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 2019

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 2019. This announcement, containing the full text of the 2019 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, 24 March 2020

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, 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.

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Corporate Information

Board of Directors

Chairman and Non-Executive Director
Mr. NING Gaoning *(Chairman)*

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

Non-Executive Directors
Mr. YANG Lin
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

Composition of Committees

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

Corporate Information

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,
Wanchai, Hong Kong

Principal Bankers

China Development Bank
Bank of China

Auditors

Ernst & Young
(Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)

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, cultural & tourism, engineering construction, machinery, chemical & medicine, electronic information, public consuming, transportation & logistics, 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, exquisite 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.

· National Office Layout

Chairman's Statement

Far East Horizon Limited
Chairman of the Board

NING Gaoning

Dear Shareholders,

The year 2019 under review was undeniably the most challenging year in a decade. Although the global economy is still growing, trade disputes and geopolitics have become challenges that all major economies have to face together. As an important part of the world economy, China also faced dual challenges from both external "Sino-US trade conflicts" and domestic "shift of development momentum", resulting in further slowdown in economic growth. However, the huge and multi-tiered consumer market and comprehensive industrial chain support will continue to support the steady development of Chinese economy. Through continuous exploration of innovation, China has basically determined the development direction of "comprehensive and in-depth reform, and further implementation of opening up measure". Various reform and opening up measures have also gradually commenced, with initial results achieved. Following forty years of the opening up and reform, China has created an economic miracle. It is reasonable for us to believe that the Chinese government has the ability, confidence and determination to effectively promote the reform of economic system and effectively resolve the numerous challenges ahead, bringing the Chinese economy to another sustainable, steady and healthy development cycle to realize the great rejuvenation of the Chinese nation.

In 2019, the Group continued to adhere to its development strategy of "finance + industry with organic and efficient synergy", and implemented a relatively prudent operating strategy based on the external environment and internal development needs. In respect of financial operation, we have effectively supported the development of industrial customers in China by refining the industry layout, innovating business practices and promoting organizational reform. At the same time, in respect of industrial operations, we have strengthened our core competitiveness and improved operational efficiency, with good results achieved. The Group's annual results fully fulfilled the annual targets set by the Board, with a good level of shareholder returns being maintained. All these achievements are inseparable from the valuable support and understanding from shareholders. On behalf of the Board and all staff, I would like to hereby express our sincere gratitude.

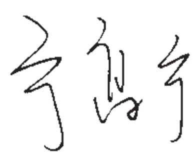
Chairman's Statement

As of the end of 2019, facing internal and external challenges, the Group adjusted its development strategy in a timely manner, and achieved efficiency improvements under the effective control of leverage. Total interest-bearing assets exceeded RMB203.149 billion, representing a decrease of approximately 9.30% from the beginning of the year. Throughout the year, profit attributable to ordinary shareholders amounted to approximately RMB4.337 billion, representing a year-on-year increase of approximately 10.44%. At the same time, the asset quality of the Group remained safe and steady, with the rate of non-performing assets of 1.11% and provision coverage rate of over 246%. The overall trend remained steady as compared with prior years, while the asset return rate was maintained at a better level.

During the year 2019 under review, the Board of the Group, which takes shareholders' entrustment as its duty, duly abided by its responsibilities and constantly improved the governance structure and improved its governance standards. In accordance with the requirements of the Corporate Governance Code of the Stock Exchange, the Company convened four regular board meetings and one extraordinary board meeting in 2019 to review and approve various matters, including the 2018 annual results, the 2019 interim results, the strategic planning report for the next three years, the annual operating budget, the labor cost budget, continuing connected transactions, financing plans, and the granting under the equity incentive plans, upon comprehensive discussion. All decisions made were generally in line with the development needs of the Group and in the interests of all shareholders. At the same time, the professional committees under the Board fully performed their respective rights and responsibilities granted by the Board in various aspects such as improving and optimizing compensation incentive system of the Company, improving the level of internal risk control, and facilitating the sustainable development of operations of the Company, thus effectively protected the interests of all shareholders.

Looking forward in 2020, the global economic environment is still complex and ever-changing. Amid outbreak of "COVID-19", the Chinese economy encountered huge challenge since the starting of the year. However, the central government has made full efforts in taking effective measures to curb the development of the epidemic in a short time. At the same time, various economic stimulus policies have been fully implemented. Different industries will return to the growth track. Facing the challenges ahead, the Group will adhere to the development vision of "integrating global resources and promoting China's industries", continue to focus on basic industries that are closely related to the Chinese economy and the people's livelihood, innovate service methods and provide one-stop solutions for customers to achieve mutual benefit. The Group will make every effort to achieve its annual business goals and create greater value for shareholders and all parties of the society.

NING Gaoning
Chairman of the Board
Far East Horizon Limited



CEO's Statement

Far East Horizon Limited
Vice Chairman of the Board and CEO

KONG Fanxing

Dear Shareholders,

In 2019, the Chinese economy experienced numerous challenge in its development. To response effectively, adhering to "maintaining stability" in terms of macro policies, the Chinese government continued to implement active financial policy and stable monetary policy, and put greater efforts in supporting real economy. Since the second half of 2019, the macro-economy gradually stabilized and was recovering. In 2019, facing the ever-changing environment, under the leadership and support of the Board and the guidance of the strategic framework of "Finance + Industry", the Group adhered to the operating strategy of "making progress in stability and striving for changes in stability", and strove to serve the real industry in a more accurate, effective manner, aiming to create greater value for shareholders, customers, partners, employees, government and other parties of the society.

In respect of financial operation, the Group strove to ensure the simultaneous resonance of operating modes and management systems with external environment, and improved operating efficiency and expanded servicing scope through scientific, effective management measures. Since the second half of 2019, the Group has expanded its industry layout from originally covering 7 industries to 9 industries at present, aiming to improve industry marking and the accuracy and effectiveness of risk identification. In addition, the Group commenced a series of scientific informationalization measures to optimize management efficiency and enhance service quality, thereby realizing cost reduction and efficiency enhancement. As at the end of 2019, the interest-earning assets of the Group amounted to approximately RMB203.149 billion, representing a decrease of approximately 9.30% from the beginning of the year. Meanwhile, the asset quality of the Group remained stable, with non-performing asset ratio of 1.11% and provision coverage ratio of 246.11%. In addition, it is worth noted that the Group was able to maintain good international credit rating (as of November 2019, Fitch Ratings, an international credit rating company, published its credit rating report, and upward adjusted the outlook rating of the Group to "stable" while long-term credit rating of the Company remained at "BBB-") by facilitating asset securitization, actively reducing leveraging ratio and optimizing capital structure during last year, thus strengthening the crucial foundation for the long-term stable development of financial operation.

CEO's Statement

In respect of industrial operation, the Group drawn on its strengths in scale, improved operating efficiency, and gradually increased financial contribution. In 2019, revenue generated from industrial operation segment amounted to approximately RMB6.521 billion, representing an increase of 44.42% as compared to last year and 24.21% of total revenue, thus driving steady growth in overall performance of the Group. In respect of healthcare segment, as at the end of 2019, the Group continued to invest and operate medical institutions, with approximately 20,000 available beds under institutions operated by the Company, making it become a unique outstanding performer and supplementary power for medical institutions in China. Centering on the operating mode of "one set of system and one network for one hospital", the Group, by fully leveraging on its edges in scale, facilitated the building up of standardized, centralized operating network, thus offering the public across China with quality medical, rehabilitation and elderly care services, and gaining recognition from both the society and patients. Revenue for the year amounted to RMB2.912 billion, representing an increase of approximately 32.72% as compared to last year. In respect of infrastructure construction segment, the equipment operation service entities of the Group realized joint promotion of top five product lines, and offered comprehensive, one-stop equipment operation services for customers in infrastructure construction sector. Leveraging their nationwide operating network and multiple operation capability, those equipment operation service entities of the Group had effectively improved users' operating efficiency and continuously created value for users, thus successfully developing themselves into the pioneer in the construction equipment operation sector in China. The total original value of its operating assets ranked No. 1 in China, serving over 20,000 customers in aggregate. In 2019, revenue for the year amounted to approximately RMB2.362 billion, representing an increase of approximately 32.16% as compared to last year.

In conclusion, the Group has been adhering to the direction of "organic and effective combination of finance and industry" in its business innovation and development during last year. Through fully exploiting organic synergies and complementary improvement of financial operation and industrial operation, the Group successfully achieved its major operating goals: As at the end of 2019, the total assets of the Group amounted to approximately RMB260.57 billion, representing a decrease of approximately 2.03% as compared to the corresponding period of last year. Total revenue for the year amounted to approximately RMB26.856 billion, representing an increase of approximately 5.82% as compared to the corresponding period of last year. Net profit attributable to ordinary shareholders for the year amounted to approximately RMB4.337 billion, representing an increase of approximately 10.44% as compared to last year. Average yield on net assets was 14.99%, which maintained at a relatively high level, thus realizing our promise to shareholders as usual.

CEO's Statement

Looking forward, the Chinese economy will continue to adjust its internal structure. Higher requirements in relation to the operating and management capability of enterprises will be implemented, bring unprecedented opportunities and challenges. The financial operation of the Group will continue to identify industry and customers with stable structure, promising development outlook and stronger resilience. Moreover, the Group will gradually improve operation efficiency and reduce resources utilization by innovating integrated services, enhancing risk control and managing capital utilization effectively. On the other hand, the industrial operation of the Group, which is operating in basic industry merely affected by macroeconomic fluctuations, will further exploit its economies of scale and facilitate the unleash of financial value on the basis of gradual expansion. We are confident that the organic synergies and complementary improvement of our financial operation and industrial operation can be achieved, thus creating greater value for our shareholders.

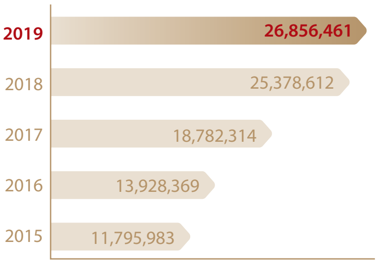
Finally, on behalf of the management and all staff of the Group, I would like to express my sincere gratitude to all shareholders, customers and partners for their continuous understanding and support for the Group.

KONG Fanxing
Vice Chairman of the Board and CEO
Far East Horizon Limited

Business Overview

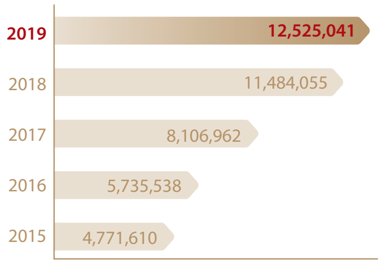
For the year ended 31 December 2019

Total revenue
RMB'000
26,856,461



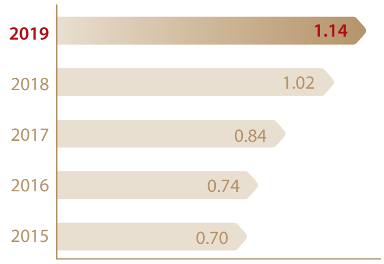
For the twelve months ended 31 December

Cost of sales
RMB'000
12,525,041



For the twelve months ended 31 December

Basic Earnings per Share
RMB'000
1.14



For the twelve months ended 31 December

Diluted earnings per share (RMB)
1.14

Return on average assets[2]
For the twelve months ended 31 December
1.83%

Return on average equity[3]
For the twelve months ended 31 December
14.99%

Gearing ratio
For the twelve months ended 31 December

2018	2019
85.30%	84.06%

Net interest margin[4]
For the twelve months ended 31 December
3.66%

Net interest spread[5]
For the twelve months ended 31 December
2.48%

Cost to income ratio[6]
For the twelve months ended 31 December
33.53%

Net assets per share (RMB)
For the twelve months ended 31 December

2018	2019
7.01	7.61

Business Overview

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Total revenue	**26,856,461**	25,378,612	18,782,314	13,928,369	11,795,983
Financial services (interest income)	**15,841,562**	16,137,698	10,972,384	8,139,285	6,849,330
Advisory services (fee income)	**4,573,954**	4,889,048	4,661,303	3,820,487	3,850,659
Revenue from industrial operation	**6,521,280**	4,515,625	3,254,433	2,113,804	1,206,807
Tax and surcharges	**(80,335)**	(163,759)	(105,806)	(145,207)	(110,813)
Cost of sales	**(12,525,041)**	(11,484,055)	(8,106,962)	(5,735,538)	(4,771,610)
Borrowing costs	**(8,038,630)**	(8,527,275)	(5,801,693)	(4,131,599)	(3,963,282)
Costs for industrial operation	**(4,486,411)**	(2,956,780)	(2,305,269)	(1,603,939)	(808,328)
Pre-provision operation profit(1)	**9,917,400**	9,152,801	6,739,557	5,333,732	4,426,148
Profit before tax	**7,144,830**	6,492,567	4,787,188	4,072,470	3,579,725
Profit for the year attributable to holders of ordinary shares of the Company	**4,337,602**	3,927,472	3,229,057	2,882,208	2,503,109
Basic earnings per share (RMB)	**1.14**	1.02	0.84	0.74	0.70
Diluted earnings per share (RMB)	**1.14**	1.02	0.84	0.74	0.70
Profitability indicators					
Return on average assets(2)	**1.83%**	1.78%	1.73%	1.92%	2.06%
Return on average equity(3)	**14.99%**	14.80%	13.37%	13.00%	13.35%
Net interest margin(4)	**3.66%**	3.51%	3.09%	3.04%	2.62%
Net interest spread(5)	**2.48%**	2.28%	1.96%	1.79%	1.22%
Cost to income ratio(6)	**33.53%**	35.36%	36.64%	35.07%	36.04%

Business Overview

	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Assets and liabilities					
Total assets	**260,570,588**	265,969,794	227,454,273	166,560,921	139,312,889
Net interest-earning assets	**203,149,075**	223,989,078	193,977,583	139,798,341	121,970,478
Total liabilities	**219,035,813**	226,877,290	191,046,481	141,714,820	116,351,469
Interest-bearing bank and other borrowings	**162,396,266**	172,514,982	144,899,680	106,937,588	83,428,801
Gearing ratio	**84.06%**	85.30%	83.99%	85.08%	83.52%
Total equity	**41,534,775**	39,092,504	36,407,792	24,846,101	22,961,420
Equity attributable to holders of ordinary shares of the Company	**30,128,436**	27,729,743	25,340,869	22,959,230	21,391,037
Net assets per share (RMB)	**7.61**	7.01	6.41	5.81	5.41
Duration matching of assets and liabilities					
Financial assets	**224,024,699**	238,575,428	208,240,849	152,479,868	128,291,002
Financial liabilities	**206,139,112**	216,469,936	183,911,170	136,157,626	112,966,022
Quality of interest-earning assets					
Non-performing asset ratio(7)	**1.11%**	0.96%	0.91%	0.99%	0.97%
Provision coverage ratio(8)	**246.11%**	236.73%	219.71%	212.13%	201.24%
Write-off of non-performing assets ratio(9)	**40.30%**	34.41%	5.21%	29.82%	27.39%
Overdue interest-earning assets (over 30 days) ratio(10)	**1.29%**	0.94%	0.72%	0.98%	1.08%

Business Overview

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 assets;

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

(6) Cost to income ratio = selling and administrative expense/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.


Healthcare
Culture & tourism
Engineering construction
Machinery
Chemical & medicine
Electronic information
Public consuming
Transportation & logistics
Urban public utility

Management Discussion and Analysis

1. Economy Environment

1.1 Macro-economy

In 2019, the global economic growth continued to slow down, and was still at the in-depth adjustment stage following the international financial crisis. With the rapid changing global trend, there was significant increase in fluctuation sources and risk points. Facing the complex environment with significant increase in both domestic and overseas risks and challenges, China is currently under the crucial stage for structural reform, momentum swift and system optimization, thus experiencing greater pressure on economic downturn. In 2019, China's gross domestic product (GDP) was RMB99.1 trillion, up by 6.1% year-on-year, representing a decrease of 0.6 percentage point as compared to last year.

In terms of the supply side, the transformation and upgrade of industrial structure continued. Growth in the three major sectors continued with last year's trend and was slowed down. In particular, the added value of primary sector was RMB7.0 trillion, representing a year-on-year increase of 3.1%. The added value of secondary sector was RMB38.6 trillion, representing a year-on-year increase of 5.7%. The added value of tertiary sector was RMB53.4 trillion, representing a year-on-year increase of 6.9%. Each of the primary sector, secondary sector and tertiary sector accounted for 7.1%, 39.0% and 53.9% of GDP, respectively.

In terms of the demand side, the contribution of domestic demand to economic growth has declined as compared to last year. The contribution of consumer sector, investment sector and net export sector to economic growth was 57.8%, 31.2% and 11.0%, respectively. In 2019, the total sales of social consumer goods amounted to RMB41.2 trillion, up by 8.0% year-on-year, representing a decrease of 1.0 percentage point as compared to last year. Investments in fixed assets amounted to RMB56.1 trillion, up by 5.1% year-on-year, representing a decrease of 0.8 percentage point as compared to last year. Trade volume for import and export business amounted to RMB31.6 trillion, up by 3.4% year-on-year, representing a decrease of 6.3 percentage points as compared to last year.

Proactive fiscal policies remained in force. In 2019, attributable to the reduction in taxes and administrative fees, general income for public budget increased by 3.8% year-on-year, which was lower than expected. General expense for public budget increased by 8.1% year-on-year, which was higher than expected. General income for local public budget increased by 3.2% year-on-year, representing a decrease of 3.8 percentage points as compared to last year. General expense for local public budget increased by 8.5% year-on-year, representing a decrease of 0.2 percentage point as compare to last year.

Stable monetary policies remained in force. In 2019, the scale of social financing amounted to RMB251.3 trillion, up by 10.7% year-on-year, which was basically at the same level in last year. Liquidity remained reasonable and steady. M2 broad money increased by 8.7% year-on-year, representing an increase of 0.6 percentage point as compared to last year. There was stronger countercyclical adjustment, and the LRP pricing mechanism continued to improve, guiding the financial industry to better serve real economic development.

Under this backdrop, the promising trend of Chinese economy will remain unchanged in long run, and it will continue to be the major driver for global economic growth. China, being the second largest economy across the world, has formed the largest consumer market in the world, and is at an irreplaceable position in the global industrial division system. With the promotion of new industrialization, informationalization, urbanization and agriculture modernization, a huge market and excellent market condition have been created for the Group to maintain healthy development.

Source: National Bureau of Statistics of China

Management Discussion and Analysis

1.2 Industry Environment

Industrial production returned to stable growth, while the service industry became increasingly important. In 2019, the added value of the industrial industry amounted to RMB31.7 trillion, representing a year-on-year increase of 5.7%. Attributable to favourable factors such as relief of trade conflicts between China and the United States and favourable infrastructure policies, the Purchasing Managers' Index (PMI) returned to a level above the entrepreneurs' confidence threshold. The added value of the construction industry amounted to RMB7.1 trillion, up by 5.6% year-on-year, representing an increase of 0.8 percentage point as compared to last year. The added value of the service industry amounted to RMB53.4 trillion, up by 6.9% year-on-year. The business activities index of service industry remained in the expansion range.

In terms of various industrial sectors in which the Group operates, the transformation and upgrade were conducted gradually, with faster growth in fields related to technology innovation, consumption upgrade and national policies and livelihood. Countercyclical sectors, such as engineering machinery, and the advanced equipment manufacturing industry, one of the focus industries supported by national policies, remained strong, which relieved the pressure on automotive sales decline to a certain extent. Demands in electronic information industry had increased, with frequent hot topics on 5G base station, wearable devices and other aspects. Attributable to the in-depth facilitation of new type urbanization and the increasing efforts in short-term infrastructure improvement, the construction industry experienced faster growth, creating favourable conditions especially for the construction and operation of urban infrastructures, construction works and other areas. China's GDP per capita exceeded US$10,000, reaching the level of middle income country. Spiritual and cultural spending is becoming more popular, with steady growth in cultural & tourism. Driven by the diversified healthcare demands, the healthcare industry has grew steadily. Meanwhile, factors such as stable domestic demand and trade rush supported the steady growth in transportation sector. Sentiment in livelihood consumption, such as package printing and agricultural by-product processing, has improved. Chemical & medicine industries under weak cycle, such as manufacturing of pesticides, daily chemicals and medicines, remained steady.

Source: National Bureau of Statistics of China

1.3 The Leasing Industry

The development of the financial leasing industry continued to slow down. According to the statistics of China Leasing Union, as of the fourth quarter of 2019, the total number of financial leasing companies in China was 12,130, up by 2.9% year-on-year, showing a significant decline in growth. The balance of financial leasing contracts in China amounted to approximately RMB6.65 trillion, up by 0.1% year-on-year.

Management Discussion and Analysis

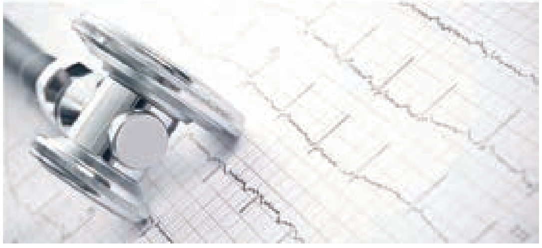
In terms of industrial regulation, in 2019, the amendments to the Administration Measure on Supervision of Financial Leasing Companies (《融資租賃企業監督管理辦法》) have officially included in the work plan of China Banking and Insurance Regulatory Commission, which clearly include financial leasing into local financial regulatory system. Financial regulatory authorities in different cities had commenced the straighten out and rectification on industries. In Shanghai and Tianjin, the list of local financial leasing companies with abnormal operations was published openly to the public. The acceleration of compliance building in financial leasing industry can facilitate industrial risk elimination and standardization and sustainable development, which will favourable for the large-scale, regulated and professional financial leasing companies in long run.

Source: China Leasing Union

1.4 Company's Solutions

In 2019, with the increasing pressure on economic downturn and continuous industrial transformation and upgrade, the Group adhered to the development strategy of "finance + industry", and responded to the complex environment featured with significantly increasing risks and challenges by improving its financial service capability, exploring new operation features and strengthening industrial leading advantages.

In terms of the financial business, first, we optimized our organizational structure. On one hand, we have further sub-divided our industrial layout from seven major business sectors to nine business sectors, namely urban public utility, healthcare, cultural & tourism, engineering construction, machinery, chemical & medicine, electronic information, livelihood consumption and transportation & logistics. Through active adjustment, we created a more focus-based operational structure, and strengthened our risk identification capability. On the other hand, we have further divided business sectors based on location, thus forming an operating system with regional characteristics and enhancing horse-racing mechanism. Second, we have upgraded our operating system. We have established five major regional service center of our functional departments, making our services more localization and adapt to market. Third, we have expanded operational function. Through new products, new region and new business environment, we continued to explore new types of business, enrich our operation layout, and enhance our comprehensive operating capability. Meanwhile, we strengthened our rish identification capability, and continued to optimize resources allocation. At the industry level, we focused more on basic industries in relation to national policies and livelihood, and introduced sub-sectors with development potential. At the regional level, we focused on new type urbanization, regional coordinated development, as well as key regions with improving economic structure. At the customer level, we prioritized enterprises with strong risk resistance capability, stable operation and sustainable development. Hence, an effective protection on the business and operation of the Group has been formed.



Management Discussion and Analysis

In respect of industrial operation, in 2019, the hospital group and Horizon Construction Development under the Group have contributed vital growth momentum. The Group will continue to facilitate its development towards industrial operation direction of healthcare and equipment operation, thereby strengthening its leading position. Thus, our financial efficiency has gradually unleashed, forming an operating system with "finance + industry" double driven and coordinated development.

In respect of the hospital group, first, we adhered to the medical philosophy of "providing inclusive, quality and warm medical services". We focused on areas with insufficient medical resources, thereby establishing a hospital network featured with Far East characteristics and covering whole China. As of the end of 2019, we invested a total of 60 medical institutions, offering over 20,000 available beds under standardized operation. Through continuous promotion of the mode of "one system, one network and one hospital" and system construction, we have enhanced the operating standards of our hospitals. Meanwhile, we enhanced our discipline business unit establishment, improved overall pathological level, and created core profitability. Second, we put great efforts in establishing ancillary system for medical teaching and research systems, thereby providing medical talent for our hospitals on a regular basis. Third, centering on healthcare and adhering to the strategy integrating "medical treatment and healthcare", we actively expanded our macro health operation to elderly healthcare services, and explored hierarchical elderly healthcare mode.

In respect of Horizon Construction Development, we actively expanded operating scale, thus enhancing our competitive edges. First, we expanded our equipment inventory, and our asset scale on high-altitude vehicles, turnover materials and new formworks continued to lead among its peers, ranking first in China. Second, we enhanced operating network density and accelerated operating network expansion, thus realizing coverage and in-depth expansion to major cities in China. As of the end of 2019, we have 148 outlets, covering 56 cities. Third, we actively explored overseas market, and gradually established overseas operations. In 2019, we operated in 6 countries and regions. In addition, Horizon Construction Development developed and facilitated the online marketing channels such as "Far East e Market" and "Horizon Equipment high-altitude vehicles", thus realizing one-stop service for equipment leasing and trading. Coupled with increasing online services and new features, we continued to enhanced our internal operating efficiency and experience of external customers.

In terms of fund-raising, on one hand, we strived to promote strategic cooperation with key large financial institutions, while digging deep into the resources of small and medium-sized banks, thereby securing powerful access to resources. On the other hand, we actively managed operational gearing, improved international credit rating outlook, and stabilised confidence on capital market investment. As for overseas financing, we accurately grasped the issuance window of overseas bonds, and successfully issued an overseas bond.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In 2019, the Group relied on China's real economy and continued to implement its operational philosophy of "finance + industry", which led to an overall healthy and steady growth in its results. The Group realized a profit before tax of RMB7,144,830,000, representing growth of 10.05% as compared to the corresponding period of the previous year. The profit attributable to holders of ordinary shares of the Company during the year was RMB4,337,602,000, representing a growth of 10.44% as compared to the corresponding period of the previous year. The following table sets forth the figures for 2019 and the comparative figures for 2018.

