation etc. The following table sets forth the cost of industrial operating segments of the Group by business type of the period indicated.

	For the year ended 31 December				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the industrial operation segment	2,305,269	100.00%	1,603,939	100.00%	43.73%
Of which:					
Cost of hospital operation[1]	924,712	40.11%	459,564	28.65%	101.22%
Cost of operating lease	760,604	32.99%	559,180	34.86%	36.02%
Cost of trading	250,347	10.86%	232,015	14.47%	7.90%
Cost of education institution operation	109,898	4.77%	71,888	4.48%	52.87%

Note:

(1) For details of cost of hospital operation, please see the discussion and analysis in Paragraph 12.1 of this section.

Cost of operating lease of the Group increased by 36.02% to RMB760,604,000 in 2017 from RMB559,180,000 in 2016, 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 2017, with three new kindergartens commencing operation, the corresponding labor costs of Chinese and foreign teachers and the operational cost of housing leasing and decoration amortization were increased. The operating cost of educational institutions in 2017 was RMB109,898,000, representing an increase of 52.87% as compared to 2016.

In 2017, the Group's cost of trading business was RMB250,347,000, representing an increase of 7.90% as compared to the corresponding period of the previous year. The cost of trade is mainly comprised of the cost of medical, construction-related trade business equipment procurement and related tax costs.

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2.4 Gross Profit

The gross profit of the Group for 2017 increased by RMB2,482,521,000 or 30.30% to RMB10,675,352,000 from RMB8,192,831,000 in the corresponding period of the previous year. For 2017 and 2016, the gross profit margin of the Group was 56.84% and 58.82%, 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 2017 was 62.89%, down from 65.45% in the same period last year. The gross profit margin of the financial and advisory segment was affected by the change of net interest income and net interest margin. For this year, the interest income growth rate was less than the interest expense growth rate. 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		
	2017 RMB'000	2016 RMB'000	Change %
Interest income[1]	10,972,384	8,139,285	34.81%
Interest expense[2]	5,801,693	4,131,599	40.42%
Net Interest income	5,170,691	4,007,686	29.02%
Net interest spread[3]	1.96%	1.79%	0.17%
Net interest margin[4]	3.09%	3.04%	0.05%

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. 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 2017 increased by 0.17 percentage point to 1.96% as compared with 1.79% for the corresponding period of the previous year. The increase in net interest spread was primarily due to the increase of 37 basis points in the average yield on interest-earning assets of the Group and the increase of 20 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 rate on interest bearing liabilities, please refer to the discussion and analysis in paragraphs 2.2.1 and 2.3.1 of this section. The average interest-bearing liabilities of the Group for 2017 increase by 34.16% as compared with that for 2016, while the increase of average interest-earning assets was only 27.15%. Therefore, under the circumstance that the increase of yield of interest-earning assets was higher than the cost rate on interest bearing liabilities, the growth rate of interest income was lower than the growth rate of interest expense. The net interest income of the Group increased by 29.02% to RMB5,170,691,000 for 2017 from RMB4,007,686,000 for 2016. Based on the above-mentioned reasons, the net interest margin of the Group increased by 0.05 percentage point to 3.09% as compared with 3.04% for the corresponding period of the previous year.

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2.4.2 Gross Profit of the Industrial Operation Segment

	For the year ended 31 December				
	2017		2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Gross profit of industrial operations segment	949,164	100.00%	509,865	100.00%	86.16%
Of which:					
Gross profit of hospital operation(1)	389,456	41.03%	166,464	32.65%	133.96%
Gross profit of operating lease	498,591	52.53%	271,134	53.18%	83.89%
Gross profit of trading	12,693	1.34%	25,457	4.99%	-50.14%
Gross profit of educational institutions operation	36,733	3.87%	44,010	8.63%	-16.53%

Note:

(1) For details of gross profit of hospital operation, please see the discussion and analysis in Paragraph 12.1 of this section.

The gross profit of the industrial operation segment increased by 86.16% to RMB949,164,000 during 2017 from RMB509,865,000 for 2016. Among which, the gross profit of the operating leasing business and the hospital operation were RMB498,591,000 and RMB389,456,000 respectively, accounting for 52.53% and 41.03% of the total gross profit of the industrial operation segment.

In 2017, the gross profit of the education institutions operation was RMB36,733,000, with gross profit margin of 25.05% (2016: 37.97%). Recently, 3 kindergartens were in mature operation and 1 school has fulfilled its enrolment quota. The remaining kindergartens and schools have not fulfilled their enrolment quota. The increases in rental fees for kindergartens which have signed up sited but have not yet been put in operation and the cost of additional teachers have led to the decrease of gross profit margin of the education institutions operation.

The gross profit of operating leasing increased by 83.89% from RMB271,134,000 for 2016 to RMB498,591,000 for 2017, mainly due to the fact that while increasing the size of operating lease equipment, the Group enhanced reasonable allocation of equipment according to the customer needs in the industry to raise the leasing efficiency of equipment. The gross profit margin of 2017 was 39.60%, representing an increase as compared to the gross profit margin of 32.65% in 2016.

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2.5 Other Income and Gains

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

	For the year ended 31 December		
	2017 RMB'000	2016 RMB'000	Change %
Bank interest income	41,233	41,183	0.12%
Tax benefits from intra-group borrowings	–	43,129	-100.00%
Gains from structured financial products	22,948	18,871	21.60%
Government grants	19,248	9,471	103.23%
Net income from the holdings of off-balance-sheet assets(2)	306,194	100,279	205.34%
Financial equity investment income(3)	192,011	141,817	35.39%
Fair value gains from derivative instruments – transactions not qualifying as hedges	–	13,293	-100.00%
Gains from the transfer of financial assets(4)	42,445	92,907	-54.31%
Other income	13,659	16,493	-17.18%
Total	637,738	477,443	33.57%

Note:

(1) Tax benefits from intra-group borrowings are mainly affected by the policy of "replacing business tax with value-added tax" for turnover tax in China in 2016. The payable tax rate and the deductible tax rate remains flat for the business after the implementation of "replacing business tax with value-added tax".

(2) 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. For the changes in respect of the off-balance-sheet assets of the Group, please refer to the discussion and analysis in paragraph 3.3 of this section.

(3) The Group's financial equity investment income was mainly the net income of gains on changes of fair value of financial assets held for trading and transfer of available-for-sale financial assets after deducting shares attributable to other limited partners.

(4) 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.

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group in 2017 were RMB3,911,745,000, representing an increase of RMB1,038,857,000 or 36.16% from the corresponding period of 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 RMB753,220,000 or 35.78% 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 8,184 in 2016 to 11,558 in 2017.

Cost to income ratio of the Group in 2017 was 36.64%, which was basically stable as compared with 35.07% of the corresponding period of the previous year.

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2.7 Other Expenses

Other expenses of the Group in 2017 amounted to RMB422,743,000, representing an increase of RMB115,953,000 or 37.80% from the corresponding period of the previous year. Other expenses comprised foreign exchange loss of RMB31,599,000, representing a decrease of RMB29,699,000 as compared to RMB61,268,000 in the corresponding period of the previous year.

2.8 Pre-Provision Operating Profit

Pre-provision operation profit of the Group in 2017 amounted to RMB6,739,557,000, representing an increase of RMB1,405,825,000 or 26.36% from the corresponding period of the previous year. The increase of 26.36% in pre-provision operating profit was mainly due to the increase of 34.85% in the Group's revenue, the increase of 41.35% in cost of sales as compared to the corresponding period of the previous year, leading to the increase of 30.30% in gross profit of the Group during the period as well as the increase of 36.16% in selling and administrative expenses. For the changes in respect of the revenue, cost of sales, gross profit and selling and administrative expenses, please refer to the discussion and analysis in paragraphs 2.2, 2.3, 2.4 and 2.6 of this section. In view of the above, in face of the changes in the external objective environment, the Group adopted a prudent and stable development strategies. The interest expenditures increased significantly due to the complicated and changing external financing market. At the same time, industrial operation was at the early stage of rapid growth and investment period, hence the growths in costs and selling and administrative expenses were rapid, resulting in the decrease in the growth in pre-provision operating profit as compared to the growth in revenue. It is expected that with gradual stabilization of the external market environment in future and the gradual increase in industrial operating business scale and internal operating efficiency, the pre-provision operating profit of the Group will show a stable and growing trend.

2.9 Provision for Assets

The following table sets forth a breakdown of our provision for assets for the periods indicated:

	For the year ended 31 December				
	2017		2016		
	RMB'000	Proportion %	RMB'000	Proportion %	Change %
Provision for interest-earning assets	1,541,414	78.95%	1,206,945	95.69%	27.71%
Provision for accounts receivable(1)	193,023	9.89%	51,583	4.09%	274.20%
Provision for other receivables(1)	27,608	1.41%	1,608	0.13%	1,616.92%
Provision for inventories	44,819	2.30%	1,126	0.09%	3,880.37%
Provision for fixed assets(2)	145,505	7.45%	–	–	N/A
Total	1,952,369	100.00%	1,261,262	100.00%	54.79%

Notes:

(1) Provisions for accounts receivable and other receivables are mainly the impairment provisions made by the Group based on the ageing.

(2) Provision for fixed assets are mainly the impairment provisions made by the Group for the vessel assets it owns.

Management Discussion and Analysis

2.10 Income Tax Expense

Income tax expense of the Group in 2017 was RMB1,377,623,000, which increased by RMB246,940,000 or 21.84% from the corresponding period of the previous year. The increase was primarily due to an increase in the operating profit of the Group during the relevant period.

Effective income tax rate of the Group in 2017 was 28.8%, which remained stable as compared to the corresponding period of the previous year. The following table sets forth a breakdown of particulars of the income tax rate:

	2017	2016	Change %
Domestic statutory tax rate	25.0%	25.0%	–
Cross-border business withholding income tax[1]	1.2%	2.1%	-0.9%
Others[2]	2.6%	0.7%	1.9%
Total	28.8%	27.8%	1.0%

Notes:

(1) The decrease in cross-border business withholding income tax was due to the decrease of the withholding tax on the distributable profits of the Group's subsidiaries in Mainland China.

(2) The other increase was mainly due to the increase in overseas income tax.

2.11 Profit for the Period Attributable to Holders of Ordinary Shares of the Company

Based on the above discussion and analysis, profit for the period attributable to holders of ordinary shares of the Company was RMB3,229,057,000, which increased by RMB346,849,000 or 12.03% from the corresponding period of the previous year.

2.12 Basic Earnings per Share

Basic earnings per share for the year amounted to RMB0.84, representing an increase of RMB0.10 or 13.51% from the previous year. Profit for the year attributable to holders of ordinary shares of the Company increased by 12.03% as compared to the previous year. The Group acquired the shares of the Company for the Restricted Share Award Scheme, leading to the decrease in the weighted average number of outstanding ordinary shares of the Group during the year as compared to the previous year.

Management Discussion and Analysis

3. Analysis of Financial Position

3.1 Assets (Overview)

As at 31 December 2017, the total assets of the Group increased by RMB60,893,352,000 or 36.56% from the end of the previous year to RMB227,454,273,000. Loans and accounts receivable increased by RMB52,790,981,000 or 38.03% from the end of the previous year to RMB191,592,358,000.

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

	31 December 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Loans and accounts receivable	191,592,358	84.23%	138,801,377	83.33%	38.03%
Cash and cash equivalents	2,815,544	1.24%	2,051,307	1.23%	37.26%
Restricted deposits	4,584,670	2.02%	2,461,364	1.48%	86.27%
Holding of asset-backed securities/ notes	2,492,078	1.10%	2,350,662	1.41%	6.02%
Assets with continuing involvement	2,492,078	1.10%	2,398,981	1.44%	3.88%
Prepayment and other accounts receivable	4,327,336	1.90%	5,241,576	3.15%	-17.44%
Deferred tax assets	3,169,406	1.39%	1,907,364	1.15%	66.17%
Property, plant and equipment	6,968,921	3.06%	4,995,714	3.00%	39.50%
Prepaid land lease payments	1,267,742	0.56%	1,215,828	0.73%	4.27%
Investment in joint ventures	1,508,405	0.66%	1,404,870	0.84%	7.37%
Investment in associates	766,577	0.34%	263,700	0.16%	190.70%
Available-for-sale financial assets	1,673,442	0.74%	289,889	0.17%	477.27%
Financial assets held for trading	2,010,267	0.88%	721,239	0.43%	178.72%
Derivative financial instruments	123,057	0.05%	1,382,876	0.83%	-91.10%
Inventories	273,430	0.12%	246,057	0.15%	11.12%
Construction contracts	44,170	0.02%	44,129	0.03%	0.09%
Goodwill	1,283,695	0.56%	748,821	0.45%	71.43%
Other assets	61,097	0.03%	35,167	0.02%	73.73%
Total assets	227,454,273	100.00%	166,560,921	100.00%	36.56%

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 84.23% of the total assets of the Group as of 31 December 2017. In 2017, 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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-earning assets	193,977,583		139,798,341		38.76%
Less: interest-earning assets provisions	(3,869,018)		(2,946,686)		31.30%
Net interest-earning assets[1]	190,108,565	99.23%	136,851,655	98.60%	38.92%
Others[2]	1,483,793	0.77%	1,949,722	1.40%	-23.90%
Net loans and accounts receivable	191,592,358		138,801,377		38.03%

Notes:

(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 2017 were RMB193,977,583,000, representing an increase of 38.76% as compared with RMB139,798,341,000 as of 31 December 2016. 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 2017.

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[1].

	31 December 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	37,475,022	19.32%	31,584,432	22.59%	18.65%
Education	33,743,628	17.40%	25,262,019	18.07%	33.57%
Infrastructure construction	26,518,169	13.67%	20,408,257	14.60%	29.94%
Transportation	18,159,451	9.36%	11,305,210	8.09%	60.63%
Packaging	16,644,668	8.58%	12,570,982	8.99%	32.41%
Industrial Machinery	19,680,849	10.15%	15,155,313	10.84%	29.86%
Comprehensive development	13,319,308	6.87%	6,326,613	4.53%	110.53%
Electronic information	14,506,746	7.48%	9,722,460	6.95%	49.21%
Urban public utilities	13,743,044	7.08%	7,281,104	5.21%	88.75%
Others	186,698	0.09%	181,951	0.13%	2.61%
Total	193,977,583	100.00%	139,798,341	100.00%	38.76%

Note:

(1) During the period from 31 December 2016 to 31 December 2017, the Group's net interest-earning assets for healthcare, education and infrastructure construction grew continuously by RMB5,890,590,000, RMB8,481,609,000 and RMB6,109,912,000, respectively, and the net interest-earning assets for transportation, comprehensive development and urban public utilities also grew rapidly by RMB6,854,241,000, RMB6,992,695,000 and RMB6,461,940,000, respectively. Such increase was attributable to the business expansion and exploration in different industries by the Group, which expanded the customer base in the above industries and introduced more quality customers from the above industries, as well as the Group's increased efforts in marketing and promotion.

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 2017		31 December 2016	
	RMB'000	% of total	RMB'000	% of total
Northeast China	21,979,917	11.33%	11,844,952	8.50%
Northern China	24,171,324	12.46%	18,197,391	13.02%
Eastern China	43,517,438	22.43%	43,638,738	31.22%
Southern China	15,708,505	8.10%	13,537,396	9.68%
Central China	29,886,576	15.41%	19,000,338	13.59%
Northwest China	16,018,931	8.26%	8,875,007	6.35%
Southwest China	42,694,892	22.01%	24,664,519	17.64%
Total	193,977,583	100.00%	139,798,341	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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Net interest-earning assets					
Within 1 year	123,262,822	63.54%	80,457,796	57.55%	53.20%
1 to 2 years	42,944,385	22.14%	36,838,840	26.35%	16.57%
2 to 3 years	19,112,438	9.85%	13,728,718	9.82%	39.22%
3 years and beyond	8,657,938	4.47%	8,772,987	6.28%	-1.31%
Total	193,977,583	100.00%	139,798,341	100.00%	38.76%

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 2017, net interest-earning assets within one year as set out in the table above represented 63.54% of net interest-earning assets of the Group, a certain increase from the previous year.

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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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Maturity date					
Within 1 year	69,453,156	35.80%	53,359,728	38.17%	30.16%
1 to 2 years	54,164,397	27.92%	39,550,951	28.29%	36.95%
2 to 3 years	38,116,716	19.65%	26,164,131	18.72%	45.68%
3 years and beyond	32,243,314	16.63%	20,723,531	14.82%	55.59%
Total	193,977,583	100.00%	139,798,341	100.00%	38.76%

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 2017, net interest-earning assets due within one year as set forth in the table above represented 35.80% 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.

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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 2017, the global economy showed overall recovery, and the government of China carried out in-depth implementation of supply-side structural reform, continued to optimize the economy structure and strengthened the regulation in financial market. The economy of China transited from "high speed" development to "high quality" development and operated in a stable manner with favorable momentum. The Group continued to carried out operation innovation and management upgrade, closely monitored the external environment in the process of assets introduction, made asset investment in a reasonable manner and refined the management of credit granting procedure. For assets management, the Group strengthened the process supervision and risk mitigation and improved its ability in risk prevention and mitigation, which improved the quality of assets during the reporting period and evidenced the turning point of assets quality.

Management Discussion and Analysis

Closely monitoring the external environment and adjusting the credit granting policies in a timely manner

In 2017, under the background of frequent introduction of national policies on financial regulation, by paying close attention to the policies of relevant industries, the Group adjusted the industrial asset allocation and investment direction and kept highly responsive to the external environment. With in-depth understanding of the changes in financial regulatory policies, the Group analyzed the impact of relevant policies on credit customers and took corresponding measures. It also paid attention to the regional risk information and the operation and financial position of its customers to adjust the requirements for credit granting. Based on the periodic review of credit granting policies, the Group made timely adjustment to the relevant policies to maximize the control of various risks in relevant business from the changes in external environment.

Reasonably allocating the Company's assets and keeping the credit risks exposure in control

In 2017, the Group continued to adhere to the idea of "reasonably allocating the Company's assets" in its credit risk management work, and comprehensively controlled the exposure to credit risks from the industries, regions and customers of relevant assets. The Group insisted on investing more resources in the industries encouraged by the government, regions with high economic vitality or low financial risks as well as state-owned enterprises, listed companies and customers with high ratings. For industries with average performance and emerging industries, regions with weak economic foundation and high risk level as well as non-state-owned enterprises, non-listed companies and customers with weak operating bases, the majority of the cooperation entered into by the Group were within protective limits. In addition, the Company also strictly controlled the total amount of credit granted to customers under one single group to prevent credit risk concentration.

Effectively preventing operating risks through refined management of credit granting procedures

In 2017, the Group further standardized the qualification requirement for credit granting, and implemented multi-layer, categorized and refined management of project operation qualification of customer managers, qualification for industrial credit assessment and qualification for customer operation. It further improved the detailed requirements of key operating procedures, continued to update and supplement the operating standards and requirements and provided effective guidance to relevant works. The Group also further implemented the risk mitigation measures and specified the credit terms and duration of projects as well as the scenarios and corresponding requirements of guarantee, security, pledge, contract signing and other measures, which enhanced the effectiveness of risk control measures.

In 2017, in addition to specifying different duties of customer managers under the double-post shift system, the Group continued to optimize the dual attestation of the credit evaluation, gradually implemented vertical division of labor in management of regions and industries, and further enhanced the direct effectiveness and professionalism of dual attestation. In addition, the Group also deepened the manager accountability system under which the handling personnel shall be subject to assessment in respect of the operating problems, and the manager shall also be held accountable for such problems to prevent the systematic risks in operation.

Management Discussion and Analysis

Strengthening the asset process monitoring system to enhance the abilities in risk prevention and mitigation

In 2017, the Group continued to optimize the asset process monitoring system. For asset management localization, the Group continued to improve the regional human resources allocation, utilized the core advantage of "close to assets, close to customers", further expanded the customer coverage and sped up the response to abnormal matters. For internet information monitoring, the Group established a comprehensive, ongoing and multi-layer monitoring system, continued to expand the coverage of risk information monitoring based on the changes in customer base, and formed a risk warning and information feedback mechanism with high quality and efficiency.

In 2017, based on the strict and effective asset process monitoring system, the Group adhered to the idea of "early identification, early disposal and early mitigation", took targeted risk prevention measures for customers with signs of risk, and effectively prevented the decline of asset quality through pre-litigation preservation, debt restructuring and increase of measures against risk.

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

In 2017, the Group continued to optimize the management mechanism on risk assets disposal and included the standardized litigation documents into the Company's systematic contract database for unified management; formulated the implementation rules for litigation handling and procurement of disposal services; optimized the cross-regional risk mitigation collaboration mechanism; increased the efforts in construction of legal resources, facilitated the national resources distribution, enhanced the litigation efficiency and consolidated the resources protection system.

In 2017, the Group continued to improve its ability in non-performing assets disposal, optimized the working mechanism, adjusted the human resources allocation, optimized the assessment incentive and promoted the experience sharing. The Group also made continuous innovation to the ideas and methods of disposal, concentrated its elite forces to tackle difficult disposal projects and achieved great results in disposal and recovery.

Management Discussion and Analysis

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

	31 December 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	174,404,617	89.91%	124,443,723	89.02%	105,643,641	86.61%	86,066,609	85.36%
Special mention	17,811,994	9.18%	13,965,494	9.99%	15,143,803	12.42%	13,841,631	13.73%
Substandard	1,202,699	0.62%	853,232	0.61%	793,889	0.65%	597,030	0.59%
Doubtful	558,273	0.29%	535,892	0.38%	389,145	0.32%	323,302	0.32%
Loss	–	–	–	–	–	–	–	–
Net interest-earning assets	193,977,583	100.00%	139,798,341	100.00%	121,970,478	100.00%	100,828,572	100.00%
Non-performing assets	1,760,972		1,389,124		1,183,034		920,332	
Non-performing asset ratio	0.91%		0.99%		0.97%		0.91%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As at 31 December 2017, the Group's assets under special mention accounted for 9.18% of its net interest-earning assets, representing a decrease by 0.81% from 9.99% at the end of 2016 mainly as the Group continuously implemented the reform in its management system and continued to optimize the structure of its customer base.

The assets under special mention in electronic information industry accounted for 14.40% of the total assets under special mention as the Group prudently reclassified more assets in such segment to assets under special mention given the overcapacity, decline in number of orders, increase in labor cost, increasing industry competition and narrowing profit margin in electronic manufacturing industry.

The assets under special mention in transportation industry accounted for 14.38% of the total assets under special mention. With the gradual recovery of shipping market, the shipping price also gradually increased, and the imbalance between supply and demand was alleviated. However, it still takes time to consume the existing shipping capacity, and pressure is expected to remain in the future. As such, the Group continued to pay attention to the assets in such sector in a prudential manner, which reflected the Group' great attention to the systematic risks in such industry.

Management Discussion and Analysis

The assets under special mention in construction industry accounted for 12.82% of the total assets under special mention. This was mainly because such industry was strongly cyclical in nature, and with the slow down of economic growth in China, slow down of growth in fixed asset investment, increase in construction material, tightening regulation in property market and the increasing pressure of capital turnover of the enterprises, the Group prudently reclassified more assets in such segment to assets under special mention

The assets under special mention in industrial machinery industry accounted for 11.11% of the total assets under special mention. The sluggish market demand has yet to show significant improvement, certain cyclical manufacturing industries were still in deep transformation of industrial structure, and enterprises were still operating in difficulties. As such, the Group prudently reclassified more assets in such segment to assets under special mention.

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

	31 December 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	1,636,981	9.19%	2,299,614	16.47%	2,665,640	17.60%	2,163,851	15.63%
Education	1,630,341	9.15%	816,376	5.85%	1,228,615	8.11%	1,092,498	7.89%
Infrastructure construction	2,283,361	12.82%	1,286,848	9.21%	984,774	6.50%	1,208,022	8.73%
Transportation	2,560,730	14.38%	3,193,299	22.87%	3,803,153	25.11%	3,203,122	23.14%
Packaging	1,585,865	8.90%	1,860,066	13.32%	2,059,459	13.60%	2,002,526	14.47%
Industrial machinery	1,979,248	11.11%	2,178,558	15.60%	1,988,419	13.13%	1,676,805	12.11%
Comprehensive development	1,659,247	9.32%	929,650	6.66%	464,485	3.07%	220,133	1.59%
Electronic information	2,565,660	14.40%	657,479	4.71%	1,027,950	6.79%	1,043,528	7.54%
Urban public utilities	1,910,561	10.73%	743,604	5.31%	915,313	6.05%	1,145,490	8.28%
Others	–	–	–	–	5,995	0.04%	85,656	0.62%
Total	17,811,994	100.00%	13,965,494	100.00%	15,143,803	100.00%	13,841,631	100.00%

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

	31 December 2017 % of total	31 December 2016 % of total	31 December 2015 % of total	31 December 2014 % of total
Pass	21.73%	6.84%	6.60%	8.59%
Special mention	25.31%	40.15%	43.05%	51.83%
Substandard	4.85%	4.39%	2.18%	2.16%
Doubtful	0.47%	1.21%	1.42%	0.07%
Loss	–	–	–	–
Recovery	47.64%	47.41%	46.75%	37.35%
Total	100.00%	100.00%	100.00%	100.00%

The Group's asset quality remained favourable. The non-performing asset ratio decreased by 0.08% from 0.99% at the end of the previous year to 0.91% as of 31 December 2017.