	For the year ended 31 December		
	2019	2018	
	RMB'000	RMB'000	Change %
Revenue	26,856,461	25,378,612	5.82%
Cost of sales	(12,525,041)	(11,484,055)	9.06%
Gross profit	14,331,420	13,894,557	3.14%
Other income/gains	1,157,073	739,058	56.56%
Selling and administrative expenses	(4,805,301)	(4,913,015)	-2.19%
Other expenses and losses	(497,393)	(395,474)	25.77%
Finance costs	(460,632)	(459,849)	0.17%
Gains and loss on investment in joint ventures/associates	192,233	287,524	-33.14%
Pre-provision operating profit	9,917,400	9,152,801	8.35%
Provision for assets	(2,772,570)	(2,660,234)	4.22%
Profit before tax	7,144,830	6,492,567	10.05%
Income tax expense	(2,316,573)	(2,104,442)	10.08%
Profit for the year	4,828,257	4,388,125	10.03%
Attributable to:			
Holders of ordinary shares of the Company	4,337,602	3,927,472	10.44%
Holders of perpetual securities	511,335	502,735	1.71%
Non-controlling interests	(20,680)	(42,082)	-50.86%

Management Discussion and Analysis

2.2 Revenue

In 2019, the Group realized revenue of RMB26,856,461,000, representing a growth of 5.82% from RMB25,378,612,000 as compared to the corresponding period of the previous year. Income in financial and advisory segment slightly decreased, and income in industrial operation segment continued to increase significantly. In 2019, income (before taxes and surcharges) of the financial and advisory segment was RMB20,415,516,000, accounting for 75.79% of the total income (before taxes and surcharges) and representing a decrease of 2.91% as compared to the corresponding period of the previous year. Income derived from advisory services decreased by 6.44% mainly due to the upward shift of customer qualifications with stronger operational management capabilities, and the continuous improvement and adjustment in the Company's consulting service products in response to customers' needs. The Group also accelerated its pace in developing integrated industrial operation business with income derived from industrial operations grew by 44.42% 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				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Financial and advisory segment	**20,415,516**	**75.79%**	21,026,746	82.32%	-2.91%
Financial services (interest income)	**15,841,562**	**58.81%**	16,137,698	63.18%	-1.84%
Advisory services (fee income)	**4,573,954**	**16.98%**	4,889,048	19.14%	-6.44%
Industrial operation segment	**6,521,280**	**24.21%**	4,515,625	17.68%	44.42%
Total	**26,936,796**	**100.00%**	25,542,371	100.00%	5.46%
Taxes and surcharges	**(80,335)**		(163,759)		-50.94%
Income (after taxes and surcharges)	**26,856,461**		25,378,612		5.82%

The Group also categorized income by industry. In 2019, in order to adapt to the external environment, especially for the continuously changing industry, the Group has further re-divided the original 7 industry layout into 9 industries, namely healthcare, cultural & tourism, engineering construction, machinery, chemical & medicine, electronic information, public consuming, transportation & logistics and urban public utility.

In 2019, with the promulgation of national macro-control policies and the further promotion of the industrial operation of the Group, all industries have recorded steady growth, with electronic information, chemical & medicine, healthcare and engineering construction increased by 27.57%, 15.60%, 11.78% and 10.96%, respectively as compared to last 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				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	6,833,070	25.37%	6,112,802	23.93%	11.78%
Cultural & tourism	3,600,778	13.37%	3,653,454	14.30%	-1.44%
Engineering construction	4,535,576	16.84%	4,087,593	16.00%	10.96%
Machinery	805,420	2.99%	1,207,070	4.73%	-33.27%
Chemical & medicine	498,925	1.85%	431,582	1.69%	15.60%
Electronic information	1,136,890	4.22%	891,196	3.49%	27.57%
Public consuming	905,382	3.36%	926,908	3.63%	-2.32%
Transportation & logistics	1,773,965	6.59%	1,670,017	6.54%	6.22%
Urban public utility	6,623,791	24.59%	6,527,314	25.55%	1.48%
Others	222,999	0.82%	34,435	0.14%	547.59%
Total	26,936,796	100.00%	25,542,371	100.00%	5.46%

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 decreased by 1.84% from RMB16,137,698,000 for 2018 to RMB15,841,562,000 for 2019, accounting for 58.81% 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					
	2019			2018		
	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	35,188,950	2,730,900	7.76%	38,159,314	3,065,046	8.03%
Cultural & tourism	34,243,720	2,569,608	7.50%	36,822,540	2,762,232	7.50%
Engineering construction	24,824,605	1,773,970	7.15%	26,573,670	1,756,406	6.61%
Machinery	11,155,623	673,104	6.03%	15,335,017	939,226	6.12%
Chemical & medicine	4,309,606	302,777	7.03%	4,889,406	351,250	7.18%
Electronic information	9,095,296	630,308	6.93%	9,628,025	634,434	6.59%
Public consuming	9,812,853	670,273	6.83%	11,106,862	737,938	6.64%
Transportation & logistics	16,171,940	1,173,630	7.26%	18,791,180	1,216,246	6.47%
Urban public utility	66,902,880	5,160,723	7.71%	54,943,395	4,648,334	8.46%
Others	1,574,265	156,269	9.93%	498,612	26,586	5.33%
Total	213,279,738	15,841,562	7.43%	216,748,021	16,137,698	7.45%

Notes:

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

(2) Interest income of each industry represents the revenue before 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.

Management Discussion and Analysis

Analysis according to average balance of interest-earning assets

The average balance of interest-earning assets of the Group decreased by 1.60% from RMB216,748,021,000 for 2018 to RMB213,279,738,000 for 2019. The Group actively manages the level of gearing ratio to enable the financial services business to maintain stable and coordinated development.

Analysis according to average yield

In 2019, the average yield of the Group was 7.43%, representing 0.02 percentage point lower than 7.45% in the last year, which was mainly due to the fact that: (i) affected by the decrease of market interest rates (such as the loan prime rate "LPR"), approximately 20% of the interest-earning asset balances in 2019 were newly added from September 2019. The pricing of the additional interest-generating assets had a pulling-down effect on the average yield in 2019. Meanwhile, the interest-earning assets newly added by the Group were mainly based on fixed rate. At the end of 2019, the Group's fixed rate interest-earning assets accounted for approximately 70%; (ii) the Group disposed of some low-yield projects through asset-backed securities and other businesses in 2019; (iii) while actively managing the asset scale, the Group actively regulated the layout of the interest-earning assets industry and continued to maintain the business opportunities of high-end customers to maintain stable asset quality.

The table below sets forth the breakdown of interest income (before taxes and surcharges) by region during the indicated periods.

	For the year ended 31 December			
	2019		2018	
	RMB'000	% of total	RMB'000	% of total
Northeast China	1,504,581	9.50%	1,847,308	11.45%
Northern China	1,736,919	10.96%	1,705,295	10.57%
Eastern China	4,221,011	26.64%	3,849,155	23.85%
Southern China	1,203,748	7.60%	1,669,440	10.34%
Central China	2,340,638	14.78%	2,843,890	17.62%
Northwest China	1,066,710	6.73%	1,130,609	7.01%
Southwest China	3,767,955	23.79%	3,092,001	19.16%
Total	15,841,562	100.00%	16,137,698	100.00%

Note: Interest income from Hubei Province in 2019 amounted to RMB443,620,000, accounting for 2.80% of the total interest income.

Management Discussion and Analysis

2.2.2 **Advisory Services (Fee Income)**

In 2019, fee income (before taxes and surcharges) from financial and advisory segment decreased by 6.44% from RMB4,889,048,000 for 2018 to RMB4,573,954,000 for 2019, accounting for 16.98% 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				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	927,147	20.27%	737,974	15.09%	25.63%
Cultural & tourism	783,447	17.13%	716,569	14.66%	9.33%
Engineering construction	400,418	8.75%	541,526	11.08%	-26.06%
Machinery	130,819	2.86%	267,844	5.48%	-51.16%
Chemical & medicine	196,148	4.29%	80,332	1.64%	144.17%
Electronic information	146,796	3.21%	252,953	5.17%	-41.97%
Public consuming	200,995	4.39%	188,970	3.87%	6.36%
Transportation & logistics	278,527	6.09%	236,723	4.84%	17.66%
Urban public utility	1,463,068	31.99%	1,858,308	38.01%	-21.27%
Others	46,589	1.02%	7,849	0.16%	493.57%
Total	4,573,954	100.00%	4,889,048	100.00%	-6.44%

Healthcare, cultural & tourism and urban public utility accounted for the greatest contribution to the aggregate growth of the Group's service charge income (before taxes and surcharges). In order to adapt to the changes in the external environment, the Group actively organized professional teams to carry out professional services, continued to upgrade its advisory services, and increased the variety of advisory services being provided to customers in targeted industries, thus maintaining growth in service fee income from healthcare, cultural & tourism, chemical & medicine, public consuming and transportation & logistics sectors. At the same time, due to the continuing maturing and stabilization of environment in certain industries, the Group has adjusted the contents of advisory services, resulting in decline in service fee income from engineering construction, machinery and urban public utility sectors. 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 maintain steady and healthy growth of service income of the business.

Management Discussion and Analysis

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

	For the year ended 31 December			
	2019		2018	
	RMB'000	% of total	RMB'000	% of total
Northeast China	280,003	6.12%	465,182	9.51%
Northern China	636,167	13.91%	557,659	11.41%
Eastern China	1,586,138	34.67%	1,380,125	28.23%
Southern China	406,097	8.88%	290,397	5.94%
Central China	496,509	10.86%	603,765	12.35%
Northwest China	301,529	6.59%	339,310	6.94%
Southwest China	867,511	18.97%	1,252,610	25.62%
Total	4,573,954	100.00%	4,889,048	100.00%

Note: Advisory services income from Hubei Province in 2019 amounted to RMB168,832,000, accounting for 3.69% of the total advisory services income.

2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group, before taxes and surcharges, increased by 44.42% from RMB4,515,625,000 for 2018 to RMB6,521,280,000 for 2019, accounting for 24.21% 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				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Revenue from industrial operation segment	6,521,280	100.00%	4,515,625	100.00%	44.42%
Including:					
Revenue from hospital operation(1)	2,912,520	44.66%	2,194,490	48.60%	32.72%
Revenue from equipment operation(2)	2,362,429	36.23%	1,787,495	39.58%	32.16%
Revenue from education institution operation	234,642	3.60%	176,691	3.91%	32.80%

Management Discussion and Analysis

Notes:

(1) For details of revenue from hospital operation please refer to the discussion and analysis in paragraph 12.1 of this section;

(2) For details of revenue from equipment operation please refer to the discussion and analysis in paragraph 13.1 of this section.

The Group steadily promoted the layout of high-end K12 education at home and abroad in 2019. By adhering to the principle of "people orientation, fusion of Chinese and western education and training elites", the Group continued to deepen and improve the level of teachers, curriculum system, campus facilities and operation flow management of kindergartens and schools within the Group, so as to cultivate outstanding students with social contribution, scientific innovation and international competitiveness. In 2019, there were 2 newly opened kindergartens, together with 3 schools and 13 kindergartens that had been operating in previous years. As at the end of 2019, the Group had operated 15 high-end kindergartens (among which, 3 kindergartens had fulfilled their enrolment quota) and 3 schools (among which, 1 had fulfilled its enrolment quota) with 2,360 students, representing an increase of 31.11% as compared to 2018. Revenue from education institution operation amounted to RMB234,642,000 in 2019, representing an increase of 32.80% as compared to 2018, mainly due to the increase of number of students.

2.3 Cost of Sales

Cost of sales of the Group for 2019 was RMB12,525,041,000, representing an increase of 9.06% from RMB11,484,055,000 in the corresponding period of last year. Of which, the cost of the financial and advisory segment was RMB8,038,630,000, accounting for 64.18% of the total cost and representing an decrease of 5.73% from RMB8,527,275,000 in the corresponding period of last year, mainly due to the fact that while the Group was maintaining the proportion of its investment in interest-earning assets through debt financing, the additional financing cost decreased, which led to a decrease in interest expenditure of the financial and advisory segment. The cost of the industrial operation segment was RMB4,486,411,000, accounting for 35.82% of the total cost and representing an increase of 51.73% from RMB2,956,780,000 in the corresponding period of last year. This was mainly due to the rapid expansions of the Group's industrial operations in respect of healthcare, equipment operation and education, among which, some of the hospitals and kindergartens under the industrial operations of healthcare and education were still at their preliminary stage and their economies of scale were not sufficient. The equipment operation industry achieved large-scale output through its nationwide operating network and operational capabilities, and the rapid expansions of the business scale led to a significant growth in cost of sales for industrial operation. The Group will, through collectivized management, gradually enhance the operating efficiency of each industrial operation company, to transform the cost of sales of industrial operation into the growth of its revenue in a highly-effective manner.

Management Discussion and Analysis

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				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the finance and advisory segment	8,038,630	64.18%	8,527,275	74.25%	-5.73%
Cost of the industrial operation segment	4,486,411	35.82%	2,956,780	25.75%	51.73%
Cost of sales	12,525,041	100.00%	11,484,055	100.00%	9.06%

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					
	2019			2018		
	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	162,354,288	8,038,630	4.95%	164,932,937	8,527,275	5.17%

Notes:

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

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

Management Discussion and Analysis

The cost of sales of the financial and advisory segment decreased from RMB8,527,275,000 for 2018 to RMB8,038,630,000 for 2019. The average cost rate of the Group decreased to 4.95% for 2019 as compared to that for 2018, mainly due to:

(i) in the context of reasonably and sufficient market liquidity and decline in domestic financing cost in 2019, new domestic indirect withdrawals has resulted in a decrease of 0.04% in the average cost rate; (ii) the Group made full use of the advantages of diversified funding to increase the proportion of overseas withdrawals, and the average cost rate decreased by 0.07% due to new overseas bank withdrawals; (iii) in 2019, the Group completed the issuance of various product such as corporate bonds, medium-term notes and super-short financial bonds, due to the slight fluctuation and downward trend in the yields of the bond market in 2019, the average cost rate decreased by 0.04%; (iv) since the overall financing cost in the market has decreased in 2019 as compared with 2018, with a decrease in the balance of stock liabilities with higher costs and the increasing proportion of the balance of additional liabilities with lower financing costs, the average cost rate decreased by 0.07% as compared with 2018.

In 2020, under the "finance + industry" strategy, the Group will increase its efforts to support the development of the industries under the Group and connect financial resources in all directions. Our major measures are as follows: (i) deepen the cooperation with the mainstream domestic banks and non-bank institutions; (ii) pay close attention to the international market, strengthen the communication with rating agencies and investors, and extend the cooperation in overseas financial markets; (iii) continue to explore new channels and products, thereby further enhancing and enriching its financing structure.

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 equipment operation and cost of education institution operation etc. The following table sets forth the cost of industrial operating segments of the Group by business type during the period indicated.

	For the year ended 31 December				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the industrial operation segment	4,486,411	100.00%	2,956,780	100.00%	51.73%
Of which:					
Cost of hospital operation[1]	2,168,140	48.32%	1,584,290	53.58%	36.85%
Cost of equipment operation[2]	1,250,030	27.86%	935,370	31.63%	33.64%
Cost of education institution operation	232,000	5.17%	146,116	4.94%	58.78%

Notes:

(1) For details of cost of hospital operation, please refer to the discussion and analysis in paragraph 12.1 of this section;

(2) For details of cost of equipment operation please refer to the discussion and analysis in paragraph 13.1 of this section.

Management Discussion and Analysis

In 2019, the Group put 2 more kindergartens into operation, and 1 school had entered the operation stage, operational costs such as the corresponding labor costs of Chinese and foreign teachers and housing leasing and decoration cost amortization experienced a rapid growth. The operating cost of educational institutions in 2019 was RMB232,000,000, representing an increase of 58.78% as compared to 2018. The increase exceeding revenue was mainly due to the fact that manpower, leasing and decoration sites for the new operation projects need to be reserved beforehand.

2.4 Gross Profit

The gross profit of the Group for 2019 increased by RMB436,863,000 or 3.14% to RMB14,331,420,000 from RMB13,894,557,000 in the corresponding period of the previous year. For 2019 and 2018, the gross profit margin of the Group was 53.36% and 54.75%, 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 2019 was 60.62%, rose from 59.45% 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 slightly higher 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 during the periods indicated.

	For the year ended 31 December		
	2019	2018	
	RMB'000	RMB'000	Change %
Interest income[1]	15,841,562	16,137,698	-1.84%
Interest expense[2]	8,038,630	8,527,275	-5.73%
Net interest income	7,802,932	7,610,423	2.53%
Net interest spread[3]	2.48%	2.28%	0.20%
Net interest margin[4]	3.66%	3.51%	0.15%

Notes:

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

(2) Interest expense refers to 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.

Management Discussion and Analysis

Net interest spread of the Group for 2019 increased by 0.20 percentage point to 2.48% as compared with 2.28% for the corresponding period of the previous year. The increase in net interest spread was primarily due to the decrease of 22 basis points in respect of the average cost rate on interest-bearing liabilities of the Group and the decrease of only 2 basis points in the average yield on interest-earning assets of the Group. For the changes in respect of the average yield on interest-earning assets and average cost 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 net interest income of the Group increased by 2.53% to RMB7,802,932,000 for 2019 from RMB7,610,423,000 for 2018. The average balance on interest-earning assets decreased by 1.60% as compared to the corresponding period of the previous year. Based on the above-mentioned reasons, the net interest margin of the Group increased by 0.15 percentage point to 3.66% as compared with 3.51% for the corresponding period of the previous year.

2.4.2 Gross Profit of the Industrial Operation Segment

	For the year ended 31 December				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Gross profit of industrial operations segment	2,034,869	100.00%	1,558,845	100.00%	30.54%
Of which:					
Gross profit of hospital operation(1)	744,380	36.58%	610,200	39.14%	21.99%
Gross profit of equipment operation(2)	1,112,394	54.67%	852,124	54.66%	30.54%
Gross profit of educational institutions operation	2,642	0.13%	30,575	1.96%	-91.36%

Notes:

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

(2) For details of gross profit of equipment operation, please see the discussion and analysis in Paragraph 13.1 of this section;

The gross profit of the industrial operation segment increased by 30.54% to RMB2,034,869,000 for 2019 from RMB1,558,845,000 for 2018. Among which, the gross profit of the hospital operation and the equipment operation business were RMB744,380,000 and RMB1,112,394,000 respectively, accounting for 36.58% and 54.67% of the total gross profit of the industrial operation segment.

Management Discussion and Analysis

2.5 Other income/gains

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

	For the year ended 31 December 2019 RMB'000	2018 RMB'000	Change %
Income from the holdings of off-balance-sheet assets[1]	573,282	334,903	71.18%
Bank interest income	100,630	59,400	69.41%
Gains from structured financial products	65,628	18,947	246.38%
Government grants	65,263	25,777	153.18%
Equity investment income[2]	217,431	237,078	-8.29%
Net fair value gains from derivative instruments	–	19,025	-100.00%
Gains from the transfer of financial assets[3]	14,586	27,619	-47.19%
Other income[4]	120,253	16,309	637.34%
Total	1,157,073	739,058	56.56%

Notes:

(1) For the holding of off-balance-sheet assets of the Group, the 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.

(2) The Group's equity investment income was mainly gains on changes and transfer of the fair value of equity investment.

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

(4) The Group's other income for the year mainly consisted of gains from disposal of fixed assets of RMB63,295,000.

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group in 2019 were RMB4,805,301,000, representing a decrease of RMB107,714,000 or 2.19% from the corresponding period of the previous year, which was mainly due to the effectively control of the administrative expenses such as entertainment fee, office expense and communication expenses in selling and administrative expenses by the Group in this year.

Cost to income ratio of the Group in 2019 was 33.53%, which decreased from 35.36% as compared to the corresponding period of the previous year.

Management Discussion and Analysis

2.7 Other expenses and losses

Other expenses and losses of the Group in 2019 amounted to RMB497,393,000, representing an increase of 25.77% as compared to RMB395,474,000 in the corresponding period of the previous year. Other expenses and losses comprised foreign exchange loss of RMB51,775,000, representing a decrease of RMB77,110,000 as compared to RMB128,885,000 in the corresponding period of the previous year.

2.8 Finance costs

Finance costs of the Group in 2019 amounted to RMB460,632,000, representing an increase 0.17% as compared to RMB459,849,000 of the corresponding period of the previous year. The finance costs are mainly financing-related costs for the Group's industrial operation segment.

2.9 Pre-provision Operating Profit

Pre-provision operation profit of the Group in 2019 amounted to RMB9,917,400,000, representing an increase of RMB764,599,000 or 8.35% from the corresponding period of the previous year. The increase of 8.35% in pre-provision operating profit was mainly due to the increase of 5.82% in the Group's revenue, the increase of 9.06% in cost of sales as compared to the corresponding period of the previous year, leading to the increase of 3.14% in gross profit of the Group during the period as well as the increase of 56.56% in other income/gains, and the increase of 25.77% in other expenses and losses. 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, 2.5 and 2.7 of this section. In view of the above, facing the objective changes in external environment, the Group adopted a prudent and stable development strategies. The rate of increase was higher for cost of sales than for revenue due to the complicated and changing external financing market. At the same time, the Group further strengthened its operation management and controlled its cost and expenses more effectively, resulting in the growth in pre-provision operating profit basically remained unchanged as compared to the growth in revenue. It is expected that with gradual stabilization of the external market environment in future, the gradual expansion of industrial operating scale and the improvement in internal operating efficiency, the pre-provision profit of the Group will show a steady growing trend.

Management Discussion and Analysis

2.10 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				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Provision for interest-earning assets	1,912,753	68.99%	1,942,769	73.03%	-1.55%
Provision for accounts receivable[1]	105,593	3.81%	182,197	6.85%	-42.04%
Provision for other receivables[1]	-45,656	-1.65%	93,022	3.50%	-149.08%
Provision for inventories	42,861	1.55%	21,574	0.81%	98.67%
Provision for fixed assets[2]	446,796	16.11%	69,725	2.62%	540.80%
Provision for right-of-use assets[3]	86,691	3.13%	–	–	N/A
Provision for investment in joint ventures	–	–	170,000	6.39%	-100.00%
Provision for goodwill[4]	118,626	4.28%	161,225	6.06%	-26.42%
Provision for the holdings of off-balance-sheet assets[5]	8,880	0.32%	9,557	0.36%	-7.08%
Provision for credit commitments[6]	26	0.00%	10,165	0.38%	-99.74%
Other provisions	96,000	3.46%	–	–	N/A
Total	2,772,570	100.00%	2,660,234	100.00%	4.22%

Notes:

(1) Provision for accounts receivable and other receivables is mainly the expected credit loss of the relevant receivables made by the Group;

(2) Provision for fixed assets is mainly the impairment provisions made by the Group for the vessel assets and fixed asset of subsidiaries in education sector it owns;

(3) Provision for right-of-use assets is mainly refers to provision for impairment of right-of-use assets of leased sites of subsidiaries in education sector of the Group.

(4) Provision for goodwill is mainly the Group's impairment provision for the future performance of the relevant subsidiaries in education sector due to the uncertainty of future education policies;

(5) Provision for the holdings of off-balance-sheet assets is mainly the expected credit loss of the holdings of off-balance-sheet assets made by the Group;

(6) Provision for credit commitments is mainly the expected credit loss of the Group's interest-earning assets that have been contracted but not yet placed.

Management Discussion and Analysis

2.11 Income Tax Expense

Income tax expense of the Group in 2019 was RMB2,316,573,000, which increased by RMB212,131,000 or 10.08% 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 2019 was 32.4%, which remained relatively 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:

	2019	2018	Change %
Domestic statutory tax rate	25.0%	25.0%	–
Cross-border business withholding income tax[(1)]	1.6%	1.1%	0.5%
Fees not deductible for tax[(2)]	2.8%	3.7%	-0.9%
Others[(3)]	3.0%	2.6%	0.4%
Total	32.4%	32.4%	–

Notes:

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

(2) The fees not deductible for tax was mainly due to the impairment of goodwill in the education sector and the impairment of fixed asset accrued by the Group;

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

2.12 Profit for the Year Attributable to Holders of Ordinary Shares of the Company

Based on the above discussion and analysis, profit for the year attributable to holders of ordinary shares of the Company was RMB4,337,602,000, which increased by RMB410,130,000 or 10.44% from the corresponding period of the previous year.

2.13 Basic Earnings per Share

Basic earnings per share for the year amounted to RMB1.14, representing an increase of RMB0.12 or 11.76% from the previous year.

Management Discussion and Analysis

3. Analysis of Financial Position

3.1 Assets (Overview)

As at 31 December 2019, the total assets of the Group decreased by RMB5,399,206,000 or 2.03% from the end of the previous year to RMB260,570,588,000. Loans and accounts receivable decreased by RMB19,513,370,000 or 8.84% from the end of the previous year to RMB201,120,901,000.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Loans and accounts receivable	201,120,901	77.18%	220,634,271	82.95%	-8.84%
Cash and cash equivalents	3,989,571	1.53%	5,269,392	1.98%	-24.29%
Restricted deposits	5,966,661	2.29%	5,280,123	1.99%	13.00%
Holding of asset-backed securities/notes	5,850,246	2.25%	2,390,434	0.90%	144.74%
Assets with continuing involvement	5,850,246	2.25%	2,327,322	0.88%	151.37%
Prepayment and other accounts receivable	2,595,975	1.00%	2,614,220	0.98%	-0.70%
Deferred tax assets	4,181,252	1.60%	4,031,727	1.52%	3.71%
Property, plant and equipment	11,582,978	4.45%	9,984,765	3.75%	16.01%
Prepaid land lease payments(1)	–	–	1,546,827	0.58%	-100.00%
Investment in joint ventures/associates	7,218,666	2.77%	5,964,563	2.24%	21.03%
Financial assets at fair value through profit or loss	4,442,688	1.70%	2,669,404	1.00%	66.43%
Derivative financial instruments	1,565,836	0.60%	1,042,779	0.39%	50.16%
Inventories	403,838	0.15%	448,328	0.17%	-9.92%
Contract assets	22,646	0.01%	27,168	0.01%	-16.64%
Goodwill	2,321,837	0.89%	1,716,527	0.65%	35.26%
Right-of-use assets(1)	3,422,782	1.31%	–	–	N/A
Other assets	34,465	0.01%	21,944	0.01%	57.06%
Total assets	260,570,588	100.00%	265,969,794	100.00%	-2.03%

Note (1): Due to the application of new lease standards, items originally included in prepaid land lease payments were reclassified to right-of-use assets from 1 January 2019.

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 77.18% of the total assets of the Group as of 31 December 2019. In 2019, the Group actively enhanced the gearing ratio management and put more effort in disposing interest-earning assets through asset-backed securities business. While developing relevant markets, the Group strengthened its risk control in a prudent manner and adjusted the development strategies for each industry based on dynamic environment and industry situation. It enhanced risk identification for sub-segments and qualifications of customers, and controlled the layout of financial business while safeguarding its assets, which led to a decrease in the net interest-earning assets of the Group. The Group will continue to maintain quality customers and explore their needs for financial services.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-earning assets	203,149,075		223,989,078		-9.30%
Less: interest-earning assets provisions	(5,535,294)		(5,093,732)		8.67%
Net interest-earning assets[1]	197,613,781	98.26%	218,895,346	99.21%	-9.72%
Others[2]	3,507,120	1.74%	1,738,925	0.79%	101.68%
Net loans and accounts receivable	201,120,901	100.00%	220,634,271	100.00%	-8.84%

Notes:

(1) Interest-earning assets include net finance lease receivable, 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 2019 were RMB203,149,075,000, representing a decrease of 9.30% as compared with RMB223,989,078,000 as of 31 December 2018, which was due to the reason that the Group controlled the overall layout of financial business on the basis of further enhanced risk control, strengthened the management of gearing ratio and disposed of interest-earning assets through asset-backed securities business in 2019.

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 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	31,239,825	15.38%	37,041,190	16.54%	-15.66%
Cultural & tourism[2]	30,965,168	15.24%	36,128,668	16.13%	-14.29%
Engineering construction	21,985,553	10.82%	27,168,894	12.13%	-19.08%
Machinery	8,546,849	4.21%	13,942,853	6.22%	-38.70%
Chemical & medicine	4,107,624	2.02%	4,415,988	1.97%	-6.98%
Electronic information	8,066,091	3.97%	10,399,843	4.64%	-22.44%
Public consuming	8,960,246	4.41%	10,749,574	4.80%	-16.65%
Transportation & logistics	13,608,446	6.70%	17,910,753	8.00%	-24.02%
Urban public utility[3]	73,732,725	36.30%	64,735,477	28.90%	13.90%
Others	1,936,548	0.95%	1,495,838	0.67%	29.46%
Total	203,149,075	100.00%	223,989,078	100.00%	-9.30%

Notes:

(1) Interest-earning assets for industries other than urban public utilities among the target industries of the Group as of 31 December 2019 decreased over those as at 31 December 2018. This was attributable to (i) the Group's active strengthening of gearing ratio management, further enhancement of risk control and strict control over the qualification requirements for new customers; (ii) the Group's adaptation to the changes in the macro economy and the trend of the industrial environment and adjustments to the layout of key industries; and (iii) the Group's continuous maintenance of quality industries and customers and exploration of their needs for financial service.

(2) The cultural & tourism industry includes the interest-earning assets that originally belongs to the "education" industry.

(3) As at 31 December 2019, the net interest-earning assets for urban public utilities were RMB73,732,725,000, which were further split according to the sub-segments, of which the net interest-earning assets for (i) urban operations and municipal services were RMB52,986,259,000, and (ii) urban infrastructure construction were RMB20,746,466,000.

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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 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Northeast China	16,605,784	8.17%	23,562,797	10.52%
Northern China	23,759,302	11.70%	29,549,576	13.19%
Eastern China	58,249,785	28.68%	54,382,605	24.28%
Southern China	15,202,665	7.48%	17,063,791	7.62%
Central China	29,350,086	14.45%	30,590,085	13.66%
Northwest China	13,535,142	6.66%	15,608,856	6.97%
Southwest China	46,446,311	22.86%	53,231,368	23.76%
Total	203,149,075	100.00%	223,989,078	100.00%

Note: Of the interest-earning assets at the end of 2019, the net interest-earning assets from Hubei Province amounted to RMB6,732,448,000, accounting for 3.31% of the net interest-earning assets.

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 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Net interest-earning assets					
Within 1 year	82,278,512	40.50%	110,897,727	49.51%	-25.81%
1 to 2 years	59,865,677	29.47%	77,792,874	34.73%	-23.04%
2 to 3 years	45,765,907	22.53%	23,483,843	10.48%	94.88%
3 years and beyond	15,238,979	7.50%	11,814,634	5.28%	28.98%
Total	203,149,075	100.00%	223,989,078	100.00%	-9.30%

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 2019, net interest-earning assets within one year as set out in the table above represented 40.50% of net interest-earning assets of the Group, a decrease as compared with the end of the previous year.

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3.2.5 **Maturity Profile of Net Interest-earning Assets**

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Maturity date					
Within 1 year	97,407,550	47.95%	89,254,282	39.85%	9.13%
1 to 2 years	61,747,869	30.39%	66,225,298	29.56%	-6.76%
2 to 3 years	32,232,901	15.87%	41,455,583	18.51%	-22.25%
3 years and beyond	11,760,755	5.79%	27,053,915	12.08%	-56.53%
Total	203,149,075	100.00%	223,989,078	100.00%	-9.30%

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 2019, net interest-earning assets due within one year as set forth in the table above represented 47.95% of the Group's net interest-earning assets as of each of the respective dates, which increased as compared to the end of the previous year. This indicated that the maturity of the Group's net interest-earning assets was widely spread and could provide the Group with consistent and sustainable cash inflows that facilitated the matching of our liabilities.

3.2.6 **Asset Quality of Net Interest-earning Assets**

3.2.6.1 ***Five-category Classification of Net Interest-earning Assets***

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. The Group takes 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.

Asset management measures

In 2019, given the overall external environmental impact, the uneven development of the real economy, and the exposure and appearance of debt and financial risks in certain regions and individuals, the operating environment faced by the customers of the Group has not improved significantly. The Group actively adopted a series of optimization work to promote business innovation, management upgrade and organizational change. In the asset management stage, by optimizing the asset management system, we strive to strengthen regional asset management functions, continuously improve the comprehensiveness and effectiveness of monitoring, strengthen process supervision and improving process management methods, especially in the process of continuous changes in the external environment, strengthen research on industries, regions, and policies, actively reach out to the front line customers, understand the impact of different policy environments on customers, and actively adjust customer management measures. We also optimized the decision-making and processing mechanism for disposal, improved the efficiency of risk disposal, enhanced the management of disposal resources, establish a litigation support and guarantee system that serves the entire group's operations, and realized continuous, stable and controllable overall asset quality of the Group during the reporting period.

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Strengthening system construction and further implement comprehensive asset safety management

The Group continued to conduct self-inspection and correction, and continued to conduct regular internal comprehensive inspections, to review the overall asset operation system and continuously optimized itself, and implemented a closed loop of customer management. By conducting closed-loop management through returning telephone calls and asset inspections, and issuing risk warnings for abnormal events in the process, we strengthened compliance awareness, and continue to improve the management and control requirements for the lifelong responsibility system for project assets.

We further implemented inquiry and reporting through accessing the Credit Reference Center System of the People's Bank of China. As for checking and monitoring customer risk, the independence and inquiry efficiency of our credit reference inquiry have been greatly improved. Reporting credit reference has also become an effective pressuring measure in collecting and disposing asset.

Strengthening regional asset management functions and industry management functions, continuously improving the comprehensiveness and effectiveness of monitoring, and improving the effectiveness of asset monitoring

The Group continued to strengthen the territorial operation and management strategy of "close to assets, close to customers", continued to lay out localized asset management work, and promoted the deployment of localized asset managers in areas with high concentration of customers, taking advantage of rooting in various areas, close to assets, and rapid mobility. Deepening the industry continued to give full play to the advantages of industry management in monitoring and controlling early warning and risk disposal, and helped us make timely discover and screened risks, and took effective measures to deal with them.

Continuously improving management of disposal resources and enhancing risk disposal capabilities

We continued to consolidate the legal resources protection system, actively expanded regional disposal resources; continued to improve the nationwide resource disposal layout through cooperation with provincial asset management companies; meanwhile, continued to improve innovative methods and ideas for disposal; and established a risk management support system that serves the operation across the Group.

Management Discussion and Analysis

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

	31 December 2019		31 December 2018		31 December 2017		31 December 2016	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	178,912,873	88.07%	195,099,412	87.10%	174,404,617	89.91%	124,443,723	89.02%
Special mention	21,987,115	10.82%	26,737,919	11.94%	17,811,994	9.18%	13,965,494	9.99%
Substandard	1,689,815	0.83%	1,328,649	0.59%	1,202,699	0.62%	853,232	0.61%
Doubtful	559,272	0.28%	823,098	0.37%	558,273	0.29%	535,892	0.38%
Loss	–	–	–	–	–	–	–	–
Net interest-earning assets	203,149,075	100.00%	223,989,078	100.00%	193,977,583	100.00%	139,798,341	100.00%
Non-performing assets	2,249,087		2,151,747		1,760,972		1,389,124	
Non-performing asset ratio	1.11%		0.96%		0.91%		0.99%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As at the end of 2019, the Group's assets under special mention accounted for 10.82% of its net interest-earning assets, representing a decrease by 1.12% from 11.94% at the end of 2018.

The assets under special mention in the urban public utility industry accounted for 29.70% of the total assets under special mention. This was mainly due to the reason that some customers experienced periodical financial pressure as a result of slightly tight policy supervision and market liquidity. The urban public sector had a large amount of assets, and the proportion of assets under special mention was correspondingly larger, but the overall proportion of assets under special mention in this sector was lower than the overall assets under special mention of the Company The Group prudently adjusted more of the assets of the segment to assets under special mention.

The assets under special mention in the cultural & tourism industry accounted for 21.65% of the total assets under special mention. Mainly affected by the macro economic environment and national policies, the financing progress of customers in the tourism sector has slowed down, and some customers' short-term debt repayment pressure has increased, and there were periodical tight liquidity. Based on the change, the Group prudently adjusted more of the assets of the segment to assets under special mention.

The assets under special mention in the healthcare industry accounted for 21.36% of the total assets under special mention. Affected by financial environment and policies on controlling medical insurance expenses, the overall gain level of public hospitals has decreased. Private hospitals as a whole were relatively strong in need for financing. Based on this, the Group has prudently strengthened the process control measures of the industry and prudently adjusted more of the assets of the segment to assets under special mention.

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The assets under special mention in the engineering construction industry accounted for 10.62% of the total assets under special mention. This was mainly due to fluctuations in macro economy, structural adjustment on policies, intensified industry competition, and blocked financing channels. Some customers in construction and facilities operation industries experienced a decline in operation. The Group prudently classified more of the assets of the 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 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Healthcare	4,696,256	21.36%	4,605,468	17.22%
Cultural & tourism	4,761,246	21.65%	4,577,006	17.12%
Engineering construction	2,334,046	10.62%	2,812,295	10.52%
Machinery	924,872	4.21%	1,536,072	5.74%
Chemical & medicine	73,200	0.33%	302,950	1.13%
Electronic information	815,763	3.71%	1,739,667	6.51%
Public consuming	604,632	2.75%	1,092,437	4.09%
Transportation & logistics	1,247,384	5.67%	2,856,936	10.68%
Urban public utility	6,529,716	29.70%	7,215,088	26.99%
Total	21,987,115	100.00%	26,737,919	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 2019 % of total	31 December 2018 % of total	31 December 2017 % of total	31 December 2016 % of total
Pass	**22.76%**	24.82%	21.73%	6.84%
Special mention	**35.69%**	29.68%	25.31%	40.15%
Substandard	**3.15%**	0.63%	4.85%	4.39%
Doubtful	**0.05%**	1.30%	0.47%	1.21%
Loss	**0.67%**	0.10%	–	–
Recovery	**37.68%**	43.47%	47.64%	47.41%
Total	**100.00%**	100.00%	100.00%	100.00%

The Group's non-performing asset ratio increased slightly, but the overall asset quality remained safe and controllable. As at the end of 2019, the non-performing asset ratio was 1.11%, which increased by 0.15% from 0.96% as compared to the end of last year. The non-performing amount actually increased insignificantly. The increase in the ratio was mainly due to the decrease in the amount of interest-earning assets.

The non-performing assets of the urban public utility industry accounted for 36.64% of the total non-performing assets. Due to the impact of individual projects with relatively high amounts, the indicators were on the high side. The main problems of non-performing projects in the urban public utility industry were management instability, short-term liquidity difficulties caused by short-term financing and repayment pace mismatch. The overall risk was controllable. The Group categorized the assets into non-performing due to careful consideration. The overall occurrence of non-performing situation in the industry was normal, loss prediction was low, and no systemic risk appeared.

The non-performing assets of the cultural & tourism industry accounted for 24.91% of the total non-performing assets, mainly concentrated in the tourism sector. Due to the large scale of individual projects, the overall non-performing assets in the tourism sector were relatively large. The overall occurrence of non-performing situation in the industry was normal, loss prediction was low, and no systemic risk appeared.

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The non-performing asset of the transportation & logistics industry accounted for 9.49% of the total non-performing assets, mainly distributed in the sub-segments such as transportation services, farming, forestry, animal husbandry and fishery and commercial and retail industries. They mainly manifested in digesting existing non-performing, with a significant decrease as compared with 2018. Since the single project amount of transportation vessel project was relatively large, and affected by the prolonged downturn in shipping market, the operating capacity of enterprises recovered slowly, and the non-performing vessel asset takes a longer disposal period. Affected by factors such as regulatory policies and off-season sales, tension appeared in the operating cash flow of individual enterprises in the farming, forestry, animal husbandry and fishery industry. Individual enterprises in commercial and retail industries suffered decline in operation, broken financing chain and tight operating cash flow under the effect of factors including financial deleveraging and fluctuation of commodity prices. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the Machinery industry accounted for 8.83% of the total non-performing assets, mainly due to the large volume of individual customers in the material industry and the downward cycle in the automobile industry. The sales of some automobile enterprises have fallen significantly year-on-year. The operating conditions of some automakers and upstream and downstream supporting companies have declined. Valuations stayed low in a long period and the real economy was weak, which led to concerns about the stability of equity pledge financing and difficulties in sourcing new financing by some listed companies. 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 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Healthcare	24,549	1.09%	167,180	7.77%
Culture & tourism	560,214	24.91%	450,123	20.92%
Engineering construction	73,092	3.25%	426,516	19.82%
Machinery	198,660	8.83%	294,348	13.68%
Chemical & medicine	117,177	5.21%	7,015	0.33%
Electronic information	85,213	3.79%	73,065	3.40%
Public consuming	152,750	6.79%	146,722	6.82%
Transportation & logistics	213,539	9.49%	393,733	18.30%
Urban public utility	823,893	36.64%	193,045	8.96%
Total	2,249,087	100.00%	2,151,747	100.00%

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

	31 December 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Healthcare	22,444	1.33%	79,114	5.95%
Culture & tourism	560,214	33.15%	288,895	21.74%
Engineering construction	72,611	4.30%	162,229	12.21%
Machinery	65,661	3.89%	294,348	22.15%
Chemical & medicine	44,250	2.62%	7,015	0.53%
Electronic information	85,213	5.04%	72,342	5.45%
Public consuming	152,750	9.04%	120,570	9.08%
Transportation & logistics	42,183	2.50%	304,136	22.89%
Urban public utility	644,489	38.13%	–	–
Total	1,689,815	100.00%	1,328,649	100.00%

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

	31 December 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Healthcare	2,105	0.38%	88,066	10.70%
Culture & tourism	–	–	161,228	19.59%
Engineering construction	481	0.09%	264,287	32.11%
Machinery	132,999	23.78%	–	–
Chemical & medicine	72,927	13.04%	–	–
Electronic information	–	–	723	0.09%
Public consuming	–	–	26,152	3.18%
Transportation & logistics	171,356	30.64%	89,597	10.89%
Urban public utility	179,404	32.07%	193,045	23.44%
Total	559,272	100.00%	823,098	100.00%

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

	31 December 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Healthcare	–	–	–	–
Culture & tourism	–	–	–	–
Engineering construction	–	–	–	–
Machinery	–	–	–	–
Chemical & medicine	–	–	–	–
Electronic information	–	–	–	–
Public consuming	–	–	–	–
Transportation & logistics	–	–	–	–
Urban public utility	–	–	–	–
Total	–	–	–	–

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

	31 December 2019	31 December 2018	31 December 2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	2,151,747	1,760,972	1,389,124
Downgrades[(1)]	1,605,061	1,819,122	1,108,931
Upgrades	(28,232)	(190,602)	(159,538)
Recoveries	(612,339)	(631,871)	(505,114)
Write-off	(867,150)	(605,874)	(72,431)
At the end of the year	2,249,087	2,151,747	1,760,972
NPA ratio	1.11%	0.96%	0.91%
Non-performing loan formation ratio[(2)]	0.43%	0.52%	0.32%

Notes:

(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 period to non-performing categories;

(2) Non-performing loan formation ratio = (the balance of non-performing loan at the end of year – the balance of non-performing loan at the beginning of year – write-off for the year)/(net normal interest-earning assets at the beginning of year + net interest-earning assets under special mention at the beginning of year)

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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 2019		31 December 2018		31 December 2017		31 December 2016	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Interest-earning assets provisions:								
Provision for non-performing assets	469,357	8.481%	759,991	14.92%	700,180	18.10%	558,366	18.95%
Provision for pass and special mention assets	5,065,937	91.52%	4,333,741	85.08%	3,168,838	81.90%	2,388,320	81.05%
Total	5,535,294	100.00%	5,093,732	100.00%	3,869,018	100.00%	2,946,686	100.00%
Non-performing assets	2,249,087		2,151,747		1,760,972		1,389,124	
Provision coverage ratio	246.11%		236.73%		219.71%		212.13%	
Credit cost ratio(1)	0.90%		0.90%		0.92%		0.92%	

Note:

(1) Credit cost ratio =provision for interest-earning assets for the year/average balance of interest-earning assets.

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 2019	31 December 2018	31 December 2017	31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Write-off	867,150	605,874	72,431	352,785
Non-performing assets as at the end of last year	2,151,747	1,760,972	1,389,124	1,183,034
Write-off ratio(1)	40.30%	34.41%	5.21%	29.82%

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.

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At the end of 2019, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB867,150,000, which were mainly distributed in the infrastructure construction, culture & tourism and machinery, accounting for RMB310,739,000, RMB154,127,000 and RMB142,918,000, respectively. 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 terminated the disposal of assets, but continued to collect the payment through disposal of equipment/pledge,,and exerting pressure on guarantors. From 2011 to the end of 2019, the written-off bad debts amounted to RMB2,283,614,000 and RMB237,599,000 has been recovered.

3.2.6.4 *Status of Interest-earning Assets (Over 30 Days)*

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

	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Overdue ratio (over 30 days)	1.29%	0.94%	0.72%	0.98%

The Group adhered to the prudent strategies of risk control and asset management. The Group's lease overdue ratio (over 30 days) was 1.29% as at 31 December 2019, representing 0.35% higher than 0.94% as at the end of 2018.

Certain overdue assets over 30 days have been classified as non-performing assets at the end of 2019, and 85% of overdue assets over 30 days were overdue within 1 to 2 months. Historically, the ratio of overdue assets over 30 days old transferred to non-performing assets was relatively low. At the end of 2018, most of the overdue assets over 30 days old were no longer overdue or continued to reduce their exposure.

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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 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Healthcare	431,797	16.46%	342,830	16.23%
Culture & tourism	976,592	37.23%	460,828	21.81%
Engineering construction	479,784	18.29%	462,435	21.89%
Machinery	84,986	3.24%	62,058	2.94%
Chemical & medicine	117,178	4.47%	5,538	0.26%
Electronic information	8,911	0.34%	–	–
Public consuming	39,924	1.52%	63,364	3.00%
Transportation & logistics	41,883	1.60%	465,068	22.01%
Urban public utility	442,070	16.85%	250,435	11.86%
Total	2,623,125	100.00%	2,112,556	100.00%

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

	31 December 2019		31 December 2018	
	RMB'000	% of total	RMB'000	% of total
Special mention	2,105,248	80.26%	755,885	35.78%
Substandard	400,345	15.26%	541,945	25.65%
Doubtful	117,532	4.48%	814,726	38.57%
Loss	–	–	–	–
Total	2,623,125	100.00%	2,112,556	100.00%

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3.3 Asset-backed Securities/Notes-related Assets Items and etc.

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

	2019		2018		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	1,839	7.47%	1,971	11.66%	-6.70%
Culture & tourism	2,192	8.91%	2,896	17.15%	-24.31%
Engineering construction	3,503	14.24%	2,129	12.60%	64.54%
Machinery	2,124	8.63%	1,306	7.73%	62.63%
Chemical & medicine	1,322	5.37%	1,111	6.57%	18.99%
Electronic information	1,940	7.88%	1,251	7.40%	55.08%
Public consuming	1,877	7.63%	1,180	6.98%	59.07%
Transportation & logistics	1,518	6.17%	980	5.80%	54.90%
Urban public utility	8,292	33.70%	4,075	24.11%	103.48%
Total	24,607	100.00%	16,899	100.00%	45.61%

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

	31 December 2019		31 December 2018		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	5,302	14.35%	7,119	18.39%	-25.52%
Culture & tourism	7,221	19.55%	10,678	27.58%	-32.38%
Engineering construction	5,562	15.06%	6,321	16.33%	-12.01%
Machinery	2,000	5.41%	1,481	3.83%	35.04%
Chemical & medicine	1,213	3.28%	979	2.53%	23.90%
Electronic information	1,990	5.39%	2,107	5.44%	-5.55%
Public consuming	2,021	5.47%	1,958	5.06%	3.22%
Transportation & logistics	2,239	6.06%	1,975	5.10%	13.37%
Urban public utility	9,396	25.43%	6,094	15.74%	54.18%
Total	36,944	100.00%	38,712	100.00%	-4.57%

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The Group disposed of an aggregate of the principal amount of approximately RMB24,607 million of interest-earning assets through asset-backed securities/notes in 2019, representing an increase of 45.61% as compared to RMB16,899 million in the corresponding period of last year. As at 31 December 2019, the balance of the holding of asset-backed securities/notes-related assets items amounted to RMB5,850,246,000 representing an increase of 144.74% as compared to RMB2,390,434,000 as at 31 December 2018. 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 in 2019 with no significant anomalies of asset quality.

Assets with continuing involvement of the Group amounted to RMB5,850,246,000, representing an increase of 151.37% as compared to RMB2,327,322,000 as at 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 recognize 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 2019, cash and cash equivalents of the Group amounted to RMB3,989,571,000. 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 RMB5,966,661,000.

Prepayments and other receivables of the Group amounted to RMB2,595,975,000 comprised mainly of prepayments for suppliers of machinery and equipment and deductible value-added tax etc.

Deferred tax assets of the Group amounted to RMB4,181,252,000, mainly for the deferred income tax provided for the time difference between accounting and taxation.

Property, plant and equipment of the Group amounted to RMB11,582,978,000, comprised mainly of equipment and instruments for equipment operation business, plants and medical equipment of subsidiary hospitals and the main office building of the Group.

Investments in joint ventures/associates of the Group amounted to RMB7,218,666,000, comprised mainly of the equity investments of the Group in joint ventures/associates such as Guangzhou Kangda, Far Wing Capital, industrial fund engaged in entrusted financial leasing and entrusted loan business, provincial asset management companies and the invested hospitals.

The balance of financial assets at fair value through profit or loss of the Group was RMB4,442,688,000, mainly due to the financial equity investment and wealth management products investment invested by the Group, among which the balance of wealth management products was RMB2,011,930,000 as at the end of 2019.

The balance of derivative financial instruments of the Group is RMB1,565,836,000, which was mainly 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.

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The balance of the Group's goodwill amounted to RMB2,321,837,000, which was mainly the goodwill recognized by the Group for the acquisition of medical institutions.

The Group's right-of-use assets amounted to RMB3,422,782,000, which was mainly the land use rights of the corresponding lands of the Group's main office building and its subsidiary hospitals' buildings and the assets recognized in accordance with the new lease criteria in effect this year for the use rights of the premises leased by subsidiary hospitals and educational institutions.

3.5 Liabilities (Overview)

On 31 December 2019, total liabilities of the Group amounted to RMB219,035,813,000, representing a decrease of RMB7,841,477,000 or 3.46% 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 74.14% of the total, which relatively remained stable as compared to 76.04% of the end of last year.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	162,396,266	74.14%	172,514,982	76.04%	-5.87%
Other payables and accruals	41,710,446	19.04%	45,238,879	19.94%	-7.80%
Liabilities for continuing involvement	5,850,246	2.67%	2,327,322	1.03%	151.37%
Trade and bills payables	4,473,428	2.04%	3,431,914	1.51%	30.35%
Tax Payables	1,256,882	0.57%	2,025,471	0.89%	-37.95%
Derivative financial instruments	184,514	0.09%	207,854	0.09%	-11.23%
Deferred tax liabilities	236,648	0.11%	149,472	0.07%	58.32%
Deferred revenue	1,054,306	0.48%	981,396	0.43%	7.43%
Lease liabilities	1,873,077	0.86%	–	–	N/A
Total Liabilities	219,035,813	100.00%	226,877,290	100.00%	-3.46%

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3.6 Interest-bearing Bank and Other Borrowings

Being faced with the complicated financial environment at home and overseas, the Group adhered to the established strategy of "finance + industry" 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 market, the Group further enriched the bond portfolios by introducing innovative products such as renewable corporate bonds and has formed the new stage of alternate issue of various products such as corporate bonds, PPN and ultra-short financing bills in different markets. In February 2020, the Group successfully completed the issuance of the first RMB2 billion of renewable disease prevention and control bonds. The funds raised will be used in part to support the development of enterprises in epidemic areas and pharmaceutical companies. The Group actively responded to the national financial support for the epidemic prevention and control call, and effectively served the real economy with practical actions, which reflected the social responsibility of the Group's active participation in epidemic prevention work.

In 2019, benefiting from the policy support for the shelf offering for leased asset, the issuance efficiency of asset securitization products was significantly improved, and the issuance cost repeatedly hit record low, so as to enrich its capital source and optimize its debt structure. The Group has always been the most mature and active issuer of asset securitization products in China. In 2019, the Group was awarded the "Excellent Participant in Asset Securitization Business" by the Shanghai Stock Exchange.