The non-performing asset ratio for the transportation industry to total non-performing assets was 30.41%, mainly because the single project amount of transportation vessel project was relatively large, and certain clients were in poor operation with great pressure of repayment affected by the long-term downturn in shipping market. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the industrial machinery industry accounted for 21.67% of the total non-performing assets, mainly because affected by the policy of capacity cut, certain industries were in recession, resulting in the decline in operation and overburden of debt of relevant enterprises which required debt restructuring. 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 15.19%. Supported by the favourable conditions of supply side reform and environmental protection, the capacity was gradually consolidated into large enterprises. The packaging industry entered a phase of reshuffle where certain small and medium private enterprises were faced with difficulties in operation and tight liquidity. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

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The non-performing asset ratio for the electronic information industry to total non-performing assets was 14.96%. The size of single project was relatively large due to the moving up of customer structure. In addition, affected by the industry recession, certain customers were in poor operation with extremely tight cash flow and were involved in economic disputes and litigation. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

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

	31 December 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	41,083	2.33%	25,244	1.82%	13,196	1.11%	8,116	0.88%
Education	12,012	0.68%	11,641	0.84%	1,607	0.14%	3,557	0.39%
Infrastructure construction	174,225	9.89%	175,729	12.65%	223,328	18.88%	101,783	11.06%
Transportation	535,483	30.41%	557,433	40.13%	422,961	35.75%	478,051	51.94%
Packaging	267,454	15.19%	313,235	22.55%	313,142	26.47%	184,098	20.00%
Industrial machinery	381,625	21.67%	185,474	13.35%	97,468	8.24%	120,802	13.13%
Comprehensive development	39,220	2.23%	44,094	3.17%	25,371	2.14%	9,048	0.98%
Electronic information	263,457	14.96%	7,800	0.56%	20,526	1.74%	14,877	1.62%
Urban public utilities	5,750	0.33%	5,000	0.36%	–	–	–	–
Others	40,663	2.31%	63,474	4.57%	65,435	5.53%	–	–
Total	1,760,972	100.00%	1,389,124	100.00%	1,183,034	100.00%	920,332	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 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	31,282	2.60%	17,986	2.10%	7,724	0.97%	3,403	0.57%
Education	2,676	0.22%	–	–	–	–	1,779	0.30%
Infrastructure construction	95,726	7.96%	94,396	11.06%	157,634	19.86%	56,582	9.48%
Transportation	456,504	37.96%	446,826	52.37%	281,559	35.46%	302,711	50.70%
Packaging	105,313	8.75%	217,532	25.50%	237,288	29.89%	119,926	20.09%
Industrial machinery	243,933	20.28%	61,427	7.20%	61,742	7.78%	104,415	17.49%
Comprehensive development	5,858	0.49%	15,065	1.77%	21,287	2.68%	4,909	0.82%
Electronic information	255,657	21.26%	–	–	16,445	2.07%	3,305	0.55%
Urban public utilities	5,750	0.48%	–	–	–	–	–	–
Others	–	–	–	–	10,210	1.29%	–	–
Total	1,202,699	100.00%	853,232	100.00%	793,889	100.00%	597,030	100.00%

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

	31 December 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	9,800	1.76%	7,258	1.35%	5,472	1.41%	4,713	1.46%
Education	9,336	1.67%	11,641	2.17%	1,607	0.41%	1,778	0.55%
Infrastructure construction	78,499	14.06%	81,333	15.18%	65,694	16.88%	45,201	13.98%
Transportation	78,979	14.15%	110,607	20.64%	141,402	36.34%	175,340	54.23%
Packaging	162,142	29.04%	95,703	17.86%	75,854	19.49%	64,172	19.85%
Industrial machinery	137,692	24.66%	124,047	23.15%	35,726	9.18%	16,387	5.07%
Comprehensive development	33,362	5.98%	29,029	5.42%	4,084	1.05%	4,139	1.28%
Electronic information	7,800	1.40%	7,800	1.46%	4,081	1.05%	11,572	3.58%
Urban public utilities	–	–	5,000	0.93%	–	–	–	–
Others	40,663	7.28%	63,474	11.84%	55,225	14.19%	–	–
Total	558,273	100.00%	535,892	100.00%	389,145	100.00%	323,302	100.00%

Management Discussion and Analysis

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

	31 December 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare	–	–	–	–	–	–	–	–
Education	–	–	–	–	–	–	–	–
Infrastructure construction	–	–	–	–	–	–	–	–
Transportation	–	–	–	–	–	–	–	–
Packaging	–	–	–	–	–	–	–	–
Industrial machinery	–	–	–	–	–	–	–	–
Comprehensive development	–	–	–	–	–	–	–	–
Electronic information	–	–	–	–	–	–	–	–
Urban public utilities	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–

Management Discussion and Analysis

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

	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
At the beginning of the year	1,389,124	1,183,034	920,332
Downgrades[1]	1,108,931	989,462	1,033,727
Upgrades	(159,538)	(94,433)	(37,013)
Recoveries	(505,114)	(336,154)	(481,950)
Write-offs	(72,431)	(352,785)	(252,062)
At the end of the year	1,760,972	1,389,124	1,183,034
NPA ratio	0.91%	0.99%	0.97%

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.

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 2017		31 December 2016		31 December 2015		31 December 2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Interest-earning Assets Provisions:								
Individual assessment	700,180	18.10%	558,366	18.95%	392,455	16.48%	407,940	20.27%
Collective assessment	3,168,838	81.90%	2,388,320	81.05%	1,988,296	83.52%	1,604,453	79.73%
Total	3,869,018	100.00%	2,946,686	100.00%	2,380,751	100.00%	2,012,393	100.00%
Non-performing assets	1,760,972		1,389,124		1,183,034		920,332	
Provision coverage ratio	219.71%		212.13%		201.24%		218.66%	

Management Discussion and Analysis

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 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
Write-off	72,431	352,785	252,062	122,924
Non-performing assets as at the end of the previous year	1,389,124	1,183,034	920,332	646,436
Write-off ratio[1]	5.21%	29.82%	27.39%	19.02%

Note:

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

In 2017, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB72,431,000, mainly distributed in the packaging, industrial machinery, transportation and infrastructure construction industries, which respectively account for RMB23,029,000, RMB18,128,000, RMB13,921,000, and RMB12,198,000. Despite the Group's effort in collection through judicial means, actionable assets were unable to cover risk exposure of projects at the moment. Although the Group is 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 the disposal of assets, and continued to collect the payment through disposal of equipment, demand for payment and exerting pressure on guarantors. From 2011 to 2017, the written-off bad debts amounted RMB810,590,000 and RMB76,971,000 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 2017	31 December 2016	31 December 2015	31 December 2014
Overdue ratio (over 30 days)	0.72%	0.98%	1.08%	0.91%

As a result of the Group's prudent strategies of risk control and asset management, with the customer base moving upwards and the implementation of stringent and effective process regulation and control, the general asset quality remains stable with improvement. The Group's lease overdue ratio (over 30 days) was 0.72% as at 31 December 2017, representing 0.26 percentage point lower than 0.98% as of the end of 2016.

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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 2017		31 December 2016	
	RMB'000	% of total	RMB'000	% of total
Healthcare	116,861	8.31%	198,831	14.55%
Education	170,344	12.12%	13,865	1.01%
Infrastructure construction	217,528	15.48%	259,141	18.96%
Transportation	179,214	12.75%	279,028	20.42%
Packaging	211,539	15.05%	223,406	16.35%
Industrial machinery	424,114	30.18%	131,508	9.62%
Comprehensive development	34,654	2.47%	39,702	2.91%
Electronic information	10,511	0.75%	7,800	0.57%
Urban public utilities	–	–	149,684	10.95%
Others	40,663	2.89%	63,474	4.66%
Total	1,405,428	100.00%	1,366,439	100.00%

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

	31 December 2017		31 December 2016	
	RMB'000	% of total	RMB'000	% of total
Special mention	450,474	32.05%	586,898	42.95%
Substandard	409,143	29.11%	274,200	20.07%
Doubtful	545,811	38.84%	505,341	36.98%
Loss	–	–	–	–
Total	1,405,428	100.00%	1,366,439	100.00%

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3.3 Asset-backed Securities / Notes-related Assets and Other Items

The following table sets forth total interest-earning assets which were sold by the Group by means of asset-backed securities/notes and etc. during the periods indicated.

	2017		2016		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	6,121	18.34%	6,356	22.88%	-3.70%
Education	8,003	23.98%	8,285	29.83%	-3.40%
Infrastructure construction	5,644	16.91%	5,420	19.51%	4.13%
Transportation	1,011	3.03%	741	2.67%	36.44%
Packaging	1,232	3.69%	274	0.99%	349.64%
Industrial machinery	1,941	5.82%	1,454	5.23%	33.49%
Comprehensive development	1,234	3.70%	89	0.32%	1286.52%
Electronic information	4,984	14.94%	3,288	11.84%	51.58%
Urban public utilities	3,200	9.59%	1,869	6.73%	71.21%
Others	–	–	–	–	N/A
Total	33,370	100.00%	27,776	100.00%	20.14%

The following table sets forth balance of interest-earning assets which were sold by means of asset-backed securities/notes and etc. as of the dates indicated.

	31 December 2017		31 December 2016		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	9,571	21.36%	6,732	22.98%	42.17%
Education	12,381	27.63%	9,254	31.60%	33.79%
Infrastructure construction	7,817	17.45%	5,672	19.36%	37.82%
Transportation	1,311	2.93%	1,051	3.59%	24.74%
Packaging	1,280	2.86%	298	1.02%	329.53%
Industrial machinery	1,896	4.23%	1,346	4.59%	40.86%
Comprehensive development	1,136	2.54%	183	0.62%	520.77%
Electronic information	5,683	12.69%	3,124	10.66%	81.91%
Urban public utilities	3,725	8.31%	1,634	5.58%	127.97%
Others	–	–	–	–	N/A
Total	44,800	100.00%	29,294	100.00%	52.93%

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On 31 December 2017, the balance of holding of asset-backed securities/notes-related assets items amounted to RMB2,492,078,000, representing an increase of RMB141,416,000 or 6.02% as compared with 31 December 2016. The Group had approximately RMB33,370 million in principal amount of interest-earning assets through asset-backed securities/notes in 2017, representing an increase of 20.14% as compared to RMB27,776 million in previous year. The balance of the holding of off-balance-sheet assets of the Group at at 31 December 2017 amounted to approximately RMB44,800 million (31 December 2016: approximately RMB29,294 million) of which non-performing assets accounted for no more than 0.06%, assets which are overdue 30 days or more accounted for no more than 0.04%. As an off-balance sheet asset management service provider, the Group implemented the same prudent asset management policy as the on-balance sheet asset and strengthened the monitoring process. The off-balance sheet assets were stable at the end of 2017 with no significant anomalies of asset quality.

Assets with continuing involvement of the Group amounted to RMB2,492,078,000, representing an increase of RMB93,097,000 or 3.88% from the end of last year. Pursuant to specific requirements of accounting standards, for the asset-backed securities/notes business above 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.

3.4 Other Assets

On 31 December 2017, cash and cash equivalents of the Group amounted to RMB2,815,544,000. The Group started to reserve relatively sufficient cash to sustain the business development and ensure the capital liquidity safety of the Group. Restricted deposits of the Group amounted to RMB4,584,670,000, which mainly comprised restricted bank deposits.

Prepayments and other receivables of the Group amounted to RMB4,327,336,000, comprised mainly of prepayments for suppliers of machinery and equipment and deductible value-added tax etc.

Deferred tax assets of the Group amounted to RMB3,169,406,000, mainly for the deferred income tax provided for the time difference between accounting and taxation.

Property, plant and equipment of the Group amounted to RMB6,968,921,000, mainly comprised 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 RMB1,267,742,000, mainly comprised 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 RMB1,508,405,000, mainly comprised of equity investments in Guangzhou Kangda, Weihai Haida Hospital, Kunming Broad healthcare and Fengyang Gulou Hospital.

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Available-for-sale financial assets of the Group amounted to RMB1,673,442,000, mainly comprised of short-term monetary wealth management products of RMB1,300,000,000 purchased by the Group at the end of the year.

The balance of tradable financial assets of the Group was RMB2,010,267,000, mainly due to the financial equity investment invested by the Group.

The balance of derivative financial instruments of the Group is RMB123,057,000, 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 RMB1,283,695,000, which was mainly the goodwill recognized for the acquisition of medical institutions and educational institutions by the Group.

3.5 Liabilities (Overview)

On 31 December 2017, total liabilities of the Group amounted to RMB191,046,481,000, representing an increase of RMB49,331,661,000 or 34.81% 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 75.85% of the total, representing an increase as compared to 75.46% of the end of last year.

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

	31 December 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	144,899,680	75.85%	106,937,588	75.46%	35.50%
Other payables, accruals and liabilities	39,266,980	20.55%	28,177,195	19.88%	39.36%
Liabilities for continuing involvement	2,492,078	1.30%	2,398,981	1.69%	3.88%
Trade and bills payables	1,838,961	0.96%	2,887,321	2.04%	-36.31%
Tax Payable	1,506,937	0.79%	1,002,600	0.71%	50.30%
Derivative financial instruments	260,276	0.14%	92,217	0.07%	182.24%
Deferred tax liabilities	76,707	0.04%	70,850	0.05%	8.27%
Deferred revenue	704,862	0.37%	148,068	0.10%	376.04%
Total Liabilities	191,046,481	100.00%	141,714,820	100.00%	34.81%

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3.6 Interest-bearing Bank and Other Borrowings

In 2017, major central banks in the world withdrew quantitative easing monetary policy, reduced the scale of the balance sheet and entered the interest rate hike cycle. On the other hand, domestically, with tightening of the medium and long-term monetary policy and the continued decline in the growth rate of money supply, financial supervision continued to upgrade. The financial market as a whole tended to be tight. The growth rate of financing slowed down, the interest rate of money market and the yield of bonds market continued to increase.

As the complex financial environment at home and overseas faced by 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 by introducing innovative products such as renewable corporate bonds, expanded the quota for Private Placement Notes (PPN) and corporate bonds, and formed the new situation of alternate issue of various products such as corporate bonds, PPN and ultra short financing bills in different markets.

Within the market of indirect financing, in addition to the existing financing channels, the Group continued to deepen the cooperation with key banking channels based on the requirements of strategic development of the Company. In terms of remote credit, the Group facilitated the bilateral cooperation in overseas market through its subsidiaries in Hong Kong and successfully issued US dollar syndicate. The Group also actively cooperated with the local regional banks through its subsidiaries in Tianjin, which led to rapid increase in overall credit size and further optimized the financing costs.

In 2017, the issuing cost of asset securitization products was pushed up by the decline in the domestic bond market as a whole. However, based on the market image and efficient issuance capability, the Group still made great progress in its asset securitization business. In 2017, the Group accomplished RMB33.370 billion asset securitization business with the lowest cost in the industry, and remained to be one of the most mature and active issuers. Through the asset securitization business, the Group effectively diversified the funding sources and optimized the structure of debt securities.

In addition, in 2017, the Group successfully issued US$300,000,000 senior perpetual capital securities and US$400,000,000 subordinated perpetual securities with fixed price in overseas market. The issuance of perpetual securities diversified the Company's equity supplement methods, optimized the financial structure of the Company, and laid a solid foundation for the future expansion of overseas capital markets.

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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 continuation of maintaining a competitive cost advantage. In the first half of the year, Fitch Ratings upgraded the rating of Far East Horizon, making Far East Horizon the only financial leasing company in China which obtains investment grade from two international authoritative institutions. Looking forward, 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 of 31 December 2017, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB144,899,680,000, representing an increase of 35.50% as compared with RMB106,937,588,000 as of the end of last year, mainly due to the increase in the interest-bearing liability resulting from supporting the Group's expanding our business operations. The Group's borrowings were mainly denominated in RMB and USD.

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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Current	55,994,501	38.64%	53,545,549	50.07%	4.57%
Non-current	88,905,179	61.36%	53,392,039	49.93%	66.51%
Total	144,899,680	100.00%	106,937,588	100.00%	35.50%

As of 31 December 2017, 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 38.64%, representing a decrease of 11.43 percentage points as compared with 50.07% as of 31 December 2016, 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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	17,517,489	12.09%	12,719,705	11.89%	37.72%
Unsecured	127,382,191	87.91%	94,217,883	88.11%	35.20%
Total	144,899,680	100.00%	106,937,588	100.00%	35.50%

The Group carefully managed its funding risk in 2017. As at the end of 2017, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 87.91% of the Group's total interest-bearing bank and other borrowings, which was basically the same as that of the end of last year.

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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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank loans	78,169,331	53.95%	61,819,996	57.81%	26.45%
Other loans	66,730,349	46.05%	45,117,592	42.19%	47.90%
Total	144,899,680	100.00%	106,937,588	100.00%	35.50%

The proportion of the Group's bank loans as a percentage to the Group's total bank and other borrowings decreased slightly as at 31 December 2017, which was because the Group continued to develop new financing channels, maintained a good balance between direct financing and indirect financing, and formed a stable debt structure.

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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
China	126,242,249	87.12%	88,511,044	82.77%	42.63%
Overseas	18,657,431	12.88%	18,426,544	17.23%	1.25%
Total	144,899,680	100.00%	106,937,588	100.00%	35.50%

As at 31 December 2017, the proportion of the Group's borrowings from China and other borrowings as a percentage to the Group's total borrowings was 87.12%, which increased 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 financing channels China in order to satisfy the funding needs in the first half of the year.

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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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
RMB	128,702,484	88.82%	88,265,386	82.54%	45.81%
US$	12,824,868	8.85%	12,069,354	11.29%	6.26%
Financing in other currencies	3,372,328	2.33%	6,602,848	6.17%	-48.93%
Total	144,899,680	100.00%	106,937,588	100.00%	35.50%

As at 31 December 2017, the Group's financing in RMB accounted for 88.82% of its total interest-bearing bank and other borrowings, representing an increase from the end of last year as the Group 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 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	65,600,971	45.27%	43,690,437	40.86%	50.15%
Indirect financing	79,298,709	54.73%	63,247,151	59.14%	25.38%
Total	144,899,680	100.00%	106,937,588	100.00%	35.50%

As at 31 December 2017, the Group's direct financing amount accounted for 45.27% of the total amount, representing an increase from the end of last year as the Group continued to developed new financing channels and maintained a stable debt structure through the introduction of medium-term notes, short financing bills, PPN and other financing products.

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3.7 Shareholders' Equity

As at 31 December 2017, the total equity of the Group was RMB36,407,792,000, representing an increase of RMB11,561,691,000 or 46.53% from the end of last year.

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

	31 December 2017		31 December 2016		
	RMB'000	% of total	RMB'000	% of total	Change %
Share capital[1]	10,218,442	28.07%	10,213,017	41.11%	0.05%
Reserve	15,122,427	41.54%	12,746,213	51.29%	18.64%
Equity attributable to ordinary shareholders of the Company	25,340,869	69.61%	22,959,230	92.40%	10.37%
Perpetual securities[2]	9,797,723	26.91%	1,231,881	4.96%	695.35%
Non-controlling interests	1,269,200	3.48%	654,990	2.64%	93.77%
Total Equity	36,407,792	100.00%	24,846,101	100.00%	46.53%

Note:

(1) The Group's share capital in 2017 increased by RMB5,425 thousand, which was the exercise price received during the year in respect of the share options under the Group's share option scheme and the fair value of the corresponding share options.

(2) On 23 June 2014, the Company issued US$200,000,000 senior perpetual capital securities at initial distribution rate of 5.55%. On 23 June 2017, the Group redeemed the Senior Perpetual Capital Securities in accordance with the principal of the Securities together with any accumulated allotment to the date of the redemption and applied to the Stock Exchange of Hong Kong Limited for the cancellation of the listing status of the securities.

On 14 June 2017, the Group issued US$300,000,000 perpetual capital securities at an initial distribution rate of 4.35%. The perpetual capital securities have no fixed maturity date and are callable at the Company's option in whole on 14 June 2022 ("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 2.62%, the treasury rate and a step-up margin of 5.00% per annum.

On 6 July 2017, the Group issued renewable corporate bonds in the amount of RMB5,000,000,000. The basic term of the renewable corporate bonds will be 3 years. The Group is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewable period, with a coupon rate of 5.50%.

On 4 December 2017, the Group issued US$400,000,000 guaranteed subordinated perpetual capital securities at an initial distribution rate of 5.60%. The guaranteed subordinated perpetual capital securities have no fixed maturity date and are callable at the Company's option in whole on 4 December 2022 ("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 five years the First Call Date, to the sum of the initial spread and the rate of the US five-year treasury note, from 4 December 2022 to 4 December 2037, while after 4 December 2037, to the sum of the initial spread and the rate of the US five-year treasury note and a step-up margin of 5.00% per annum.

Management Discussion and Analysis

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 2017, 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 2017 RMB'000	31 December 2016 RMB'000
Total assets (A)	227,454,273	166,560,921
Total liabilities (B)	191,046,481	141,714,820
Total equity	36,407,792	24,846,101
Gearing ratio (C=B/A)	83.99%	85.08%

In 2017, 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 2017, our gearing ratio was 83.99%

In June, July and December 2017, the Group issued US$300,000,000 perpetual capital securities at an initial distribution rate of 4.35%, RMB5,000,000,000 of Renewable Corporate Bonds at an indicative coupon rate of 5.50% and US$400,000,000 guaranteed subordinated perpetual capital securities at an initial distribution rate of 5.60%. The three issuances reflected the broad recognition of the capital market for the Group, which did only meet the needs of working capital and business development, but also had positive significance to the further expansion of the financing channels, enrichment of the financing means, reduction in the financing cost and optimization of the financial structure.

Management Discussion and Analysis

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., Far East Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd. (incorporated in the first half year of 2017) should not exceed 10 times of its equity.

As at 31 December 2017, the ratios of risk assets to equity of International Far Eastern Leasing Co., Ltd., Far East Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd. were 6.61, 6.51 and 7.46 respectively, which was in compliance with the ratio of risk assets to equity requirements of the measures. The Group will ensure that the domestic finance leasing operations entity will continue to meet the above regulatory requirements through allocation of internal resource.

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 2017 RMB'000	31 December 2016 RMB'000
Total assets	182,319,225	136,256,718
Less: Cash and bank balances	3,942,843	2,408,413
Total assets at risk	178,376,382	133,848,305
Equity	27,001,905	20,449,035
Ratio of assets at risk to equity	6.61	6.55

Management Discussion and Analysis

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Total assets	67,342,994	40,167,598
Less: Cash and bank balances	2,462,191	1,510,316
Total assets at risk	64,880,803	38,657,282
Equity	9,965,599	7,313,405
Ratio of assets at risk to equity	6.51	5.29

Far Eastern Horizon Financial Leasing Co., Ltd.

	31 December 2017 RMB'000	31 December 2016 RMB'000
Total assets	9,954,784	N/A
Less: Cash and bank balances	44,900	N/A
Total assets at risk	9,909,884	N/A
Equity	1,327,584	N/A
Ratio of assets at risk to equity	7.46	N/A

Note: Far Eastern Horizon Financial Leasing Co., Ltd. was incorporated in 2017. Thus, there is no comparison data of the previous year.

Management Discussion and Analysis

5. Capital Expenditures

The Group's capital expenditure was RMB3,429,308,000 in 2017, 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 continuously monitor the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such risk measures to mitigate such risk. As of 31 December 2017, the proportion of fixed rate products of the Group amounted to RMB38.4 billion (31 December 2016: RMB21.3 billion).

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 2017 RMB'000	As at 31 December 2016 RMB'000
Change in basis points		
+100 basis points	105,105	65,369
-100 basis points	(105,105)	(65,369)

Management Discussion and Analysis

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 fluctuation risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. The Group 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 2017, the Group's actual exposure to foreign exchange risk (excluding perpetual securities) approximately amounted to US$1,996 million, hedges against foreign exchange exposure amounted to US$2,000 million or 100.20% (percentage of the aforesaid two items). Thus, the Group's actual exposure to foreign exchange risk is limited. As of 31 December 2017, the Group's exposure to foreign exchange risk (including perpetual securities) approximately amounted to US2,696 million, hedges against foreign exchange exposure decreased from 91.57% as at 31 December 2016 to approximately 74.18%, mainly due to the fact that the Group redeemed US$200,000,000 perpetual securities and newly issued US$700,000,000 perpetual securities during 2017.

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

		Increase/(decrease) in equity interest of the Group	
	Change in currency rate	As at 31 December 2017	As at 31 December 2016
		RMB'000	RMB'000
Effect on the profit before tax (excluding perpetual securities)	-1%	(298)	586
Direct effect of perpetual securities on the equity	-1%	45,739	13,874
		45,441	14,460

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.