Within the market of indirect financing, the Group achieved cross-platform facility on the basis of the current financing channel as required by its strategic development, and strengthened its co-operation relationship with key bank channels. The Group formed a deep cooperative relationship with banks including the six big banks and three policy banks. At the same time, the Company adjusted its previous cooperation methods according to its own development stage and channel characteristics to meet the demand for Group's products.

In conclusion, the Group had diverse financing methods with an improved liability structure, and further reduced its reliability on a single product and a single market, thus achieving diversification of financing products, decentralization of financing regions and continuation of maintaining a competitive cost advantage. In the future, the Group is confident that with the favorable operation momentum and profound financial market cooperation foundation, the Group can further improve its competitiveness in liability side.

As at 31 December 2019, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB162,396,266,000, representing a decrease of 5.87% as compared with RMB172,514,982,000 as at the end of last year, mainly due to a decrease in the balance of interest-earning assets. The Group's borrowings were mainly denominated in RMB and USD.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Current	87,744,845	54.03%	66,635,537	38.63%	31.68%
Non-current	74,651,421	45.97%	105,879,445	61.37%	-29.49%
Total	162,396,266	100.00%	172,514,982	100.00%	-5.87%

As at 31 December 2019, 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 54.03%, which increased as compared to the previous year, mainly because the Group moderately increased short-term debt to reduce capital costs, while maintaining liquidity security and a sound financing strategy.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	11,766,200	7.25%	34,729,949	20.13%	-66.12%
Unsecured	150,630,066	92.75%	137,785,033	79.87%	9.32%
Total	162,396,266	100.00%	172,514,982	100.00%	19.06%

The Group carefully managed its funding risk in 2019. As at 31 December 2019, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 92.75% of the Group's total interest-bearing bank and other borrowings, which increased as compared with that of the end of last year, mainly because the Group continued to optimize its financing conditions and acquired high-quality financing resources.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank loans	85,561,053	52.69%	89,008,807	51.59%	-3.87%
Other loans	76,835,213	47.31%	83,506,175	48.41%	-7.99%
Total	162,396,266	100.00%	172,514,982	100.00%	-5.87%

As at 31 December 2019, the proportion of the Group's loans as a percentage to the Group's total bank and other borrowings was roughly the same as compared with 31 December 2018, as the Group continued to deepen its financing cooperation with banks and other institutions with a sound financing strategy.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
China	133,900,943	82.45%	147,754,189	85.65%	-9.38%
Overseas	28,495,323	17.55%	24,760,793	14.35%	15.08%
Total	162,396,266	100.00%	172,514,982	100.00%	-5.87%

As at 31 December 2019, the proportion of the Group's borrowings from China and other borrowings as a percentage to the Group's total borrowings was 82.45%, which decreased as compared with that at the end of last year as the Group proactively expanded various financing channels overseas to satisfy the funding needs.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
RMB	122,898,556	75.68%	143,131,905	82.97%	-14.14%
USD	35,544,152	21.89%	22,121,904	12.82%	60.67%
Borrowings in other currencies	3,953,558	2.43%	7,261,173	4.21%	-45.55%
Total	162,396,266	100.00%	172,514,982	100.00%	-5.87%

As at 31 December 2019, the Group's activities in RMB accounted for 75.68% of its total interest-bearing bank and other borrowings, representing a decrease from the end of last year as the Group actively expanded its overseas market and withdrew US dollar loans to satisfy the funding needs.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	67,077,413	41.30%	74,394,158	43.12%	-9.84%
Indirect financing	95,318,853	58.70%	98,120,824	56.88%	-2.86%
Total	162,396,266	100.00%	172,514,982	100.00%	-5.87%

As at 31 December 2019, Group's direct borrowings accounted for 41.30% of the total, which decreased as compared to the end of last year on account of the Group's deep participation and good cooperation records in both direct and indirect financing markets, and the balanced financing structure ensured the financial resources needed for the future development of the Company.

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3.7 Shareholders' Equity

As at 31 December 2019, the total equity of the Group was RMB41,534,775,000, representing an increase of RMB2,442,271,000 or 6.25% from the end of last year.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Share capital(1)	10,281,212	24.75%	10,235,373	26.18%	0.45%
Reserve	19,847,224	47.79%	17,494,370	44.75%	13.45%
Equity attributable to ordinary shareholders of the Company(2)	30,128,436	72.54%	27,729,743	70.93%	8.65%
Perpetual securities(3)	9,860,211	23.74%	9,789,593	25.04%	0.72%
Non-controlling interests	1,546,128	3.72%	1,573,168	4.03%	-1.72%
Total Equity	41,534,775	100.00%	39,092,504	100.00%	6.25%

Notes:

(1) The Group's share capital increased by RMB45,839,000 in 2019. It is the exercise price charged for the exercise of share options during the year under the Group's Share Option Scheme and the fair value of the corresponding share options.

(2) The Group's equity attributable to the ordinary shareholders of the Company was RMB27,729,743,000 in the end of 2018. The Group's profit for the year attributable to the ordinary shareholders of the Company was RMB4,337,602,000 in 2019. The final dividend of HK$0.30 per share for the year ended 31 December 2018 was approved at the annual general meeting on 5 June 2019 and paid on 31 July 2019. As at 31 December 2019, the equity attributable to the ordinary shareholders of the Company was RMB30,128,436,000.

(3) On 14 June 2017, the Group issued US$300,000,000 perpetual securities at an initial distribution rate of 4.35%. The Perpetual 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 Perpetual 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.

On 24 July 2019, the Group completed the issuance of perpetual trusted loans in an amount of RMB49,850,000 in the PRC. The basic term of the Perpetual Loans will be 5 years (the Group is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 6.0% 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 2019, 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 2019 RMB'000	31 December 2018 RMB'000
Total assets (A)	260,570,588	265,969,794
Total liabilities (B)	219,035,813	226,877,290
Total equity	41,534,775	39,092,504
Gearing ratio (C=B/A)	84.06%	85.30%

In 2019, 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 2019, our gearing ratio was 84.06%.

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 risky assets of International Far Eastern Leasing Co., Ltd., Far East Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd. shall not exceed 10 times of its equity. According to Article 27 of the Interim Measures for the Supervision and Management of Financial Leasing Companies (Draft for Soliciting Opinions) issued by the China Banking Regulatory Commission in January 2020, the total risky assets of a financial leasing company must not exceed 8 times of the net assets.

As at 31 December 2019, the ratios of risky 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 6.08, 4.16 and 4.03 respectively, which was in compliance with the ratio of risky 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.

Management Discussion and Analysis

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 2019 RMB'000	31 December 2018 RMB'000
Total assets	197,945,934	207,464,792
Less: Cash	5,865,515	6,031,761
Total assets at risk	192,080,419	201,433,031
Equity	31,608,628	28,730,205
Ratio of assets at risk to equity	6.08	7.01

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Total assets	66,375,364	71,498,068
Less: Cash	2,407,459	2,420,545
Total assets at risk	63,967,905	69,077,523
Equity	15,360,169	13,162,029
Ratio of assets at risk to equity	4.16	5.25

Far Eastern Horizon Financial Leasing Co., Ltd.

	31 December 2019 RMB'000	31 December 2018 RMB'000
Total assets	17,433,115	13,684,663
Less: Cash	125,838	228,171
Total assets at risk	17,307,277	13,456,492
Equity	4,291,405	2,909,121
Ratio of assets at risk to equity	4.03	4.63

Management Discussion and Analysis

5. Capital Expenditures

The Group's capital expenditure was RMB5,942,230,000 in 2019, which was mainly used as the expenditures for additions of property, plant and equipment, and external equity investments.

6. Risk Management

6.1 Credit Risk

In 2019, the external challenges facing the Chinese economy increased dramatically. China continued to open wider to the outside world, increasing the export of China 's advantageous industries through the Belt and Road initiative, hedging the impact of trade wars through diversified export regions, and strengthening economic exchanges and ties with other countries by increasing imports; meanwhile, while strengthening internal supervision, the Group continued to deepen reforms, sought change while maintaining stability, and sought progress while maintaining stability.

From a macro perspective, China 's economic growth declined while maintaining stability, and transformation and upgrading were firmly advanced. At the micro level, corporate optimization and reorganization became more frequent. "Matthew principle" became increasingly prominent that poorly operating companies were accelerated to be eliminated.

I. Financial Services

In 2019, with respect to the financial business, the Company continued to cultivate the industry and strengthen its industrial attachment; it carefully worked on its customers, and strived to have a comprehensive understanding of customer information, to achieve a deep understanding of customers, to ensure risk control; mid- and back-office personnel went deep into the area and they worked side by side with front personnel. The operation moved forward and implemented, striving to improve risk perception; the operational level was focused on practical results.

1. Deepen Developing the Industry

The Company further split according to the segments, further deepened industry awareness and increased adherence to the industry.

1) More Segmented Industry

According to the differences in risk characteristics, the original six major industries were subdivided into nine major segments. Each segment was set up with several first-level industries, which were further divided into several second-level industries. While there were clear distinctions between major and subdivided industries, the risk differences of the subdivided industries are clearly distinguished.

Combining quantitative and qualitative characteristics to give industry ratings to the first-level industry and the second-level industry to ensure objective ratings; implementing flexibility and differentiation policies for different first-level industries and different second-level industries under the same first-level industry; the guidance was applied to asset allocation. The secondary industry rating guided customer selection and credit evaluation.

2) More reasonable allocation

According to the historical performance of the asset quality of the Company, while taking into account the national industry's priority development strategy, the Company continued to maintain large consumption and investment in key service industries on the basis of allocating weak cycles and basic industries related to national economy and people's livelihood such as medical, education, and infrastructure construction. At the same time, the Company gave credit policy to the superior technology companies in the conversion of old and new kinetic energy, as well as key national and regional development strategies that benefit enterprises.

3) Connection with Industry chain

The Group was familiar with the position of the customer's industrial chain, understanding the leading relationship and value transmission mechanism between the upper, middle and lower reaches of the industrial chain, grasped the relevant laws, and guided the implementation of macro policy and micro evaluation.

2. Exploring Customers

Based on the industry classification, the system sorted out and classified the customer base, so that customer access was "visible"; refined the site inspection steps and operational requirements, minimized the asymmetry of customer information, and performed due diligence that is "clearly visible"; familiar with customers' competitive advantages and disadvantages, profitability and liquidity characteristics, etc., performed "visible and understandable" credit evaluation, and developed effective risk hedging measures based on the customer's differentiated risk characteristics.

1) "Visible" Customer Access

According to the industry prosperity and the customer's position in the industry chain and competition, customers were initially returned; for industries with a good industry prosperity, customers could be moved down moderately; industries with poor industry prosperity could only be imported to leading customers.

The Group dynamically adjusted customer classification and updated the import side in a timely manner based on external default information and internal asset classification changes.

The Group formed customer whitelist, blacklist and greylist. Priority was given to whitelisted customers, blacklisted customers were strictly prohibited, and graylisted customers were carefully imported.

2) "Clearly Visible" Due Diligence

The Group continuously improved the hierarchical management of the subject's qualifications and matched the management of personnel qualifications with project quotas and risk levels. Major and high-risk projects must be handled by highly qualified personnel.

The Group improved customer due diligence templates and due diligence requirements by industry, further standardized due diligence objectives, on-site photos, data collection requirements, actual controller interview scripts, cross-validation of business site and financial site information, etc., to achieve "clearly visible" customer business and financial status to minimize the degree of asymmetry of customer information.

Management Discussion and Analysis

3) "Visible and Understandable" Credit Evaluation

The Group achieved to familiarize with the industry status of customers, industry cycle, industry market size and profitability, the survival status and bargaining power of customers' upstream and downstream companies, the competition status of the customer's industry, and whether the customer's operating indicators and financial indicators were healthy and normal.

The Group familiarized it with the risk differences between state-owned holdings, listed companies, and private enterprises. It restored its business nature and solvency, and then designed trading conditions and risk mitigation measures that fit its characteristics.

Through the group customer penetration assessment, the group capability assessment and subordinate enterprise assessment were carried out in a two-pronged manner, taking into account the differences in industry characteristics and operating capabilities.

The Group could visibly understand the customer, ensured the return to the source of risk, and achieved the first review of the customer's first repayment source, namely, the operational cash flow priority review and the essence of the ability to verify its ability through various channels; At the same time of securing the first repayment source, the second repayment source should be protected to improve the margin of safety management.

3. Implementation of Operation

On the one hand, the Group took advantage of the localization of marketing, quality control, assets and other personnel to focus on assessing whether customers were involved in local risk events, whether there was abnormal risk information, etc., to understand the credit policies of local customers for financial institutions, and to synchronize relevant information for follow-up section.

On the other hand, for important customers, in advanced interventions of quality checks for on-site inspections of customers were conducted to achieve closer and longer-term observation and evaluation of customers; meanwhile, asset personnel strengthened inspections of existing customers after launch and immediately synchronized customer risk information to the frontline and quality control, realized the entire process, comprehensive, multi-angle uninterrupted attention, application and management of customer risk status.

The Group strengthened the frequency and quality of arriving at the spot, so that "problem" can be heard, "risk" can be sniffed, so that problems can be found in the first place and decisions can be made in the first place.

Management Discussion and Analysis

4. Practical Pperation

In accordance with the policy of "all-round, full-process, multi-angle, and uninterruption", the Group focused more on the management of people based on the monitoring and supervision of daily risk indicators; on the basis of results management, the Group enhanced its emphasis on process management to achieve "verifiable results and visible processes".

The Group continued to implement credit management and the responsibilities of key links before and after the events, and strengthened the overall planning of the quality control manager's risk; constantly sort outed and optimized the responsibilities of each link of credit; clarified the relevant risk responsibilities in a hierarchical manner;

II. Industrial Operation Business

The Group continuously continued to improve the management over HSE major risks and construction of internal control mechanisms of various industrial groups. While the Group implemented the macro guidance, it paid attention to the implementation effect of landing and controlled the risks of the operation process as a whole.

6.2 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 and other loans.

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 measures to mitigate such risk. As of 31 December 2019, the Group's interest rate risk exposure was approximately RMB14.3 billion, out of which RMB9.9 billion was monetary fund (approximately RMB48.4 billion as at 31 December 2018, out of which approximately RMB10.5 billion was monetary fund). As of 31 December 2019, the Group did not have interest-generating assets linked to LPR. Interest rates of 13.7 billion interest-bearing liabilities were linked to LPR. If the LPR fluctuates in the future, it will have a positive impact on the profits of the Company.

Management Discussion and Analysis

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 of 31 December 2019 RMB'000	As of 31 December 2018 RMB'000
Change in basis points		
+100 basis points	30,798	127,471
-100 basis points	(30,798)	(127,471)

6.3 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 2019, the Group's actual exposure to foreign exchange risk (excluding perpetual securities) approximately amounted to US$5,192 million, hedges against foreign exchange exposure amounted to US$5,269 million with the hedge ratio (percentage of the aforesaid two items) of 101.48% (approximately 106.50% as of 31 December 2018). The Group's actual exposure to foreign exchange risk is limited. As at 31 December 2019, the Group's foreign exchange risk exposure (including perpetual securities) was approximately US$5,892 million and the hedge ratio was approximately 89.43% (approximately 89.88% as of 31 December 2018). With the expansion of the Group's foreign currency assets, the impacts of perpetual securities on the Group's foreign exchange risk exposure gradually reduced.

Management Discussion and Analysis

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

		Increase/(decrease) in equity interest excluding perpetual securities of the Group	
	Change in RMB currency rate	As of 31 December 2019 RMB'000	As of 31 December 2018 RMB'000
Effect on the profit before tax	+1%	(5,354)	(16,908)
Direct effect of perpetual securities on the equity in the event of future redemption	+1%	48,833	48,042
		43,479	31,134

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 equity interest.

6.4 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.

Management Discussion and Analysis

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 less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Undated RMB'000	Total RMB'000
				As of 31 December 2019			
Total financial assets	6,067,982	36,894,249	83,155,331	122,988,209	1,048,429	816,405	250,970,605
Total financial liabilities	294,128	32,354,472	78,316,047	100,533,590	2,616,051	–	214,114,288
Net liquidity gap	5,773,854	4,539,777	4,839,284	22,454,619	(1,567,622)	816,405	36,856,317
				As of 31 December 2018			
Total financial assets	7,443,083	34,692,202	74,351,394	153,553,458	732,875	624,219	271,397,231
Total financial liabilities	486,299	33,684,216	53,205,283	140,051,653	938,158	–	228,365,609
Net liquidity gap	6,956,784	1,007,986	21,146,111	13,501,805	(205,283)	624,219	43,031,622

6.5 Operational Risk

Adhering to the risk management conception of "overall process, all-dimension, multi-angle, non-interrupted", by using the establishment of industry internal control mechanism as an entry point and the business operation manual as management principle, the Group continuously improved the risk management in the investment phase, construction phase and operation phase and improved management over major risks. By adopting various methods such as conventional monitoring and unannounced on-site inspection, the Group continued to strengthen the headquarters' professional guidance and management for hierarchy of each subsidiary, ensuring that the overall operational process risks were under control.

7. Charge on Group Assets

The Group had lease receivables and entrusted loans of RMB11,535,047,000, long-term receivables of RMB3,788,115,000, cash of RMB523,609,000, property, plant and equipment of RMB1,296,147,000 and right-of-use asset (the original prepaid land lease payments) of RMB889,712,000 as of 31 December 2019 in order to secure or pay the bank borrowings, cash of RMB284,181,000 was pledged for bank acceptances, letter of credit and etc, and cash of RMB14,919,000 was pledged for collective fund trusts.

Management Discussion and Analysis

8. Material Investments, Acquisitions and Disposals

In 2019, the Group further explored the layout of hospitals by implementing innovative models including full-capital acquisitions. Currently, 30 holding hospitals were completed and delivered. The hospitals newly delivered and included in the scope in which the Group holds equity interests in 2019 included 5 ones, which are Chengdu Jinsha, Zhenhai Second Hospital, Zhecheng Chinese medicine, Daling River (大凌河), and Changxing Zhizhou; hospitals being included in the scope of holding hospitals consisted of Yiliang Boya and three clinics under Hangzhou Dental. They had initially formed national hospitals operation network covering East China, South China, North China, Southwest China and Northeast China. Through the vertical and horizontal linkage, the Group will explore the operating pattern of the administration offices, improve the operational efficiency of the subject units, and constantly improve the content of the business to establish a hospital group under the operation of "One system, One network, One hospital".

In 2019, the Group newly acquired 1 kindergarten in Changsha and acquired non-controlling interests in two existing schools. Together with 13 kindergartens that operated in previous years and 1 kindergarten and 3 schools newly opened in this year, the Group currently operates 15 kindergartens and 3 schools. Due to the tightening of education industry policies, the Group recently has no plan to acquire or open new schools and kindergartens, and will make extension on original sites, improve the quality of education and fineness of operation management, adhere to the idea of exquisite schools, and continue to work hard for the private and boutique education system with high reputation brand, strong service capability and the most distinctive characteristics.

In 2019, the Group did not conduct any material investment as defined under Rule 32(4A) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

9. Human Resources

As of 31 December 2019, the Group had 17,903 full-time employees, an increase of 5,090 full-time employees as compared to 12,813 in the corresponding period of 2018.

The Group believes it has a high quality work force with specialized industry expertise. As at 31 December 2019, approximately 59.40% of the Group's employees had bachelor's degrees and above, and approximately 20.35% had master's degrees and above.

9.1 Incentive Schemes

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 operating 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 integrating the interests of shareholders, the Company and the management to guarantee the long-term, stable and healthy development, the Board of the Company considered and passed the program of setting up the equity incentive plans (including the share option scheme and restricted share award scheme) in 2014 and 2019.

Management Discussion and Analysis

9.2 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 2019, 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 2019 RMB'000	31 December 2018 RMB'000
Legal proceedings:		
Claimed amounts	15,417	2,654

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 2019 RMB'000	31 December 2018 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and equipment	248,141	158,361
Capital expenditure for equity investment(1)	10,000	204,049
Irrevocable credit Commitments(2)	9,713,667	9,706,751

Notes:

(1) Capital expenditure for equity investment mainly represents investment in equity joint ventures with hospitals.

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

Management Discussion and Analysis

11.Future Outlook

Since December 2019, the epidemic of novel coronavirus disease (the "COVID-19") has spread rapidly, significantly affecting the economy and exacerbating uncertainties in the short run. Under the timely decision-making and wise leadership of the Central Government, governments at all levels throughout the country have actively mobilized various resources to control the epidemic, and hence the spread of the epidemic has been effectively curbed to date.

However, the COVID-19 epidemic is still spreading across the world, and has affected corporate operations and general industry environment in certain regions, including Hubei Province, or certain industries, Hence, there will be uncertainties in operations of the Group, which might affect profitability of the Group to a certain extent. The Group will closely and continuously monitor the development of the COVID-19 epidemic. The Group has conducted comprehensive assessment on the effects of the epidemic on the operating results of the Group for the first quarter of 2020 based on currently available information. As at the disclosure date of this report, based on the preliminary estimation by the Company, net profits of the Group for the first quarter of 2020 will be declined by approximately 10% to 15% as compared to the corresponding period of last year due to the epidemic.

The Group has proactively adopted various measures, such as putting greater efforts in resumption of frontline operation, enhancing asset layout on fundamental livelihood sectors and fully utilizing financial market resources, so as to reduce the negative impacts on operating activities arising from the epidemic and secure the steady, safe operation of the Company to the greatest extent.

Facing the future, in addition to COVID-19, major risks of global economy shall also include uncertainties in the trade situation, economic recession in major economies, and financial turmoil in emerging markets. Despite the influence of internal and external factors, the downward pressure on the economy still exists. Nevertheless, as the second largest economy in the world, China has the world's most complete economic structure and industrial chain, a large population base and a vibrant consumer market. The resilience and momentum of development still exist.

Against this backdrop, the Group will continue to adhere to the "finance + industry" development strategy and focus on the basic industries related to national economy and people's livelihood. It is foreseeable that, driven by national strategies concentrating on economic development and improving people's livelihood, medical and health, engineering construction, transportation, logistics and urban public utilities will further benefit from the national economic stimulus policies subsequent to the epidemic. At the same time, the machinery industry, chemical & pharmaceutical industry will also benefit from the complete industrial chain and abundant supporting resources to achieve corner overtaking. Public consumption and the cultural & tourism industry are undoubtedly beneficiaries of the huge population base and market breadth. After the epidemic eases, it will reveal strong vitality. With the continuous development of the industry, the development space and investment needs of corporate customers will further increase, which will inevitably boost the demand for financial services and consulting services. The Group will meet customer needs and strive to enhance its ability to create value for customers.

In respect of financial business, the Group will continue to implement strategies that focus on the industry perspective, deepen regional services, adhere to the safety bottom line, expand business functions, and further strengthen the judgment on the industry, providing customers with more efficient, convenient, diversified and differentiated finance services. Meanwhile, through the layout of inclusive finance, supply chain finance, asset management business, overseas business, etc., we continue to promote multi-dimensional innovations in terms of customer base, products, regions, business formats and other aspects, continuously optimizing the asset structure and creating new momentum for business development.

Management Discussion and Analysis

In respect of industrial operations, the Group will rely on years of accumulation to further consolidate the industrial competitive advantage, accelerate the optimization of the governance system, and intensify its efforts to release financial value, making it a strong support for the development of the group. The hospital group will continue to expand the scale of operations at county level, and improve its financial performance through the enhancement of operating levels. Horizon Construction Development will continue to expand the scale of operations, strengthen the overall online and offline layout, and increase efforts in developing overseas business. At the same time, the Group will constantly enrich its business operations, and explore and incubate new industrial areas.

In conclusion, the Group will actively resonate with China's economic and industrial development at the same frequency, closely keep up with customer needs, and continue to provide competitive and comprehensive services by optimizing its operating system, adjusting to changes in a timely manner and carrying out continuous innovation, striving to achieve the corporate vision of "integrate global resources, promote China's industries".

12. Hospital Operation Segment Report

12.1 Analysis of Hospital Operation Sector Profit Statement

	For the year ended 31 December		
	2019 RMB' million	2018 RMB' million	Change %
Total Revenue	3,120.89	2,317.07	34.69%
Revenue from hospital operation	2,841.06	2,141.38	32.67%
Other relevant revenue from hospital operation	71.46	53.11	34.55%
Sub-total of revenue from hospital operation(1)	2,912.52	2,194.49	32.72%
Other external revenue(2)	208.37	46.23	350.72%
Revenue within the Group	–	76.35	-100.00%
Total Cost	(2,364.78)	(1,683.23)	40.49%
Cost from hospital operation(3)	(2,168.14)	(1,584.29)	36.85%
Other cost	(196.64)	(98.94)	98.75%
Gross profit	756.11	633.84	19.29%
Gross profit from hospital operation(4)	744.38	610.20	21.99%
Others	11.73	23.64	-50.38%
Labor cost(5)	(237.94)	(221.43)	7.46%
Other administrative and selling expenses(5)	(224.33)	(202.25)	10.92%
Provision for assets	(68.25)	(36.26)	88.22%
Other profit	46.91	26.04	80.15%
Profit before tax	272.50	199.94	36.29%
Income tax expense	(84.37)	(49.08)	71.90%
Profit for the year	188.13	150.86	24.71%

Management Discussion and Analysis

Notes:

(1) In 2019, the Group continued to accelerate the investment rate for the hospitals and further developed its hospital territory, with a total of 60 invested medical institutions and over 20,000 available beds under institutions operated by the Company. The number of the Group's contracted holding or shareholding hospitals and clinics that have actually been put into operation has reached 52. The number of beds available in the 52 medical institutions were approximately 19,000. According to the operation needs of various hospitals, the actual number of beds available at the end of 2019 were approximately 12,000. In terms of operation capacity, in 2019, the hospital operation revenue of the 52 medical institutions amounted to approximately RMB3.9 billion in total. With the gradual standardization of service models, hospitals in stock have gradually increased their local influence, and their revenue has shown a steady growth. The newly acquired hospitals still have large room for discipline management and business integration. The Group will continue to plan for future operation with the principle of "one network, one system and one hospital" and incorporate the above hospitals in to a unified operation and management model, focusing on the development of disciplines, increasing the core competitiveness and achieving income growth.

(2) Other external revenue mainly comprises of the Group's income from medical-related equipment trade services and income from medical institution management and consulting services, which are recognized in stages according to the completion progress of business.