Management Discussion and Analysis

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 2017			
Total financial assets	3,837,915	30,270,350	58,567,391	141,205,699	550,590	234,431,945
Total financial liabilities	427,121	23,912,531	49,007,773	119,484,505	1,035,610	193,867,540
Net liquidity gap	3,410,794	6,357,819	9,559,618	21,721,194	(485,020)	40,564,405
			As of 31 December 2016			
Total financial assets	2,722,640	23,468,553	44,910,081	96,673,418	714,573	168,489,265
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	(53,001)	2,401,677	21,460,108	66,693	26,488,952

7. Charge on Group Assets

As at 31 December 2017, the Group had lease receivables in the amount of RMB13,990,886,000, long-term receivables of RMB1,224,437,000, cash in the amount of RMB211,948,000, property, plant and equipment of RMB1,342,199,000 and prepaid lease payments of RMB882,248,000 pledged to the bank in order to secure or pay the bank borrowings, and cash of RMB135,083,000 was pledged for bank acceptances, letter of credit and etc. and cash of RMB14,919,000 was pledged for collective fund trusts.

8. Material Investments, Acquisitions and Disposals

In the first half of 2017, a total of 12 hospitals including Daishan Guanghua Hospital (岱山廣華醫院), Wuchang Chinese Medicine Hospital (五常中醫院), Zhaotong Ren'an Hospital (昭通仁安醫院), Qiaojia Ren'an Hospital (巧家仁安醫院), Xianning Matang Hospital (咸寧麻塘醫院), Wuhan Matang Hospital (武漢麻塘醫院), Qinghai Kangle Hospital (青海康樂醫院), Xinxiang Tongmeng Hospital (新鄉同盟醫院), Zhongjiang Dekang Hospital (中江德康醫院), Pu'er Boya Hospital (普洱博亞醫院), Chuxiong Boya Hospital (楚雄博亞醫院) and Yuxi Boya Hospital (玉溪博亞醫院) were added to the Group. As of the end of 2017, the total number of hospitals in which the Group currently has control or holds equity interests under contract reached 32. In 2017, the Group completed the settlement of hospitals such as Fengyang Gulou Hospital (鳳陽鼓樓醫院), Zhengzhou Renji Hospital (鄭州仁濟醫院), Siyang Xiehe Hospital (泗陽協和醫院), Shenzhen Zhonghai Hospital Group (深圳中海醫院集團), Daishan Guanghua Hospital (岱山廣華醫院), Meizhou Tieluqiao Hospital (梅州鐵爐橋醫院), Zhaotong Ren'an Hospital (昭通仁安醫院) and Qiaojia Ren'an Hospital (巧家仁安醫院), in which the Group has control or holds equity interests. In addition, three hospitals including Pu'er Boya Hospital (普洱博亞醫院), Chuxiong Boya (楚雄博亞醫院) and Yuxi Boya (玉溪博亞醫院) were newly added to the Group's original shareholding hospitals. The Group will focus on the nature of medical care as the core and consider the construction of discipline development as the main line, increase the hospitals' core competitiveness, and strive to build the hospital group with the operational concept of "one network, one system, one hospital".

In 2017, the Group opened three new kindergartens in Chongqing, Wuhan and another place. The Group currently operates seven kindergartens and two schools, in which four kindergartens and two schools started to operate in previous years. In 2017, the Group newly entered into agreement regarding three quality kindergarten venues and one school venue nationwide, which is an important step towards the completion of the quality K12 private education system. Meanwhile, the Groups has another kindergarten in Chengdu which is still in the acquisition process. The Group will continue to promote the layout of the education industry, refine the service content and enhance the quality of teaching, and continue to work towards a high brand reputation, strong service capability and the most unique private education system.

Management Discussion and Analysis

9. Human Resources

As at 31 December 2017, the Group had 11,558 full-time employees, an increase of 3,374 full-time employees compared with 8,184 by the end of 2016.

The Group believes it has a high quality work force with specialized industry expertise. As of 31 December 2017, approximately 60.45% of the Group's employees had bachelor's degrees and above, and approximately 22.63% 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 of 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 2017 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 2017 RMB'000	31 December 2016 RMB'000
Legal proceedings:		
Claimed amounts	1,199	4,257

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 2017 RMB'000	31 December 2016 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	620,444	535,261
Capital expenditure for equity investment	517,578	386,500
Irrevocable credit commitments	8,036,296	5,432,647

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

Capital expenditure for equity investment includes investment in equity joint ventures with hospitals.

Management Discussion and Analysis

11.Future Outlook

Looking forward, the new context of China's economic operation is being formed. The economic development shifts from the pursuit of speed to quality. The period ahead will be the tackling period for the Chinese economy to transform its development mode, optimize its structure and transform its growth momentum. Financial regulatory reform and strict supervision will continue. We will focus on preventing and resolving financial risks and guiding funds into the real economy. At the same time, the industrial structure will continue to adjust and the new momentum is changing the traditional forms of industry and business models, bringing new opportunities for the industry.

The Group will adhere to the line of taking root in industry, the development strategy of "finance + industry" and closely focus on the real economy. Through the integration of financial resources and industrial resources, an interactive and complementary trend is formed, and the advantages of combining and integrating are maximized to form a unique value discovery and value-adding approach, in order to achieve the vision of the enterprise "gather global resources, share China's promotion".

In respect of financial business, the Group will respond to changes in the new market after the 19th National Congress from time to time and will further optimize and upgrade its asset distribution and business formation to comply with the new context of the economy in China. At the same time, the Group will continue to rely on and bring the Group's accumulation of innovation in capital-side and industry-side into play, extend the limitation of traditional leasing methods, expand comprehensive service capabilities, continue to implement the "comprehensive and quasi-investment banking service" strategy so as to meet the multi-dimensional financial needs of customers of the real economy.

In terms of industrial operations, we will pay attention to policy orientation and market demand and focus on the three major industries, health care, construction and education. The Group will accelerate the progress of the investment in hospitals and their operation, equipment operation services, high-end education and other integrated operation layout on the basis of enriched experience and industry customers which are accumulated in many years. These are to deepen the construction of organic and collaborative management system and to strive to form a virtuous circle, forming a unique advantage and enhance value creation.

Management Discussion and Analysis

12.Hospital Operation Segment Report

12.1 Analysis of Hospital Operation Sector Profit Statement

	For the year ended 31 December		
	2017	2016	
	RMB' million	RMB' million	Percentage Change
Total Revenue	**1,489.17**	881.19	69.00%
Revenue from hospital operation[1]	**1,314.17**	626.03	109.92%
Other relevant revenue from hospital operation	**33.23**	19.83	67.57%
Other external revenue[2]	**117.94**	217.46	-45.76%
Revenue within the Group	**23.83**	17.87	33.35%
Total Cost	**(1,059.58)**	(653.21)	62.21%
Cost from hospital operation[3]	**(924.71)**	(459.56)	101.22%
Other cost	**(134.87)**	(193.65)	-30.35%
Gross profit	**429.59**	227.98	88.43%
Gross profit from hospital operation[4]	**422.69**	186.30	126.89%
Others	**6.90**	41.68	-83.45%
Labor cost[5]	**(128.24)**	(60.41)	112.28%
Other administrative and selling expenses [5]	**(139.89)**	(78.71)	77.73%
Financial cost	**(39.13)**	(19.56)	100.05%
Other profit	**24.87**	17.56	41.63%
provision for assets	**(37.31)**	(20.21)	84.61%
Profit before tax	**109.89**	66.65	64.88%
Income tax expense	**(25.86)**	(9.71)	166.32%
Profit for the year	**84.03**	56.94	47.58%

Management Discussion and Analysis

Note:

(1) The Group continued to speed up the investment in hospitals, while also improving efficiency for acquisition. It had its first attempt in acquiring and integrating regional small hospital groups,and investing in new construction projects and acquire new models such as construction planning and expansion of the existing hospitals under the Group. In 2017, the group added 12 hospitals including Daishan Guanghua Orthopedic Hospital, Wuchang Chinese Medicine Hospital, Zhaotong Renan Hospital, Qiaojia Renan Hospital, Xianning Matang Hospital, Wuhan Matang Hospital, Qinghai Kangle Hospital, Xinxiang Tongmeng Hospital, Zhongjiang Dekang Hospital, Pu'er Boya Hospital, Chuxiong Boya Hospital, and Yuxi Boya Hospital etc. As of the end of 2017, the Group invested or gained control over 32 hospitals (Including a hospital still under planning stage) with over 12,000 beds available (2016: approximately 7,000 beds). According to the operation needs of the hospitals, over 7,300 beds were actually in use as of the end of 2017 (2016: approximately 4,400 beds).. In terms of operation capability, the operating revenue of 2017 from the above 32 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 RMB2.143 billion (2016: RMB1.415 billion). The new models and new projects will launch during the fourth quarter of 2017, improvements for the availability of beds are still to be seen. The Group is then adhered to follow the principle of "one network, one system and one hospital" for the planning of future operation, and the Group shall integrate the hospitals above into a unified operation management model that acts according to construction of discipline development as its main line, increase the hospitals' core competitiveness, and achieve increase in revenue.

(2) Other external revenue mainly comprised of the Group's trade service revenue from healthcare related equipment.

(3) The cost of hospital operation shown in the Group's consolidated financial statements in 2017 increased to RMB0.925 billion from RMB0.460 billion in 2016, mainly due to the completion of new contracted projects in the end of 2016 and the first half of 2017, in which the operation cost increased in order to speed up the completion process and efficiency. In addition, the new construction projects will launch during 2017, in which the amortization for substantial capital expenditure is reflected in the years profit. Also, the upgrade of medical equipment for existing hospitals of the Group led to the significant increase in cost of hospital operation of the Group during the year. The Group is then adhered to follow the principle of "one network, one system and one hospital" for the planning of future operation, strengthen horizontal interaction and complementation between hospitals of the Group, aim to achieve integration development of resource and management, and increase management efficiency to lower single operation cost and optimize cost with economies of scale.

(4) Based on the rapid development of hospital operating income in 2017, through scientific management, focusing on healthcare, optimizing its medical quality and pricing structure, it resulted in an increase in gross profit margin from 28.85% in 2016 to 31.37% in 2017 in the consolidated financial statements. Upon gradual completion of the Group's internal integration development, positive effect on gross profit margin would further manifest.

(5) Upon hospital expansion and optimizing income structure of existing hospitals of the Group, the overall external income, cost and profit has increased significantly compared with 2016. Also, upon integrated factors such as the recruitment of middle, senior -level employees and increasing numbers of hospitals, it led to a substantial increase in the total amount of labor cost and other selling and management expenses compared with last year.

Management Discussion and Analysis

12.2 Analysis of the Hospital Operation Sector's Asset

	31 December 2017		31 December 2016		
	RMB' million	Percentage	RMB' million	Percentage	Percentage Change
Monetary fund	145.71	3.05%	20.10	0.86%	624.93%
Amount of the Group's cash pool	442.06	9.24%	180.14	7.69%	145.40%
Trade receivables	251.20	5.25%	237.72	10.14%	5.67%
Prepayments(1)	518.02	10.83%	102.82	4.39%	403.81%
Other trade receivables	90.83	1.90%	40.76	1.74%	122.84%
Financial assets at fair value through profit or loss of the period	80.00	1.67%	–	–	N/A
Entrusted loans	105.49	2.21%	50.10	2.14%	110.56%
Inventories	105.80	2.21%	78.62	3.35%	34.57%
Fixed asset and Intangible assets(2)	1,679.28	35.11%	854.72	36.46%	96.47%
Goodwill(3)	1,088.00	22.75%	553.54	23.62%	96.55%
Investments in joint ventures/associates(4)	245.29	5.13%	205.40	8.76%	19.42%
Deferred income tax assets	21.99	0.46%	14.62	0.62%	50.41%
Other assets	9.36	0.19%	5.43	0.23%	72.38%
Total assets	4,783.03	100.00%	2,343.97	100.00%	104.06%

Notes:

(1) Prepayments mainly comprised of prepayments for drugs and consumables;

(2) Fixed asset and Intangible assets mainly comprised of medical equipment, buildings and prepaid land lease payments of each hospital;

(3) Mainly the goodwill generated from the acquisition of medical institutions;

(4) Investments in joint ventures/associates mainly comprised of Weihai Haida Hospital, Kunming Broadhealthcare Group, Fengyang Gulou Hospital etc.

Corporate Governance Report

The Board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2017.

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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

During the accounting period for the year ended 31 December 2017, the Company has complied with all the Code Provisions set out in the CG Code, except for Code Provision E.1.2 as explained in the paragraph headed "Communication with Shareholders and Investors/Investor Relations" below.

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

Corporate Governance Report

Directors' Securities Transactions

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2017.

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 2017.

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.

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 2017, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Non-executive Directors and Directors' Re-election

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

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

According to the articles of association of the Company, each of the directors of the Company as appointed under a general meeting of the Company is appointed for a specific term of 3 years and he/she may serve consecutive terms if re-elected by the Company in general meeting upon the expiration of his/her term.

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 2017, 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	✓	✓
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 Audit and Risk Management Committee and Remuneration and Nomination 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 4 meetings during the year ended 31 December 2017 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 79.

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

The Company's annual results for the year ended 31 December 2017 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 make recommendations to the Board on the re-election of directors
- To review the structure, size and composition of the Board

Corporate Governance Report

The criteria adopted by the Remuneration and Nomination Committee in considering whether the relevant personnel are suitable for directorship include their character, 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 held 2 meetings during the year ended 31 December 2017 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 79.

Strategy and Investment Committee

The Strategy and Investment Committee comprises 3 members, namely, Mr. Liu Haifeng David (a non-executive director and Chairman of the Committee), Mr. Kong Fanxing (an executive director) and Mr. Cai Cunqiang (an independent non-executive director).

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 2017, 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 79.

Corporate Governance Report

Attendance Record of Directors and Committee Members

During the year ended 31 December 2017, 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 2017 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	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	0/1
Mr. Wang Mingzhe	4/4	Not applicable	Not applicable	Not applicable	1/1
Non-Executive Directors					
Mr. Ning Gaoning	2/4	Not applicable	Not applicable	Not applicable	0/1
Mr. Yang Lin	3/4	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
Independent Non-Executive Directors					
Mr. Cai Cunqiang	4/4	Not applicable	Not applicable	0/0	0/1
Mr. Han Xiaojing	4/4	3/4	2/2	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

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 23 August 2017.

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, 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 timely report of inside information to the executive directors and maintain communication with the Board.

Corporate Governance Report

Meanwhile, the Company handles and disseminates 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 2017.

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 2017, 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 2017.

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 pages 114 to 118.

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.

Corporate Governance Report

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 2017 is set out in the Independent Auditors' Report on pages 114 to 118.

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 2017 is set out below:

Type of services provided by the external auditors	Amount of fees RMB'000
Audit services	5,850
Non-audit service	5,153
Total	11,003

The Group's non-audit service fees mainly comprise of: (i) interim review service fee amounted to RMB850,000; (ii) asset securitization business related service fee amounted to RMB3,180,000; (iii) bond issue related service fee amounted to RMB1,050,000; and (iv) tax service fee amounted to RMB73,000.

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.

Corporate Governance Report

Company Secretary

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

Ms. Mak Sze Man has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

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.

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.

Corporate Governance Report

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.

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 7 June 2017 (the "2017 AGM"), Mr. Kong Fanxing (Vice Chairman and Chief Executive Officer), 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 2017 AGM, Mr. Wang Mingzhe (executive director and the Chief Financial Officer) chaired the 2017 AGM to answer questions where necessary.

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

Biographies of Directors and Senior Management

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

Mr. NING Gaoning (寧高寧), aged 59, 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. KONG Fanxing (孔繁星) – Executive Director and Vice Chairman and Chief Executive Officer

Mr. KONG Fanxing (孔繁星), aged 54, 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 the chairman and general manager of Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司), as well as an executive director and general manager of Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司) and Shanghai Donghong Co., Ltd. (上海東泓實業發展有限公司).

Mr. Kong has over 23 years of experience in enterprise management.

Biographies of Directors and Senior Management

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

Mr. WANG Mingzhe (王明哲), aged 47, 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 the position since then. Currently, Mr. Wang is also the chief financial officer of Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司) and Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司).

Mr. Wang has over 22 years of experience in finance management.

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

Mr. YANG Lin (楊林), aged 54, 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.

Mr. Yang has approximately 22 years of experience in finance and treasury management.

Biographies of Directors and Senior Management

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

Dr. CHEN Guogang (陳國鋼), aged 57, 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 acted 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 executive director of Link Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 8237), 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).

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.

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

Mr. LIU Haifeng David (劉海峰), aged 48, has been a non-executive director of the Company since October 2009. He is the chairman of DCP Capital. 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 of Morgan Stanley and Co-head of Private Equity Asia. Mr. Liu has established one of the leading investment track records in Greater China over the past 25 years and was responsible for a number of successful and innovative investments such as Ping An Insurance, Mengniu Dairy, Qingdao Haier Co., Sunner Poultry, Belle International, Far East Horizon, Nanfu Battery, China Modern Dairy, United Envirotech Ltd, China International Capital Corporation Limited (CICC), China Cord Blood Corporation, Paradise Retail, Hengan International, COFCO Meat, Yuehai Feed, Asia Dairy, Uxin Limited, Tarena Education and 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. "KKR" as defined in this paragraph means Kohlberg Kravis Roberts & Co. L.P. together with its affiliates. Mr. Liu also serves as a non-executive director for China International Capital Corporation Limited which is a listed company in Hong Kong, Qingdao Haier which is an A-share listed Company, and Sunpower Group which is a listed company in Singapore.

Biographies of Directors and Senior Management

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

Mr. KUO Ming-Jian (郭明鑑), aged 56, was appointed as a non-executive director of the Company in March 2013. Mr. Kuo is currently the Chairman of Cathay United Bank and a director of Cathay Financial Holding Co., Ltd. (a company listed in Taiwan, stock code: 2882). He is also 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 Head and Country 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 non-executive director of Cathay Financial Holdings Co., Ltd. and Cathay Life Insurance Co., Ltd..

Mr. Kuo is also 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 67, 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 chief 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.

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

Mr. CAI Cunqiang (蔡存強), aged 68, 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) and 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 41 years of experience in the shipping industry.

Biographies of Directors and Senior Management

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

Mr. HAN Xiaojing (韓小京), aged 63, 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 31 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). 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 55, 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 29 years of experience in finance and securities industry.

Mr. Liu also serves as the managing director of asset management department at Cinda International Holdings Limited (a Hong Kong listed Company, Stock Code: 0111)

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

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

Mr. YIP Wai Ming (葉偉明), aged 53, 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) and 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 27 years of experience in accounting and finance.

Biographies of Directors and Senior Management

Mr. CAO Jian (曹健) – Senior Vice President

Mr. CAO Jian (曹健), aged 43, 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 15 years of experience in the financial leasing industry.

Mr. SHANG Bing (尚兵) – Vice President

Mr. SHANG Bing (尚兵), aged 51, 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 is also the general manager of Grand Flight Investment Management Ltd. (遠翼投資管理有限公司) and Grand Flight Holdings Co.,Ltd. (遠翼控股有限公司).

Mr. Shang has over 28 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 64, 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 is also the general manager of Shanghai Zhenjing Industrial Development Co., Ltd. (上海臻璟實業發展有限公司), Shanghai Grand Glory Eco Technology Co., Ltd. (上海宏瑞環保科技有限公司) and Shanghai Hyatt Property Service Co., Ltd. (上海柏悦物業服務有限公司).

Mr. Wang has over 26 years of experience in enterprise management.

Biographies of Directors and Senior Management

Mr. WU Zhijiun (吳志軍) – Vice President

Mr. WU Zhijun (吳志軍), aged 45, 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 is also the general manager of Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司).

Mr. Wu has over 16 years of experience in the financial leasing industry.

Mr. WANG Jiayin (王佳音) – Assistant President

Mr. WANG Jiayin (王佳音), aged 45, 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 15 years of experience in the financial leasing industry.

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

Mr. CAI Jianjun (蔡建軍), aged 55, 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; 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 33 years of experience in Computer Technology and management.

Biographies of Directors and Senior Management

Mr. ZHU Guojie (朱國傑) – Assistant President

Mr. ZHU Guojie (朱國傑), aged 40, is the Assistant President of the Company. Mr. Zhu 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, the standing deputy general manager and the general manager of the education business division, and the general manager of the education group. Mr. Zhu was appointed as the Assistant President of the Company in July 2016. Mr. Zhu is also the general manager of Shanghai Team Joy Management Limited (上海周濟同悦資產管理有限公司) and Shanghai Teamally Enterprise Management Co., Ltd (上海和祁企業管理有限公司).

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

Directors' Report

The Board is pleased to present the Directors' Report of the year 2017 together with the audited financial statements of the Group for the year ended 31 December 2017.

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, quality preschool education and school operation management, trading and brokerage services as well as engineering management 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 2017, 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 2017 are set out in the Consolidated Statement of Profit or Loss on page 119 of this annual report.

The Board recommends the payment of a final dividend of HK$0.30 (2016: HK$0.23) per share in respect of the year ended 31 December 2017 to shareholders whose names appear on the register of members of the Company on Wednesday, 18 July 2018. The proposed final dividend will be paid on Monday, 30 July 2018, following approval at the Annual General Meeting ("AGM") to be held on Wednesday, 6 June 2018.

Directors' Report

Closure of Share Register

The AGM of the Company is scheduled to be held on Wednesday, 6 June 2018. For determining the entitlement to attend and vote at the AGM, the Register of Members of the Company will be closed from Friday, 1 June 2018 to Wednesday, 6 June 2018, 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 transfer forms 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, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 31 May 2018, 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 Monday, 16 July 2018 to Wednesday, 18 July 2018, 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 Wednesday, 18 July 2018. In order to qualify for the proposed final dividend, all completed transfer forms 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, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Friday, 13 July 2018, 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 258 to 260 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.

Directors' Report

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.

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 2017.

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 123 to 126 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 loss and 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 RMB4,000,000 (2016: RMB3,800,000).

Changes in Directors' Biographical Details

There has been no changes in director's biographical details since the date of the 2017 interim 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.

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
Mr. YANG Lin
Dr. CHEN Guogang
Mr. LIU Haifeng David
Mr. KUO Ming-Jian
Mr. John LAW

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 85 to 92 of this annual report.

Directors' Service Contracts

As at 31 December 2017, 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 RMB12,195,000.

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's Emoluments

Details of the remuneration of the directors and that of the senior management of the Group for the year ended 31 December 2017 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 2017, 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 into the Share Option Scheme. The eligibility of the Selected Participant will be decided by the Board or the Administration Committee, at its respective absolute discretion, as to his contribution to the Company or any of its subsidiaries.

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

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

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

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

Directors' Report

In 2017, options entitling the holders thereof to subscribe for an aggregate of 4,329,506 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 28,594,494 Shares were granted to 294 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 3-6)	Outstanding as at 1 January 2017	Granted	Exercised (Note 7)	Lapsed	Cancelled	Outstanding as at 31 December 2017
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
KONG Fanxing, CEO and executive Director	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	–	3,292,400	–	–	–	3,292,400
Mr. 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
Mr. 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
Mr. 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
Mr. WANG Mingzhe, CFO and executive Director	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	–	1,037,106	–	–	–	1,037,106
SUBTOTAL FOR DIRECTORS					**8,574,989**	**4,329,506**	**–**	**–**	**–**	**12,904,495**
Employees	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	9,256,334	–	669,574	–	150,204	8,436,556
Employees	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	14,451,334	–	152,896	–	363,102	13,935,336
Employees	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	28,350,856	–	–	–	572,871	27,777,985
Employees	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	–	28,594,494	–	–	197,545	28,396,949
TOTAL					**60,633,513**	**32,924,000**	**822,470**	**–**	**1,283,722**	**91,451,321**

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 exercise price is not less than the higher of (i) the closing price of HK$6.820 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 20 June 2017 (i.e. the grant date) and (ii) the average closing price of HK$6.714 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 20 June 2017. The Share does not carry nominal value. The closing price of shares immediately before the date on which the options were granted is HK$6.8 per share.

Note 7: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK$7.38.

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. In 2017, the Company granted 49,386,000 Shares under the Award Scheme and as at 31 December 2017, the Company granted an aggregate of 147,640,133 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.

Directors' Report

Arrangements for the Directors to Purchase Shares or Debentures

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

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

As at 31 December 2017, 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	25,266,684(L)[2]	0.63%
		Interest in a controlled corporation	267,173,000(L)[3]	6.76%
WANG Mingzhe	The Company	Beneficial owner	8,350,556(L)[4]	0.21%
Liu Haifeng David	The Company	Interest in a controlled corporation	1,067,000(L)[5]	0.02%
Liu Jialin	The Company	Beneficial owner	125,000(L)	0.00%
		Interest of spouse	125,000(L)	0.00%

Notes:

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

(2) The interest includes 9,758,673 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme and 14,638,011 underlying shares in respect of awarded shares granted pursuant to the Company's 2014 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 enquiries, Mr. Kong Fanxing is interested in 2,456,937 ordinary shares of the Company as at 31 December 2017. Please refer to the Company's 2017 Annual Report for the details of both schemes and the announcements of the Company dated 11 July 2014, 3 July 2015, 15 June 2016 and 20 June 2017 respectively for the details of the grants of share options.

Directors' Report

(3) The interest is held directly by Will of Heaven HK Limited and Swallow Gird HK Limited, which are both wholly owned subsidiaries of Aim Future Limited, which in turn is controlled as to 70% by Mr. Kong Fanxing.

(4) The interest includes 3,145,822 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme and 4,818,734 underlying shares granted pursuant to the Company's 2014 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 enquiries, Mr. Wang Mingzhe is interested in 946,908 ordinary shares of the Company as at 31 December 2017. Please refer to the Company's 2017 Annual Report for the details of both schemes and the announcements of the Company dated 11 July 2014, 3 July 2015, 15 June 2016 and 20 June 2017 respectively for the details of the grants of share options.

(5) The interest is Mr. Liu Haifeng David's indirect beneficial interest in 1,067,000 shares held through his 100% shareholding in New Trace Limited.

Save as disclosed above, as at 31 December 2017, 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.

Substantial Shareholders' Interests in the Shares

Based on the information available to the directors of the Company, as at 31 December 2017 (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 2017, the entities or individuals 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)	23.27%
Greatpart Limited[2]	Beneficial owner	919,914,440(L)	23.27%
Prime Capital Management (Cayman) Limited	Investment manager	205,911,000(L)	5.21%
JPMorgan Chase & Co.	Beneficial owner	4,829,785(L)	0.12%
		637,000(S)	0.01%
	Investment manager	68,000(L)	0.00%
	Approved lending agent	390,429,651(P)	9.88%
Cathay Life Insurance Co., Ltd.	Beneficial owner	296,316,000(L)	7.49%
China Minsheng Investment Corp., Ltd.	Interest in a controlled corporation	528,600,000(L)[3]	13.37%
Kong Fanxing	Beneficial owner	25,266,684(L)	0.63%
	Interest in a controlled corporation	267,173,000(L)[4]	6.76%
Aim Future Limited	Interest in a controlled corporation	267,173,000(L)[4]	6.76%
FMR LLC	Interest in a controlled corporation	197,921,396(L)[5]	5.00%

Directors' Report

Notes:

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

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

(3) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 13 July 2015 for further details of the shareholding structure.

(4) The interest is held directly by Will of Heaven HK Limited and Swallow Gird HK Limited, which are both wholly owned subsidiaries of Aim Future Limited, which in turn is controlled as to 70% by Mr. Kong Fanxing.

(5) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 19 May 2017 for further details of the shareholding structure.

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

Public Float

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

Bond Issue

In 2017, in order to replenish the working capital and further expand the scale of business, the Group enriched the bond financing varieties, enhanced the size of the distribution in the domestic and foreign direct financing market, and thus formed a continuous distribution situation. The Group completed 22 issuances in the year, with an aggregate amount of RMB40.3 billion, including corporate bonds of RMB15 billion, PPNs of RMB10.8 billion, ultra-short financial bonds of RMB7.5 billion, short-term financial bonds of RMB1.5 billion, mid-term notes of RMB5 billion and other bonds of RMB0.5 billion as follows:

In 2017, it completed the issuance of six corporate bonds with a term of 3 to 5 years totaling RMB15 billion with an annual interest rate interval of 4.75% to 5.7% in China.

In 2017, it completed the issuance of seven 3-year PPN totaling RMB10.8 billion with an annual interest rate range of 5% to 5.9% in China.

In 2017, it completed the issuance of five 270-day ultra-short financial bonds totaling RMB7.5 billion with an annual interest rate interval of 3.91% to 4.95% in China.

On February 27, 2017, it completed the issuance of a 1-year short-term financial bond of RMB1.5 billion with an annual interest rate of 4.32% in China.

In 2017, it completed the issuance of two 3-year mid-term notes totaling RMB5 billion with annual interest rate of 5.2% and 5.3% respectively in China.

Directors' Report

On October 27, 2017, it completed the issuance of debt financing plan of RMB500 million with an annual interest rate of 5.75% in China.

In 2017, the group also successfully issued a renewable corporate bond of RMB5 billion in China, and a perpetual capital security of USD300 million as well as a guaranteed subordinated perpetual capital security of USD400 million abroad. Details are as follows:

On June 14, 2017, it completed the issuance of a perpetual capital security of USD300 million with an annual interest rate of 4.35%, the first five years of which is irredeemable.

On July 6, 2017, it completed the issuance of a 3-year renewable corporate bond of RMB5 billion with an annual interest rate of 5.5% in China.

On December 4, 2017, it completed the issuance of a guaranteed subordinated perpetual capital security of USD400 million with an annual interest rate of 5.6%, the first five years of which is irredeemable.

Major Customers and Suppliers

The information of the customers and suppliers is as follows:

	For the year ended 31 December 2017 Percentage of the total income (before taxes and surcharges) (%)
Top five customers	1.86%
The largest customer	0.49%

	Percentage of total costs (%)
Top five suppliers	27.11%
The largest supplier	9.37%

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 employees' 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 2017, the Company has had no significant dispute with its employees, customers or suppliers.

Connected Transactions

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

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 2017.

Directors' Report

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 2017. Please refer to the announcements of the Company dated 17 June 2011, 11 June 2014 and 10 June 2015 relating to these transactions.

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 a 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 transaction amounts, 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 2017.

According to the terms of the New Sinochem Ship Chartering Framework Agreement, upon expiry of its initial term, subject to the fulfilment of the relevant requirements of the Listing Rules, its term shall automatically be extended for further terms of three years, unless a written notice of termination is served by one party to the other within the prescribed time period prior to the expiry of each such term. The Board had previously served a written notice of termination to Sinochem Group within the prescribed time period according to the terms of the New Sinochem Ship Chartering Framework Agreement and the New Sinochem Ship Chartering Framework Agreement was terminated upon its expiration on 31 December 2017.

Please refer to the announcements of the Company dated 5 December 2012, 3 December 2014 and 6 December 2017 relating to these transactions.

Directors' Report

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.

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 transaction amounts, 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 2017.

According to the terms of the Property Leasing Framework Agreement, upon expiry of its initial term, subject to the fulfilment of the relevant requirements of the Listing Rules, its term shall automatically be extended for further terms of three years each, unless a written notice of termination is served by one party to the other within the prescribed time period prior to the expiry of each such term. On 6 December 2017, the Board resolved to confirm the extension of the term of the Property Leasing Framework Agreement due to the fact that as of 6 December 2017, neither party has received any written notice of termination for the Property Leasing Framework Agreement. Therefore, the term of the Property Leasing Framework Agreement is automatically extended for another three years starting from 1 January 2018 to 31 December 2020.

The continuing connected transactions under the extended Property Leasing Framework Agreement shall be on normal commercial terms which are (a) not less favourable to the Group than those provided to the independent third parties by Sinochem Group or its subsidiaries/associates for leasing the identical units in the same building; and (b) not less favourable to the Group than those provided from the independent third parties to the Company or its subsidiaries for leasing the relevant units in the same class of office building around that area of location.

Directors' Report

The financial department of the Company is responsible for collecting and evaluating information in relation to the rent and related fees at least three months before the entering into of the individual lease contracts under the extended Property Leasing Framework Agreement. The financial department of the Company will (a) collect information from some independent third party agents in relation to the rent and related fees details which would be charged by Sinochem Group or its subsidiaries/associates for leasing the identical units in the same building to other potential lessees; and (b) collect information from other independent third party agents for rent and related fees information in relation to leasing the relevant units in the same class of office building around that area of location. The financial department will then take into consideration of and compare the pricing and other major terms, including the payment terms etc., to make sure that the terms of such individual lease contract to be entered into shall conform with the pricing principles. In addition, for the purpose of conducting the annual review of the on-going continuing connected transactions by the directors, the financial department will collect information and conduct evaluation annually to give information and its view to the directors for their decision as to whether the rents under the individual lease contracts conform with the pricing principles.

The proposed annual caps of the extended Property Leasing Framework Agreement, being the total rent and related fees payable by the Group to Sinochem Group and/or its associates under the extended Property Leasing Framework Agreement, for the three years ending 31 December 2020 are RMB85 million, RMB15 million and RMB17 million per annum, respectively. The proposed annual caps are based primarily on (i) the historical transaction amounts; (ii) an expected approximate 30% growth in the rent for the year ending 31 December 2018, which is in accordance with the market condition; (iii) the fact that some of the current leases will be terminated due to the Group moving to its self-owned premises for each of the two years ending 31 December 2020; and (iv) an expected approximate 10% consolidated growth in transaction amounts in relation to the remaining premises for each of the two years ending 31 December 2020, taking into account the increase in demand by the relevant parties and the expected growth in the rent.

Please refer to the announcements of the Company dated 30 December 2011, 7 August 2012, 27 March 2013, 21 August 2013, 4 December 2013, 3 December 2014 and 6 December 2017 relating to these transactions.

Details of related party transactions of the Company for the year ended 31 December 2017 are set out in Note 44 to the consolidated financial statements. Save for the related party transactions as set out under item (ii), (vii), (viii), (ix), (x), (xi) and the related party transactions in respect of senior management (non-director) compensation under item (xiii), all the related party transactions set out in Note 44 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 2017.

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 2017.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2017 have been audited by Ernst & Young, the auditor of the Company.

Auditor

Pursuant to the resolution of the AGM of the Company in 2017, the Company reappointed Ernst & Young as the auditor of the Company in 2017. The proposal of reappointing Ernst & Young as the auditor of the Company will be put forward at the AGM to be held on Wednesday, 6 June 2018 for consideration and approval.

By order of the Board
NING Gaoning
Chairman
28 March 2018

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 of value and achieving a "win-win" situation for all stakeholders, including investors, customers, partners, employees, governments and the community as a whole. Through sharing of value and achieving a "win-win" situation, the Company 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 continuous 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 fundamental industries, namely medical, construction, education, industrial equipment, urban public utilities, living consumption and transportation and logistics, and build industry-specific and professional operation and security systems that closely adhere to the needs of customer. The Company provides customization of specialized financial services and products, as well as industrial investment operations, operating leasing, trade brokers, management consulting, operating leasing, 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 Company has already preliminarily formed an integrated operation system with synergistic effect and supply capacity: Far East Horizon is striving to create a complete industrial chain with our financial services, hospital group, and health and wellness group as the core and form a large health industry ecosystem with openness as concept, innovation as drivers, coordination as support and win-win as objective.

In the education sector, the Company 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 quality kindergarten and private school, and explored training and online education.

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

Based on the industrial investment platform, Far East Horizon has achieved good cooperation with domestic and foreign suppliers, channel distributors, governments, industry associations and other business partners. Through the integration of our own resources, we promote interaction and communication with partners and grow up together. Since 2007, Far East Horizon has begun to actively promote industrial interaction and communication in various industrial fields, such as the establishment of the celebrities club, the Far East Healthcare Managers Institute, the Far East Educational Alliance, and the organization of the Far East Finance Summit Forum and the Cross-Strait Hospital Management and Development Summit Forum and etc..

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 employees, 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 respect, trust 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 Company 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 Company 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 each major operation place's local minimum wage.

Employee development

The Company 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 and management talents. Through Far East College, Far East E Learning Platform and training information management system, the Company 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 and traced 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 Company 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 Company also relied on community activities to encourage employees in actively participating in various fitness activities.

By adhering to the principle of "helping the poor, caring and loving", the Company 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

We were kind at heart and showed boundless love.

In 2017, Horizon Public Welfare Foundation continued to carry out a series of social welfare activities in areas which are closely related to society livelihood, including education, health care and poverty prevention. Horizon Public Welfare Foundation organized social welfare projects covering 24 cities nationwide, which raised more than RMB3.5 million of funds in aggregate with more than 5,000 people being benefitted.

Education subsidy:

- Horizon Scholarship project: It was established at Peking University, Tsinghua University, and Renmin University of China. The cumulative number of cooperative colleges and universities reached 20 and nearly 300 students that are excellent in academics and conduct were awarded scholarships.

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

- Compassion Book House project: Since its establishment in 2014, we subsidized to build 14 libraries including “Caring Libraries” and “Boya Libraries”at Chongming in Shanghai, Yongcheng in Henan, Kashi in Xinjiang and Diqing in Yunan, showing love for 3,000 children and helping them grow healthily.

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 various hospitals to carry out Loving Ward project, and provided subsidy on hospitalization for an accumulative total of 200 poor patients with critical illnesses. The project helped these patients to recover from the illnesses and relieved from hardship.

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. The project has been going on for 6 consecutive years. The foundation's unremitting charity program has been well received and recognized by local people.

- "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

- We worked with the American Heart Association to provide basic life support training courses for Horizon volunteers.

- We collaborated with the Shanghai Science and Technology Museum to develop "Volunteer Activities for Science and Technology Fun Day" for left-behind children.

- After a long period of operation, the volunteer activity of "Rainbow Garden Care for Vulnerable Children" initiated by the Foundation closely followed the needs of disadvantaged children. In conjunction with the children's interests, the "Wonderful Zoo Love" and "Little Navigators", "Nature Mystery Exploration" and other volunteer activities that integrate "education, nature, popular science, and art", created a project brand and formed a certain degree of influence. It allowed all participants to feel the joy of exploration, sparked inspiration for wisdom and left a good public service experience.

Award recognition

- Listed on the list of the most transparent foundation of China in 2017.

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 119 to 257, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 consisted of lease receivables, lease interest receivables, notes receivable, accounts receivable, factoring receivables, entrusted loans, long-term receivables and secured loans, and accounted for 84.2% of the Group's total assets. The assessment of impairment of loans and receivables was considered to be a matter of most significance as it required 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 note 2.4, note 3, note 23 and note 47 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, and others. 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 47 to the consolidated financial statements.
Impairment assessment of goodwill	
As at 31 December 2017, goodwill amounted to RMB1,284 million, representing 3.5% 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, and others. The accounting policies and disclosures of the Impairment assessment of goodwill are included in note 2.4, note 3 and note 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 of goodwill. 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.

Independent Auditor’s Report

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
28 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	18,782,314	13,928,369
Cost of sales	7	(8,106,962)	(5,735,538)
Gross profit		10,675,352	8,192,831
Other income and gains	5	701,176	477,443
Selling and distribution costs		(1,862,315)	(1,545,606)
Administrative expenses		(4,001,799)	(2,588,544)
Other expenses		(486,181)	(306,790)
Finance costs	6	(225,372)	(157,755)
Share of net (losses)/profits of:			
Associates		(13,650)	300
Share of net (losses)/profits of:			
Joint ventures		(23)	591
PROFIT BEFORE TAX	7	4,787,188	4,072,470
Income tax expense	10	(1,377,623)	(1,130,683)
PROFIT FOR THE YEAR		3,409,565	2,941,787
Attributable to:			
Ordinary shareholders of the parent		3,229,057	2,882,208
Holders of perpetual securities	37	231,264	78,284
Non-controlling interests		(50,756)	(18,705)
		3,409,565	2,941,787
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE PARENT	12	RMB	RMB
Basic and diluted			
– Earnings per share		0.84	0.74

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	3,409,565	2,941,787
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:		
Available-for-sale investments:		
Changes in fair value	(12,662)	83,860
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
– gains on disposal	(71,198)	–
	(83,860)	83,860
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	(729,145)	866,887
Reclassification to the consolidated statement of profit or loss	569,192	(1,072,484)
Income tax effect	26,809	34,099
	(133,144)	(171,498)
Exchange differences on translation of foreign operations	16,715	9,113
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(200,289)	(78,525)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(200,289)	(78,525)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,209,276	2,863,262
Attributable to:		
Ordinary shareholders of the parent	3,028,768	2,803,683
Holders of perpetual securities	231,264	78,284
Non-controlling interests	(50,756)	(18,705)
	3,209,276	2,863,262

Consolidated Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	6,968,921	4,995,714
Prepaid land lease payments	14	1,267,742	1,215,828
Goodwill	15	1,283,695	748,821
Other assets	16	2,553,175	2,434,148
Investments in joint ventures	18	1,508,405	1,404,870
Investments in associates	19	766,577	263,700
Available-for-sale investments	20	260,556	289,889
Equity investments at fair value through profit or loss	21	2,010,267	721,239
Derivative financial instruments	22	583	478,789
Loans and accounts receivables	23	122,614,916	84,721,981
Prepayments, deposits and other receivables	24	2,674,688	2,431,140
Deferred tax assets	25	3,169,406	1,907,364
Restricted deposits	26	176,353	12,600
Total non-current assets		145,255,284	101,626,083
CURRENT ASSETS			
Inventories	27	273,430	246,057
Construction contracts	28	44,170	44,129
Derivative financial instruments	22	122,474	904,087
Loans and accounts receivables	23	68,977,442	54,079,396
Prepayments, deposits and other receivables	24	4,144,726	5,161,098
Restricted deposits	26	4,408,317	2,448,764
Cash and cash equivalents	26	2,815,544	2,051,307
Available-for-sale investments	20	1,412,886	–
Total current assets		82,198,989	64,934,838
CURRENT LIABILITIES			
Trade and bills payables	29	1,838,961	2,887,266
Other payables and accruals	30	12,556,035	8,378,115
Derivative financial instruments	22	88,090	61,059
Interest-bearing bank and other borrowings	31	55,994,501	53,545,549
Income tax payable		1,506,937	1,002,600
Total current liabilities		71,984,524	65,874,589
NET CURRENT ASSETS/(LIABILITIES)		10,214,465	(939,751)

Consolidated Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		155,469,749	100,686,332
NON-CURRENT LIABILITIES			
Trade and bills payables	29	–	55
Interest-bearing bank and other borrowings	31	88,905,179	53,392,039
Derivative financial instruments	22	172,186	31,158
Deferred tax liabilities	25	76,707	70,850
Other payables and accruals	30	26,053,094	19,729,080
Deferred revenue	32	704,862	148,068
Other liabilities	48	3,149,929	2,468,981
Total non-current liabilities		119,061,957	75,840,231
Net assets		36,407,792	24,846,101
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	33	10,218,442	10,213,017
Reserves	36	15,122,427	12,746,213
		25,340,869	22,959,230
Holders of perpetual securities	37	9,797,723	1,231,881
Non-controlling interests		1,269,200	654,990
Total equity		36,407,792	24,846,101

Kong Fanxing
Director

Wang Mingzhe
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	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	Perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	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
Profit for the year	–	–	–	–	–	–	–	–	–	3,229,057	3,229,057	231,264	(50,756)	3,409,565
Other comprehensive income for the year:														
Cash flow hedges, net of tax	–	–	–	–	–	–	(133,144)	–	–	–	(133,144)	–	–	(133,144)
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	(12,662)	–	–	(12,662)	–	–	(12,662)
Reclassification adjustments for gains included in the consolidated statement of profit or loss														
– gains on disposal of available-for-sale investments, net of tax	–	–	–	–	–	–	–	(71,198)	–	–	(71,198)	–	–	(71,198)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	16,715	–	16,715	–	–	16,715
Total comprehensive income for the year	–	–	–	–	–	–	(133,144)	(83,860)	16,715	3,229,057	3,028,768	231,264	(50,756)	3,209,276
Final 2016 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	–	(762,997)	(762,997)	–	–	(762,997)
Distribution paid to holders of perpetual securities	–	–	–	–	–	–	–	–	–	–	–	(81,011)	–	(81,011)
Shares vested under restricted share award scheme	–	–	193,075	(141,594)	–	–	–	–	–	(51,481)	–	–	–	–

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	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	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	5,425	–	–	(1,141)	–	–	–	–	–	–	4,284	–	–	4,284
Recognition of equity-settled share-based payments	–	–	–	254,277	–	–	–	–	–	–	254,277	–	–	254,277
Special reserve – safety fund appropriation	–	–	–	–	822	–	–	–	–	(849)	(27)	–	27	–
Special reserve – safety fund utilisation	–	–	–	–	(396)	–	–	–	–	409	13	–	(13)	–
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	262,638	262,638
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(1,886)	(1,886)
Purchase of non-controlling interests	–	(8,780)	–	–	–	–	–	–	–	–	(8,780)	–	(9,542)	(18,322)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	420,025	420,025
Issue of perpetual securities (Note 37)	–	–	–	–	–	–	–	–	–	–	–	9,645,550	–	9,645,550
Redemption of senior perpetual securities	–	–	–	–	–	–	–	–	–	(133,899)	(133,899)	(1,229,961)	–	(1,363,860)
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(6,283)	(6,283)
At 31 December 2017	10,218,442	2,105,322*	(659,384)*	329,672*	1,082*	121,913*	16,843*	–*	633,498*	12,573,481*	25,340,869	9,797,723	1,269,200	36,407,792

* These reserve accounts comprise the consolidated reserves of RMB15,122,427,000 (2016: RMB12,746,213,000) in the consolidated statement of financial position.

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	Holder of 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 year:														
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	Holder of 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
Waivers 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

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,787,188	4,072,470
Adjustments for:			
Finance costs and bank charges		6,027,065	4,289,354
Interest income		(48,879)	(41,183)
Share of net losses/(profits) of associates		13,650	(300)
Share of net losses/(profits) of joint ventures		23	(591)
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value losses/(gains), net	7	24,988	(13,293)
Realised fair value losses, net	7	256,069	41,402
Gain on disposal of available-for-sale investments	5	(71,198)	(30,648)
Gain on structured financial products	5	(22,948)	(18,871)
Losses on disposal of property, plant and equipment, net		15,965	41,167
Gain on disposal of subsidiaries	5	(2,100)	–
Depreciation		491,574	355,664
Provision for impairment of loans and accounts receivables	7	1,734,437	1,258,528
Provision for property, plant and equipment	7	145,505	–
Provision for impairment of inventories	7	44,819	1,126
Provision for impairment of other receivables	7	27,608	1,608
Amortisation of intangible assets and other assets		52,999	51,747
Equity-settled share-based payment expenses	7	254,277	166,320
Foreign exchange loss, net		31,599	61,268
Fair value losses from financial liabilities at fair value through profit or loss		63,438	–
Impairment of goodwill		–	700
Waiver of debt by shareholders		–	2,802
Dividend income from available-for-sale investments	5	(1,661)	(4,153)
Fair value gains, net:			
equity investments at fair value through profit or loss	5	(182,590)	(107,016)
Interest income from subordinated tranches of asset-backed securities/notes		(241,299)	(81,424)
Transaction cost incurred in purchasing financial assets at fair value through profit or loss		2,854	–
Gain on bargain purchase of a subsidiary	38	(1,981)	–
		13,401,402	10,046,677

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Increase in inventories		(55,141)	(115,434)
Increase in construction contracts		(41)	(1,742)
Increase in loans and accounts receivables		(54,674,597)	(19,356,949)
Decrease/(increase) in prepayments, deposits and other receivables		979,463	(3,920,063)
Increase in restricted cash related to asset-backed securitisations and collective fund trusts		(2,092,975)	(1,080,325)
Increase in other assets		(44,595)	(1,702,444)
Decrease in trade and bills payables		(1,173,862)	(5,531,718)
Increase in other payables and accrued liabilities		9,667,211	4,873,383
Increase in other liabilities		692,995	1,634,018
Net cash flows used in operating activities before tax and interest		(33,300,140)	(15,154,597)
Interest paid		(5,413,771)	(4,482,880)
Interest received		48,879	41,183
Income tax paid		(2,121,598)	(1,412,910)
Net cash flows used in operating activities		(40,786,630)	(21,009,204)
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on structured financial products	5	22,948	18,871
Realised gain on derivative financial instruments not qualifying as hedges		19,324	3,119
Proceeds from disposal of property, plant and equipment		302,118	166,652
Acquisition of subsidiaries	38	(246,113)	(252,869)
Disposal of a subsidiary		3,845	–
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(2,524,390)	(1,884,923)
Purchase of shareholding for joint ventures		(138,095)	(263,400)
Purchase of shareholding for associates		(520,710)	(219,358)
Dividend received from a joint venture		1,761	878
Dividend received from associates		6,176	–
Dividend income from available-for-sale investments	5	1,661	4,153
Proceeds from disposal of joint ventures		32,475	2,040
Purchase of available-for-sale investments		(1,569,887)	–
Proceeds from disposal of available-for-sale investments		173,672	258,589
Purchase of equity investments at fair value through profit or loss		(1,477,332)	(367,545)
Disposal of equity investments at fair value through profit or loss		364,000	–
Transaction cost paid in purchasing financial assets at fair value through profit or loss		(2,854)	–
Net cash flows used in investing activities		(5,551,401)	(2,533,793)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		4,284	1,937
Capital injection from non-controlling shareholders		262,638	146,187
Purchase of non-controlling interests		(18,322)	(6,680)
Cash received as a result of increase in non-controlling interests in subsidiaries without loss of control		–	15,594
Cash received from borrowings		160,742,636	97,000,177
Repayments of borrowings		(122,135,649)	(74,108,878)
Proceeds from non-controlling interests of consolidated structured entities		864,413	–
Payment to non-controlling interests of consolidated structured entities		(340,000)	–
Dividends paid		(762,997)	(769,673)
(Increase)/decrease in pledged deposits		(30,331)	1,259,852
Realised fair value gains from derivative financial instruments in hedges for borrowings		383,424	347,012
Purchase of shares held for the share award scheme	35	–	(633,176)
Distribution paid to holders of perpetual securities	37	(81,011)	(73,606)
Dividends paid to non-controlling shareholders		(5,740)	–
Redemption of senior perpetual securities		(1,363,860)	–
Issue of perpetual securities	37	9,645,550	–
Net cash flows from financing activities		47,165,035	23,178,746
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		827,004	(364,251)
Cash and cash equivalents at beginning of year		2,051,307	2,500,665
Effect of exchange rate changes on cash and cash equivalents		(62,767)	(85,107)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,815,544	2,051,307

Notes to Financial Statements

31 December 2017

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 Suite 6305, 63/F 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 2017. 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 2017

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant effect on the Group's financial position and performance. Disclosure has been made in note 39 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Notes to Financial Statements

31 December 2017

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 Transaction*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[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*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS12 and HKAS 23*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that relate to the Group's current principal activities or those that may have a significant impact on the consolidated financial statements of the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018. Whilst management has performed an assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

Notes to Financial Statements

31 December 2017

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

2.3.1 HKFRS 9 – Financial Instruments

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group adopts HKFRS 9 on 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. The Group has performed an assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Upon adoption of HKFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL") based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics.