(3) The costs of hospital operation shown in the Group's consolidated financial statements of 2019 increased from approximately RMB1.584 billion of 2018 to RMB2.168 billion. In 2019, the number of completed and delivered controlling hospitals was 30 (2018: 25), showing a growth in volume and size. The completion and delivery of the new hospitals in the initial stage of operation concentrated in this period. Thus, the overall operating cost growth rate was more obvious than the income growth rate. At present, the Group has formed a prototype of some disciplines, and will focus on the full cost accounting of the department, gradually clarify the standardized cost of the department, and adopt a more objective and scientific cost management model to intensify efficiency, control costs, and improve economic output.

(4) The gross profit margin of the Group's operating operations in 2019 was approximately 26%, which was mainly due to the fact that the operating efficiency of the newly settled hospitals has not yet fully realized and therefore declined slightly from 28% in 2018. As the Group more effectively grasps and controls the cost of sections, it provides a good foundation for the growth of gross profit margin.

(5) As the number of completed and delivered controlling hospitals in 2019 increased from 25 of last year to 30, the Group continued to strengthen the construction of medical teams, improve the professional quality of medical staff, and enhance the integrated management level; combined with the introduction of senior management talents in the upper level and local hospitals, the strengthening of market promotion, and the optimization and adjustment to the structure of the Group's top information system, labor and other sales management expenses have increased significantly.

(6) This analysis of hospital operation sector profit statement has not taken into account the impact of shareholders' borrowing.

Management Discussion and Analysis

12.2 Analysis of the Hospital Operation Sector's Asset

	31 December 2019		31 December 2018		
	RMB' million	% of total	RMB' million	% of total	Change %
Monetary fund	114.59	1.43%	289.26	4.49%	-60.39%
Amount of the Group's cash pool	444.11	5.56%	425.43	6.60%	4.39%
Bill receivables	562.06	7.04%	398.65	6.19%	40.99%
Prepayments(1)	217.94	2.73%	267.55	4.15%	-18.54%
Other receivables	134.41	1.68%	139.55	2.17%	-3.68%
Entrusted loans	251.48	3.15%	110.11	1.71%	128.39%
Inventories	179.12	2.24%	133.22	2.07%	34.45%
Fixed asset and Intangible assets(2)	3,320.05	41.56%	2,644.04	41.05%	25.57%
Goodwill(3)	2,315.86	28.99%	1,663.35	25.82%	39.23%
Investments in joint ventures/associates(4)	289.52	3.62%	332.63	5.16%	-12.96%
Deferred income tax assets	25.97	0.33%	35.27	0.55%	-26.37%
Right-of-use assets(5)	128.99	1.61%	–	–	N/A
Other assets	4.98	0.06%	2.50	0.04%	99.20%
Total assets	7,989.08	100.00%	6,441.56	100.00%	24.02%

Notes:

(1) Prepayments mainly comprised of prepayments for drugs and consumables and transitional purchase fee for equipment;

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

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

(4) Investments in joint ventures/associates mainly comprised of the investments in Kunming Broad Healthcare Group, Fengyang Gulou Hospital, Wuhang Matang Hospital, the nine clinics under Hangzhou Dental etc.

(5) Right-of-use assets mainly comprised of the rent for hospital sites.

Management Discussion and Analysis

13.Equipment Operation Segment Report

13.1 Analysis of Equipment Operation Sector Profit Statement

	For the year ended 31 December		
	2019	2018	
	RMB' million	RMB' million	Change %
Total revenue	2,362.43	1,787.50	32.16%
Revenue from operating lease[1]	1,979.24	1,548.63	27.81%
Revenue from construction services[2]	305.53	144.52	111.41%
Revenue from trading business	64.47	88.55	-27.19%
Other revenue	13.19	5.80	127.41%
Total Cost	(1,250.03)	(935.37)	33.64%
Cost of operating lease[1]	(963.14)	(765.02)	25.90%
Cost of construction services[2]	(206.35)	(85.97)	140.03%
Cost of trading business	(71.04)	(84.38)	-15.81%
Other cost	(9.50)	–	N/A
Gross profit	1,112.40	852.12	30.54%
Gross profit of operating lease[1]	1,016.10	783.60	29.67%
Gross profit of construction services[2]	99.18	58.55	69.39%
Gross profit of trading business	(6.57)	4.17	-257.55%
Other gross profit	3.69	5.80	-36.38%
Administrative and selling expenses	(430.74)	(333.00)	29.35%
Provision for assets	(59.15)	(182.56)	-67.60%
Other profit	52.20	16.80	210.71%
Earnings before interest and tax	674.71	353.36	90.94%
Finance costs	(227.34)	(211.57)	7.45%
Profit before tax	447.37	141.79	215.52%
Income tax expense	(91.16)	(25.03)	264.20%
Profit for the year	356.21	116.76	205.08%

Management Discussion and Analysis

13.2 Analysis of the Equipment Operation Sector's Asset

	31 December 2019		31 December 2018		
	RMB' million	% of total	RMB' million	% of total	Change %
Monetary fund	46.93	0.52%	106.44	1.55%	-55.91%
Amount of the Group's cash pool	122.65	1.36%	248.07	3.62%	-50.56%
Bill and notes receivables	1,665.67	18.53%	1,226.25	17.89%	35.83%
Prepayments	365.65	4.07%	80.99	1.18%	351.48%
Other receivables	655.29	7.29%	244.17	3.56%	168.37%
Inventories	168.20	1.87%	234.15	3.42%	-28.17%
Entrusted loans	5.66	0.06%	52.93	0.77%	-89.31%
Fixed assets	5,607.65	62.40%	4,319.61	63.01%	29.82%
Prepaid land lease payments	–	–	206.79	3.02%	-100.00%
Right-of-use assets	202.09	2.25%	–	–	N/A
Deferred income tax assets	131.95	1.47%	126.54	1.85%	4.28%
Other assets	15.96	0.18%	9.01	0.13%	77.14%
Total assets	8,987.70	100.00%	6,854.95	100.00%	31.11%

Management Discussion and Analysis

Notes:

Horizon Construction Development is a comprehensive equipment service provider established by the Group in the construction sector in China, which is mainly engaged in the lease of equipment and engineering construction in the fields of industrial equipment, turnover materials, pavement equipment and electric power equipment. Relying on its nationwide operating network and compound operation capabilities as well as the advantages such as a full range of equipment with remarkable scale, complete specifications, and a large number of fleets, it is able to fully exert its outstanding expertise in equipment operation, its maintenance and professional service to meet the customers' needs for one-stop service and improved operational efficiency and create value for them. By now, it has served more than 20,000 customers, involving such large projects as the construction of the Terminals at Beijing Daxing Airport, construction and installation of Shanghai National Convention and Exhibition Center, decoration of the Bird's Nest in Beijing, construction of Shenyang Metro, and construction of Hangzhou East Railway Station, etc..

As at 31 December 2019, Horizon Construction Development owned more than 20,000 pieces of equipment and over 900,000 tons of turnover materials, with the total original value of its operating assets ranking No.1 in China. Specifically, its industrial equipment consists of scissor-type and boom-type aerial work platforms, which are used in construction, installation and subsequent maintenance of industrial buildings, municipal venues, commercial sites, petrochemical and metallurgical structures, with a stock of more than 19,000. The turnover materials consist of temporary steel structures for construction purpose such as socket type scaffolding, steel support, Larsen pile and structural steel, which are widely used in facade construction and foundation pit support in subways, overpasses, tunnels, municipal pipelines and ditches, housing construction, water channels, ports, factory buildings, high-speed rail and other construction fields. The pavement equipment consists of paving machines, road rollers and milling machines, which are used in the construction and maintenance of asphalt concrete pavements such as high-grade roads, airport runways, test-drive tracks and municipal roads. The electric power equipment consists of generators and load boxes, which are mainly used in temporary power supply for engineering construction, large-scale exhibitions, advertising campaigns, marine engineering, urban construction, field engineering, and mining.

As at 31 December 2019, Horizon Construction Development had more than 148 business outlets, covering East China, South China, North China, Southwest China and Northeast China, and providing high quality and convenient services for its corporate customers. In addition, it offers tailored design and research services for its customers, with many of its independently-developed products holding a leading position in China. By now, it has obtained 133 authorized patents, 13 invention patents and 8 software copyrights. In recent years, it received numerous honorable awards such as the Top Ten Chinese Leasing Companies, the most influential enterprise in China's aerial work platform leasing industry, and the Pioneer in the International Aerial Work Platform Industry, which made it a leading company in the field of equipment leasing in China.

(1) In 2019, the operating lease income of the Group amounted to RMB1,979 million, representing an increase of 27.81% over the same period of the previous year. Its gross profit amounted to RMB1,016 million, representing an increase of 29.67% over the same period of the previous year, with a gross profit margin of 51.34%, representing an increase of 0.74% over the same period of last year, while the net profit amounted to RMB356 million, representing an increase of 205.08% over the same period of the previous year, which was mainly due to: (i) being adapted well to the changes in the national macro environment and increased its investment in infrastructure construction, which enjoyed strong demand; (ii) its asset scale continued to expand, with the total operating assets increasing by over 30%, which strongly supported the expansion of its business scale; (iii) achieving economic advantages and enhanced profitability leveraging its nationwide operating network and constantly enhanced management expertise; (iv) The Group promotes the upgrade of its overall digital strategy. With Horizon E Mall as the online incremental channel, it gradually implements standardization and digitalization, and upgrades traditional offline bills to online electronic bills, so as to improve the collaboration efficiency between the Company and customers. From July to December 2019, the penetration rate of electronic settlement slips has exceeded 80%, and the penetration rate of electronic lease contracts has exceeded 50%.

(2) In 2019, the revenue from construction services of the Group amounted to RMB305 million, representing an increase of 111.41% over the same period of the previous year. The stock of orders of the Group has been increasing, with the number of projects increasing significantly. Horizon Construction Development has set up its own mechanical construction team of 450 construction workers with self-purchased machinery and construction equipment, which helped reduce the construction cost significantly

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 2019.

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 Listing Rules.

During the accounting period for the year ended 31 December 2019, 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.

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 2019.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company for the year ended 31 December 2019.

Corporate Governance Report

Board of Directors

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

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

The Board of the Company currently comprises the following directors:

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

Non-executive directors:
Mr. Ning Gaoning *(Chairman)*
Mr. Yang Lin
Mr. Liu Haifeng David
Mr. John Law
Mr. Kuo Ming-Jian

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

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

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 judgement. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Officer focuses on implementing objectives, policies and strategies and delegated by the Board.

Corporate Governance Report

Independent Non-executive Directors

During the year ended 31 December 2019, 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 three years and he/she may serve consecutive terms if re-elected by the Company in general meeting upon the expiration of his/her term. No director of the Company is subject to retirement by rotation in 2020.

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.

Corporate Governance Report

The independent non-executive directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective and independent judgement on corporate actions and operations.

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 coordinating the daily operation and management of the Company are delegated to the management.

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

Continuous Professional Development of Directors

Directors 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.

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

Corporate Governance Report

During the year ended 31 December 2019, 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	✓	✓
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	✓	✓

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board has adopted a board diversity policy for the purpose of ensuring that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board.

The Company commits to selecting the best person for the role based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and length of services. In terms of professional experience, the Board shall be composed of members with accounting or financial expertise, legal professional qualification, financial investment experience or industry experience related to the Company.

Corporate Governance Report

The Remuneration and Nomination Committee will review the structure, size and composition of the Board at least annually to ensure that the Board Diversity Policy is effectively implemented.

Policy for the Nomination of Directors

The Company has adopted Policy for the Nomination of Directors, which is incorporated in the terms of reference of the Remuneration and Nomination Committee, taking into consideration the revised Listing Rules effective from 1 January 2019. The Policy sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or re-appointment of directors. No candidate was nominated for directorship during the year ended 31 December 2019.

Board Committees

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

The majority of the members of each Board committee are independent non-executive directors or 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

Corporate Governance Report

The Audit and Risk Management Committee is also responsible for performing the corporate governance duties which are set out under "Corporate Governance" on page 91.

The Audit and Risk Management Committee held 3 meetings during the year ended 31 December 2019 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 88. According to the terms of reference of the Audit and Risk Management Committee, the Audit and Risk Management Committee must convene at least 4 meetings every year. One of the meetings of the Audit and Risk Management Committee, which was originally scheduled to be convened in December 2019, was postponed to January 2020 based on relevant work arrangements.

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 2019 have been reviewed by the Audit and Risk Management Committee.

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 performance of the executive directors

Corporate Governance Report

- 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 so as to ensure the diversity of the Board

The criteria adopted by the Remuneration and Nomination Committee in considering whether the relevant personnel are suitable to the directors 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 take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. and would make full consideration about the diversity of the Board before making proposal, to ensure that the Board shall be composed of members having accounting or financial expertise, legal professional qualification, financial investment experience or industry experiences related to the Company. The Remuneration and Nomination Committee would identify individuals suitably qualified for election as directors, select or make recommendations to the Board on the selection of individuals nominated for directorships.

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

The Remuneration and Nomination Committee met 2 times during the year ended 31 December 2019 to review 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, assess the performance of the executive directors, as well as make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive directors and senior management and other related matters. The attendance records of the Remuneration and Nomination Committee are set out under "Attendance Record of Directors and Committee Members" on page 88.

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.

Corporate Governance Report

During the year ended 31 December 2019, 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 88.

Attendance Record of Directors and Committee Members

During the year ended 31 December 2019, 5 Board meetings were held and among which, 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 2019 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	5/5	Not applicable	Not applicable	0/0	1/1
Mr. Wang Mingzhe	5/5	Not applicable	Not applicable	Not applicable	1/1
Non-Executive Directors					
Mr. Ning Gaoning	5/5	Not applicable	Not applicable	Not applicable	0/1
Mr. Yang Lin	4/5	Not applicable	Not applicable	Not applicable	0/1
Mr. Liu Haifeng David	5/5	Not applicable	Not applicable	0/0	0/1
Mr. John Law	5/5	3/3	Not applicable	Not applicable	0/1
Mr. Kuo Ming-Jian	3/5	Not applicable	2/2	Not applicable	0/1
Independent Non-Executive Directors					
Mr. Cai Cunqiang	4/5	Not applicable	Not applicable	0/0	0/1
Mr. Han Xiaojing	4/5	2/3	2/2	Not applicable	0/1
Mr. Liu Jialin	5/5	Not applicable	2/2	Not applicable	0/1
Mr. Yip Wai Ming	5/5	3/3	Not applicable	Not applicable	0/1

Apart from the Board meetings stated above, the Chairman also held one meeting with the independent non-executive directors without the presence of other directors on 28 August 2019.

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 Audit and 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 2019.

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 2019, 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 2019.

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 129 to 304.

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 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 2019 is set out below:

Type of services provided by the external auditors	Amount of fees RMB'000
Audit services	3,940
Non-audit service	6,530
Total	10,470

The Group's non-audit service fees mainly comprise of: (i) interim review service fee amounted to RMB1,150,000; (ii) asset securitization business related service fee amounted to RMB4,450,000; (iii) bond issue related service fee amounted to RMB880,000; and (iv) tax service fee amounted to RMB50,000.

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 as well as the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

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. Its 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 of the Company, shareholders may send written enquiries to the Company.

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

Corporate Governance Report

Contact Details

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

Address:	Room 6305, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Fax:	86-21-50490066
Email:	IR@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 5 June 2019 (the "2019 AGM"), Mr. Ning Gaoning (Chairman of the Board), Mr. Yip Wai Ming (Chairman of the Audit and Risk Management Committee), Mr. Liu Haifeng, David (Chairman of the Strategy and Investment Committee) and Mr. Liu Jialin (Chairman of the Remuneration and Nomination Committee) were unable to attend due to other important business engagements. In order to ensure smooth transaction of business at the 2019 AGM, Mr. Kong Fanxing (Vice Chairman and Chief Executive Officer) chaired the 2019 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.

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019 taking into consideration of various elements including but not limited to the Group's actual and expected financial performance, the level of the Group's debts to equity ratio, return on equity and financial covenants, general economic conditions, business cycle of the Group's business, etc. The Company endevours to maintain a balance between its shareholders' interests and the Group's business operation as well as its long-term development goal.

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 61, 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 has been the Chairman and the Party Group Secretary of Sinochem Group since December 2015 and was appointed as a non-executive director of the Company in March 2016.

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, 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, 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, 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, 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, Vice Chairman and Chief Executive Officer

Mr. KONG Fanxing (孔繁星), aged 56, 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) and Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司), the chairman of Far East Horizon Inclusive Financial Leasing (Tianjin) Co., Limited (遠東宏信普惠融資租賃(天津)有限公司) and Far East Horizon Factoring (Tianjin) Co., Limited (遠宏商業保理(天津)有限公司), and the executive director and general manager of Shanghai Donghong Industrial Development Co., Ltd. (上海東泓實業發展有限公司) and Donghong Investment Co., Ltd. (東泓投資有限公司).

Mr. Kong has over 25 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 49, 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 general manager of operation centre of the company, the financial director 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 24 years of experience in finance management.

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

Mr. YANG Lin (楊林), aged 56, 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 (a company listed on the Shanghai Stock Exchange, stock code: 600500), Sinofert Holdings Limited (a company listed on the Stock Exchange, stock code; 297) and China Jinmao Holdings Group Limited (a company listed on the Stock Exchange, stock code: 817) and is the chairman of China Foreign Economy, Trade Trust Co., Ltd.

Mr. Yang has approximately 24 years of experience in finance and treasury management.

Biographies of Directors and Senior Management

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

Mr. LIU Haifeng David (劉海峰), aged 50, has been a non-executive director of the Company since October 2009. He is the Executive Chairman of DCP. Prior to establishing DCP, Mr. Liu was a Partner of KKR, the co-head of KKR Asia Private Equity and CEO of KKR Greater China. Prior to joining KKR, Mr. Liu was a Managing Director and the co-head of Morgan Stanley Private Equity Asia. Mr. Liu has established one of the leading investment track records in Greater China over the past 26 years and was responsible for a number of successful and innovative investments, including: Mengniu Dairy, Ping An Insurance, Qingdao Haier Co., Sunner Poultry, Far East Horizon, Nanfu Battery, China Modern Dairy, CICC, United Envirotech Ltd, China Cord Blood Corporation, Paradise Retail, Hengan International, COFCO Meat, Belle International, Yuehai Feed, Asia Dairy and and Venus Medtech. Mr. Liu is an Advisory Director of the Private Equity Investment Fund Committee of the Asset Management Association of China (AMAC) and the Chairman of the China Venture Capital and Private Equity Association (CVCA). 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 (stock code: 3908), and Sunpower Group which is a listed company in Singapore (stock code: 5GD).

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

Mr. KUO Ming-Jian (郭明鑑), aged 58, was appointed as a non-executive director of the Company in March 2013. Mr. Kuo is currently the Chairman of Cathay United Bank, Chairman of Cathay United Bank (China) and a director of Cathay Financial Holding Co., Ltd. (a company listed in Taiwan, stock code: 2882). He took the roles as Vice Chairman, Senior Managing Director and Senior Advisor of Blackstone Group L.P. (a company listed on the New York Stock Exchange, NYSE: BX), Great China during 2007 to 2018. Before joining Blackstone Group L.P., 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 Chase & Co (a company listed on the New York Stock Exchange, NYSE: JPM) in Hong Kong and the Vice Chairman of JPMorgan Chase & Co'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 (a company listed on the Stock Exchange, stock code: 0531), a director of Avary Holding (Shenzhen) Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002938) and a director of Long Chen Paper & Packing Co., Ltd. (a company listed in Taiwan, stock code: 1909).

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

Biographies of Directors and Senior Management

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

Mr. John LAW (羅強), aged 69, 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 Citigroup (a company listed on the New York Stock Exchange, NYSE: C) from August 2000 to November 2003 as the regional credit officer for Asia Pacific Financial Markets. Prior to joining the Company, he worked for International Finance Corporation from March 2004 to September 2012 as the principal banking specialist for global financial markets. Mr. Law is currently a non-executive director of Rizal Commercial Banking Corporation (a company listed on the Philippine Stock Exchange, stock code: RCB) and an independent non-executive director of IntelliCentrics Global Holdings Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 6819).

Mr. Law holds a master degree in business administration (finance) from Indiana University in USA and has more than 31 years' experience in finance.

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

Mr. CAI Cunqiang (蔡存強), aged 70, 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 42 years of experience in the shipping industry.

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

Mr. HAN Xiaojing (韓小京), aged 65, 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 33 years of experience in the legal profession.

Currently, Mr. Han is an independent non-executive director of Sino-Ocean Group Holdings Limited (遠洋集團控股有限公司) (a company listed on the Stock Exchange, stock code: 3377) and Vital Innovations Holdings Limited (維太創科控股有限公司) (a company listed on the Stock Exchange, stock code: 6133). He also serves as independent director of Ping An Bank Company Limited (平安銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000001) and Beijing Sanju Environmental Protection Company Limited (北京三聚環保新材料股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300027).

Biographies of Directors and Senior Management

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

Mr. LIU Jialin (劉嘉凌), aged 57, 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 31 years of experience in finance and securities industry.

Mr. Liu also serves as the independent non-executive director of Fortunet e-Commerce Group Limited (a company listed on the Stock Exchange, stock code: 1039) and the managing director of asset management department at Cinda International Holdings Limited (a company listed on the Stock Exchange, 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 55, 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) (a company listed on the Stock Exchange, stock code: 0818), the chief financial officer of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司) (a company listed on the Stock Exchange, stock code: 1169) and the deputy general manager of Yuzhou Properties Company Limited (禹州地產股份有限公司) (a company listed on the Stock Exchange, stock code: 1628) 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) (a company listed on the Stock Exchange, stock code: 3336), Pax Global Technology Limited (百富環球科技有限公司) (a company listed on the Stock Exchange, stock code: 0327), Poly Culture Group Corporation Limited (保利文化集團股份有限公司) (a company listed on the Stock Exchange, stock code: 3636), Yida China Holdings Limited (億達中國控股有限公司) (a company listed on the Stock Exchange, stock code: 3639) and Huobi Technology Holdings Limited (火币科技控股有限公司) (a company listed on the Stock Exchange, stock code: 1611).

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 29 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 45, 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 17 years of experience in the financial leasing industry.

Mr. SHANG Bing (尚兵) – Vice President

Mr. SHANG Bing (尚兵), aged 53, 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. (遠翼控股有限公司) and Grand Flight Holdings Co., Ltd. (遠翼控股有限公司).

Mr. Shang has over 30 years of experience in relation to government affairs and enterprise management.

Biographies of Directors and Senior Management

Mr. WANG Ruisheng (王瑞生) – Vice President

Mr. WANG Ruisheng (王瑞生), aged 66, 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).

Mr. Wang has over 28 years of experience in enterprise management.

Mr. WU Zhijiun (吳志軍) – Vice President

Mr. WU Zhijun (吳志軍), aged 47, 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 Far East Horizon Hospital Group Co., Ltd. (遠東宏信醫院集團有限公司).

Mr. Wu has over 18 years of experience in the financial leasing and healthcare industry.

Mr. LI Jiancheng (李建成) – Vice President

Mr. LI Jiancheng (李建成), aged 48, is the Vice President of the Company. Mr. Li graduated from Shandong University of Science and Technology (山東科技大學) majoring in Geophysics with a bachelor degree in July 1995. He obtained a master degree in Finance from Fudan University (復旦大學) in July 2006 and a EMBA degree from China Europe International Business School (CEIBS) in October 2015. Mr. Li worked at Zhongkexin Jinzhen Futures Brokerage Co., Ltd. (中科信金震期貨經紀有限公司) and Hainan Shenhai Futures Brokerage Co., Ltd. (海南深海期貨經紀有限公司). Upon joining Far East in May 2001, he worked as various positions including the deputy general manager and the general manager of the printing system business division, the general manager of packaging system business division, the general manager of public utility business unit II, the general manager of the infrastructure group and the assistant to the president, etc. Mr. Li was appointed as the Vice President of the Company since August 2019. Currently, Mr. Li is also the general manager of Shanghai Horizon Construction Investment Co. Ltd..

Mr. Li has over 18 years of experience in the financial leasing industry.

Biographies of Directors and Senior Management

Mr. ZHU Guojie (朱國傑) – Assistant President

Mr. ZHU Guojie (朱國傑), aged 42, is the Assistant President of the Company. Mr. Wang graduated from Nanjing University (南京大學) majoring in International Finance with a bachelor degree in July 1998 and obtained an MBA degree from Fudan University (復旦大學) in July 2004. Prior to joining Far East in August 2004, Mr. Zhu worked at Bank of China Nantong Branch (中國銀行南通分行) and Shanghai Media Group (上海文廣集團). In Far East, he worked as the assistant general manager of healthcare division, the deputy general manager of quality control department, the deputy general manager and the general manager of strategy management department, and the deputy general manager and the general manager of the education business division. Mr. Zhu was appointed as the Assistant President of the Company in July 2016.

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

Mr. ZHAN Jing (詹靜) – Assistant President

Mr. ZHAN Jing, 44 years old, assistant President of our company. Mr. Zhan graduated from Nanjing Audit University in July 1997 with a bachelor's degree in international finance. He received his MBA degree from Peking University in July 2004. Mr. Zhan used to work in Nanjing branch of China Citic bank. Since joining the company in June 2004, he has served as deputy general manager of business development department, general manager of electronic information business division, general manager of people's livelihood and consumption business division, general manager of strategic operations department, etc. Mr. Zhan has been appointed as the Assistant President of the company since December 2019. Currently, Mr. Zhan is also the general manager of strategic operations department of the company, the general manager of Shanghai Grand Glory Eco Technology co., LTD., the general manager of Far East Horizon Shipping Holding co., LTD., the general manager of Shanghai Team Grow Management Limited, and the general manager of Horizon Financial Company Limited.

Mr. Zhan Jing has more than 15 years of financial leasing industry experience and 5 years of banking experience.

Directors' Report

The Board is pleased to present the Directors' Report of the year 2019 together with the audited financial statements of the Group for the year ended 31 December 2019.

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, 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-earning 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-earning 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 2019, 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.

Directors' Report

Results and Dividends

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit or Loss on page 134 of this annual report.

The Board recommends the payment of a final dividend of HK$0.33 (2018: HK$0.30) per share in respect of the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on Wednesday, 22 July 2020. The proposed final dividend will be paid on Friday, 31 July 2020 after approval at the Annual General Meeting ("AGM") to be held on Wednesday, 10 June 2020.

Closure of Share Register

The AGM of the Company is scheduled to be held on Wednesday, 10 June 2020. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020, 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, 4 June 2020, 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, 20 July 2020 to Wednesday, 22 July 2020, 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, 22 July 2020. 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, 17 July 2020, being the last registration date.

Directors' Report

Financial Highlights

The summary of the Group's results, assets, liabilities and non-controlling interests for the past five financial years is extracted from the audited financial information and financial statements published, which is set out on pages 305 to 308 to this annual report. This summary does not form a part of the audited financial statements.

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

Property, Plant and Equipment

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

Share Capital

Details of the movements in the share capital of the Company are set out in Note 32 to the financial statements.

Directors' Report

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 2019.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 138 to 141 of this annual report and Note 35 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 RMB4,300,000 (2018: RMB4,300,000).

Changes in Directors' Biographical Details

There has been no changes in director's biographical details since the date of the 2019 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
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

Biographical Details of the Directors and Senior Management

Biographical details of the directors and senior management are set out on pages 94 to 101 of this annual report.

Directors' Report

Directors' Service Contracts

As at 31 December 2019, none of the directors of the Company had a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

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

Executive Directors

Each of the executive directors has entered into a service contract with the Company. Each of their appointments is for a term of three 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 RMB12,030,000.

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, Mr. KUO Ming-Jian and Mr. John LAW is for a term of three 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, 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. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming.

Directors' Report

Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive directors and the Company considers that each of the independent non-executive directors, namely Mr. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin, and Mr. YIP Wai Ming, 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 2019 are set out in Note 8 to the consolidated financial statements of the Group.

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 2019, none of the directors of the Company are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Pension Scheme

The Group does not have any pension scheme.

Directors' Report

Incentive Schemes

The Company adopted a share option scheme (the "2014 Share Option Scheme") on 7 July 2014. Since the total share options under the 2014 Share Option Scheme had been fully granted, on 5 June 2019, the Company adopted a new share option scheme (the "2019 Share Option Scheme") to incentivize and reward the selected participants thereunder. The Company also adopted a restricted share award scheme (the "2014 Restricted Share Award Scheme") on 11 June 2014 and made certain amendments to such scheme on 2 June 2016 and 20 March 2019. For details of the 2014 Share Option Scheme, please refer to the 2018 annual report of the Company, and for details of the 2019 Share Option Scheme, please refer to the circular of the Company dated 6 May 2019. For details of the 2014 Restricted Share Award Scheme, please refer to the 2018 annual report of the Company and the announcement of the Company dated 20 March 2019.

2014 Share Option Scheme

The purpose of the 2014 Share Option Scheme is to incentivize and reward selected participants (i.e., senior and middle management personnel, as well as other key employees of the Company or any subsidiary of the Company) 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 eligibility of the selected participants will be decided by the Board or the administration committee of such scheme, at its respective absolute discretion, as to his contribution to the Company or any of its subsidiaries. The 2014 Share Option Scheme is valid for 10 years from 7 July 2014, the date of its adoption.

The maximum number of new shares in respect of which options may be granted under the 2014 Share Option Scheme shall not exceed 4% of the Company's issued share capital as at the date of approval of the 2014 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 rules of the 2014 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 and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price under the 2014 Share Option Scheme.

The exercise period of the share options granted is determinable by the Board or the administration committee 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

During the reporting period, no options were granted under the 2014 Share Option Scheme. A summary of the movements of the outstanding share options under the 2014 Share Option Scheme during the reporting period 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 3-7)	Outstanding as at 1 January 2019	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding As at 31 December 2019
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
KONG Fanxing, CEO and executive Director	18 July 2018	18 July 2020 – 18 July 2022	18 July 2020 – 18 July 2028	7.36	3,410,926	–	–	–	–	3,410,926
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
Mr. WANG Mingzhe, CFO and executive Director	18 July 2018	18 July 2020 – 18 July 2022	18 July 2020 – 18 July 2028	7.36	1,074,442	–	–	–	–	1,074,442
SUBTOTAL FOR DIRECTORS					**17,389,863**	**–**	**–**	**–**	**–**	**17,389,863**

Directors' Report

Grantee	Date of grant	Vesting period (Note 1)	Exercise Period (Note 2)	Exercise price per share HK$ (Note 3-7)	Number of share options: Outstanding as at 1 January 2019	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding As at 31 December 2019
Employees	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	7,503,457	–	1,441,848	–	942	6,060,667
Employees	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	12,960,077	–	1,581,462	–	556,711	10,821,904
Employees	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	26,362,128	–	2,607,916	–	1,640,193	22,114,019
Employees	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	27,837,241	–	1,025,163	–	2,041,968	24,770,110
Employees	18 July 2018	18 July 2020 – 18 July 2022	18 July 2020 – 18 July 2028	7.36	29,460,171	–	0	–	1,848,725	27,611,446
TOTAL					**121,512,937**	**–**	**6,656,389**	**–**	**6,088,539**	**108,768,009**

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

Note 2: According to the 2014 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 needs 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 exercise price is not less than the higher of (i) the closing price of HK$7.36 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 18 July 2018 (i.e. the grant date) and (ii) the average closing price of HK$7.032 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 18 July 2018. The Share does not carry nominal value. The closing price of shares immediately before the date on which the options were granted is HK$7.18 per share.

Note 8: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK$7.9895.

Please refer to note 33 to our financial statements for details of accounting treatment and the remaining life of the 2014 Share Option Scheme.

Directors' Report

2019 Share Option Scheme

The purpose of the 2019 Share Option Scheme is to incentivize and reward selected participants (i.e., senior and middle management personnel, as well as other key employees of the Company or any subsidiary of the Company) 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 eligibility of the selected participants will be decided by the Board or the administration committee of such scheme, at its respective absolute discretion, as to his contribution to the Company or any of its subsidiaries. The 2019 Share Option Scheme is valid for 10 years from 5 June 2019, the date of its adoption.

The maximum number of new shares in respect of which options may be granted under the 2019 Share Option Scheme shall not exceed 4% of the Company's issued share capital as at the date of approval of the 2019 Share Option Scheme by the Shareholders, which is 158,167,904 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 rules of the 2019 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 and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price under the 2019 Share Option Scheme.

The exercise period of the share options granted is determinable by the Board or the administration committee 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; and (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.

Directors' Report

In 2019, options entitling the holders thereof to subscribe for an aggregate of 4,159,816 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 27,473,765 Shares were granted to 343 grantees under the Share Option Scheme. A summary of the movements of the outstanding share options under the 2019 Share Option Scheme during the reporting period is as follows:

Grantee	Date of grant	Vesting period (Note 1)	Exercise Period (Note 2)	Exercise price per share HK$ (Note 3)	Number of share options: Outstanding as at 1 January 2019	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding As at 31 December 2019
KONG Fanxing, CEO and executive Director	19 July 2019	19 July 2020 – 19 July 2022	19 July 2020 – 19 July 2029	7.618	–	3,163,358	–	–	–	3,163,358
Mr. WANG Mingzhe, CFO and executive Director	19 July 2019	19 July 2020 – 19 July 2022	19 July 2020 – 19 July 2029	7.618	–	996,458	–	–	–	996,458
SUBTOTAL FOR DIRECTORS					**–**	**4,159,816**	**–**	**–**	**–**	**4,159,816**
Employees	19 July 2019	19 July 2020 – 19 July 2022	19 July 2020 – 19 July 2029	7.618	–	27,473,765	–	–	1,211,565	26,262,200
TOTAL					**–**	**31,633,581**	**–**	**–**	**1,211,565**	**30,422,016**

Note 1: Subject to the rules of the 2019 Share Option Scheme, the options granted on 19 July 2019 will vest to the grantees at the first, second and third anniversary of the date of grant at an average amount.

Note 2: According to the 2019 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 needs 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$7.40 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 19 July 2019 (i.e. the grant date) and (ii) the average closing price of HK$7.618 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 19 July 2019. The Share does not carry nominal value.

Please refer to note 33 to our financial statements for details of accounting treatment and the remaining life of the 2019 Share Option Scheme.

2014 Restricted Share Award Scheme

The 2014 Restricted Share 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 2019, the Company granted 47,450,371 Shares under the Award Scheme and as at 31 December 2019, the Company granted an aggregate of 246,254,407 Shares under the Award Scheme.

Directors' Report

Management Contracts

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

Arrangements for the Directors to Purchase Shares or Debentures

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

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

As at 31 December 2019, 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	41,702,395(L)[2]	1.05%
		Interest in a controlled corporation	267,173,000(L)[3]	6.74%
WANG Mingzhe	The Company	Beneficial owner	13,527,805(L)[4]	0.34%
LIU Haifeng David	The Company	Interest in a controlled corporation	365,842,100(L)[5]	9.23%
LIU Jialin	The Company	Beneficial owner	125,000(L)	0.00%
		Interest of spouse	125,000(L)	0.00%

Directors' Report

Notes:

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

(2) The interest includes 13,169,599 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme, 3,163,358 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 24,499,438 underlying shares in respect of the 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 870,000 ordinary shares of the Company as at 31 December 2019. Please refer to the section headed "Incentive Schemes" for the details of those schemes and the grants of share options.

(3) The interest is held directly by Will of Heaven HK Limited and Swallow Gird HK Limited. Will of Heaven HK Limited and Swallow Gird HK Limited are 100% controlled by Aim Future Limited, which is in turn controlled as to 70% by Mr. Kong Fanxing. Under the SFO, Mr. Kong Fanxing is deemed to be interested in the ordinary shares of the Company that Aim Future Limited has interest.

(4) The interest includes 4,220,264 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme, 996,458 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 7,925,083 underlying shares in respect of the 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 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 386,000 ordinary shares of the Company as at 31 December 2019. Please refer to the section headed "Incentive Schemes" for the details of those schemes and the grants of share options.

(5) The interests includes (1) 1,067,000 ordinary shares of the Company held directly by New Trace Limited which is 100% controlled by Mr. Liu Haifeng David; (2) 314,775,100 ordinary shares of the Company held directly by Capital Rise Limited; and (3) 50,000,000 ordinary shares of the Company held directly by Capital Lead Limited. Capital Bridge Limited holds the entire share capital of Capital Rise Limited and Capital Lead Limited respectively. Capital Bridge Limited is 100% controlled by DCP Capital Partners L.P., which is 100% controlled by DCP General Partner, Ltd, which in turn is 100% controlled by DCP Partners Limited. DCP Partners Limited is 100% controlled by DCP, Ltd., which is 50% controlled by Mr. Julian Juul Wolhardt and 50% controlled by Liu Haifeng David.

Save as disclosed above, as at 31 December 2019, none of the directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Substantial Shareholders' Interests in the Shares

Based on the information available to the directors of the Company, as at 31 December 2019 (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 2019, 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 Capital Investment Management (Hong Kong) Limited[2]	Beneficial owner	919,914,440(L)	23.22%
Sinochem Capital Investment Management Limited[2]	Interest in a controlled corporation	919,914,440(L)	23.22%
Sinochem Corporation[2]	Interest in a controlled corporation	919,914,440(L)	23.22%
Sinochem Group Co., Ltd[2]	Interest in a controlled corporation	919,914,440(L)	23.22%
The State-owned Assets Supervision and Administration Commission of the State Council[2]	Interest in a controlled corporation	919,914,440(L)	23.22%
JPMorgan Chase & Co.[3]	Interest in a controlled corporation	14,113,206(L)	0.35%
		4,349,068(S)	0.10%
	Investment manager	5,092,000(L)	0.12%
	Approved lending agent	376,159,459(P)	9.49%
Cathay Life Insurance Co., Ltd.	Beneficial owner	355,307,000(L)	8.97%
KONG Fanxing	Beneficial owner	41,702,395(L)[4]	1.05%
	Interest in a controlled corporation	267,173,000(L)[5]	6.74%
Aim Future Limited	Interest in a controlled corporation	267,173,000(L)[5]	6.74%
UBS Group AG[6]	Person having a security interest in shares	12,557,000(L)	0.31%
	Interest in a controlled corporation	266,248,721(L)	6.72%
LIU Haifeng David	Interest in a controlled corporation	365,842,100(L)[7]	9.23%
Capital Rise Limited[7]	Beneficial owner	314,775,100(L)	7.94%
Capital Bridge Limited[7]	Interest in a controlled corporation	364,775,100(L)	9.20%
DCP Capital Partners L.P.[7]	Interest in a controlled corporation	364,775,100(L)	9.20%
DCP General Partner, Ltd[7]	Interest in a controlled corporation	364,775,100(L)	9.20%
DCP, Ltd.[7]	Interest in a controlled corporation	364,775,100(L)	9.20%
Julian Juul WOLHARDT[7]	Interest in a controlled corporation	364,775,100(L)	9.20%

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 by approved lending agent.

(2) Sinochem Capital Investment Management (Hong Kong) Limited is 100% controlled by Sinochem Capital Investment Management Limited, which is 100% controlled by Sinochem Corporation, which is in turn controlled as to 98% by Sinochem Group Co., Ltd. Sinochem Group Co., Ltd is 100% controlled by the State-owned Assets Supervision and Administration Commission of the State Council.

(3) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 4 February 2019 for further details of the shareholding structure.

(4) Please refer to Note (2) of the section headed "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" for further details of the shareholding structure.

(5) Please refer to Note (3) of the section headed "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" for further details of the shareholding structure.

(6) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 31 December 2019 for further details of the shareholding structure.

(7) Please refer to Note (5) of the section headed "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" 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.

Directors' Report

Public Float

Based on the information publicly available to the Company and as far as the directors are aware as at the latest practicable date prior to the printing of this 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 2019, the Group further enriched the bond financing varieties and expanded the size of the issue in the domestic direct financing market, thus forming a continuous issuance situation. The Group completed 13 issuances in the year, with an aggregate amount of RMB17.0 billion, including ultra-short financial bonds of RMB9.0 billion, corporate bonds of RMB7.0 billion, and mid-term notes of RMB1.0 billion as follows:

(1) In 2019, it completed the issuance of nine 270-day ultra-short financial bonds totaling RMB9.0 billion with an annual interest rate range of 2.25% to 3.35% in China.

(2) In 2019, it completed the issuance of three 3-year to 5-year corporate bonds totaling RMB7.0 billion with an annual interest rate range of 3.98% to 4.20% in China.

(3) In 2019, it completed the issuance of 3-year mid-term notes totaling RMB1.0 billion with annual interest rate of 3.88% in China.

In 2019, the Group had one issue of off-shore senior bonds totaling RMB1.07 billion abroad. Details are as follows:

(1) On 6 March 2019, it completed the issuance of 2-year senior bonds of RMB1.07 billion under MTN with an annual interest rate of 4.90% abroad.

Directors' Report

Major Customers and Suppliers

The information of the customers and suppliers of the Group during the year is as follows:

	For the year ended 31 December 2019 **Percentage of the total income** **(before business taxes and surcharges) (%)**
Top five customers	1.45%
The largest customer	0.55%

	Percentage of total costs (%)
Top five suppliers	16.26%
The largest supplier	3.96%

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.

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 2019, 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.

Directors' Report

Non-exempt Continuing Connected Transactions

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

On 17 June 2011, the Company entered into a framework agreement with Sinochem Finance with a term of three years, whereby the Group agreed to utilise various financial services from Sinochem Finance ("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 effective from 11 June 2014 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. On 10 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. As the 2015 Sinochem Finance Framework Agreement expired in June 2018, on 6 June 2018, the Company entered into a new framework agreement with Sinochem Finance ("2018 Sinochem Finance Framework Agreement") to renew the continuing connected transactions of provision of financial services by Sinochem Finance to the Group under the 2015 Sinochem Finance Framework Agreement on substantially the same terms. The initial term of the 2018 Sinochem Finance Framework Agreement shall expire on 31 December 2020. Upon expiry of such initial term, the agreement shall automatically be extended for further terms of three years subject to the fulfilment of the relevant requirements of the Listing Rules, unless a written notice of termination is served by one party to the other party at least one month prior to the expiry of each such term. 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 2018 Sinochem Finance Framework Agreement constitutes continuing connected transactions of the Company.

The annual cap on the maximum daily outstanding balance of deposits (including accrued interest) is RMB1,100 million during the term of the 2018 Sinochem Finance Framework Agreement. This annual cap is based on several factors including (i) the requirement to settle accounts receivables from the member units of Sinochem Group or any third party through the deposit accounts of the members of the Group maintained with Sinochem Finance; (ii) the strategies of the treasury management of the Group; (iii) the development and financial needs of the Group during the term of the 2018 Sinochem Finance Framework Agreement; and (iv) the average cash balance of the Group since the date of listing of the Company. The applicable annual cap was not exceeded for the year ended 31 December 2019.

Directors' Report

Pursuant to Rule 14A.90 of the Listing Rules, the continuing connected transactions involving the provision of loans to the Group by Sinochem Finance and the provision of guarantees to the Group by Sinochem Finance under the 2018 Sinochem Finance Framework Agreement are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules as these transactions constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance. The aggregate fees and charges payable by the Group to Sinochem Finance for other financial services during the term of the 2018 Sinochem Finance Framework Agreement would not be, on an annual basis, more than the de minimis threshold of 0.1% calculated under Rule 14A.76(1)(a) of the Listing Rules. Thus, the continuing connected transactions in respect of such services are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Please refer to the announcements of the Company dated 17 June 2011, 11 June 2014, 10 June 2015 and 6 June 2018 relating to these continuing connected transactions.

Framework agreement for the provision of property leasing services from Sinochem Group

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

On 3 December 2014, the Company and Sinochem Group entered into a framework agreement pursuant to which Sinochem Group has agreed that it will and will procure its associates to agree to provide property leasing services to the Group ("Property Leasing Framework Agreement"). The initial term of the Property Leasing Framework Agreement is from 1 January 2015 to 31 December 2017. 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 and ending on 31 December 2020.

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. 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 extended Property Leasing Framework Agreement constitute continuing connected transactions of the Company.

Directors' Report

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.

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 annual caps, 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 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 existing leases would be terminated for each of the two years ending 31 December 2020 due to the Group moving to its self-owned premises; 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. The applicable annual cap was not exceeded for the year ended 31 December 2019.

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 continuing connected transactions.

Details of related party transactions of the Company for the year ended 31 December 2019 are set out in note 42 to the consolidated financial statements. Save for the related party transactions as set out under items (ii), (iv), (vii), (ix) and (x) and the related party transactions in respect of senior management (non-director) compensation under item (xi), all the related party transactions set out in note 42 constitute connected transactions 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 in respect of all such related party transactions.

Directors' Report

Confirmation of Independent Non-Executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the independent non-executive directors, who confirmed that the aforesaid continuing connected transactions were entered into:

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

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

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

Confirmation of the Auditors

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

(a) have received the approval of the Board;

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

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

(d) have not exceeded the relevant annual caps for the financial year ended 31 December 2019.

Directors' Report

Audit and Risk Management Committee

The 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 2019.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2019 have been audited by Ernst & Young, the auditor of the Company.

Auditor

Pursuant to the resolution of the 2019 AGM of the Company, the Company reappointed Ernst & Young as the auditor of the Company in 2019. The proposal of reappointing Ernst & Young as the auditor of the Company will be put forward at the AGM to be held on Wednesday, 10 June 2020 for consideration and approval.

By order of the Board
NING Gaoning
Chairman
24 March 2020

Corporate Social Responsibility Report

Philosophy of Responsibility

Sharing of value created for the building of harmonious development

Anchored in the core responsibility philosophy of "value sharing and harmonious development", Far East Horizon has always been dedicated to building a harmonious and symbiotic relationship with the investors, customers, partners, employees, governments and the community as a whole while constantly innovating and expanding its integrated operations services. 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

Adhering to the notion of creating move value for customers, Far East Horizon constantly pushes the boundaries of the integrated operations services to fundamental industries, providing diverse and quality "one-stop" services. Far East Horizon has maintained steady growth in recent years, and continuously provided shareholders and investors with growing return on value.

Accountable to Industries

Support industries upgrade and resurrection of the Chinese culture

Far East Horizon focuses on serving the fundamental industries, namely healthcare, construction, education, public consuming, industrial machinery, transportation & logistics and urban public utilities, 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, equipment operation, trade brokers, management consulting, engineering services and other industries integrated operations services.

In the healthcare field, as one of the first comprehensive finance industry service providers in China focusing on healthcare, Far East Horizon is committed to creating a full industry chain with financial service, hospital group and rehabilitation care as the core business, and forming a macro health industry ecosystem with openness as concept, innovation as driver, coordination as support and win-win as goal.

In the construction field, Far East Horizon is the sole comprehensive industry operation service provider offering multi-dimensional and comprehensive services for infrastructure construction industry in China. Over the past decade, Far East Horizon has established strong relationship with customers, built the three service platforms across the full infrastructural industry chain: an industry chain financial service platform for mainstream construction enterprises, a high-end construction equipment project management service platform for operational leasing companies, and an infrastructure investment and financing platform co-built with external professional organizations and influential construction enterprises.

Corporate Social Responsibility Report

In the education sector, as one of the first comprehensive financial service organizations engaged in fields of education, science & technology, culture & tourism and sports in China, Far East Horizon has long been providing solutions in terms of investment and financing and consulting for multiple education, science, cultural & tourism and sports organizations in China. Under the strategy of "Finance + Industry" of the Company, Far East Horizon has actively developed the K12 educational field covering kindergartens and compound schools, as well as developed cultural & tourism and sport industry operation businesses.

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.

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 and tea bars, 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

In order to provide its employees with a diverse, inclusive, open and equal working environment, Far East Horizon made constant improvements to the Company's human resources management system. Through the establishment of Far East College, Far East E Learning Platform and training information management system, Far East Horizon 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.

Corporate Social Responsibility Report

Employee care

Far East Horizon pays close attention to the physical and mental health of its employees. Through "large health benefits", Far East Horizon organizes 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.

Far East Horizon 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 an "assistance plan for the loved ones" and "milk bottle assistance plan" under the workers' union, providing necessary financial aid and support for employees or current graduates in difficulties or jeopardy, respectively.

Social Welfare Activities

We were kind at heart and showed boundless love.

For a long time, Far East Horizon has actively shouldered its corporate social responsibilities, contributing to the healthy, stable and continuous development of the society. Far East Horizon established the Beijing Horizon Charity Foundation and Shanghai Horizon Charity Foundation in 2014 and 2015, respectively, further expanding the area of benefit and influence of the Company.

Since its establishment, the foundation has stuck to its initial principle, focused on people's livelihood, drawn on its strengths and organized public programs and events in various areas including helping the poor, medical assistance, scholarships and student grants and volunteer services. Public programs were organized across 48 cities in 28 provinces or autonomous regions, with nearly RMB19 million of donations and over 30,000 beneficiaries.

Education subsidy

For six years, the foundation has organized scholarship and student grant programs in nearly 20 cities and 22 schools across China, benefitting over 8,000 students. The foundation not only provides scholarships and student grants to outstanding college students to help students better complete their studies, but at the same time also pays attention to the difficulties faced by primary and secondary school students in the central and western regions arising from a lack of educational resources.

Medical assistance

The foundation organized medical assistance programs in over 30 cities across China, providing financial support for impoverished patients and helping families falling into poverty due to illness. In addition, the foundation supported the medical development of the western region, elevated overall local diagnosis and treatment technology, and delivering hope to more patients and families, with close to 1,700 beneficiaries in total.

Corporate Social Responsibility Report

Helping the poor

Actively responding to the call of government of "targeted poverty alleviation", the foundation increased its efforts accordingly, carrying out long-term poverty alleviation programs in the poverty-stricken areas, with over 8,000 beneficiaries in six years. Bringing warmth and hope to the poor and giving them social support have been the purpose of Horizon Charity Foundation from the beginning.

Volunteer services

The foundation set up a volunteer service platform for staff of the Company and caring people in the community, formed the Far East Horizon Volunteer Team and carried out various diverse volunteer activities such as the "Benefit from Love – Dishui Lake Charity Run" (益點愛一滴水湖公益跑活動), "Art Charity Yi Walk – Liu Haisu Art Museum Volunteer Activity" (藝術公YI行一劉海粟美術館志願者活動) and the "Charity Caring Event at Children's Home in Chinese New Year" (新年兒福院慈善關愛活動), bringing joy and happiness to the community, spreading the spirit of charitable philosophy of "gathering small love in the heart, showing love without boundaries" and promoting the spirit of volunteering.

Award recognition

- Received the honorable title of "4A-grade Social Organization" in 2019
- Received the full score under the CFC Foundation Transparency Index in 2019, ranking first in China, and received such honor for the fifth consecutive year
- Received the "Responsible Influence Brand of the Year" award at the 2nd Social Responsibility Conference in 2019
- Received the "2019 Charity Organization" award at the 9th China Charity Festival in 2019

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 134 to 304, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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
Impairment assessment of loans and accounts receivable under HKFRS 9	
The Group's loans and accounts receivable consisted of lease receivables, interest receivables, notes receivable, accounts receivable, factoring receivables, entrusted loans, long-term receivables and secured loans, and accounted for 77.2% of the Group's total assets. The assessment of impairment of such loans and accounts receivable was considered to be a matter of most significance as it required the application of judgement and use of subjective assumptions by management. HKFRS 9 requires the use of the "expected credit loss" ("ECL") model for the measurement of impairment allowances of financial assets. In measuring ECL of loans and accounts receivable under HKFRS 9, management need to apply judgement, make necessary assumptions and select estimation techniques in aspects such as determining whether there are significant increases in credit risk, determining the parameters and the forward-looking adjustments. 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 22 and note 45 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. 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. We evaluated and tested the key parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: • Assessing the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default exposure at default, and significant increase in credit risk; • Assessing the reasonableness of the management's consideration of forward-looking adjustment information when determining expected credit losses, including the use of macroeconomic information and the judgement of adjustments. 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 2.4, note 3, note 22 and note 45 to the consolidated financial statements.
Impairment assessment of goodwill	
As at 31 December 2019, the Group's goodwill amounted to RMB2,322 million, representing 5.6% 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.

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.