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

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future. The Group does not apply the option for equity investment currently held as available-for-sale investments and investments at fair value through profit or loss, so they are measured at fair value through profit or loss upon adoption of HKFRS 9.

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

2.3.1 HKFRS 9 – Financial Instruments (Continued)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at FVOCI, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at FVTPL under HKFRS 9, to be recorded based on an expected credit loss ("ECL") model either on a twelve-month basis or a lifetime basis.

The expected credit loss is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

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

(c) Impacts

Considering the impact of this standard on the consolidated financial statements, adjustments to opening balance of equity as at 1 January 2018 are necessary, but the Group will not restate comparative periods. As a result, the total equity in the consolidated statement of financial position as at 1 January 2018 is reduced by approximately 0.4%, mainly arising from the effect of the application of ECL model.

2.3.2 HKFRS 15 – Revenue from Contracts with Customers

HKFRS 15, issued in July 2014, 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 new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under HKFRSs.

Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 adopts HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

Notes to Financial Statements

31 December 2017

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

2.3.2 HKFRS 15 – Revenue from Contracts with Customers (Continued)

According to the current assessment, the Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material since HKFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income and net gains on financial investments which are covered under HKFRS 9.

2.3.3 HKFRS 16 – Leases

HKFRS 16, issued in May 2016, 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 42(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB928,319,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Notes to Financial Statements

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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.

Notes to Financial Statements

31 December 2017

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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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.

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31 December 2017

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

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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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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	5.00-33.33%
Office equipment and computers	9.50-33.33%
Motor vehicles	9.00-32.33%
Vessels	3.20-8.42%
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 2017

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 2017

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 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in 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 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (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 2017

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 2017

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 2017

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 2017

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.

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 hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Cash flow hedges

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

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

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

Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

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

- 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.

Perpetual securities

Perpetual securities issued by the Group contain no contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group. The Group classifies such perpetual securities issued as an equity instrument. Fees, commissions and other transaction costs of such perpetual securities issuance are deducted from equity. The distributions on perpetual securities are recognised as profit distribution at the time of declaration.

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.

Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2017

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to Financial Statements

31 December 2017

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 2017

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 2017

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 2017

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. Proposed final dividends are disclosed in the notes to the financial statements.

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.

Notes to Financial Statements

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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 2017 was RMB1,283,695,000 (31 December 2016: RMB748,821,000). 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 2017

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:

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; and

- 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, lease and advisory business comprises (a) direct finance leasing; (b) sale-leaseback; (c) factoring; (d) entrusted loans; (e) Operating lease and (f) advisory services.

- The industrial operation and management 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) hospital and healthcare management and (e) 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 2017

4. OPERATING SEGMENT INFORMATION (continued)

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

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

As at and for the year ended 31 December 2017

	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	16,979,725	1,802,589	–	18,782,314
Intersegment sales	58,130	22,285	(80,415)	–
Cost of sales	(6,733,623)	(1,373,339)	–	(8,106,962)
Other income and gains	414,400	294,405	(7,629)	701,176
Selling and distribution costs and administrative expenses	(5,195,273)	(695,250)	26,409	(5,864,114)
Other expenses	(397,984)	(88,197)	–	(486,181)
Finance costs	(199,166)	(87,841)	61,635	(225,372)
Share of (losses)/profits of associates	(13,750)	100	–	(13,650)
Share of (losses)/profits of joint ventures	(12,364)	12,341	–	(23)
Profit before tax	4,900,095	(112,907)	–	4,787,188
Income tax expense	(1,353,418)	(24,205)	–	(1,377,623)
Profit after tax	3,546,677	(137,112)	–	3,409,565
Segment assets	225,688,570	12,247,722	(10,482,019)	227,454,273
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,747,245	205,124	–	1,952,369
Depreciation and amortisation	395,731	148,842	–	544,573
Capital expenditure	2,658,270	771,038	–	3,429,308

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31 December 2017

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2016

	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	12,747,258	1,181,111	–	13,928,369
Intersegment sales	18,936	37,709	(56,645)	–
Cost of sales	(4,807,605)	(934,816)	6,883	(5,735,538)
Other income and gains	340,078	150,041	(12,676)	477,443
Selling and distribution costs and administrative expenses	(3,873,615)	(295,587)	35,052	(4,134,150)
Other expenses	(251,741)	(55,049)	–	(306,790)
Finance costs	(144,921)	(39,702)	26,868	(157,755)
Share of profits of				
Associates	–	300	–	300
Share of (losses)/profits of joint ventures	(508)	1,099	–	591
Profit before tax	4,027,882	45,106	(518)	4,072,470
Income tax expense	(1,122,387)	(8,296)	–	(1,130,683)
Profit after tax	2,905,495	36,810	(518)	2,941,787
Segment assets	165,010,476	7,842,012	(6,291,567)	166,560,921
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,218,401	42,861	–	1,261,262
Depreciation and amortisation	311,684	95,727	–	407,411
Capital expenditure	2,155,513	465,037	–	2,620,550

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	18,647,673	13,740,931
Hong Kong	123,753	166,617
Other countries or regions	10,888	20,821
	18,782,314	13,928,369

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

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
Mainland China	13,541,913	10,505,918
Hong Kong	806,602	557,163
	14,348,515	11,063,081

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

Information about a major customer

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

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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	2017 RMB'000	2016 RMB'000
Revenue			
Finance lease and loan interest income		10,697,008	7,924,132
Service fee income		4,661,303	3,820,487
Factoring income		275,376	215,153
Sale of goods		263,040	257,472
Chartering and brokerage income		131,540	171,335
Construction contract revenue		45,293	79,058
Operating lease income		1,259,195	830,314
Healthcare service income		1,314,168	626,028
Education service income		146,631	115,898
Other income		94,566	33,699
Tax and surcharges		(105,806)	(145,207)
		18,782,314	13,928,369
Other income and gains			
Bank interest income		41,233	41,183
Gains on structured financial products		22,948	18,871
Gains on disposal of available-for-sale investments		71,198	30,648
Fair value gains from derivative instruments - transactions not qualifying as hedges		–	13,293
Gains on disposal of property, plant, and equipment		3,668	7,271
Government grants	5a	19,248	9,471
Tax benefits from intra-group borrowings		–	43,129
Gains on transfers of loans and accounts receivables		42,445	92,907
Fair value gains from equity investments at fair value through profit or loss		182,590	107,016
Gains on transfers of subordinated tranches of asset-backed securities/notes		–	18,855
Interest income from subordinated tranches of asset-backed securities/notes		306,194	81,424
Dividend income from available-for-sale investments		1,661	4,153
Gains on disposal of subsidiaries		2,100	–
Others		7,891	9,222
		701,176	477,443

Notes to Financial Statements

31 December 2017

5. REVENUE, OTHER INCOME AND GAINS (continued)

5a. GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000
Government special subsidies	19,248	9,471
	19,248	9,471

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank loans, overdrafts and other loans for industrial operation business	224,508	153,015
Interest on finance leases for industrial operation business	11,763	6,780
Total interest expense on financial liabilities not at fair value through profit or loss	236,271	159,795
Less: Interest capitalised	(10,899)	(2,040)
	225,372	157,755

7. PROFIT BEFORE TAX

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

	2017 RMB'000	2016 RMB'000
Cost of borrowings included in cost of sales	5,801,693	4,131,599
Cost of inventories sold	250,347	232,015
Cost of construction contracts	56,259	60,314
Cost of Operating lease	760,604	559,180
Cost of chartering	150,007	187,480
Cost of healthcare service	924,712	459,564
Cost of education service	109,898	71,888
Cost of others	53,442	33,498

Notes to Financial Statements

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7. PROFIT BEFORE TAX (continued)

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

	2017 RMB'000	2016 RMB'000
Depreciation	44,834	28,370
Less: Government grants released*	(556)	–
	44,278	28,370
Amortisation of intangible assets and other assets:		
Current year expenditure	54,377	52,575
Less: Government grants released*	(1,378)	(1,378)
	52,999	51,197
Rental expenses	170,624	129,804
Auditors' remuneration		
– audit services	5,850	4,230
– other services	5,153	3,927
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
Current year expenditure	2,333,898	2,592,698
Less: Government grants released*	(32,130)	(933,123)
	2,301,768	1,659,575
– Equity-settled share-based payment expense	254,277	166,320
– Pension scheme contributions	95,479	82,816
– Other employee benefits	206,711	196,304
	2,858,235	2,105,015
Impairment of loans and accounts receivables (Note 23)	1,734,437	1,258,528
Impairment of other receivables	27,608	1,608
Impairment of inventories	44,819	1,126
Impairment of property, plant and equipment	145,505	–
Entertainment expenses	91,378	66,195
Business travelling expenses	234,068	179,847
Consultancy fees	116,683	54,159

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7. PROFIT BEFORE TAX (continued)

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

	2017 RMB'000	2016 RMB'000
Office expenses	35,339	33,595
Advertising and promotional expenses	28,645	18,621
Transportation expenses	17,145	10,968
Communication expenses	24,048	22,690
Other miscellaneous expenses:		
Current year expenditure	213,443	150,806
Less: Government grants released*	(6,911)	(194)
	206,532	150,612
Litigation expenses	20,768	13,658
Impairment of goodwill	–	700
Losses on disposal of property, plant and equipment	19,633	48,438
Donation	4,814	4,160
Bank commission expenses	47,411	99,239
Fair value losses from derivative instruments		
– transactions not qualifying as hedges	24,988	–
Foreign exchange losses/(gains), net:		
Cash flow hedges (transfer from equity to offset foreign exchange)	445,424	(1,072,484)
Others	(413,825)	1,133,752
Realised losses from derivative instruments		
– transactions not qualifying as hedges:	256,069	41,402
Fair value losses from financial liabilities at fair value through profit or loss**	63,438	–
Losses on transfers of loans and accounts receivables	32,616	45,744
Other expenditure	5,613	5,839

* Government grants have been received by subsidiaries of the Company from the local government for improvement of technology, staff training and development, and others. The government grants received have been deducted from the expenses to which they related. Government grants received for which related expenditure has yet been undertaken are included in deferred revenue in the statement of financial position (Note 32).

** The fair value losses from a financial liability at fair value through profit or loss is accounted for the fair value change linked to the investments by Limited Partners other than the Group in Tianjin Yuanyi Kaiyuan Asset Management Centre (Limited Partnership) that are classified as financial liabilities in the consolidated financial statements of the Group.

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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:

	2017 RMB'000	2016 RMB'000
Fees	2,541	2,632
Other emoluments:		
Salaries, allowances and benefits in kind	7,612	6,110
Performance related bonuses*	4,300	4,300
Pension scheme contributions	283	661
	12,195	11,071
	14,736	13,703

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

During 2017, 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:

	2017 RMB'000	2016 RMB'000
Mr. Cai Cunqiang	–	–
Mr. Han Xiaojing	363	376
Mr. Liu Jialing	363	376
Mr. Yip Wai Ming	363	376
	1,089	1,128

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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:

	2017 RMB'000	2016 RMB'000
Mr. Ning Gaoning	–	–
Mr. Yang Lin	–	–
Mr. Chen Guogang	363	376
Mr. Liu Haifeng	363	376
Mr. Luo Qiang	363	376
Mr. Guo Mingjian	363	376
	1,452	1,504

(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 2017					
Executive directors:					
Mr. Kong Fanxing	–	4,774	2,500	173	7,447
Mr. Wang Mingzhe	–	2,838	1,800	110	4,748
	–	7,612	4,300	283	12,195
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

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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	
	2017	2016
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2016: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2016: three) non-directors, highest paid employees for the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	7,098	5,766
Performance related bonuses	3,900	3,900
Pension scheme contributions	319	446
	11,317	10,112

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

	Number of employees	
	2017	2016
HK$3,500,001 to HK$4,000,000 (Equivalent to RMB3,028,236 to RMB3,460,840)	1	2
HK$4,000,001 to HK$4,500,000 (Equivalent to RMB3,460,841 to RMB3,893,445)	1	–
HK$4,500,001 to HK$5,000,000 (Equivalent to RMB3,893,446 to RMB4,326,050)	1	1
	3	3

During the year ended 31 December 2017, 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 2017, the above information of the five highest paid employees has not taken into employees' potential entitlement under the Schemes.

10.INCOME TAX

	2017 RMB'000	2016 RMB'000
Current – Hong Kong		
Charge for the year	61,040	141,093
Current – Mainland China		
Charge for the year	2,565,915	1,622,626
Deferred tax (Note 25)	(1,249,332)	(633,036)
Total tax charge for the year	1,377,623	1,130,683

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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% (2016: 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%.

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10.INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

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

	2017 RMB'000	2016 RMB'000
Profit before tax	4,787,188	4,072,470
Tax at the statutory income tax rates	1,242,214	1,025,268
Effect of lower tax rate enacted by local authority	(395)	(2,927)
Expenses not deductible for tax	60,385	31,808
Income not subject to tax	(20,243)	(9,276)
Adjustment on current income tax in respect of prior years	10,766	(1,483)
Utilisation of previously unrecognised tax losses	(5,551)	(2,915)
Unrecognised tax losses	46,051	9,708
Effect of recognition of deductible temporary differences that were not recognised in prior years	(8,539)	(5,346)
Effect of withholding tax on the distributable profits of the Group's subsidiaries in Mainland China	–	–
Effect of withholding tax on interest on intra-group balances	52,935	85,846
Income tax expense as reported in the consolidated statement of profit or loss	1,377,623	1,130,683

The share of tax attributable to associates and joint ventures amounting to approximately negative RMB4,550,000 (31 December 2016: RMB100,000) and RMB2,026,000 (31 December 2016: RMB197,000), respectively, is included in "Share of net (losses)/profits of: Associates" and "Share of net (losses)/profits of: Joint ventures" in the consolidated statement of profit or loss.

11.DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed final dividend – HK$0.30 (2016: HK$0.23) per ordinary share	963,480	783,990

A final dividend for the year 2017 of HK$0.30 per share was proposed at the meeting of the Board of directors ("the Board") held on 28 March 2018. As at 31 December 2017, based on the total number of outstanding ordinary shares of 3,842,039,341 (2016: 3,810,634,899) (excluding the 109,566,946 (2016: 140,148,918) shares held for share award scheme (note 35)), the proposed final dividend amounted to approximately HK$1,152,612,000 (2016: HK$876,446,000) (equivalent to RMB963,480,000 (2016: RMB783,990,000)). 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 3,826,729,633 (2016: 3,879,589,066) 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 options (Note 34), and 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

	2017 RMB'000	2016 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	3,229,057	2,882,208

Shares

	Number of shares 2017	2016
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	3,826,729,633	3,879,589,066
Effect of dilution – weighted average number of ordinary shares:		
Share options	859,236	255,680
Weighted average number of ordinary shares for diluted earnings per share	3,827,588,869	3,879,844,746

For the year ended 31 December 2017, the unvested share options under the Share Option Scheme (Note 34) and the unvested restricted shares under the Restricted Share Award Scheme (Note 35) had no dilutive effect on earnings per share. The Group had no other potentially dilutive ordinary shares in issue. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these financial statements.

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13.PROPERTY, PLANT AND EQUIPMENT

31 December 2017

	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 2016 and at 1 January 2017:									
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
At 1 January 2017, 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
Acquisition of subsidiaries	21,410	325,073	53,149	8,316	3,458	202,590	–	59	614,055
Additions	66,811	36,051	922,255	39,852	7,236	895,439	411,480	3,967	2,383,091
Depreciation provided during the year	(26,293)	(29,670)	(374,155)	(22,091)	(9,452)	–	(51,468)	(4,059)	(517,188)
Transfers	27,552	366,419	3,602	1,235	691	(622,264)	219,635	3,130	–
Disposals	(25,020)	(71)	(200,661)	(766)	(136)	–	(88,508)	(2,921)	(318,083)
Disposal of a subsidiary	(218)	–	(1,924)	(9)	–	–	–	–	(2,151)
Exchange realignment	–	–	–	–	–	–	(41,012)	–	(41,012)
Impairment	–	–	–	–	–	–	(145,505)	–	(145,505)
At 31 December 2017, net of accumulated depreciation and impairment	157,792	1,203,805	3,407,243	74,870	30,966	1,269,669	805,877	18,699	6,968,921
At 31 December 2017:									
Cost	249,743	1,310,582	4,385,516	183,044	75,390	1,269,669	1,012,918	31,660	8,518,522
Accumulated depreciation and impairment	(91,951)	(106,777)	(978,273)	(108,174)	(44,424)	–	(207,041)	(12,961)	(1,549,601)
Net carrying amount	157,792	1,203,805	3,407,243	74,870	30,966	1,269,669	805,877	18,699	6,968,921

As at 31 December 2017, the Group has not obtained the property ownership certificates for seven buildings (31 December 2016: one) with a net book value of RMB536,251,000 (31 December 2016: RMB9,254,000).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 31 December 2017.

As at 31 December 2017, property, plant and equipment with a net carrying amount of RMB1,342,199,000 (31 December 2016: RMB748,439,000) were pledged to secure general banking facilities granted to the Group.

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13.PROPERTY, PLANT AND EQUIPMENT (continued)

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 and impairment	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

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14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At the beginning of the year	1,305,034	1,210,583
Additions	41,752	17,333
Acquisition of subsidiaries	36,698	77,118
At the end of the year	1,383,484	1,305,034
Accumulated amortisation:		
At the beginning of the year	(89,206)	(60,557)
Addition	(26,483)	(26,714)
Acquisition of subsidiaries	(53)	(1,935)
At the end of the year	(115,742)	(89,206)
Net carrying amount:		
At the end of the year	1,267,742	1,215,828
At the beginning of the year	1,215,828	1,150,026

As at 31 December 2017, the Group's leasehold land of approximately RMB882,248,000 (31 December 2016: RMB902,756,000) was pledged to secure general banking facilities granted to the Group.

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15.GOODWILL

	RMB'000
At 1 January 2016:	
Cost	359,452
Accumulated impairment	–
Net carrying amount	359,452
Cost at 1 January 2016, net of accumulated impairment	359,452
Acquisition of subsidiaries	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
Cost at 1 January 2017, net of accumulated impairment	748,821
Acquisition of subsidiaries (Note 38)	534,874
Cost and net carrying amount at 31 December 2017	1,283,695
At 31 December 2017:	
Cost	1,284,395
Accumulated impairment	(700)
Net carrying amount	1,283,695

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 or a longer period which can be justified approved by senior management. The post-tax discount rates applied to the cash flow projections are 14% (2016: 13% to 13.5%). The implied pre-tax discount rates for the cash flow projections are 15.9% to 17.7% (2016: 15.8% to 17.8%). As at 31 December 2017, the Group assessed the impairment on goodwill and the recoverable amounts exceeded carrying amount, and hence the goodwill was not regarded as impaired (2016:RMB700,000).

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% (2016: 14%). The implied pre-tax discount rates for the cash flow projections are 17.1% to 17.5% (2016: 16.5% to 18.3%).

The carrying amounts of goodwill are as follows:

	2017 RMB'000	2016 RMB'000
Medical service industry	1,088,412	553,538
Education service industry	195,283	195,283
Total	1,283,695	748,821

Assumptions were used in the value in use calculation of each CGU within the medical service industry and educational service industry for 31 December 2017 and 31 December 2016. 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

	2017 RMB'000	2016 RMB'000
Software (Note 16a)	19,570	21,322
Continuing involvement in transferred assets (Note 49)	2,492,078	2,398,981
Others	41,527	13,845
	2,553,175	2,434,148

16a. Software

	2017 RMB'000	2016 RMB'000
Cost:		
At the beginning of the year	75,950	66,386
Acquisition of subsidiaries	789	2,488
Additions	6,103	7,059
Disposals	(34)	(36)
Exchange differences	(48)	53
At the end of the year	82,760	75,950
Accumulated amortisation:		
At the beginning of the year	(54,628)	(46,828)
Acquisition of subsidiaries	(246)	(712)
Additions	(8,362)	(7,097)
Disposals	12	36
Exchange differences	34	(27)
At the end of the year	(63,190)	(54,628)
Net carrying amount:		
At the end of the year	19,570	21,322
At the beginning of the year	21,322	19,558

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17.SCOPE OF CONSOLIDATION

As at 31 December 2017, 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
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	RMB5,500,000,000	49.79	50.21	Finance leasing
Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司) (Note ii)	PRC/Mainland China 12 January 2017	RMB1,500,000,000/ RMB825,000,000	45	55	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	RMB1,700,000,000	–	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	–	100	Engineering and trading
Shanghai Dopont Industrial Co., Ltd. ("Dopont") (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB900,000,000	–	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
Far East Horizon Shipping Holdings Co., Ltd. (遠東宏信航運控股有限公司) (Note i)	Cayman Islands 2 October 2009	US$1,000	100	–	Investment holding
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
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	RMB540,617,851	–	96.81	Operating leasing
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
Shanghai Horizon Infrastructure Investment Co., Ltd. (上海宏信基礎設施投資有限公司) (Note ii)	PRC/Mainland China 12 January 2016	RMB1,000,000,000	–	100	Investment holding
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司) (Note ii)	PRC/Mainland China 2 August 2013	RMB380,000,000/ 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	Construction
Ziyang Yuyi Construction Investment Co., Ltd. (資陽市昱奕建設投資有限公司) (Note ii)	PRC/Mainland China 29 July 2016	RMB85,000,000/ RMB84,150,000	–	98	Construction

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2017, 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
Jishou Yuxin Construction Investment Co., Ltd. (吉首市昱信建設發展有限公司) (Note ii)	PRC/Mainland China 14 September 2016	RMB93,400,000/ RMB76,400,705.59	–	90	Construction
Yanan Yanyan Expressway Link Line Infrastructure Construction & Investment Co., Ltd. (延安市延延連接線建設投資有限公司) (Note ii)	PRC/Mainland China 19 January 2017	RMB202,318,678	–	54	Construction
Yanan Yuhua Infrastructure Construction & Investment Co., Ltd. (延安昱華建設投資有限公司) (Note ii)	PRC/Mainland China 22 September 2017	RMB92,858,760/ RMB50,001,000	–	60	Construction
Zhongxiang Hongrui Infrastructure Construction & Investment Co., Ltd. (鍾祥宏瑞建設投資有限公司) (Note ii)	PRC/Mainland China 25 October 2017	RMB296,817,100/ RMB106,900,000	–	90	Construction
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
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/ RMB146,940,000	–	51	Investment holding
Huangshi Hongyue maternity hospital Co., Ltd. (黃石宏悅婦產醫院有限公司) (Note ii)	PRC/Mainland China 27 October 2015	RMB35,000,000	–	51	Medical service
Horizon Education Investment Holding (Shanghai) Co., Ltd. (上海宏信教育投資控股有限公司) (Note ii)	PRC/Mainland China 17 July 2014	RMB100,000,000	–	100	Investment holding
Shanghai Team Joy Management Limited (上海周濟同悦資產管理有限公司) (Note ii)	PRC/Mainland China 23 October 2015	RMB279,111,217/ RMB238,051,217	–	86.34	Investment holding
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	RMB121,970,168	–	72.45	Investment holding
Wuhan Montessori Academy Co., Ltd. (武漢森勝蒙世教育諮詢有限公司) (Note ii)	PRC/Mainland China 7 April 2016	RMB2,000,000/ RMB1,000,000	–	72.45	Investment holding
Hangzhou Montessori Academy Co., Ltd. (杭州森勝蒙世教育諮詢有限公司) (Note ii)	PRC/Mainland China 16 May 2016	RMB2,000,000/ RMB500,000	–	72.45	Investment holding
Chongqing Montessori Academy Co., Ltd. (重慶森勝蒙世教育科技有限公司) (Note ii)	PRC/Mainland China 27 May 2016	RMB2,000,000/ RMB1,000,000	–	72.45	Investment holding

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17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2017, 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	
Xiamen Montessori Academy Co., Ltd. (廈門森勝蒙世教育諮詢有限公司) (Note ii)	PRC/Mainland China 18 February 2016	RMB2,000,000	–	72.45	Investment holding
Montessori Academy Xiamen Siming Campus (廈門市思明區蒙世學堂幼兒園) (Note ii)	PRC/Mainland China 28 October 2016	RMB2,000,000	–	72.45	Education service
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	–	43.47	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	–	43.47	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	–	72.45	Education service
Kunshan Yi Ze Education Consulting Co., Ltd. (昆山易擇教育諮詢有限公司) (Note ii)	PRC/Mainland China 7 May 2010	RMB50,000	–	72.45	Investment holding
Shanghai Teamally Enterprise Management Co.,Ltd. (上海和祁企業管理有限公司) (Note ii)	PRC/Mainland China 21 July 2015	RMB100,000,000	–	100	Investment holding
Shanghai Shengyi Yuanhong Investment Co., Ltd. (上海聖裔遠宏投資有限公司) (Note ii)	PRC/Mainland China 10 August 2015	RMB1,219,500	–	60	Investment holding
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
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
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
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
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	–	81	Advisory service
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
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