Independent auditor's report

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 Leung Shing Kit.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	26,856,461	25,378,612
Cost of sales	7	(12,525,041)	(11,484,055)
Gross profit		14,331,420	13,894,557
Other income and gains	5	1,142,487	711,439
Selling and distribution costs		(1,954,977)	(2,284,711)
Administrative expenses		(3,641,298)	(3,050,828)
Impairment losses on financial and contract assets		(1,981,596)	(2,237,710)
Losses on disposal of financial assets measured at amortised cost		(267,914)	(176,074)
Other expenses		(214,893)	(191,781)
Finance costs	6	(460,632)	(459,849)
Share of net profits of:			
Associates		344,072	63,299
Share of net (losses)/profits of:			
Joint ventures		(151,839)	224,225
PROFIT BEFORE TAX	7	7,144,830	6,492,567
Income tax expense	10	(2,316,573)	(2,104,442)
PROFIT FOR THE YEAR		4,828,257	4,388,125
Attributable to:			
Ordinary shareholders of the parent		4,337,602	3,927,472
Holders of perpetual securities	36	511,335	502,735
Non-controlling interests		(20,680)	(42,082)
		4,828,257	4,388,125
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE PARENT	12	RMB	RMB
Basic and diluted			
– Earnings per share		1.14	1.02

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	4,828,257	4,388,125
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	469,783	945,932
Reclassification to the consolidated statement of profit or loss	(364,549)	(1,456,122)
Income tax effect	(24,699)	100,856
	80,535	(409,334)
Exchange differences on translation of foreign operations	(9,422)	(12,188)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	71,113	(421,522)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	71,113	(421,522)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,899,370	3,966,603
Attributable to:		
Ordinary shareholders of the parent	4,408,715	3,505,950
Holders of perpetual securities	511,335	502,735
Non-controlling interests	(20,680)	(42,082)
	4,899,370	3,966,603

Consolidated Statement of Financial Position

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	11,582,978	9,984,765
Right-of-use assets	14(b)	3,422,782	–
Prepaid land lease payments	14(a)	–	1,546,827
Goodwill	15	2,321,837	1,716,527
Other intangible assets	16	34,465	21,944
Investments in joint ventures	18	2,230,724	1,899,013
Investments in associates	19	4,987,942	4,065,550
Financial assets at fair value through profit or loss	20	4,130,091	2,222,429
Derivative financial instruments	21	906,710	934,739
Loans and accounts receivables	22	102,379,882	132,844,117
Prepayments, other receivables and other assets	23	11,580,604	4,716,664
Deferred tax assets	25	4,181,252	4,031,727
Restricted deposits	26	3,871	15,061
Total non-current assets		147,763,138	163,999,363
CURRENT ASSETS			
Inventories	27	403,838	448,328
Derivative financial instruments	21	659,126	108,040
Loans and accounts receivables	22	98,741,019	87,790,154
Contract assets	24	22,646	27,168
Prepayments, other receivables and other assets	23	2,715,863	2,615,312
Restricted deposits	26	5,962,790	5,265,062
Cash and cash equivalents	26	3,989,571	5,269,392
Financial assets at fair value through profit or loss	20	312,597	446,975
Total current assets		112,807,450	101,970,431
CURRENT LIABILITIES			
Trade and bills payables	28	4,473,428	3,431,914
Other payables and accruals	29	17,469,463	15,886,540
Derivative financial instruments	21	28,982	190,386
Interest-bearing bank and other borrowings	30	87,744,845	66,635,537
Lease liabilities	14(c)	236,375	–
Income tax payable		1,256,882	2,025,471
Total current liabilities		111,209,975	88,169,848
NET CURRENT ASSETS		1,597,475	13,800,583
TOTAL ASSETS LESS CURRENT LIABILITIES		149,360,613	177,799,946

Consolidated Statement of Financial Position

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		149,360,613	177,799,946
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	74,651,421	105,879,445
Lease liabilities	14(c)	1,636,702	–
Derivative financial instruments	21	155,532	17,468
Deferred tax liabilities	25	236,648	149,472
Other payables and accruals	29	24,521,974	29,352,339
Deferred revenue	31	1,054,306	981,396
Other non-current liabilities	46	5,569,255	2,327,322
Total non-current liabilities		107,825,838	138,707,442
Net assets		41,534,775	39,092,504
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	32	10,281,212	10,235,373
Reserves	35	19,847,224	17,494,370
		30,128,436	27,729,743
Holders of perpetual securities	36	9,860,211	9,789,593
Non-controlling interests		1,546,128	1,573,168
Total equity		41,534,775	39,092,504

Kong Fanxing

Director

Wang Mingzhe

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 32)	Capital reserve RMB'000 (Note 35)	Shares held for share award scheme RMB'000 (Note 34)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 35)	Reserve fund RMB'000 (Note 35)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 36)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	10,235,373	2,104,975	(673,079)	404,663	2,426	121,913	(392,491)	621,310	15,304,653	27,729,743	9,789,593	1,573,168	39,092,504
Profit for the year	–	–	–	–	–	–	–	–	4,337,602	4,337,602	511,335	(20,680)	4,828,257
Other comprehensive income for the year:													
Cash flow hedges, net of tax	–	–	–	–	–	–	80,535	–	–	80,535	–	–	80,535
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(9,422)	–	(9,422)	–	–	(9,422)
Total comprehensive income	–	–	–	–	–	–	80,535	(9,422)	4,337,602	4,408,715	511,335	(20,680)	4,899,370
Final 2018 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(1,001,447)	(1,001,447)	–	–	(1,001,447)
Distribution paid to holders of perpetual securities	–	–	–	–	–	–	–	–	–	–	(490,503)	–	(490,503)
Shares vested under restricted share award scheme	–	–	377,974	(287,915)	–	–	–	–	(90,059)	–	–	–	–
Purchase of shares under share award scheme	–	–	(774,973)	–	–	–	–	–	–	(774,973)	–	–	(774,973)
Transfer of reserve upon exercise of share options	45,839	–	–	(9,399)	–	–	–	–	–	36,440	–	–	36,440
Recognition of equity-settled share-based payments	–	–	–	299,666	–	–	–	–	–	299,666	–	–	299,666
Special reserve – safety fund appropriation	–	–	–	–	5,920	–	–	–	(6,115)	(195)	–	195	–

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 32)	Capital reserve RMB'000 (Note 35)	Shares held for share award scheme RMB'000 (Note 34)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 35)	Reserve fund RMB'000 (Note 35)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 36)	Non-controlling interests RMB'000	Total equity RMB'000
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	78,288	78,288
Purchase of non-controlling interests	-	(569,513)	-	-	-	-	-	-	-	(569,513)	-	(202,258)	(771,771)
Acquisition of subsidiaries (Note 37)	-	-	-	-	-	-	-	-	-	-	-	159,701	159,701
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(42,286)	(42,286)
Issue of perpetual trusted loans	-	-	-	-	-	-	-	-	-	-	49,786	-	49,786
At 31 December 2019	10,281,212	1,535,462*	(1,070,078)*	407,015*	8,346*	121,913*	(311,956)*	611,888*	18,544,634*	30,128,436	9,860,211	1,546,128	41,534,775

* These reserve accounts comprise the consolidated reserves of RMB19,847,224,000 (31 December 2018: RMB17,494,370,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 32)	Capital reserve RMB'000 (Note 35)	Shares held for share award scheme RMB'000 (Note 34)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 35)	Reserve fund RMB'000 (Note 35)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 36)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	10,218,442	2,105,322	(659,384)	329,672	1,082	121,913	16,843	633,498	12,410,056	25,177,444	9,797,723	1,269,200	36,244,367
Profit for the year	–	–	–	–	–	–	–	–	3,927,472	3,927,472	502,735	(42,082)	4,388,125
Other comprehensive income													
Cash flow hedges, net of tax	–	–	–	–	–	–	(409,334)	–	–	(409,334)	–	–	(409,334)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(12,188)	–	(12,188)	–	–	(12,188)
Total comprehensive income	–	–	–	–	–	–	(409,334)	(12,188)	3,927,472	3,505,950	502,735	(42,082)	3,966,603
Final 2017 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(972,002)	(972,002)	–	–	(972,002)
Distribution paid to holders of perpetual securities	–	–	–	–	–	–	–	–	–	–	(510,865)	–	(510,865)
Shares vested under restricted share award scheme	–	–	286,880	(227,395)	–	–	–	–	(59,485)	–	–	–	–
Purchase of shares under share award scheme	–	–	(300,575)	–	–	–	–	–	–	(300,575)	–	–	(300,575)
Transfer of reserve upon exercise of share options	16,931	–	–	(3,518)	–	–	–	–	–	13,413	–	–	13,413
Recognition of equity-settled share-based payments	–	–	–	305,904	–	–	–	–	–	305,904	–	–	305,904

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 32)	Capital reserve RMB'000 (Note 35)	Shares held for share award scheme RMB'000 (Note 34)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 35)	Reserve fund RMB'000 (Note 35)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 36)	Non-controlling interests RMB'000	Total equity RMB'000
Special reserve – safety fund appropriation	–	–	–	–	2,491	–	–	–	(2,573)	(82)	–	82	–
Special reserve – safety fund utilisation	–	–	–	–	(1,147)	–	–	–	1,185	38	–	(38)	–
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	225,488	225,488
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(587)	(587)
Purchase of non-controlling interests	–	(347)	–	–	–	–	–	–	–	(347)	–	(2,655)	(3,002)
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4,582)	(4,582)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	148,412	148,412
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(20,070)	(20,070)
At 31 December 2018	10,235,373	2,104,975*	(673,079)*	404,663*	2,426*	121,913*	(392,491)*	621,310*	15,304,653*	27,729,743	9,789,593	1,573,168	39,092,504

Consolidated Statement Of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		7,144,830	6,492,567
Adjustments for:			
Finance costs and bank charges		8,435,106	8,987,124
Bank interest income	5	(100,630)	(59,400)
Share of net profits of associates		(344,072)	(63,299)
Share of net losses/(profits) of joint ventures		151,839	(224,225)
Derivative financial instruments – transactions not qualifying as hedges:			
Realised fair value gains, net		–	(19,025)
Gains on structured financial products	5	(65,628)	(18,947)
Gains on disposal of property, plant and equipment, net		(56,115)	(3,840)
Losses on disposal of subsidiaries	7	–	4,930
Gains on disposal of a joint venture	5	(36,364)	–
Depreciation of property, plant and equipment	13	1,129,448	912,436
Depreciation of right-of-use assets/amortization of prepaid land lease payments	14	197,743	15,520
Provision for impairment of loans and accounts receivables	7	2,018,346	2,124,966
Provision for property, plant and equipment	7	446,796	69,725
Provision for impairment of inventories	7	42,861	21,574
Provision for impairment of prepayments, other receivables and other assets	7	59,224	102,579
Impairment of right-of-use assets	7	86,691	–
Impairment of credit commitments	7	26	10,165
Impairment of an investment in a joint venture	7	–	170,000
Impairment of goodwill	7	118,626	161,225
Interest expense on lease liabilities	14	64,156	–
Amortisation of intangible assets and other assets	7	33,497	28,989
Equity-settled share-based payment expense	7	299,666	305,904
Foreign exchange loss, net		51,775	128,885
Realized gains on derecognition of financial assets at fair value through profit or loss	5	(64,106)	(145,222)
Fair value gains from financial assets at fair value through profit or loss		(39,543)	(74,833)
Interest income from subordinated tranches of asset-backed securities/notes		(211,943)	(334,903)
Transaction cost incurred in purchasing financial assets at fair value through profit or loss		–	125
		19,362,229	18,593,020

Consolidated Statement Of Cash Flows

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Decrease/(increase) in inventories		68,133	(166,688)
Decrease/(increase) in loans and accounts receivables		17,525,157	(31,647,483)
Decrease in contract assets		4,522	17,002
(Increase)/decrease in prepayments, other receivables and other assets		(3,191,498)	1,904,215
Increase in restricted cash related to asset-backed securitisations and collective fund trusts		(708,844)	(212,388)
Increase in trade and bills payables		833,957	1,511,377
(Decrease)/increase in other payables and accruals		(3,801,932)	5,685,793
Increase in other liabilities		72,912	276,409
Net cash flows from/(used in) operating activities before tax and interest		30,164,636	(4,038,743)
Interest paid		(8,667,545)	(8,605,413)
Bank interest received		100,630	59,400
Income tax paid		(3,208,653)	(2,258,478)
Net cash flows from/(used in) operating activities		18,389,068	(14,843,234)
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on structured financial products	5	65,628	18,947
Realised gain on derivative financial instruments not qualifying as hedges		–	12,740
Proceeds from disposal of property, plant and equipment		219,863	195,963
Acquisition of subsidiaries		(395,201)	(105,926)
Proceeds from disposal of subsidiaries		–	(219,181)
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(3,295,594)	(3,684,665)
Purchase of shareholding for joint ventures		(557,763)	(125,106)
Purchase of shareholding for associates		(1,693,672)	(3,224,464)
Dividend received from joint ventures		6,053	55,115
Dividend received from associates		53,463	13,996
Proceeds from disposal of joint ventures		108,134	343,061
Proceeds from disposal of associates		1,061,889	73,800
Purchase of financial assets at fair value through profit or loss		(2,446,800)	(1,909,882)
Disposal of financial assets at fair value through profit or loss		688,856	2,109,481
Transaction costs paid in purchasing financial assets at fair value through profit or loss		–	(125)
Net cash flows used in investing activities		(6,185,144)	(6,446,246)

Consolidated Statement Of Cash Flows

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Net cash flows used in investing activities		(6,185,144)	(6,446,246)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		36,440	13,413
Capital injection from non-controlling shareholders		78,288	225,488
Purchase of non-controlling interests		(396,820)	(3,002)
Cash received from borrowings		99,485,119	128,763,849
Repayments of borrowings		(110,220,934)	(103,035,383)
Principal portion of lease payments		(214,313)	–
Dividends paid		(1,001,447)	(972,002)
Decrease/(increase) in pledged deposits		22,306	(483,065)
Realised fair value losses from derivative financial instruments in hedges for borrowings		(75,106)	–
Distribution paid to holders of perpetual securities	36	(490,503)	(510,865)
Dividends paid to non-controlling shareholders		(15,397)	(8,313)
Purchase of shares under share award scheme		(774,973)	(300,575)
Issue of perpetual trusted loans		49,786	–
Liquidation of a subsidiary		–	(4,582)
Net cash flows (used in)/from financing activities		(13,517,554)	23,684,963
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,313,630)	2,395,483
Cash and cash equivalents at beginning of year		5,269,392	2,815,544
Effect of exchange rate changes on cash and cash equivalents		33,809	58,365
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,989,571	5,269,392

Notes to Financial Statements

31 December 2019

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 financial assets at fair value through profit or loss 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 2019. 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 2019

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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Notes to Financial Statements

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The amendments that are more relevant to the Group are described below, other amendments do not have any significant impact on the Group's financial statements.

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

New definition of a lease

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impact on transition

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

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB8,721,000 that were reclassified from property, plant and equipment.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee – Leases previously classified as finance leases

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

Notes to Financial Statements

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	2,388,548
Decrease in property, plant and equipment	(8,721)
Decrease in prepaid land lease payments	(1,546,827)
Increase in total assets	833,000
Liabilities	
Increase in lease liabilities	844,821
Decrease in interest-bearing bank and other borrowings	(11,821)
Increase in total liabilities	833,000

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

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	1,040,081
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(7,238)
Commitments relating to leases of low-value assets	(469)
	1,032,374
Weighted average incremental borrowing rate as at 1 January 2019	4.9%
Discounted operating lease commitments at 1 January 2019	833,000
Add:	
Finance lease liabilities recognised as at 31 December 2018	11,821
Lease liabilities as at 1 January 2019	844,821

Notes to Financial Statements

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

3 No mandatory effective date yet determined but available for adoption

Notes to Financial Statements

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

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

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

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

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

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

Notes to Financial Statements

31 December 2019

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.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability 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.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Fair value measurement

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

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

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

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

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

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

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

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

Notes to Financial Statements
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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, contract assets, deferred tax 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.

Notes to Financial Statements
31 December 2019

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	7.00-33.33%
Office equipment and computers	9.00-33.33%
Motor vehicles	9.00-32.33%
Vessels	3.20-10.53%
Others	20.00-50.00%

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 50 years
Buildings	1 to 17 years
Equipments	5 to 7 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessor (continued)

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. 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.

Leases (applicable before 1 January 2019)

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.

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.

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 subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

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 the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Notes to Financial Statements

31 December 2019

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss *(continued)*

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the general approach in calculating ECLs with policies as described above.

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, payables, 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 and payables, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss *(continued)*

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to 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 at amortised cost (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 finance costs in the statement of profit or loss.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of 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, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Fair value hedges

The change in the fair value of a hedging instrument 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.

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 2019

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 policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy 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 2019

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, and 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 2019

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 from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

(c) Provision of services

Revenue from the provision of services is recognised over the scheduled period on a straight-line basis or at a point in time.

Revenue from other sources

Operating lease income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Finance lease, factoring and loan interest income

Finance lease, factoring and loan interest income is recognised 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 assets.

Other Income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

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 appropriate valuation models, further details of which are given in note 33 and note 34 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 2019

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 2019

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).

Where the Group receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Group initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the Group must determine the transaction date for each payment or receipt of the advance consideration.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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 2019 was RMB2,321,837,000 (31 December 2018: RMB1,716,527,000). Further details are given in note 15.

Impairment of financial instruments

The measurement of impairment losses under HKFRS 9 across debt instruments recorded at amortised cost or at FVOCI, lease receivables, credit commitments and financial guarantee contracts that are not accounted for at FVTPL requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Notes to Financial Statements

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of financial instruments (continued)

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

(i) The Group's internal credit grading model, which assigns PDs to the individual grades

(ii) The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment

(iii) Development of ECL models, including the various formulas and the choice of inputs

(iv) Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs 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 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 33 and note 34.

Judgements

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

Classification between finance 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 asset and liability recognition by the lessee, with the asset remaining recognised by the lessor).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between finance leases and operating leases(continued)

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

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

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group includes the renewal period as part of the lease term for leases of buildings due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operation if a replacement is not readily available.

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31 December 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two operating segments, namely the financial, lease and advisory business and the industrial operation and management 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 leases 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.

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.

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2019

	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue: (Note 5)				
Sales to external customers	22,740,360	4,116,101	–	26,856,461
Intersegment sales	177,498	7,115	(184,613)	–
Cost of sales	(9,304,215)	(3,225,015)	4,189	(12,525,041)
Other income and gains	895,332	260,078	(12,923)	1,142,487
Selling and distribution costs and administrative expenses	(4,066,958)	(1,538,347)	9,030	(5,596,275)
Other expenses	(76,081)	(138,812)	–	(214,893)
Finance costs	(381,586)	(263,363)	184,317	(460,632)
Impairment losses on financial and contract assets	(1,905,831)	(75,765)	–	(1,981,596)
Losses on disposal of financial assets measured at amortised cost	(267,914)	–	–	(267,914)
Share of profits of associates	337,713	6,359	–	344,072
Share of (losses)/profits of joint ventures	373	(152,212)	–	(151,839)
Profit before tax	8,148,691	(1,003,861)	–	7,144,830
Income tax expense	(2,174,407)	(142,166)	–	(2,316,573)
Profit after tax	5,974,284	(1,146,027)	–	4,828,257
Segment assets	251,726,756	17,390,785	(8,546,953)	260,570,588
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,996,980	775,590	–	2,772,570
Depreciation and amortisation	761,292	599,396	–	1,360,688
Capital expenditure	3,984,197	1,958,033	–	5,942,230

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2018

	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue: (Note 5)				
Sales to external customers	22,652,776	2,725,836	–	25,378,612
Intersegment sales	66,535	38,727	(105,262)	–
Cost of sales	(9,451,728)	(2,032,327)	–	(11,484,055)
Other income and gains	484,787	236,625	(9,973)	711,439
Selling and distribution costs and administrative expenses	(4,313,762)	(1,061,368)	39,591	(5,335,539)
Other expenses	(167,867)	(23,934)	20	(191,781)
Finance costs	(381,312)	(154,161)	75,624	(459,849)
Impairment losses on financial and contract assets	(2,225,917)	(11,793)	–	(2,237,710)
Losses on disposal of financial assets measured at amortised cost	(176,074)	–	–	(176,074)
Share of profits of associates	60,429	2,870	–	63,299
Share of profits of joint ventures	11,498	212,727	–	224,225
Profit before tax	6,559,365	(66,798)	–	6,492,567
Income tax expense	(2,067,172)	(37,270)	–	(2,104,442)
Profit after tax	4,492,193	(104,068)	–	4,388,125
Segment assets	258,620,098	13,518,790	(6,169,094)	265,969,794
Other segment information:				
Impairment losses recognised in the statement of profit or loss	2,267,982	392,252	–	2,660,234
Depreciation and amortisation	671,349	279,076	–	950,425
Capital expenditure	1,679,509	5,460,652	–	7,140,161

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31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	26,584,051	25,185,172
Hong Kong	98,228	168,664
Other countries or regions	174,182	24,776
	26,856,461	25,378,612

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	29,251,244	20,044,646
Hong Kong	1,318,977	1,539,512
	30,570,221	21,584,158

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.

5. REVENUE, OTHER INCOME AND GAINS

	Note	2019 RMB'000	2018 RMB'000
Revenue			
Revenue from contracts with customers	(i)	9,115,014	7,856,946
Revenue from other sources			
Operating lease income		1,980,220	1,547,727
Finance lease, factoring and loan interest income		15,841,562	16,137,698
Taxes and surcharges		(80,335)	(163,759)
		26,856,461	25,378,612

Notes to Financial Statements

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) **Disaggregated revenue information**

For the year ended 31 December 2019

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	50,553	511,489	562,042
Construction services	305,529	5,270	310,799
Service fee income	4,573,954	–	4,573,954
Healthcare service income	–	2,837,036	2,837,036
Education service income	–	234,642	234,642
Chartering and brokerage income	–	320,601	320,601
Other income	57,714	218,226	275,940
Total revenue from contracts with customers	4,987,750	4,127,264	9,115,014
Geographical markets			
Hong Kong	10,873	74,049	84,922
Mainland China	4,961,498	3,894,412	8,855,910
Other countries or regions	15,379	158,803	174,182
Total revenue from contracts with customers	4,987,750	4,127,264	9,115,014
Timing of revenue recognition			
Goods or services transferred at a point in time	4,185,870	1,796,936	5,982,806
Services transferred over time	801,880	2,330,328	3,132,208
Total revenue from contracts with customers	4,987,750	4,127,264	9,115,014

Notes to Financial Statements

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) **Disaggregated revenue information**(continued)

For the year ended 31 December 2018

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Type of goods or service			
Sale of goods	75,247	60,534	135,781
Construction services	144,524	42,809	187,333
Service fee income	4,889,048	–	4,889,048
Healthcare service income	–	2,141,382	2,141,382
Education service income	–	176,691	176,691
Chartering and brokerage income	–	215,882	215,882
Other income	12,033	98,796	110,829
Total revenue from contracts with customers	5,120,852	2,736,094	7,856,946
Geographical markets			
Hong Kong	888	164,871	165,759
Mainland China	5,119,936	2,546,475	7,666,411
Other countries or regions	28	24,748	24,776
Total revenue from contracts with customers	5,120,852	2,736,094	7,856,946
Timing of revenue recognition			
Goods or services transferred at a point in time	3,038,937	967,005	4,005,942
Services transferred over time	2,081,915	1,769,089	3,851,004
Total revenue from contracts with customers	5,120,852	2,736,094	7,856,946

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) **Disaggregated revenue information**(continued)

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

For the year ended 31 December 2019

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	4,987,750	4,127,264	9,115,014
Intersegment sales	1,126	7,115	8,241
Intersegment adjustments and eliminations	(1,126)	(7,115)	(8,241)
Total revenue from contracts with customers	4,987,750	4,127,264	9,115,014

For the year ended 31 December 2018

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	5,120,852	2,736,094	7,856,946
Intersegment sales	4,186	38,727	42,913
Intersegment adjustments and eliminations	(4,186)	(38,727)	(42,913)
Total revenue from contracts with customers	5,120,852	2,736,094	7,856,946

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Service fee income	391,443	607,431
Sale of goods	8,916	8,838
	400,359	616,269

(ii) Performance obligations

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

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 60 to 180 days from delivery.