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2017, 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	
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	–	100	Investment holding
Huakang Orthopaedics Hospital Co., Ltd. (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
Siping Cancer Institute & Hospital Co., Ltd. (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 Co., Ltd. (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 Co., Ltd. (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 Co., Ltd. (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
Zhoushan Putuo Guanghua Hospital Co., Ltd. (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
Deyang The Fifth Hospital Co., Ltd. (德陽第五醫院股份有限公司) (Note ii)	PRC/Mainland China 6 January 2012	RMB145,000,000/ RMB39,090,000	–	70	Medical service
Nayong Xinli Hospital Co., Ltd. (納雍新立醫院有限公司) (Note ii)	PRC/Mainland China 12 May 2016	RMB11,381,469	–	51	Medical service
Siyang Hospital of Traditional Chinese Medicine Co., Ltd. (泗陽縣中醫院有限公司) (Note ii)	PRC/Mainland China 6 January 2016	RMB30,000,000	–	50	Medical service
Siyang XieHe Hospital Co., Ltd. (泗陽協和醫院有限公司) (Note ii)	PRC/Mainland China 8 July 2016	RMB3,833,333	–	35	Medical service
Chongqing Yudong Hospital Co., Ltd. (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
Zhengzhou Renji Hospital Co., Ltd. (鄭州仁濟醫院有限公司) (Note ii)	PRC/Mainland China 6 December 2016	RMB21,000,000	–	51	Medical service
Shenzhen CiHai Hospital Co., Ltd. (深圳慈海醫院有限公司) (Note ii)	PRC/Mainland China 21 December 2015	RMB50,000,000/ RMB0	–	69.82	Medical service
Shenzhen ZhongHai Hospital Co., Ltd. (深圳中海醫院有限公司) (Note ii)	PRC/Mainland China 21 December 2015	RMB50,000,000/ RMB30,000,000	–	69.82	Medical service

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2017, 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	
Dongguan Tangxia GuanHua Hospital Co., Ltd. (東莞市塘廈莞華醫院有限公司) (Note ii)	PRC/Mainland China 12 January 2016	RMB23,000,000/ RMB0	–	69.82	Medical service
Daishan Guanghua Orthopedic Hospital Co., Ltd. (岱山廣華骨傷醫院有限公司) (Note ii)	PRC/Mainland China 4 January 2017	RMB140,000,000/ RMB125,600,001	–	52.43	Medical service
Meizhou TieLuQiao Hospital Co., Ltd. (梅州鐵爐橋醫院有限公司) (Note ii)	PRC/Mainland China 8 December 2015	RMB13,422,819	–	51	Medical service
Zhaotong Renan Hospital Co., Ltd. (昭通仁安醫院有限責任公司) (Note ii)	PRC/Mainland China 8 November 2013	RMB534,545,000/ RMB523,727,000	–	51.02	Medical service
Qiaojia Renan Hospital Co., Ltd. (巧家仁安醫院有限公司) (Note ii)	PRC/Mainland China 1 April 2017	RMB500,000	–	51.02	Medical service
Tianjin Junda Enterprise Management Co., Ltd. (天津駿達企業管理有限公司) (Note ii)	PRC/Mainland China 4 November 2016	RMB100,000/ RMB0	–	100	Investment management
Tianjin Xiangji Enterprise management Center (Limited Partnership) (天津祥驥企業管理諮詢中心(有限合伙)) (Note ii, Note iii)	PRC/Mainland China 15 June 2016	RMB10,000/ RMB0	–	95.95	Investment management
Shanghai Grand Glory Eco Technology Co.,Ltd. (上海宏瑞環保科技有限公司) (Note ii)	PRC/Mainland China 26 December 2014	RMB12,000,000	–	60	Eco technology
Far east Horizon Medical Technology Development Co., Ltd. (遠東宏信醫療科技發展有限公司) (Note ii)	PRC/Mainland China 16 November 2016	RMB50,000,000	–	100	Investment holding
Shanghai Everboom Health Investment Co., Ltd. (上海佰昆健康投資有限公司) (Note ii)	PRC/Mainland China 21 April 2016	RMB100,000,000	–	35	Investment holding
Jinhua Rehabilitation Hospital Co., Ltd. (金華康復醫院有限公司) (Note ii)	PRC/Mainland China 1 November 2016	RMB50,000,000	–	21	Medical service

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31 December 2017

17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2017, 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	
Grand Flight Investment Management Co., Ltd. (遠翼投資管理有限公司) (Note ii)	PRC/Mainland China 5 November 2015	RMB50,000,000/ RMB10,000,000	–	90	Investment management
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd. ("Hooyoung") (天津遠翼宏揚資產管理有限公司) (Note ii)	PRC/Mainland China 21 December 2015	RMB2,000,000	–	90	Assets management
Tianjin Yuanyi Kaiyuan Asset Management Centre (Limited Partnership) ("Kaiyuan") (天津遠翼開元資產管理（有限合伙）) (Note ii, Note iii, Note iv)	PRC/Mainland China 31 March 2016	RMB1,402,420,000/ RMB1,150,603,167.39	–	49.9	Assets management
Shanghai Team Grow Management Limited (上海周濟同歷資產管理有限公司) (Note ii)	PRC/Mainland China 5 October 2015	RMB10,000,000/ RMB2,500,000	–	100	Investment management

The above table lists the subsidiaries and consolidated structured entities 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

Note iv: Kaiyuan is a limited partnership with a partnership period as 7 years, consisting of a General Partner (GP) and several Limited Partners (LPs). The Group takes the role of the GP and one of the LPs, and as at 31 December 2017 the investment by the Group in Kaiyuan amounted to RMB560,190,000; the investments by the LPs other than the Group were classified as liabilities in the consolidated financial statements of the Group.

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18.INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	1,386,800	1,324,918
Excess of consideration over share of net assets acquired	121,605	79,952
	1,508,405	1,404,870

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 (上海東翎投資合伙企業（有限合伙）)	Registered capital of RMB55,717,310	PRC/Mainland China	49.2	49.2	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. ("Kangda") 廣州康大工業科技產業有限公司	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
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

Notes to Financial Statements

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18.INVESTMENTS IN JOINT VENTURES (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 L.P. (遠翼宏揚投資有限合伙)	US$73,329,460.54	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
Fengyang Gulou Hospital Co., Ltd. (鳳陽縣鼓樓醫院有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	35	35	Medical service
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. (蘇州高新康復醫院有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	61*	61	Medical service

* The decisions about relevant activities that most significantly affect the returns of these investees would be subject to the consents of others (e.g. other shareholders or directors), hence, the ownership interests and powers held by the Group in those investees do not currently grant the Group the unilateral ability to direct the relevant activities in these investees.

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.

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31 December 2017

18. INVESTMENTS IN JOINT VENTURES (continued)

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.

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	145,483	72,021
Other current assets	2,005,139	1,903,672
Current assets	2,150,622	1,975,693
Non-current assets	3,795	4,066
Financial liabilities, excluding trade and other payables	–	(250,000)
Trade and other payables	(219,642)	(155,079)
Current liabilities	(219,642)	(405,079)
Non-current liabilities	(365,000)	–
Net assets	1,569,775	1,574,680
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	60%	60%
Carrying amount of the investment	941,865	944,808

	2017 RMB'000	2016 RMB'000
Administrative expenses	(14,911)	(12,374)
Other expenses	–	(1,445)
Other incomes	10,006	–
Loss and total comprehensive income for the year	(4,905)	(13,819)

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

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' profit for the year	2,920	8,882
Aggregate carrying amount of the Group's investments in the joint ventures	566,540	460,062

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19. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	766,577	263,700

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

	2017 RMB'000	2016 RMB'000
Share of the associates' (loss)/profit for the year	(13,650)	300
Aggregate carrying amount of the Group's investments in the associates	766,577	263,700

The above balances include a total of RMB642,475,000 (31 December 2016: RMB241,900,000) investments held by the Group as an investor in sub-ordinated tranches of several collective fund trusts, whose total funds raising amount to RMB3,301,000,000 (31 December 2016: RMB1,198,500,000), the Group had significant influence in these trusts. These trusts conduct entrusted finance lease and entrusted loan businesses.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value	–	186,334
Unlisted equity investments, at cost	103,555	103,555
Unlisted debt investments, at fair value	1,569,887	–
	1,673,442	289,889
Portion classified as current assets	1,412,886	–
Non-current portion	260,556	289,889

During the year, a gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB12,662,000 (2016: a gain of RMB83,860,000), of which RMB71,198,000 (2016: Nil) was recycled from other comprehensive income to the consolidated statement of profit or loss for the year on the date of disposal.

As at 31 December 2017, unlisted equity investments with a carrying amount of RMB103,555,000 (31 December 2016: RMB103,555,000) were stated at cost because the directors are of the opinion that their fair value cannot be measured reliably.

As at 31 December 2017, unlisted debt investments at fair value with a carrying amount of RMB1,569,887,000 (31 December 2016: Nil) mainly represented the wealth-management assets issued by banks or asset management companies.

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

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21.EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value	445,183	–
Unlisted equity investments, at fair value	1,441,084	597,239
Unlisted equity investments, at cost	124,000	124,000
	2,010,267	721,239

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

	2017		2016	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross-currency interest rate swaps	122,474	(112,844)	1,034,720	–
Forward currency contracts	–	(131,921)	348,156	(90,150)
Interest rate swaps	583	(15,511)	–	(2,067)
	123,057	(260,276)	1,382,876	(92,217)
Portion classified as non-current:				
Cross-currency interest rate swaps	–	(53,079)	458,150	–
Forward currency contracts	–	(104,100)	20,639	(29,091)
Interest rate swaps	583	(15,007)	–	(2,067)
	583	(172,186)	478,789	(31,158)
Current portion	122,474	(88,090)	904,087	(61,059)
	123,057	(260,276)	1,382,876	(92,217)

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22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

During the year, the Group designated 24 (2016: 23) cross-currency interest rate swap contracts and 15 (2016: 24) forward currency contracts as hedges of future cash flows arising from borrowings which will be settled in United States Dollar, Singapore Dollar, Hong Kong Dollar or Australian Dollar, and some of which bear floating interest.

The terms of the cross-currency interest rate swap contracts and forward currency contracts substantially match the terms of the borrowing contracts. The cash flow hedges relating to expected future payments or receivables were assessed to be highly effective and a net loss of RMB133,144,000 (2016: a net loss of RMB171,498,000) was included in the hedging reserve as follows:

	2017 RMB'000	2016 RMB'000
Total fair value (losses)/gains included in the hedging reserve	(729,145)	866,887
Deferred tax impact on fair value gains/(losses)	124,541	(142,861)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	569,192	(1,072,484)
Deferred tax on reclassifications to profit or loss	(97,732)	176,960
Net losses included in the hedging reserve	(133,144)	(171,498)

Cross-currency interest rate swaps, with a total net fair value of RMB9,630,000 (31 December 2016: RMB1,009,732,000) and with a total notional amount of RMB10,148,163,000 (31 December 2016: RMB8,249,326,000) as of 31 December 2017, 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 3 years) denominated in United States Dollar and other foreign currencies. Forward currency contracts, with a total negative net fair value of RMB131,921,000 (31 December 2016: a total net fair value of RMB258,006,000) and with a total notional amount of RMB2,923,036,000 (31 December 2016: RMB7,247,285,000) as of 31 December 2017, were designated as hedging instruments in cash flow hedges of currency risks arising from loans (with remaining maturity from less than 3 months to 2 years) denominated in United States Dollar and other foreign currencies.

Interest rate swap contracts – fair value hedges

At 31 December 2017, the Group had 7 interest rate swap agreements in place with a total notional amount of RMB5,400,000,000 whereby it receives interest at fixed rates of 4.05% to 4.85% per annum and pays interest at variable rates equal to the benchmark interest rate of Renminbi loans of the People's Bank of China on the notional amount. The swaps are used to hedge the exposure to changes in the fair value of the 4.05% to 4.85% long-term borrowings. The critical terms of the interest rate swaps substantially match those of the borrowings. These hedges were assessed to be highly effective.

As of 31 December 2017, the fair value of the aforementioned RMB-denominated interest rate swaps designated as the hedging instrument amounted to a total negative net fair value of RMB14,928,000 (31 December 2016: Nil) and the aforementioned RMB-denominated interest rate swaps have a remaining maturity from 3 months to 3 years.

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22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap contracts – fair value hedges (continued)

For fair value hedges, disclose separately gains or losses as below:

	2017 RMB'000
Total fair value losses on the hedging instruments	(14,928)
Total fair value gains on the hedged item attributable to the hedged risk	14,928

23. LOANS AND ACCOUNTS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Loans and accounts receivables due within 1 year	68,977,442	54,079,396
Loans and accounts receivables due after 1 year	122,614,916	84,721,981
	191,592,358	138,801,377

23a. Loans and accounts receivables by nature

	2017 RMB'000	2016 RMB'000
Lease receivables (Note 23b)*	195,347,057	129,219,522
Less: Unearned finance income	(22,271,711)	(12,353,786)
Net lease receivables (Note 23b)	173,075,346	116,865,736
Interest receivables*	1,189,896	614,129
Notes receivable	111,749	757,552
Accounts receivable (Note 23d)	1,608,262	1,274,555
Factoring receivable (Note 23f)	2,914,198	3,883,666
Entrusted loans (Note 23h)*	15,089,836	17,751,946
Long term receivables (Note 23i)*	1,624,066	363,394
Secured loans	84,241	319,470
Subtotal of loans and accounts receivables	195,697,594	141,830,448
Less:		
Provision for lease receivables (Note 23c)	(3,539,797)	(2,527,157)
Provision for accounts receivable (Note 23e)	(236,218)	(82,385)
Provision for factoring receivable (Note 23g)	(97,218)	(81,282)
Provision for entrusted loans (Note 23h)	(222,817)	(326,359)
Provision for long term receivables (Note 23i)	–	–
Provision for secured loans (Note 23j)	(9,186)	(11,888)
	191,592,358	138,801,377

* 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 ageing 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:

	2017 RMB'000	2016 RMB'000
Lease receivables:		
Within 1 year	131,365,517	71,561,617
1 to 2 years	37,347,975	34,267,676
2 to 3 years	17,542,648	14,137,570
3 to 5 years	9,090,917	9,252,659
Total	195,347,057	129,219,522

	2017 RMB'000	2016 RMB'000
Net lease receivables:		
Within 1 year	114,348,790	63,929,750
1 to 2 years	34,098,933	31,049,667
2 to 3 years	16,147,468	13,176,400
3 to 5 years	8,480,155	8,709,919
Total	173,075,346	116,865,736

Notes to Financial Statements

31 December 2017

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:

	2017 RMB'000	2016 RMB'000
Lease receivables:		
Due within 1 year	70,860,654	51,465,438
Due in 1 to 2 years	54,756,878	36,723,765
Due in 2 to 3 years	37,917,162	23,387,457
Due in 3 to 5 years	31,314,497	17,642,862
Due after 5 years	497,866	–
Total	195,347,057	129,219,522

	2017 RMB'000	2016 RMB'000
Net lease receivables:		
Due within 1 year	60,576,573	45,418,293
Due in 1 to 2 years	48,257,912	33,109,052
Due in 2 to 3 years	34,428,098	21,547,706
Due in 3 to 5 years	29,374,433	16,790,685
Due after 5 years	438,330	–
Total	173,075,346	116,865,736

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	
	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	397,960	262,681	2,129,197	1,933,513	2,527,157	2,196,194
Charge for the year	177,654	446,288	1,452,670	485,462	1,630,324	931,750
Recoveries of lease receivables previously written off	20,113	–	–	–	20,113	–
Disposal	–	–	(556,073)	(277,331)	(556,073)	(277,331)
Write-off	(71,661)	(312,913)	–	(22,872)	(71,661)	(335,785)
Exchange difference	(809)	1,904	(9,254)	10,425	(10,063)	12,329
At end of year	523,257	397,960	3,016,540	2,129,197	3,539,797	2,527,157

	2017	2016
	RMB'000	RMB'000
Lease receivables:		
Individually assessed (Note (i))	1,777,068	1,343,183
Collectively assessed	193,569,989	127,876,339
Total	195,347,057	129,219,522

	2017	2016
	RMB'000	RMB'000
Net lease receivables:		
Individually assessed (Note (i))	1,651,097	1,253,853
Collectively assessed	171,424,249	115,611,883
Total	173,075,346	116,865,736

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

Note (ii) As at 31 December 2017, the carrying amount of the lease receivables pledged or charged as security for the Group's borrowings was RMB13,990,886,000 (31 December 2016: RMB12,886,076,000) (Note 31).

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23d. An ageing 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.

	2017 RMB'000	2016 RMB'000
Within 1 year	1,283,606	1,057,077
More than 1 year	324,656	217,478
Total	1,608,262	1,274,555

23e. Change in provision for accounts receivable

	2017 RMB'000	2016 RMB'000
At beginning of year	82,385	18,290
Acquisition of subsidiaries	2,993	18,031
Charge for the year	193,023	51,583
Write-off	(41,719)	(5,626)
Exchange difference	(464)	107
At end of year	236,218	82,385

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

	2017 RMB'000	2016 RMB'000
Within 1 year	1,253,283	2,720,475
More than 1 year	1,660,915	1,163,191
	2,914,198	3,883,666

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23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23g. Change in provision for the factoring receivable

	2017 RMB'000	2016 RMB'000
At beginning of year	81,282	48,526
Charge for the year	16,706	49,756
Write-off	(770)	(17,000)
At end of year	97,218	81,282

23h(1). An ageing 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:

	2017 RMB'000	2016 RMB'000
Entrusted loans:		
Within 1 year	4,983,273	12,950,500
1 to 2 years	7,434,203	4,725,530
2 to 3 years	2,631,696	64,416
After 3 years	40,664	11,500
Total	15,089,836	17,751,946

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

	2017 RMB'000	2016 RMB'000
Lease receivables:		
Due within 1 year	5,663,725	4,834,857
Due in 1 to 2 years	4,722,929	5,173,124
Due in 2 to 3 years	3,013,227	4,081,715
Due in 3 to 5 years	1,665,642	3,662,250
Due after 5 years	24,313	–
Total	15,089,836	17,751,946

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31 December 2017

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

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

	2017 RMB'000	2016 RMB'000
At beginning of year	326,359	126,726
(Reversal)/charge for the year	(103,542)	223,487
Disposal	–	(23,854)
At end of year	222,817	326,359

23i(1). Long term receivables

As at 31 December 2017, the carrying value of long term receivables pledged or charged as security for the Group's Borrowings amounted to RMB1,224,437,000 (31 December 2016: Nil) (Note 31).

23i(2). Change in provision for long term receivables

	2017 RMB'000	2016 RMB'000
At beginning of year	–	17
Reversal for the year	–	(17)
At end of year	–	–

23j. Change in provision for secured loans

	2017 RMB'000	2016 RMB'000
At beginning of year	11,888	9,288
(Reversal)/Charge for the year	(2,074)	1,969
Exchange difference	(628)	631
At end of year	9,186	11,888

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23k. Balances with related parties

		2017 RMB'000	2016 RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	21,533	150,000
Long-term receivables	(ii)	75,000	75,000
Interest receivables		12,747	8,786
– Weihai Haida hospital Co., Ltd.			
Long-term receivables	(ii)	30,000	30,000
Lease receivables	(iii)	10,000	10,000
Interest receivables		883	525
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Interest receivables		95	95
– Fengyang Gulou hospital Co., Ltd.			
Accounts receivables	(iv)	15,630	–
		215,888	324,406

(i) Balances of entrusted loans were interest-bearing at an annual interest rate of 6.245% (31 December 2016: from 6.245% to 15%).

(ii) Balances of long-term receivables were interest-bearing at annual interest rates ranging from 5.655% to 6.05% (31 December 2016: from 5.655% to 6.05%).

(iii) Balances of lease receivables were interest-bearing at 12.77% at 31 December 2017(31 December 2016: 12.77%).

(iv) Balances of accounts receivables were unsecured and non-interest-bearing.

Notes to Financial Statements

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24.PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2017 RMB'000	2016 RMB'000
Current assets:			
Prepayments		944,142	452,297
Leased assets*		2,232,027	3,977,861
Rental and project deposit		217,994	235,474
Other receivables		207,519	58,373
Input VAT		257,547	215,639
Amounts deductible against output VAT		138,242	120,486
Subordinated tranches of asset-backed securities/notes (Note 49)		5,706	–
Due from related parties	24a	95,341	100,968
Other current asset		46,208	–
		4,144,726	5,161,098
Non-current assets:			
Rental deposit due after 1 year		32,257	2,784
Amounts deductible against output VAT		–	4,146
Subordinated tranches of asset-backed securities/notes (Note 49)		2,486,372	2,350,662
Preference tranches of asset-backed securities		30,349	–
Others		125,710	73,548
		2,674,688	2,431,140
		6,819,414	7,592,238

* 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.

Notes to Financial Statements

31 December 2017

24.PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

24a. Balances with Related Parties

		2017 RMB'000	2016 RMB'000
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
China Jin Mao Group Co., Ltd.	(i)	21,363	16,337
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,493
Jin Mao (Shanghai) Property Management Service Co., Ltd.	(i)	6	2
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	175
Joint Ventures:			
Gold Chance Shipping Limited	(i)	35,547	41,154
Teamway Shipping Limited	(i)	35,547	40,807
Kunming Broadhealthcare Investment Co., Ltd.	(i)	210	–
		95,341	100,968

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

Notes to Financial Statements

31 December 2017

25. DEFERRED TAX

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

Deferred tax assets

	Fee income received in advance RMB'000	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 2017	–	307,914	63,521	843,642	652,098	51,269	517	8,282	1,927,243
Credited to the statement of profit or loss during the year	466,727	159,946	63,569	319,533	210,452	103,753	–	1,548	1,325,528
Credited to reserve	–	–	–	–	–	–	1,227	–	1,227
Exchange differences	–	–	–	(5,555)	–	1,833	–	–	(3,722)
Gross deferred tax assets at 31 December 2017	466,727	467,860	127,090	1,157,620	862,550	156,855	1,744	9,830	3,250,276

	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	–	2,972	621,114
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	8,282	1,927,243

Notes to Financial Statements

31 December 2017

25. DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from equity investments at fair value through profit or loss RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2017	20,629	29,944	10,702	9,385	20,069	90,729
(Credited)/charged to the statement of profit or loss during the year	(1,910)	–	18,924	–	59,182	76,196
Arising from acquisition of subsidiaries	16,234	–	–	–	–	16,234
Credited to reserve	–	(25,582)	–	–	–	(25,582)
Gross deferred tax liabilities at 31 December 2017	34,953	4,362	29,626	9,385	79,251	157,577

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from equity investments at fair value through profit or loss 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)	20,069	(11,922)
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	20,069	90,729

Notes to Financial Statements

31 December 2017

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:

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	3,169,406	1,907,364
Net deferred tax liabilities recognised in the consolidated statement of financial position	76,707	70,850

As at 31 December 2017, the Group had tax losses arising in Hong Kong of RMB475,092,000 (31 December 2016: RMB106,794,000) 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 RMB299,932,000 (31 December 2016: RMB114,770,000) that will expire in one to five years for offsetting against future taxable profits. The Group has recognised deferred tax assets in respect of the tax losses mentioned above. Aside from this, as at 31 December 2017, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB146,129,000 (31 December 2016: RMB41,471,000) and RMB100,924,000 (31 December 2016: RMB276,000), 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 2017, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB508,911,000 (31 December 2016: RMB387,363,000).

Notes to Financial Statements

31 December 2017

26.CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	7,334,216	4,426,996
Time deposits	65,998	85,675
	7,400,214	4,512,671
Less:		
Pledged deposits	361,950	331,619
Restricted bank deposits related to asset securitisations	4,150,820	2,129,745
Restricted bank deposits related to collective fund trusts	71,900	–
Cash and cash equivalents	2,815,544	2,051,307

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB7,029,788,000 (31 December 2016: RMB4,095,014,000). 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 2017, cash of RMB211,948,000 (31 December 2016: RMB99,542,000) was pledged for bank and other borrowings (Note 31(b)).

As at 31 December 2017, cash of RMB135,083,000 (31 December 2016: RMB232,077,000) was pledged for bank acceptances, letters of credit and others.

As at 31 December 2017, cash of RMB14,919,000 (31 December 2016: Nil) was pledged for collective fund trusts.

As at 31 December 2017, cash of RMB596,867,000 (31 December 2016: RMB245,558,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

27.INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	212,447	147,649
Work in process	19,131	14,239
Raw materials	41,852	84,169
	273,430	246,057

Notes to Financial Statements

31 December 2017

28. CONSTRUCTION CONTRACTS

	2017 RMB'000	2016 RMB'000
Gross amount due from contract customers	44,170	44,129
Contract costs incurred plus recognised profits less recognised losses to date	276,534	240,890
Less: Progress billings	(232,364)	(196,761)
	44,170	44,129

29. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Current:		
Bills payable	814,544	1,748,770
Trade payables	1,024,417	1,138,496
	1,838,961	2,887,266
Non-current:		
Trade payables	–	55
	1,838,961	2,887,321

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

	2017 RMB'000	2016 RMB'000
Within 1 year	1,570,880	2,682,301
1 to 2 years	194,373	115,622
2 to 3 years	37,668	44,090
3 years and beyond	36,040	45,308
	1,838,961	2,887,321

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

	Note	2017 RMB'000	2016 RMB'000
Current:			
Lease deposits, entrusted loan deposits and factoring deposits due within 1 year		3,757,768	3,115,304
Salary payables		652,736	134,920
Welfare payables		60,973	37,556
Advances from customers		967,681	879,759
Due to related parties	30a	2,680	814
Other taxes payable		655,716	684,301
Interest payable		1,611,428	1,026,974
Funds collected on behalf of special purpose entities in relation to asset-backed securitisations		4,150,820	2,129,745
Funds collected on behalf of collective fund trusts	30a	71,900	–
Other payables		502,538	304,619
Shareholding purchase consideration to be paid		121,194	64,060
Dividend payables		601	63
		12,556,035	8,378,115
Non-current:			
Lease deposits, entrusted loan deposits and factoring deposits due after 1 year		26,005,062	19,674,329
Other payables		46,699	54,736
Quality guarantee deposit		1,333	15
		26,053,094	19,729,080
		38,609,129	28,107,195

30a. Balances with Related Parties

	2017 RMB'000	2016 RMB'000
Due to related parties:		
Subsidiaries of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd. *	1,915	814
Joint ventures:		
Gold Chance Shipping Limited *	765	–
Associates:		
Hua Bao - Far Eastern Leasing portfolio investment collective fund trust	9,058	–
CITIC – Far Eastern Leasing portfolio investment collective fund trust	62,842	–
	74,580	814

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

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31 December 2017

31.INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	5.66	2018	24,000	–	–	–
Current portion of long term bank loans – secured	3.19~5.94	2018	8,649,832	2.78~5.94	2017	6,054,392
Bank loans – unsecured	1.90~5.66	2018	16,409,873	1.85~4.75	2017	14,017,000
Current portion of long term bank loans – unsecured	3.19~5.13	2018	18,774,211	2.08~6.15	2017	19,032,705
Other loans – secured	5.08~7.00	2018	703,531	4.00~5.08	2017	370,000
Other loans – unsecured	4.75~10.26	2018	312,878	4.75	2017	315,103
Bonds – unsecured*	3.80~4.88	2018	11,120,176	2.79~5.75	2017	13,756,349
			55,994,501			53,545,549
Non-current						
Bank loans – secured	2.30~5.15	2019~2026	8,140,126	2.78~5.94	2018~2026	5,591,411
Bank loans – unsecured	2.30~8.20	2019~2021	26,171,289	2.50~4.28	2018~2021	17,124,488
Other loans – secured	–	–	–	5.08~7.00	2018	703,902
Other loans – unsecured	4.00~10.26	2019~2021	112,969	5.64~7.09	2018~2021	38,150
Bonds – unsecured*	3.00~6.13	2019~2022	54,480,795	3.00~6.13	2018~2022	29,934,088
			88,905,179			53,392,039
			144,899,680			106,937,588

* includes the effect of fair value gains/losses on the hedged item attributable to the hedged risk in the fair value hedge as further details in note 22 to the financial statements.

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

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	43,857,916	39,104,097
In the second year	19,589,388	15,033,642
In the third to fifth years, inclusive	14,449,636	7,579,826
Beyond five years	272,391	102,431
	78,169,331	61,819,996
Other borrowings repayable:		
Within one year or on demand	12,136,585	14,441,452
In the second year	22,489,716	984,467
In the third to fifth years, inclusive	32,104,048	29,356,493
Beyond five years	–	335,180
	66,730,349	45,117,592
	144,899,680	106,937,588

(a) As at 31 December 2017, the Group's bank and other borrowings were secured by the pledge of or the transfer of certain of the Group's lease receivables and long term receivables amounting to RMB13,794,562,000 (31 December 2016: RMB12,059,285,000) and RMB855,284,000 (31 December 2016: Nil), respectively.

(b) As at 31 December 2017, the Group's bank borrowings amounting to RMB2,130,684,000 (31 December 2016: RMB312,165,000) were secured by the pledge of cash.

(c) As at 31 December 2017, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB736,959,000 (31 December 2016: RMB348,255,000). The Group had not provided any guarantees for other entities (31 December 2016: Nil).

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32. DEFERRED REVENUE

	Service fee		Government special subsidies	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of year	95,576	14,053	52,492	246,725
Additions during the year	–	123,732	693,345	740,462
Amortised to the statement of profit or loss	(80,398)	(42,209)	(40,975)	(934,695)
Transfers	15,178	–	–	–
At the end of year	–	95,576	704,862	52,492

(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 2017, the Group received a government special subsidy of RMB237,370,000 (2016: RMB187,113,000), 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 RMB455,624,328 (2016: RMB553,199,000) due to policies to support finance lease industry of the Tianjin Dongjiang bonded port area. Those special subsidies are granted for certain purposes only. 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 2016 (note(i))	3,950,783,817	13,005,970,000
At 31 December 2017 (note(i))	3,951,606,287	13,012,431,000

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 2017 and 31 December 2016	3,950,783,817	13,005,970	10,213,017
Share options exercised (note(ii))	822,470	6,461	5,425
As at 31 December 2017	3,951,606,287	13,012,431	10,218,442

Note:

(ii) The subscription rights attaching to 669,574 and 152,896 share options were exercised at the subscription price of HK$5.86 and HK$7.17 per share, respectively (note 34), resulting in the issue of 822,470 shares for a total cash consideration, before expenses, of HK$5,020,000. An amount of HK$1,441,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

Notes to Financial Statements

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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 the Share Option Scheme 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 the Grantees achieving a specified level in annual personal performance evaluations.

The exercise price in respect of any option shall be such price as determined by the Board or the Administration Committee of the Share Option Scheme and notified to the Grantees and which shall not be less than the highest of: (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily 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 20 June 2017, the Board announced that, the Company has resolved to the 4th 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 2017	2016
11 July 2024	5.86	10,214,452	11,034,230
3 July 2025	7.17	16,386,461	16,902,459
15 June 2026	5.714	32,123,953	32,696,824
20 June 2027	6.82	32,726,455	–
		91,451,321	60,633,513

* 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$)	Date of grant	Outstanding as at 1 January 2016	Granted during the year ended 31 December 2016	Forfeited during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Outstanding as at 31 December 2016	Granted during the year ended 31 December 2017	Forfeited during the year ended 31 December 2017	Exercised during the year ended 31 December 2017	Outstanding as at 31 December 2017
5.86	11 July 2014	11,589,253	–	(171,206)	(383,817)	11,034,230	–	(150,204)	(669,574)	10,214,452
7.17	3 July 2015	17,275,048	–	(372,589)	–	16,902,459	–	(363,102)	(152,896)	16,386,461
5.714	15 June 2016	–	32,924,000	(227,176)	–	32,696,824	–	(572,871)	–	32,123,953
6.82	20 June 2017	–	–	–	–	–	32,924,000	(197,545)	–	32,726,455
Total number at the end of the year		28,864,301	32,924,000	(770,971)	(383,817)	60,633,513	32,924,000	(1,283,722)	(822,470)	91,451,321
Weighted average exercise price (HK$)		6.64	5.714	6.45	5.86	6.15	6.82	6.31	6.10	6.39

6,465,439 (2016: 3,446,308) and 5,360,160 (2016: nil) share options which were granted on 11 July 2014 and 3 July 2015, respectively, were vested and exercisable, but not yet exercised during the year.

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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 2017 was RMB134,650,000 (31 December 2016: RMB83,691,000). The weighted average fair values were RMB1.44, RMB1.48 and RMB1.50 per option (31 December 2016: RMB1.35, RMB1.39 and RMB1.41 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 RMB33,872,000 (2016: RMB22,577,000) during the year ended 31 December 2017 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:

	2017	2016
Expected dividend yield (%)	3.37	4.11
Expected volatility (%)	35.39	37.34
Risk-free interest rate (%)	1.29	1.13
Validity period of the Share Options (year)	10	10
Share price (HK$ per share)	6.82	5.60
Expected exercise trigger multiple	2.00	2.00

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

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

At 31 December 2017, the Company had 79,625,722 (31 December 2016: 57,202,569) non-vested share options (including 10,902,192 (31 December 2016: 7,982,358) non-vested share options granted to certain executive directors,17,964,478 (31 December 2016: 12,981,449) non-vested share options granted to certain employees among five highest paid employees and 24,741,290 (31 December 2016: 17,583,827) 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 79,625,722 (31 December 2016: 57,202,569) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 91,451,321 (2016: 60,633,513) share options outstanding under the Share Option Scheme, which represented approximately 2.38% (2016: 1.59%) 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 Selected Grantees 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 2016	44,556,629
Granted	49,386,000
Vested	(5,745,222)
Forfeited	(1,306,273)
At 31 December 2016 and 1 January 2017	86,891,134
Granted	49,386,000
Vested	(30,581,972)
Forfeited	(1,478,518)
At 31 December 2017	104,216,644

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35.RESTRICTED SHARE AWARD SCHEME (continued)

30,581,972 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:

2017

Number of Restricted Shares	Vesting period
5,623,443	11 July 2014 to 11 July 2018
8,689,648	3 July 2015 to 3 July 2018
8,689,913	3 July 2015 to 3 July 2019
16,061,959	15 June 2016 to 15 June 2018
16,061,996	15 June 2016 to 15 June 2019
16,363,225	20 June 2017 to 20 June 2018
16,363,225	20 June 2017 to 20 June 2019
16,363,235	20 June 2017 to 20 June 2020
104,216,644	

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	

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35.RESTRICTED SHARE AWARD SCHEME (continued)

At 31 December 2017, the Company had 104,216,644 (31 December 2016: 86,891,134) non-vested Restricted Shares (including 14,246,969 (31 December 2016: 12,073,538) non-vested Restricted Shares granted to certain executive directors, 23,624,668 (31 December 2016: 19,872,179) non-vested Restricted Shares granted to certain employees among five highest paid employees and 32,606,673 (31 December 2016: 26,975,752) non-vested Restricted Shares granted to certain key management personnel) outstanding under the Share Award Scheme.

Under the Share Award Scheme, there were non-vested shares of 109,566,946 (31 December 2016: 140,148,918) in total amounting to RMB659,384,000 (31 December 2016: RMB852,459,000), i.e. at a weighted average price of RMB6.02 (2016: RMB6.08), held by the trust at 31 December 2017. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount RMB'000
At 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 and 1 January 2017	140,148,918	852,459
Vested	(30,581,972)	(193,075)
At 31 December 2017	109,566,946	659,384

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2017 was RMB517,443,000 (31 December 2016: RMB391,066,000). The weighted average fair values were RMB5.75, RMB4.98, RMB4.82 and RMB4.43 per share (31 December 2016: RMB4.75, RMB4.49 and RMB4.32 per share) each for four tranches with one-year, two-year, three-year and four-year vesting periods (31 December 2016: for three tranches with two-year, three-year and four-year vesting periods), respectively. The Group recognised an amount of RMB220,405,000 (2016: RMB143,743,000) in employee benefit expense during the year ended 31 December 2017.

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:

	2017	2016
Expected dividend yield (%)	3.37	4.11
Share price (HK$ per share)	6.82	5.60

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.

37.PERPETUAL SECURITIES

On 14 June 2017, the Company issued US$300,000,000 perpetual capital securities ("Perpetual Captial Securites") at an initial distribution rate of 4.35% under the US$4,000,000,000 medium term note and perpetual securities programme updated on 1 June 2017 by the Company. The Perpetual Captial Securities are unsecured.

Distributions of the Perpetual Captial Securites may be paid semi-annually in arrears on 14 June and 14 December of each year ("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 Capital Securites have no fixed maturity date and are callable at the Company's option in whole on 14 June 2022 ("First Call Date") or on any Distribution Payment Date falling after the First Call Date at their principal amounts together with any distribution accrued to the date fixed for redemption (including any arrears of distribution and any additional distribution amounts). The applicable distribution rate will reset, (i) in respect of the period from, and including, the Issue Date to, but excluding, 14 June 2022 (the "First Call Date"), 4.35% per annum (the "Initial Distribution Rate"); and (ii) in respect of the period (A) from, and including, the First Call Date to, but excluding, the immediately following reset date ("Reset Date") and (B) from, and including, each Reset Date falling after the First Call Date to, but excluding, the immediately following Reset Date, the relevant reset distribution rate shall be the specified US treasury rate as at each relevant Reset Date plus the initial spread 2.62% plus 5.00% per annum.

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37.PERPETUAL SECURITIES (continued)

On 6 July 2017, International Far Eastern Leasing Co., Ltd. ("Far Eastern Leasing"), a wholly-owned subsidiary of the Company, has completed the issuance of renewable corporate bonds ("Renewable Bonds") in an amount of RMB5 billion in the PRC. The basic term of the Renewable Bonds will be 3 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with coupon distribution rate of 5.5% per annum.

Distributions of the Renewable Bonds may be paid annually in arrears on 6 July of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

On 4 December 2017, KING TALENT MANAGEMENT LIMITED ("King Talent"), a wholly owned subsidiary of the Company, has issued US$400,000,000 guaranteed subordinated perpetual capital securities ("Guaranteed Perpetual Securities") at an initial distribution rate of 5.60% per annum. The Company has guaranteed on a subordinated basis all sums falling due under the terms of the Guaranteed Perpetual Securities.

The Company may, at its sole discretion, elect to defer (in whole or in part) a Distribution which is otherwise scheduled to be paid by the King Talent on a Distribution Payment Date (i.e. 4 June and 4 December of each year, starting from June 4, 2018) to the next Distribution Payment Date prior to the relevant Distribution Payment Date, unless a Compulsory Distribution Payment Event (including distributions to ordinary shareholders of the Company) has occurred.

The Guaranteed Perpetual Securities has no fixed maturity date, which may be redeemed at the option of King Talent in whole, but not in part, on the First Reset Date or on any Distribution Payment Date thereafter at their principal amount together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption. The distribution rate will be reset for the period (A) from and including the Issue Date to, but excluding 4 December 2022 (the "First Reset Date"), the Initial Distribution Rate; (B) for each Reset Distribution Period from and including the First Reset Date to, but excluding 4 December 2037, the Relevant Reset Distribution Rate; and (C) for each Reset Distribution Period from and including 4 December 2037 to, but excluding the redemption date of the Securities, if any, the Relevant Reset Distribution Rate plus 5.00 percent per annum. The Relevant Reset Distribution Rate shall be the specified US treasury rate as at each relevant Reset Date plus the initial spread of 3.521%.

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 Capital Securities, the Renewable Bonds and the Guaranteed Perpetual Securities other than an unforeseen liquidation of the Company.

The direct transaction costs attributable to the Perpetual Capital Securities, the Renewable Bonds and the Guaranteed Perpetual Securities amounted to RMB5,451,000, RMB14,892,000 and RMB16,309,000, respectively.

On 23 June 2014, the Company issued US$200,000,000 senior perpetual capital securities ("Senior Perpetual Securities") at an initial distribution rate of 5.55%. The First Call Date of the Senior Perpetual Securities is 23 June 2017 and the Company redeemed the Senior Perpetual Securities in full during the year ended 31 December 2017.

Notes to Financial Statements

31 December 2017

37.PERPETUAL SECURITIES (continued)

For the year ended 31 December 2017, the profits attributable to holders of the Senior Perpetual Securities, the Perpetual Capital Securities, the Renewable Bonds and the Guaranteed Perpetual Securities (collectively "Perpetual Securities") based on the applicable distribution rates, were RMB35,927,000 (2016: RMB78,284,000), RMB47,373,000 (2016: Nil), RMB136,736,000 (2016: Nil), and RMB11,228,000 (2016: Nil), respectively, and the distribution made by the Group to the holders of the Perpetual Securities was RMB81,011,000 (2016: RMB73,606,000).

38.BUSINESS COMBINATIONS

In January 2017, the Group acquired 51% of the voting shares of Zhengzhou Renji Hospital Company Limited ("Zhengzhou Renji Hospital").

In February 2017, the Group acquired 69.82% of the voting shares of Shenzhen Xinzhonghai Healthcare Investment Company Limited ("Shenzhen Xinzhonghai") and 70% of the voting shares of Siyang Xiehe Hospital Company Limited ("Siyang Xiehe Hospital").

In March 2017, the Group acquired 52.43% of the voting shares of Daishan Guanghua Orthopedic Hospital Company Limited ("Daishan Guanghua Hospital").

In May 2017, the Group acquired 60% of the voting shares of Jinhua Rehabilitation Hospital Company Limited ("Jinhua Hospital").

In September 2017, the Group acquired 51% of the voting shares of Meizhou TieLuQiao Hospital Company Limited ("Meizhou TieLuQiao Hospital") and 100% of the voting shares of Jinhua BaiKun Yangsheng Yanglao Hospital Company Limited ("Jinhua Yangsheng Yanglao Hospital").

In October 2017, the Group acquired 51.02% of the voting shares of Zhaotong Renan Hospital Company Limited ("Zhaotong Renan 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.

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Zhengzhou Renji Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	6,815
Cash	10,199
Trade receivables	837
Prepayments, deposits and other receivables	131,576
Inventories	1,152
Other assets	85,665
	236,244
Liabilities	
Trade payables	(1,398)
Other payables and accruals	(4,304)
Taxes payable	(379)
Deferred tax liabilities	(452)
	(6,533)
Total identifiable net assets at fair value	229,711
Non-controlling interests	(112,558)
Goodwill arising on acquisition	101,417
Purchase consideration transferred	218,570
Including: Consideration paid as additional capital injection to the subsidiary	196,713
Consideration to be paid as additional capital injection to the subsidiary	21,857
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	10,199
Net inflow of cash and cash equivalents included in cash flows from investing activities	10,199
Transaction costs of the acquisition included in cash flows from operating activities	(794)
	9,405

Since the acquisition, Zhengzhou Renji Hospital has contributed RMB96,102,000 to the Group's revenue and a net profit of RMB11,890,000 to the consolidated profit for the year ended 31 December 2017.

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38.BUSINESS COMBINATIONS (continued)

Acquisition of Shenzhen Xinzhonghai

The fair values of the identifiable assets and liabilities of Shenzhen Xinzhonghai as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	40,621
Cash	17,286
Trade receivables	7,073
Prepayments, deposits and other receivables	115,983
Inventories	8,065
Software	543
	189,571
Liabilities	
Trade payables	(10,285)
Other payables and accruals	(26,969)
Interest-bearing bank and other borrowings	(50,660)
Taxes payable	(308)
Deferred tax liabilities	(894)
Other liabilities	(1,847)
	(90,963)
Total identifiable net assets at fair value	98,608
Non-controlling interests	(29,761)
Goodwill arising on acquisition	251,153
Purchase consideration transferred	320,000
Including: Consideration paid upon acquisition	50,000
Consideration paid after acquisition	165,000
Consideration paid as additional capital injection to the subsidiary	100,000
Consideration to be paid after acquisition	5,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	17,286
Cash paid	(215,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(197,714)
Transaction costs of the acquisition included in cash flows from operating activities	(637)
	(198,351)

Since the acquisition, Shenzhen Xinzhonghai has contributed RMB176,374,000 to the Group's revenue and a net profit of RMB20,076,000 to the consolidated profit for the year ended 31 December 2017.

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Siyang Xiehe Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	55,645
Cash	457
Trade receivables	1,680
Prepayments, deposits and other receivables	24,198
Inventories	1,189
Other assets	1,180
	84,349
Liabilities	
Trade payables	(6,244)
Other payables and accruals	(29,150)
Interest-bearing bank and other borrowings	(4,705)
Other liabilities	(1,376)
Deferred tax liabilities	(1,968)
	(43,443)
Total identifiable net assets at fair value	40,906
Non-controlling interests	(12,272)
Goodwill arising on acquisition	6,366
Purchase consideration transferred	35,000
Including: Consideration paid as additional capital injection to the subsidiary	28,000
Consideration to be paid as additional capital injection to the subsidiary	7,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	457
Net inflow of cash and cash equivalents included in cash flows from investing activities	457
Transaction costs of the acquisition included in cash flows from operating activities	(157)
	300

Since the acquisition, Siyang Xiehe Hospital has contributed RMB16,553,000 to the Group's revenue and a net profit of RMB447,000 to the consolidated profit for the year ended 31 December 2017.

Notes to Financial Statements

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Daishan Guanghua Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	85,934
Cash	3,946
Prepayments, deposits and other receivables	54,558
	144,438
Liabilities	
Other payables and accruals	(113)
Taxes payable	(6)
Deferred tax liabilities	(545)
	(664)
Total identifiable net assets at fair value	143,774
Non-controlling interests	(68,393)
Gain on bargain purchase recognised in other income and gains in the consolidated statement of profit or loss	(1,981)
Purchase consideration transferred	73,400
Including: Consideration paid upon acquisition	17,616
Consideration paid after acquisition	20,133
Consideration paid as additional capital injection to the subsidiary	31,457
Consideration to be paid after acquisition	4,194
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3,946
Cash paid	(37,749)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(33,803)
Transaction costs of the acquisition included in cash flows from operating activities	(103)
	(33,906)

Since the acquisition, Daishan Guanghua Hospital has contributed RMB398,000 to the Group's revenue and a net loss of RMB5,801,000 to the consolidated profit for the year ended 31 December 2017.

Notes to Financial Statements

31 December 2017

38. BUSINESS COMBINATIONS (continued)

Acquisition of Jinhua Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	986
Cash	522
Prepayments, deposits and other receivables	423
Other assets	7
	1,938
Liabilities	
Trade payables	(670)
Other payables and accruals	(1,803)
Taxes payable	(97)
	(2,570)
Total identifiable net assets at fair value	(632)
Non-controlling interests	253
Goodwill arising on acquisition	379
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	522
Net inflow of cash and cash equivalents included in cash flows from investing activities	522
Transaction costs of the acquisition included in cash flows from operating activities	(22)
	500

Since the acquisition, Jinhua Hospital has not contributed any revenue to the Group's revenue and caused a net loss of RMB5,847,000 to the consolidated profit for the year ended 31 December 2017.

Notes to Financial Statements

31 December 2017

38. BUSINESS COMBINATIONS (continued)

Acquisition of Meizhou TieLuQiao Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	65,863
Prepaid land lease payments	18,831
Cash	213
Trade receivables	5,498
Prepayments, deposits and other receivables	26,759
Inventories	2,127
	119,291
Liabilities	
Trade payables	(6,604)
Other payables and accruals	(19,420)
Interest-bearing bank and other borrowings	(2,977)
Deferred tax liabilities	(2,162)
	(31,163)
Total identifiable net assets at fair value	88,128
Non-controlling interests	(43,183)
Goodwill arising on acquisition	35,055
Purchase consideration transferred	80,000
Including: Consideration paid upon acquisition	12,000
Consideration paid after acquisition	16,000
Consideration paid as additional capital injection to the subsidiary	28,000
Consideration to be paid after acquisition	12,000
Consideration to be paid as additional capital injection to the subsidiary	12,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	213
Cash paid	(28,000)
Net inflow of cash and cash equivalents included in cash flows from investing activities	(27,787)
Transaction costs of the acquisition included in cash flows from operating activities	(90)
	(27,877)

Since the acquisition, Meizhou TieLuQiao Hospital has contributed RMB14,389,000 to the Group's revenue and a net profit of RMB1,167,000 to the consolidated profit for the year ended 31 December 2017.

Notes to Financial Statements

31 December 2017

38. BUSINESS COMBINATIONS (continued)

Acquisition of Jinhua Yangsheng Yanglao Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	1,005
Cash	31
Prepayments, deposits and other receivables	376
	1,412
Liabilities	
Other payables and accruals	(1,445)
Total identifiable net assets at fair value	(33)
Goodwill arising on acquisition	33
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	31
Net inflow of cash and cash equivalents included in cash flows from investing activities	31
Transaction costs of the acquisition included in cash flows from operating activities	(12)
	19

Since the acquisition, Jinhua Yangsheng Yanglao Hospital has not contributed any revenue to the Group's revenue and caused a net loss of RMB65,000 to the consolidated profit for the year ended 31 December 2017.

Notes to Financial Statements

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38. BUSINESS COMBINATIONS (continued)

Acquisition of Zhaotong Renan Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	357,186
Prepaid land lease payments	17,814
Cash	1,982
Trade receivables	22,321
Prepayments, deposits and other receivables	223,046
Inventories	5,383
Other assets	2,092
	629,824
Liabilities	
Trade payables	(100,857)
Interest-bearing bank and other borrowings	(36,947)
Other payables and accruals	(164,387)
Taxes payable	(2,430)
Deferred tax liabilities	(10,213)
Other liabilities	(350)
	(315,184)
Total identifiable net assets at fair value	314,640
Non-controlling interests	(154,111)
Goodwill arising on acquisition	140,471
Purchase consideration transferred	301,000
Including: Consideration paid as additional capital injection to the subsidiary	171,000
Consideration to be paid after acquisition	100,000
Consideration to be paid as additional capital injection to the subsidiary	30,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1,982
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,982
Transaction costs of the acquisition included in cash flows from operating activities	(710)
	1,272

Since the acquisition, Zhaotong Renan Hospital has contributed RMB23,677,000 to the Group's revenue and caused a net loss of RMB2,672,000 to the consolidated profit for the year ended 31 December 2017.

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31 December 2017

38. BUSINESS COMBINATIONS (continued)

If the acquisitions had taken place at the beginning of the period, revenue of the Group would have been RMB18,947,841,000 and net profit of the Group for the year would have been RMB3,387,906,000.

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Zhengzhou Renji Hospital, Shenzhen Xinzhonghai, Siyang Xiehe Hospital, Jinhua Hospital, Meizhou TieLuQiao Hospital, Jinhua Yangsheng Yanglao Hospital, Zhaotong Renan Hospital with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of RMB4,471,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The Group acquired Siyang Traditional Chinese Medicine Company Limited, Qingdao Confucius Education Investment Consulting Company Limited, Nayong Xinli Hospital Company Limited, Chongqing Yudong Hospital Company Limited, Deyang Fifth Hospital Company Limited, and Zhoushan Putuo Guanghua hospital Company Limited during the year ended 31 December 2016.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables RMB'000	Payables to non-controlling interests of consolidated structured entities RMB'000
At 1 January 2017	63,527,068	44,385,052	53,256	70,000
Changes from financing cash flows	16,682,656	21,975,360	(51,029)	524,413
Foreign exchange movement	(631,377)	(14,694)	–	–
Interest expense	2,974,420	2,917,115	11,763	–
Interest paid classified as operating cash flows	(3,037,377)	(2,376,394)	–	–
Fair value losses	–	–	–	63,438
Increase arising from acquisition of subsidiaries	83,835	–	11,454	–
At 31 December 2017	79,599,225	66,886,439	25,444	657,851

Notes to Financial Statements

31 December 2017

40. CONTINGENT LIABILITIES

At 31 December 2017, contingent liabilities that are not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Claimed amounts	1,199	4,257

41. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings, are included in Notes 13, 14, 23, 26 and 31, respectively, to the financial statements.

42. 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 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	640,521	671,916
In the second to fifth years, inclusive	274,548	420,871
	915,069	1,092,787

Notes to Financial Statements

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42. OPERATING LEASE ARRANGEMENTS (continued)

(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	135,549	154,533
In the second to fifth years, inclusive	365,913	192,695
More than five years	426,857	99,669
	928,319	446,897

43. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in Note 42 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	620,444	535,261
Purchase of shareholding	517,578	386,500
	1,138,022	921,761

(b) Credit commitments

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

	2017 RMB'000	2016 RMB'000
Irrevocable credit commitments:	8,036,296	5,432,647

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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44. 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
Fengyang Gulou hospital Co., Ltd.

Associates
Hua Bao – Far Eastern Leasing portfolio investment collective fund trust
CITIC – Far Eastern Leasing portfolio investment collective fund trust

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:

	2017 RMB'000	2016 RMB'000
Sinochem Finance Co., Ltd.	4,150	3,371

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

Notes to Financial Statements

31 December 2017

44. RELATED PARTY TRANSACTIONS (continued)

(ii) Service fee income:

	2017 RMB'000	2016 RMB'000
Sinochem International (Overseas) Pte. Ltd.	–	2,642
Weihai Haida Hospital Co., Ltd.	157	–
Kunming Broadhealthcare Investment Co., Ltd.	118	–
	275	2,642

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

(iii) Interest expense on borrowings:

	2017 RMB'000	2016 RMB'000
Sinochem Finance Co., Ltd.	17,458	4,426

The interest expenses were charged at a rate of 3.92% to 4.79% per annum.

(iv) Commission fee:

	2017 RMB'000	2016 RMB'000
Sinochem Finance Co., Ltd.	6,069	6,159

(v) Settlement transactions fee:

	2017 RMB'000	2016 RMB'000
Sinochem Finance Co., Ltd.	196	–

Notes to Financial Statements

31 December 2017

44. RELATED PARTY TRANSACTIONS (continued)

(vi) Rental expenses:

	2017 RMB'000	2016 RMB'000
China Jin Mao Group Co., Ltd.	50,558	50,563
Beijing Chemsunny Property Co., Ltd.	7,805	5,955
Jin Mao (Shanghai) Property Management Services Co., Ltd.	411	1,575
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	563	430
Sinochem Hong Kong	–	2,801
	59,337	61,324

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

(vii) Interest income

	2017 RMB'000	2016 RMB'000
Weihai Haida Hospital Co., Ltd.	1,221	354
Guangzhou Kangda Industrial Technology Co., Ltd.	23,141	4,438
Kunming Broadhealthcare Investment Co., Ltd.	2,987	3,067
	27,349	7,859

(viii) Non-cancellable operating leases:

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
China Jin Mao Group Co., Ltd.	32,044	50,937
Beijing Chemsunny Property Co., Ltd.	27,423	8,773
	59,467	59,710

Notes to Financial Statements

31 December 2017

44. RELATED PARTY TRANSACTIONS (continued)

(ix) Tendering service fee:

	2017 RMB'000	2016 RMB'000
Sinochem International Tendering Co., Ltd.	744	857

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

(x) Sales of goods:

	2017 RMB'000	2016 RMB'000
Fengyang Gulou hospital Co., Ltd.	113	–

(xi) Construction contract income:

	2017 RMB'000	2016 RMB'000
Weihai Haida Hospital Co., Ltd.	593	–

(xii) Finance lease with CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang"), 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 at 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 new 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 RMB19,584,000 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment at 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.

Notes to Financial Statements

31 December 2017

44. RELATED PARTY TRANSACTIONS (continued)

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

	2017 RMB'000	2016 RMB'000
Short term employee benefits	119,215	84,208

During 2017, 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.

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

Notes to Financial Statements

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45.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 2017

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	Hedging instruments designated in cash flow hedges RMB'000	Total RMB'000
Loans and accounts receivables	191,592,358	–	–	–	191,592,358
Prepayments, deposits and other receivables	2,919,084	2,522,427	–	–	5,441,511
Restricted deposits	4,584,670	–	–	–	4,584,670
Derivative instruments – cash flow hedges	–	–	–	122,474	122,474
Derivative instruments – fair value hedges	–	–	583	–	583
Available-for-sale investments	–	1,673,442	–	–	1,673,442
Equity investments at fair value through profit or loss	–	–	2,010,267	–	2,010,267
Cash and cash equivalents	2,815,544	–	–	–	2,815,544
	201,911,656	4,195,869	2,010,850	122,474	208,240,849

Notes to Financial Statements

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45.FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2017 (continued)

Financial liabilities

	At amortised cost RMB'000	Hedging instruments designated in cash flow hedges RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	1,838,961	–	–	1,838,961
Other payables and accruals	36,254,402	–	–	36,254,402
Interest-bearing bank and other borrowings*	144,899,680	–	–	144,899,680
Derivative instruments – cash flow hedges	–	244,765	–	244,765
Derivative instruments – fair value hedges	–	–	15,511	15,511
Other liabilities	–	–	657,851	657,851
	182,993,043	244,765	673,362	183,911,170

* includes the effect of fair value gains/losses on the hedged item attributable to the hedged risk in the fair value hedge as further details in note 22 to the financial statements.

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	Hedging instruments designated in cash flow hedges RMB'000	Total RMB'000
Loans and accounts receivables	138,801,377	–	–	–	138,801,377
Prepayments, deposits and other receivables	4,421,154	2,350,662	–	–	6,771,816
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
	147,735,202	2,640,551	746,227	1,357,888	152,479,868

Notes to Financial Statements

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45.FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2016 (continued)

Financial liabilities

	At amortised cost RMB'000	Hedging instruments designated in cash flow hedges 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

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46.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 and 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.

	Carrying amounts		Fair values	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	65,600,971	43,690,437	65,146,283	43,697,168

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

Financial instruments not measured at fair value (continued)

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 2017, 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 amounts of these equity investments at fair value through profit or loss and available-for-sale investments were RMB124,000,000 (31 December 2016: RMB124,000,000) and RMB103,555,000 (31 December 2016: RMB103,555,000), respectively. All of them are unlisted equity investments held by the Group in Mainland China, which are intended to be disposed of by the Group after getting listed on the designated stock exchanges in the future.

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 and available-for-sale investments

The valuations of the equity investments at fair value through profit or loss and available-for-sale investments 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, referring to the current market value of another instrument that is substantially the same and making as much use of available and supportable market data as possible.

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)

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

Fair value hierarchy (continued)

Assets and liabilities measured at fair value

As at 31 December 2017

	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 – debt investments	–	1,569,887	–	1,569,887
Cross-currency interest rate swaps – assets	–	122,474	–	122,474
Interest rate swaps – assets	–	583	–	583
Cross-currency interest rate swaps – liabilities	–	(112,844)	–	(112,844)
Forward currency contracts – liabilities	–	(131,921)	–	(131,921)
Interest rate swaps – liabilities	–	(15,511)	–	(15,511)
Equity investments at fair value through profit or loss	445,183	1,441,084	–	1,886,267
Other liabilities	–	(657,851)	–	(657,851)

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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46. 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 2017

	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	–	65,146,283	–	65,146,283

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

47. 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, 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. The Group aims to mitigate such risks by reducing future variability in cash flows or fair value, while balancing the cost of such risk mitigation measure. For example, the Group enters into cash flow and fair value hedges (See Note 22).

Notes to Financial Statements

31 December 2017

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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.

	Increase/(decrease) in profit before tax As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Change in basis points		
+100 basis points	**105,105**	**65,369**
– 100 basis points	**(105,105)**	**(65,369)**

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).

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47.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

The exchange rate of RMB to United States Dollar ("US$") is managed under a floating exchange rate system. The Hong Kong Dollar ("HK$") 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.

		Increase/(decrease) in profit before tax	
		As at 31 December	
	Change in	2017	2016
Currency	currency rate	RMB'000	RMB'000
US$	+/-1%	6,042/(6,042)	17,786/(17,786)
HK$	+/-1%	(5,413)/5,413	(17,903)/17,903

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, entrusted loans and subordinated tranches of asset-backed securities/notes. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk is equal to the carrying amounts of these assets.

Credit risk is often greater when lessees are concentrated in one single industry or geographical location or have comparable economic characteristics. Customers of the Group are mainly located in Mainland China. Lessees of the Group are from different industries as follows:

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31 December 2017

47.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

	As at 31 December 2017 RMB'000	%	As at 31 December 2016 RMB'000	%
Net lease receivables				
Healthcare	34,318,815	20	27,529,840	25
Packaging	13,995,007	8	9,762,118	8
Transportation	17,153,562	10	10,320,475	9
Infrastructure construction	23,731,482	14	17,926,400	15
Industrial machinery	16,649,415	10	11,836,274	10
Education	31,890,059	18	22,740,745	19
Comprehensive development	11,555,583	7	4,135,572	4
Electronic information	12,469,955	7	7,415,747	6
Urban public utilities	11,311,468	6	5,064,737	4
Others	–	–	133,828	–
	173,075,346	100	116,865,736	100
Less: Impairment provision of lease receivables	(3,539,797)		(2,527,157)	
Net	169,535,549		114,338,579	

The customers of the Group are widely dispersed and are engaged in different industries, and in this respect, 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. Note 49 also sets out the details of securitisation transactions, whereby the Group transfers loans and accounts receivable to special purpose entities and acquires some subordinated tranches of those asset-backed securities/notes issued by those special purpose entities. That results in the Group retaining significant portions of credit risk in the transferred loans and accounts receivable.

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47. 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	
	2017	2016
	RMB'000	RMB'000
Lease receivables	170,187,651	114,921,325
Notes receivable	110,699	755,552
Accounts receivable	1,483,897	1,274,555
Factoring receivable	2,735,148	3,814,163
Entrusted loans	14,972,610	17,543,787
Secured loans	61,435	294,465
Interest receivables	1,180,870	613,180
Derivative financial instruments	123,057	1,382,876
Prepayments, deposits and other receivables	5,438,044	6,771,816
Long term receivables	1,619,511	363,394

As 31 December 2017, the assets which were past due but were not considered impaired amounted to RMB1,430,836,000 (31 December 2016: RMB874,433,000). The ageing analysis is as follows:

2017	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	1,430,836	–	–	–	1,430,836

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

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The Group manages its liquidity risk through daily 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 2017					
	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	1,018,717	22,397,077	57,709,317	136,110,130	522,179	217,757,420
Prepayments, deposits and other receivables	–	2,254,283	512,540	2,646,277	28,411	5,441,511
Restricted deposits	1,167	4,313,109	99,978	177,886	–	4,592,140
Derivative financial instruments	–	–	122,474	583	–	123,057
Available-for-sale investments	2,487	1,305,881	123,082	260,556	–	1,692,006
Equity investments at fair value through profit or loss	–	–	–	2,010,267	–	2,010,267
Cash and cash equivalents	2,815,544	–	–	–	–	2,815,544
Total financial assets	3,837,915	30,270,350	58,567,391	141,205,699	550,590	234,431,945
FINANCIAL LIABILITIES:						
Trade and bills payables	234,400	918,960	685,601	–	–	1,838,961
Other payables and accruals	192,721	5,317,900	4,690,686	25,962,198	90,897	36,254,402
Interest-bearing bank and other borrowings	–	17,666,897	43,552,170	93,350,121	286,862	154,856,050
Derivative financial instruments	–	8,774	79,316	172,186	–	260,276
Other liabilities	–	–	–	–	657,851	657,851
Total financial liabilities	427,121	23,912,531	49,007,773	119,484,505	1,035,610	193,867,540
Net liquidity gap	3,410,794	6,357,819	9,559,618	21,721,194	(485,020)	40,564,405

Notes to Financial Statements

31 December 2017

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	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
Prepayments, deposits and other receivables	–	4,233,528	111,294	2,426,994	–	6,771,816
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	23,468,553	44,910,081	96,673,418	714,573	168,489,265
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	(53,001)	2,401,677	21,460,108	66,693	26,488,952

Notes to Financial Statements

31 December 2017

47. 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	
	2017 RMB'000	2016 RMB'000
Bank and other borrowings	144,899,680	106,937,588
Total equity	36,407,792	24,846,101
Total equity and net debt	181,307,472	131,783,689
Gearing ratio	80%	81%

Notes to Financial Statements

31 December 2017

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

Far Eastern Leasing

The primary objective of the capital management of Far Eastern Leasing, a principal subsidiary of the Group located in Mainland China, is 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	
	2017	2016
	RMB'000	RMB'000
Total assets	182,319,225	136,256,718
Less: Cash and bank balances	(3,942,843)	(2,408,413)
Total assets at risk	178,376,382	133,848,305
Equity	27,001,905	20,449,035
Ratio of assets at risk to equity	6.61	6.55

48. OTHER LIABILITIES

	2017	2016
	RMB'000	RMB'000
Continuing involvement in transferred assets (Note 49)	2,492,078	2,398,981
Payables to non-controlling interests of consolidated structured entities	657,851	70,000
	3,149,929	2,468,981

Notes to Financial Statements

31 December 2017

49.TRANSFERS OF FINANCIAL ASSETS AND INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group enters into securitisation transactions in the normal course of business whereby it transfers loans and accounts receivables 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 receivables and they generally finance the purchase of the loans and accounts receivables 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/notes and accordingly may retain portions of the risks and rewards of the transferred loans and accounts receivables. The Group would determine whether or not to derecognise the transferred loans and accounts receivables mainly by evaluating the extent to which it retains the risks and rewards of the transferred assets.

During the year ended 31 December 2017, the Group transferred an aggregate carrying amount of RMB932,429,000 (2016: RMB276,714,000) of loans and accounts receivables to some unconsolidated structured entities, which qualified for full derecognition. Hence, the Group derecognised those assets. The Group did not provide liquidity support to these unconsolidated structured entities. There was no exposure to losses.

During the year ended 31 December 2017, the Group also transferred an aggregate carrying amount of RMB32,425,140,000 (2016: RMB27,187,667,000) of loans and accounts receivables to other unconsolidated structured entities, where the Group retained continuing involvement in the transferred assets. As a result, as at 31 December 2017, in addition to recognition of its acquisition of subordinated tranches of asset-backed securities/notes issued by the structured entities of RMB2,492,078,000 in other receivables (31 December 2016: RMB2,350,662,000), the Group recognized the transferred assets to the extent of its continuing involvement amounting to RMB2,492,078,000 as other assets (31 December 2016: RMB2,398,981,000), and also recognised associated liabilities amounting to RMB2,492,078,000 as other liabilities (31 December 2016: RMB2,398,981,000), which approximate the maximum exposure to losses from its involvement in such securitisation arrangements and the unconsolidated structured entities.

As a result of the above securitisation transactions, the Group recognised gains of RMB42,445,000 and losses of RMB32,616,000 (2016: gains of RMB92,907,000 and losses of RMB45,744,000) from transfers of loans and accounts receivables.

50.EVENTS AFTER THE REPORTING PERIOD

There were no material subsequent events undertaken by the Group after 31 December 2017.

51.COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year’s presentation.

Notes to Financial Statements

31 December 2017

52. 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 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	707	913
Investments in subsidiaries	29,831,604	25,156,478
Deferred tax assets	65,700	10,177
Loans and accounts receivables	12,111,396	14,127,466
Prepayments, deposits and other receivables	30,901	430,010
Restricted deposits	44,336	–
Derivative financial instruments	–	478,789
Total non-current assets	42,084,644	40,203,833
CURRENT ASSETS		
Loans and accounts receivables	709,750	1,706,909
Prepayments, deposits and other receivables	3,261,380	2,142,356
Dividend receivable from subsidiaries	12,409	13,174
Restricted deposits	36,916	14,942
Cash and cash equivalents	163,989	287,333
Derivative financial instruments	122,474	904,087
Total current assets	4,306,918	5,068,801
CURRENT LIABILITIES		
Other payables and accruals	1,159,793	214,488
Derivative financial instruments	87,586	61,059
Income tax payable	(8,034)	(36,073)
Interest-bearing bank and other borrowings	7,801,319	13,327,914
Total current liabilities	9,040,664	13,567,388
NET CURRENT LIABILITIES	(4,733,746)	(8,498,587)
TOTAL ASSETS LESS CURRENT LIABILITIES	37,350,898	31,705,246

Notes to Financial Statements

31 December 2017

52. 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 2017 RMB'000	31 December 2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	37,350,898	31,705,246
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	9,840,996	7,454,908
Derivative financial instruments	105,315	29,091
Deferred tax liabilities	–	30,136
Total non-current liabilities	9,946,311	7,514,135
Net assets	27,404,587	24,191,111
EQUITY		
Share capital	10,218,442	10,213,017
Reserves	15,149,377	12,746,213
	25,367,819	22,959,230
Holders of perpetual securities	2,036,768	1,231,881
Total equity	27,404,587	24,191,111

Kong Fanxing
Director

Wang Mingzhe
Director

Notes to Financial Statements

31 December 2017

52. 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 2016	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 assets 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

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31 December 2017

52. 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 2017	2,114,102	(852,459)	218,130	656	121,913	149,987	83,860	616,783	10,293,241	12,746,213
Profit for the year	–	–	–	–	–	–	–	–	3,256,007	3,256,007
Other comprehensive income for the year:										
Cash flow hedges, net of tax	–	–	–	–	–	(133,144)	–	–	–	(133,144)
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(12,662)	–	–	(12,662)
Reclassification adjustments for gains included in the consolidated statement of profit or loss										
– gains on disposal of available-for-sale investments, net of tax	–	–	–	–	–	–	(71,198)	–	–	(71,198)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	16,715	–	16,715
Total comprehensive income for the year	–	–	–	–	–	(133,144)	(83,860)	16,715	3,256,007	3,055,718
Final 2016 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(762,997)	(762,997)
Shares vested under restricted share award scheme	–	193,075	(141,594)	–	–	–	–	–	(51,481)	–
Transfer of share option reserve upon exercise of share options	–	–	(1,141)	–	–	–	–	–	–	(1,141)
Recognition of equity-settled share-based payments	–	–	254,277	–	–	–	–	–	–	254,277
Special reserve – safety fund appropriation	–	–	–	822	–	–	–	–	(849)	(27)
Special reserve – safety fund utilisation	–	–	–	(396)	–	–	–	–	409	13
Purchase of non-controlling interests	(8,780)	–	–	–	–	–	–	–	–	(8,780)
Redemption of senior perpetual securities	–	–	–	–	–	–	–	–	(133,899)	(133,899)
At 31 December 2017	2,105,322	(659,384)	329,672	1,082	121,913	16,843	–	633,498	12,600,431	15,149,377

\# The reserve of the Company represents the recognition of the equity-settled share-based payments of the Share Options which are yet to be exercised and the Restricted Shares which are yet to be vested. The amount will either be transferred to the share capital account when the Share Options are exercised or Restricted Share are vested, or be transferred to retained profits should the related options or awards expired.

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53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

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				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	18,782,314	13,928,369	11,795,983	10,060,717	7,868,382
Cost of Sales	(8,106,962)	(5,735,538)	(4,771,610)	(4,106,547)	(2,890,185)
Gross profit	10,675,352	8,192,831	7,024,373	5,954,170	4,978,197
Other income and gains	637,738	477,443	510,032	523,689	318,178
Selling and Administrative expenses	(3,911,745)	(2,875,622)	(2,556,557)	(2,265,899)	(1,884,669)
Other expenses	(422,743)	(306,790)	(454,489)	(249,400)	(282,972)
Finance costs	(225,372)	(157,755)	(122,221)	(14,667)	(1,270)
Profit or loss on investment in joint ventures	(23)	591	(310)	(195)	–
Profit or loss on investment in associates	(13,650)	300	–	13,511	7,893
Profit before provision	6,739,557	5,330,998	4,440,828	3,961,209	3,135,357
Provision for assets	(1,952,369)	(1,258,528)	(821,103)	(750,009)	(534,616)
Profit before tax	4,787,188	4,072,470	3,579,725	3,211,200	2,600,741
Income tax expense	(1,377,623)	(1,130,683)	(999,734)	(869,026)	(684,668)
Profits for the year	3,409,565	2,941,787	2,579,991	2,342,174	1,916,073
Attributable to:					
Holders of ordinary shares of the Company	3,229,057	2,882,208	2,503,109	2,295,954	1,912,744
Holders of perpetual securities	231,264	78,284	73,080	36,036	–
Non-controlling interests	(50,756)	(18,705)	3,802	10,184	3,329
	3,409,565	2,941,787	2,579,991	2,342,174	1,916,073

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				
	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	2,788,514	2,074,125	1,870,508	1,647,151	1,270,898
Cost of sales	(1,203,599)	(854,100)	(756,642)	(672,328)	(466,822)
Gross profit	1,584,915	1,220,025	1,113,866	974,823	804,076
Other income and gains	94,682	71,098	80,877	85,739	51,392
Selling and administrative expenses	(580,757)	(428,219)	(405,397)	(370,976)	(304,411)
Other expenses	(62,762)	(45,685)	(72,069)	(40,832)	(45,705)
Finance costs	(33,460)	(23,492)	(19,381)	(2,401)	(205)
Profit or loss on investment in joint ventures	(3)	88	(49)	(32)	–
Profit or loss on investment in associates	(2,027)	45	–	2,212	1,275
Profit before provision	1,000,588	793,859	697,847	648,533	506,422
Provision for assets	(289,858)	(187,412)	(130,204)	(122,792)	(86,351)
Profit before tax	710,730	606,447	567,643	525,741	420,071
Income tax expense	(204,529)	(168,374)	(158,530)	(142,278)	(110,587)
Profits for the year	506,201	438,073	409,113	383,463	309,484
Attributable to:					
Holders of ordinary shares of the Company	479,402	429,200	396,922	375,896	308,946
Holders of perpetual securities	34,335	11,658	11,588	5,900	–
Non-controlling interests	(7,536)	(2,785)	603	1,667	538
	506,201	438,072	409,113	383,463	309,484

Financial Summary

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	227,454,273	166,560,921	139,312,889	110,726,124	86,512,872
Total Liabilities	(191,046,481)	(141,714,820)	(116,351,469)	(93,276,231)	(72,348,002)
Perpetual securities	(9,797,723)	(1,231,881)	(1,227,203)	(1,258,170)	–
Non-controlling interests	(1,269,200)	(654,990)	(343,180)	(78,771)	(39,528)
	25,340,869	22,959,230	21,391,037	16,112,952	14,125,342

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				
	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	34,809,812	24,010,512	21,453,876	18,095,461	14,189,649
Total liabilities	(29,237,930)	(20,428,834)	(17,917,868)	(15,243,705)	(11,866,359)
Perpetual securities	(1,499,453)	(177,581)	(188,987)	(205,617)	–
Non-controlling interests	(194,239)	(94,420)	(52,849)	(12,873)	(6,483)
	3,878,190	3,309,677	3,294,172	2,633,266	2,316,807

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
31 December 2017	6.5342	6.7356