Construction services

The performance obligation is satisfied over time as services are rendered. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) **Performance obligations** (continued)

Services

The performance obligation is satisfied over time or at a point in time as services are rendered and short-term advances are normally required before rendering the services. Most service contracts are for periods of one year or less, or are billed based on the time incurred.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 RMB'000	2018 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	439,232	426,203
After one year	230,196	212,222
	669,428	638,425

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to service fee, of which the performance obligations are to be satisfied within 5 to 12 years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

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5. REVENUE, OTHER INCOME AND GAINS (continued)

	Note	2019 RMB'000	2018 RMB'000
Other income and gains			
Bank interest income		100,630	59,400
Gains on structured financial products		65,628	18,947
Gains on disposal of property, plant, and equipment		63,295	7,723
Government grants	5a	65,263	25,777
Fair value gains from financial assets at fair value through profit or loss		116,961	74,833
Interest income from subordinated tranches of asset-backed securities/notes		573,282	334,903
Realised gains from derivative instruments – not designated as hedges		–	19,025
Dividends of financial assets at fair value through profit or loss		–	17,023
Realized gains on derecognition of financial assets at fair value through profit or loss		64,106	145,222
Gains on disposal of a joint venture		36,364	–
Others		56,958	8,586
		1,142,487	711,439

5a. GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
Government special subsidies	65,263	25,777
	65,263	25,777

Notes to Financial Statements

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6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans, overdrafts and other loans for industrial operation business	251,646	370,966
Interest on lease liabilities	64,156	–
Interest on finance leases for industrial operation business	145,496	118,409
Total interest expense on financial liabilities not at fair value through profit or loss	461,298	489,375
Less: Interest capitalised	(666)	(29,526)
	460,632	459,849

7. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Cost of borrowings included in cost of sales	8,038,630	8,527,275
Cost of inventories sold	520,678	127,657
Cost of construction services	213,032	128,635
Cost of operating leases	962,767	764,977
Cost of chartering	186,701	146,123
Cost of healthcare services	2,165,378	1,585,245
Cost of education services	232,000	146,116
Cost of others	205,855	58,027
Depreciation of property, plant and equipment	232,779	108,936
Less: Government grants released*	(1,970)	(788)
	230,809	108,148

Notes to Financial Statements

31 December 2019

7. PROFIT BEFORE TAX (continued)

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

	2019 RMB'000	2018 RMB'000
Depreciation of right-of-use assets	183,585	–
Amortisation of land lease payments	–	15,520
Amortisation of intangible assets and other assets:		
Current year expenditure	33,497	30,252
Less: Government grants released*	–	(1,263)
	33,497	28,989
Rental expenses	–	187,542
Auditors' remuneration – audit services	3,940	4,116
– other services	6,530	4,276
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
Current year expenditure	3,087,801	3,294,432
Less: Government grants released*	(588,179)	(432,080)
	2,499,622	2,862,352
– Equity-settled share-based payment expense	299,666	305,904
– Pension scheme contributions	115,897	111,895
– Other employee benefits	278,939	215,559
	3,194,124	3,495,710

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31 December 2019

7. PROFIT BEFORE TAX (continued)

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

	2019 RMB'000	2018 RMB'000
Impairment of an investment in a joint venture	–	170,000
Impairment of goodwill	118,626	161,225
Impairment of loans and accounts receivables (Note 22)	2,018,346	2,124,966
Impairment of financial assets included in prepayments, other receivables and other assets	(36,776)	102,579
Impairment of credit commitments	26	10,165
Impairment of inventories	42,861	21,574
Impairment of property, plant and equipment	446,796	69,725
Impairment of right-of-use assets	86,691	–
Impairment of other asset	96,000	–
Lease payments not included in the measurement of lease liabilities	9,125	–
Entertainment expenses	107,687	124,435
Business travelling expenses	264,400	251,011
Consultancy fees	149,600	162,176
Office expenses	44,297	67,238
Advertising and promotional expenses	28,680	23,839
Transportation expenses	34,705	17,701
Communication expenses	21,683	29,266
Litigation expenses	11,472	19,288
Other miscellaneous expenses:		
Current year expenditure	520,334	379,336
Less: Government grants released*	(39,167)	(5,576)
	481,167	373,760

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31 December 2019

7. PROFIT BEFORE TAX (continued)

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

	2019 RMB'000	2018 RMB'000
Losses on disposal of property, plant and equipment	7,180	3,883
Donation	4,798	5,198
Bank commission expenses	33,967	32,793
Foreign exchange losses/(gains), net:		
Cash flow hedges (transfer from equity to offset foreign exchange)	(420,052)	(1,482,848)
Others	471,827	1,611,733
Losses on disposal of subsidiaries	–	4,930
Fair value losses from financial assets at fair value through profit or loss	77,418	–
Other expenditure	39,755	16,092
Losses on derecognition of loans and accounts receivables measured at amortised cost**	267,914	176,074

* 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 31).

** The amounts mainly include losses from derecognition of certain loans and accounts receivables when there is an increase in their credit risk.

Notes to Financial Statements

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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:

	2019 RMB'000	2018 RMB'000
Fees	2,604	2,340
Other emoluments:		
Salaries, allowances and benefits in kind	7,632	7,620
Performance related bonuses*	4,300	4,300
Pension scheme contributions	98	100
	12,030	12,020
	14,634	14,360

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

During 2019, certain directors were granted share options 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 33 and Note 34 to the financial statements, respectively.

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. Cai Cunqiang	372	–
Mr. Han Xiaojing	372	360
Mr. Liu Jialing	372	360
Mr. Yip Wai Ming	372	360
	1,488	1,080

Notes to Financial Statements

31 December 2019

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:

	2019 RMB'000	2018 RMB'000
Mr. Ning Gaoning	–	–
Mr. Yang Lin	–	–
Mr. Chen Guogang	–	180
Mr. Liu Haifeng	372	360
Mr. Luo Qiang	372	360
Mr. Kuo Mingjian	372	360
	1,116	1,260

(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 2019					
Executive directors:					
Mr. Kong Fanxing	–	4,784	2,500	49	7,333
Mr. Wang Mingzhe	–	2,848	1,800	49	4,697
	–	7,632	4,300	98	12,030

	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 2018					
Executive directors:					
Mr. Kong Fanxing	–	4,778	2,500	50	7,328
Mr. Wang Mingzhe	–	2,842	1,800	50	4,692
	–	7,620	4,300	100	12,020

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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	
	2019	2018
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2018: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2018: three) non-directors, highest paid employees for the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	7,127	7,110
Performance related bonuses	3,900	3,900
Pension scheme contributions	147	150
	11,174	11,160

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

	Number of employees	
	2019	2018
HK$3,500,001 to HK$4,000,000 (Equivalent to RMB3,100,966 to RMB3,543,960)	2	1
HK$4,000,001 to HK$4,500,000 (Equivalent to RMB3,543,961 to RMB3,986,955)	–	1
HK$4,500,001 to HK$5,000,000 (Equivalent to RMB3,986,957 to RMB4,429,950)	1	1
	3	3

During the year ended 31 December 2019, 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 33 and Note 34 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 and 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 the 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. During the year ended 31 December 2019, the above information of the five highest paid employees has not taken into employees' potential entitlement under the Schemes.

10. INCOME TAX

	2019 RMB'000	2018 RMB'000
Current – Hong Kong		
Charge for the year	75,787	90,866
Current – Mainland China		
Charge for the year	2,364,300	2,674,708
Deferred tax (Note 25)	(123,514)	(661,132)
Total tax charge for the year	2,316,573	2,104,442

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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% (2018: 25%) on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

The State Administration of Taxation announced that enterprises of encouraged industries in the Western Region of PRC would have used a preferential tax rate of 15% from 1 January 2011 to 31 December 2020. Deyang The Fifth Hospital Co., Ltd, Chongqing Yudong Hospital Co., Ltd, Nayong Xinli Hospital Co., Ltd and Chengdu Jinsha Hospital Co., Ltd were recognized to fulfill the aforesaid preferential taxation policy and thus enjoyed a preferential tax rate of 15% since 2016. Zhaotong Renan Hospital Co., Ltd and Qiaojia Renan Hospital Co., Ltd were recognized to fulfill the aforesaid preferential taxation policy and thus enjoyed a preferential tax rate of 15% since 2017.

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10.INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

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%. Guangzhou Jinpeng was recognised as a high-technology enterprise in 2017. Since then, Guangzhou Jinpeng has enjoyed a preferential tax rate of 15%.

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

	2019 RMB'000	2018 RMB'000
Profit before tax	7,144,830	6,492,567
Tax at the statutory income tax rates	1,958,619	1,710,768
Expenses not deductible for tax	62,167	224,296
Income not subject to tax	(76,786)	(52,484)
Adjustment on current income tax in respect of prior years	40,391	23,523
Utilisation of previously unrecognised tax losses	(554)	(7,962)
Unrecognised tax losses	240,509	125,446
Effect of recognition of deductible temporary differences that were not recognised in prior years	–	(6,070)
Effect of withholding tax on interest on intra-group balances	92,227	86,925
Income tax expense as reported in the consolidated statement of profit or loss	2,316,573	2,104,442

The share of tax attributable to associates and joint ventures amounting to approximately RMB114,691,000 (31 December 2018: a credit amount of RMB24,083,000) and a credit amount of RMB10,958,000 (31 December 2018: RMB77,069,000), respectively, is included in "Share of net profits of: Associates" and "Share of net (losses)/profits of: Joint ventures" in the consolidated statement of profit or loss.

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11. DIVIDENDS

	2019 RMB' 000	2018 RMB' 000
Proposed final dividend – HK$0.33 (2018: HK$0.30) per ordinary share	1,121,968	1,010,551

A final dividend for the year 2019 of HK$0.33 per share was proposed at the meeting of the Board of directors ("the Board") held on 24 March 2020. As at 31 December 2019, based on the total number of outstanding ordinary shares of 3,795,465,996 (2018: 3,844,445,611) (excluding the 165,353,030 (2018: 109,717,026) shares held for share award scheme (note 34)), the proposed final dividend amounted to approximately HK$1,252,504,000 (2018: HK$1,153,334,000) (equivalent to RMB1,121,968,000 (2018: RMB1,010,551,000)). 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.

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 3,807,038,914 (2018: 3,838,383,169) 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, namely share options (Note 33), 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.

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

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

Earnings

	2019 RMB'000	2018 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	4,337,602	3,927,472

Shares

	Number of shares 2019	2018
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	3,807,038,914	3,838,383,169
Effect of dilution – weighted average number of ordinary shares:		
Share options	6,997,292	3,665,450
Weighted average number of ordinary shares for diluted earnings per share	3,814,036,206	3,842,048,619

For the year ended 31 December 2019, the unvested share options under the Share Option Scheme (Note 33) and the unvested restricted shares under the Restricted Share Award Scheme (Note 34) 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 2019

	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 1 January 2019 (restated)									
Cost	511,180	2,719,096	5,784,032	286,465	95,081	934,036	1,860,427	346,115	12,536,432
Accumulated depreciation and impairment	(126,109)	(307,790)	(1,509,751)	(169,939)	(53,354)	–	(321,242)	(72,203)	(2,560,388)
Net carrying amount	385,071	2,411,306	4,274,281	116,526	41,727	934,036	1,539,185	273,912	9,976,044
At 31 December 2018, net of accumulated depreciation and impairment	385,071	2,411,306	4,283,002	116,526	41,727	934,036	1,539,185	273,912	9,984,765
Effect of adoption of HKFRS 16	–	–	(8,721)	–	–	–	–	–	(8,721)
At 1 January 2019 (restated)	385,071	2,411,306	4,274,281	116,526	41,727	934,036	1,539,185	273,912	9,976,044
Acquisition of subsidiaries	5,595	180,404	194,628	10,823	2,359	6,054	–	–	399,863
Additions	128,215	69,007	2,133,158	78,832	10,021	477,479	7,930	10,871	2,915,513
Depreciation provided during the year	(91,923)	(123,655)	(698,727)	(55,603)	(11,555)	–	(67,955)	(80,030)	(1,129,448)
Transfers	115,291	792,676	7,358	4,938	–	(980,134)	–	59,871	–
Disposals	–	(7,756)	(133,903)	(2,530)	(743)	–	(17,447)	–	(162,379)
Exchange realignment	–	–	–	–	–	–	30,181	–	30,181
Impairment	(229,293)	–	(43,011)	(1,563)	–	–	(172,929)	–	(446,796)
At 31 December 2019, net of accumulated depreciation and impairment	312,956	3,321,982	5,733,784	151,423	41,809	437,435	1,318,965	264,624	11,582,978
At 31 December 2019:									
Cost	765,605	3,798,087	7,977,680	383,411	103,029	437,435	1,796,027	416,857	15,678,131
Accumulated depreciation and impairment	(452,649)	(476,105)	(2,243,896)	(231,988)	(61,220)	–	(477,062)	(152,233)	(4,095,153)
Net carrying amount	312,956	3,321,982	5,733,784	151,423	41,809	437,435	1,318,965	264,624	11,582,978

As at 31 December 2019, the Group has not obtained the property ownership certificates for four buildings (31 December 2018: Eight) with a net book value of RMB347,023,000 (31 December 2018: RMB435,524,000).

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

As at 31 December 2019, property, plant and equipment with a net carrying amount of RMB1,296,147,000 (31 December 2018: RMB1,443,412,000) were pledged to secure general banking facilities granted to the Group.

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13.PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2018

	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 2017 and at 1 January 2018:									
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
At 1 January 2018, 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
Acquisition of subsidiaries	–	193,593	136,493	16,031	3,589	20,568	–	–	370,274
Additions	98,872	147,814	1,408,454	87,816	21,370	1,210,766	777,417	11,536	3,764,045
Depreciation provided during the year	(35,102)	(113,554)	(605,997)	(37,259)	(12,055)	–	(49,226)	(59,243)	(912,436)
Transfers	178,566	987,042	92,728	5,711	–	(1,566,967)	–	302,920	–
Disposals	(15,057)	(7,394)	(138,257)	(29,272)	(2,143)	–	–	–	(192,123)
Disposal of a subsidiary	–	–	–	(1,371)	–	–	–	–	(1,371)
Exchange realignment	–	–	–	–	–	–	57,180	–	57,180
Impairment	–	–	(17,662)	–	–	–	(52,063)	–	(69,725)
At 31 December 2018, net of accumulated depreciation and impairment	385,071	2,411,306	4,283,002	116,526	41,727	934,036	1,539,185	273,912	9,984,765
At 31 December 2018:									
Cost	511,180	2,719,096	5,826,605	286,465	95,081	934,036	1,860,427	346,115	12,579,005
Accumulated depreciation and impairment	(126,109)	(307,790)	(1,543,603)	(169,939)	(53,354)	–	(321,242)	(72,203)	(2,594,240)
Net carrying amount	385,071	2,411,306	4,283,002	116,526	41,727	934,036	1,539,185	273,912	9,984,765

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14. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 and 17 years, while equipment generally has lease terms between 5 and 7 years or of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

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

	2018 RMB'000
Cost:	
At the beginning of the year	1,383,484
Additions	234,670
Acquisition of subsidiaries	82,794
At the end of the year	1,700,948
Accumulated amortisation:	
At the beginning of the year	(115,742)
Addition	(28,764)
Acquisition of subsidiaries	(9,615)
At the end of the year	(154,121)
Net carrying amount:	
At the end of the year	1,546,827
At the beginning of the year	1,267,742

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14. LEASES (continued)

The Group as a lessee (continued)

(b) Right-of-use assets

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

	Right-of-use assets			
	Prepaid land lease payments	Buildings	Equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	1,546,827	833,000	8,721	2,388,548
Additions	54,645	383,548	763,686	1,201,879
Acquisition of subsidiaries	40,911	2,697	73,181	116,789
Impairment	–	(86,691)	–	(86,691)
Depreciation charge	(36,964)	(152,327)	(8,452)	(197,743)
As at 31 December 2019	1,605,419	980,227	837,136	3,422,782

As at 31 December 2019, the Group has obtained all the land ownership certificate, except that the land ownership certificate for two parcels of land with a net book value of RMB181,329,000 was not obtained as at 31 December 2018.

As at 31 December 2019, the Group's leasehold land of approximately RMB889,712,000 (31 December 2018: RMB910,048,000) was pledged to secure general banking facilities granted to the Group.

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14. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB'000	2018 Finance lease payables RMB'000
Carrying amount at 1 January	844,821	12,027
New leases	1,111,424	–
Additions as a result of acquisition of subsidiaries	66,989	–
Accretion of interest recognised during the year	64,156	1,875
Payments	(214,313)	(2,081)
Carrying amount at 31 December	1,873,077	11,821
Analysed into:		
Current portion	236,375	7,933
Non-current portion	1,636,702	3,888

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 45 to the financial statements.

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

	2019 RMB'000
Interest on lease liabilities	64,156
Depreciation charge of right-of-use assets	197,743
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	8,753
Expense relating to leases of low-value assets (included in administrative expenses)	372
Total amount recognised in profit or loss	271,024

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 38(c) and note 41, respectively, to the financial statements

Notes to Financial Statements

31 December 2019

14. LEASES (continued)

The Group as a lessor – operating lease

The Group leases its equipment, tools and moulds under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB1,980,220,000 (2018: RMB1,547,727,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	1,370,311	1,174,081
After one year but within two years	410,009	335,452
After two years but within three years	205,005	167,726
After three years but within four years	64,722	–
	2,050,047	1,677,259

15. GOODWILL

	RMB'000
Cost at 1 January 2018, net of accumulated impairment	1,283,695
Acquisition of subsidiaries (Note 37)	594,057
Impairment during the year	(161,225)
Cost and net carrying amount at 31 December 2018	1,716,527
At 31 December 2018:	
Cost	1,878,452
Accumulated impairment	(161,925)
Net carrying amount	1,716,527
Cost at 1 January 2019, net of accumulated impairment	1,716,527
Acquisition of subsidiaries (Note 37)	723,936
Impairment during the year	(118,626)
Cost and net carrying amount at 31 December 2019	2,321,837
At 31 December 2019:	
Cost	2,602,388
Accumulated impairment	(280,551)
Net carrying amount	2,321,837

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31 December 2019

15.GOODWILL (Continued)

Goodwill acquired through business combinations is allocated to each acquired subsidiary (Note 37) as the cash-generating units ("CGUs") within medical service industry, educational service industry and electronics industry for impairment testing, which for the purpose of the presentation were grouped as follows:

- Medical service industry;
- Education service industry;
- Electronics industry.

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 is 14.0% (2018: 14.0%). The implied pre-tax discount rates for the cash flow projections are 16.0% to 17.9% (2018: 15.9% to 19.2%). As at 31 December 2019, the Group assessed the impairment on goodwill and the recoverable amounts exceeded carrying amount, and hence the goodwill was not regarded as impaired (2018: Nil).

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 17.0% (2018: 17.0%). The implied pre-tax discount rate for the cash flow projections is 22.3% (2018: 17.0% to 21.4%).

As at 31 December 2019, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill RMB59,075,000 arising from the acquisition of some kingdergardens and international schools was higher than its recoverable amount RMB5,565,000. Considering the fact that the actual educational service income was below previously expected financial budget, the management thus estimated that the future cash flows of these kingdergardens and international schools would probably be reduced than originally expected, resulting in a decrease in value-in-use calculation. As a result, an impairment loss of approximately RMB53,510,000 (2018: RMB161,225,000) was recognised in the Group's consolidated financial statements for the year ended 31 December 2019.

For cash-generating units within electronics industry

The recoverable amount of CGU within the electronics 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 16.0% (2018: Nil). The implied pre-tax discount rate for the cash flow projections is 21.2% (2018: Nil).

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31 December 2019

15.GOODWILL (continued)

For cash-generating units within electronics industry (continued)

As at 31 December 2019, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill RMB65,116,000 arising from the acquisition of an electronics subsidiary was higher than its recoverable amount (Nil). Considering the fact that the actual electronic products income was below previously expected financial budget, the management thus estimated that the future cash flows of the company would probably be reduced than originally expected, resulting in a decrease in value-in-use calculation. As a result, an impairment loss of approximately RMB65,116,000 (2018: Nil) was recognised in the Group's consolidated financial statements for the year ended 31 December 2019.

The carrying amounts of goodwill are as follows:

	2019 RMB'000	2018 RMB'000
Medical service industry	2,316,272	1,663,762
Education service industry	5,565	52,765
Total	2,321,837	1,716,527

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

Expected gross margin – the basis used to determine the value assigned to the expected gross margin is the gross margin achieved in current year, adjusted for expected growth and other changes, 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, the educational service industry and the electronics industry, and the discount rates are comparable to external information sources.

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16. OTHER INTANGIBLE ASSETS

	2019 RMB'000	2018 RMB'000
Software (Note 16a)	34,063	21,542
Others	402	402
	34,465	21,944

16a. SOFTWARE

	2019 RMB'000	2018 RMB'000
Cost:		
At the beginning of the year	93,822	82,760
Acquisition of subsidiaries	5,212	620
Additions	18,940	10,954
Disposals	(13,890)	(551)
Exchange differences	–	39
At the end of the year	104,084	93,822
Accumulated amortisation:		
At the beginning of the year	(72,280)	(63,190)
Acquisition of subsidiaries	(1,344)	(177)
Additions	(8,918)	(9,225)
Disposals	12,521	347
Exchange differences	–	(35)
At the end of the year	(70,021)	(72,280)
Net carrying amount:		
At the end of the year	34,063	21,542
At the beginning of the year	21,542	19,570

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17. SCOPE OF CONSOLIDATION

As at 31 December 2019, 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		Principal activities
			Direct	Indirect	
International Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司) (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	RMB6,500,000,000	55.38	44.62	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	RMB2,500,000,000/ RMB2,050,000,000	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	RMB8,200,000,000	–	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	RMB4,800,000,000	–	100	Trading
Far East Horizon Shipping Holdings Co., Ltd. (遠東宏信航運控股有限公司) (Note i)	Cayman Islands 2 October 2009	US$1,000	100	–	Investment holding
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	RMB1,973,543,000	–	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	RMB1,341,274,400/ RMB1,332,553,755	–	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. (上海宏信建設投資有限公司) (Note ii)	PRC/Mainland China 12 January 2016	RMB1,000,000,000	–	100	Investment holding

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17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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
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	–	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	RMB100,000,000	–	98.15	Construction
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	–	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	–	60	Construction
Zhongxiang Hongrui Infrastructure Construction & Investment Co., Ltd. (鐘祥宏瑞建設投資有限公司) (Note ii)	PRC/Mainland China 25 October 2017	RMB296,817,100	–	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	RMB833,220,000	–	96.81	Operating leasing
Grand Flight Investment Management Co., Ltd (宏翔投資管理有限公司) (Note i)	British Virgin Islands 12 August 2014	US$1	–	100	Investment holding

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17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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
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	–	100	Investment holding
Huangshi Hongyue maternity hospital Co., Ltd. (黃石宏悦婦產醫院有限公司) (Note ii)	PRC/Mainland China 27 October 2015	RMB35,000,000	–	100	Medical services
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	RMB200,000,000	–	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	–	100	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	–	83.91	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	–	83.91	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	–	83.91	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	–	83.91	Investment holding
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	–	83.91	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	–	83.91	Education services
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	–	50.35	Investment holding

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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	
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	–	50.35	Education services
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	–	83.91	Education services
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	–	83.91	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	RMB136,910,000	–	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	–	100	Investment holding
Chengdu Anren Confucius International School (成都大邑縣安仁孔裔外國語培訓學校) (Note ii)	PRC/Mainland China 11 November 2015	RMB1,000,000	–	100	Education services
Confucius International School Qingdao (青島市市南區宏文外語學校) (Note ii)	PRC/Mainland China 28 April 2010	RMB1,200,000	–	90	Education services
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 services
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$450,000,000/ US$300,000,000	–	100	Investment holding
Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司) (Note ii)	PRC/Mainland China 26 April 2013	RMB1,800,000,000	–	100	Investment holding

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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	
Huakang Orthopaedics Hospital Co., Ltd. (惠州華康醫院有限公司) (Note ii)	PRC/Mainland China 20 February 2004	RMB35,130,000	–	69.30	Medical services
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 services
Binhai Xinrenci Hospital Co., Ltd. (濱海新仁慈醫院有限公司) (Note ii)	PRC/Mainland China 20 January 2015	RMB4,112,900	–	66.06	Medical services
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 services
Zhoushan Dinghai Guanghua Hospital Co., Ltd. (舟山市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 services
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 services
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	–	70	Medical services
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 services
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 services
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 services
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 services

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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
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 services
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	–	80	Medical services
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	–	80	Medical services
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	–	80	Medical services
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	–	52.43	Medical services
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 services
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	–	80	Medical services
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	–	80	Medical services
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 (有限合夥)) (Note ii, Note iii)	PRC/Mainland China 15 June 2016	RMB10,000/ RMB0	–	95.95	Investment management

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17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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
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	RMB50,000,000/ RMB22,000,000	–	70.40	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
Shanghai Team Grow Management Limited (上海周濟同曆資產管理有限公司) (Note ii)	PRC/Mainland China 5 October 2015	RMB10,000,000/ RMB5,000,000	–	100	Investment management
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 services
Tangshan Caofeidian Yurui Construction and Engineering Co., Ltd (唐山曹妃甸昱瑞建設工程有限公司) (Note ii)	PRC/Mainland China 31 March 2016	RMB192,000,000/ RMB34,560,100	–	89	Construction
Shanghai Hongwen School (上海浦東新區民辦宏文學校) (Note ii)	PRC/Mainland China 22 March 2018	RMB10,000,000	–	100	Education services
Montessori Academy Xiushan Campus (上海徐匯區民辦蒙世學堂秀山幼兒園) (Note ii)	PRC/Mainland China 31 May 2018	RMB2,000,000	–	83.91	Education services
Montessori Academy Xuhui Campus (上海市徐匯區民辦蒙世學堂幼兒園) (Note ii)	PRC/Mainland China 3 January 2018	RMB2,000,000	–	83.91	Education services
Chengdu Gaoxinyuan Company Limited (成都高新區蒙世幼兒園) (Note ii)	PRC/Mainland China 5 May 2014	RMB2,400,000	–	100	Education services

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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
Xianning Matang Hospital Company Limited (咸甯麻塘風濕病醫院有限公司) (Note ii)	PRC/Mainland China 23 August 2006	RMB22,448,980	–	51	Medical services
Xianning Rongentang Pharmaceutical. Co., Ltd (咸甯市榮恩堂藥業有限公司) (Note ii)	PRC/Mainland China 17 March 2005	RMB10,000,000/ RMB0	–	51	Medical services
Renshou Yunchang Hospital Company Limited (仁壽運長醫院有限責任公司) (Note ii)	PRC/Mainland China 20 October 2016	RMB40,000,000	–	60	Medical services
Jinhua Hongyue Women & Children Hospital Co., Ltd (金華宏悦婦女兒童醫院有限公司) (Note ii)	PRC/Mainland China 8 February 2018	RMB100,000,000/ RMB87,000,000	–	60	Medical services
Qinghai Kangle Hospital Company Limited (青海省康樂醫院有限公司) (Note ii)	PRC/Mainland China 14 September 2017	RMB25,000,000	–	60	Medical services
Xinxiang League Hospital Company Limited (新鄉同盟醫院有限公司) (Note ii)	PRC/Mainland China 9 November 2017	RMB22,727,272	–	51	Medical services
Sihui Wanlong Hospital Co., Ltd (四會萬隆醫院有限公司) (Note ii)	PRC/Mainland China 9 June 2003	RMB127,120,000/ RMB100,590,035	–	100	Medical services
Tianjin Horizon Yuanzhan Enterprise Management Co., Ltd. (宏信遠展企業管理有限公司) (Note ii)	PRC/Mainland China 29 March 2018	RMB900,000,000	–	100	Investment management
Tianjin Hongtuo Investment Management Co., Ltd. (宏拓投資管理有限公司) (Note ii)	PRC/Mainland China 9 November 2017	RMB3,000,000,000	–	100	Investment management
Tiianjin Kaifeng Enterprise Management Co., Ltd. (天津凱鋒企業管理有限公司) (Note ii)	PRC/Mainland China 10 January 2018	RMB100,000,000	–	100	Investment management

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17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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	
Hongjie Asset Management Co., Ltd. (宏杰資產管理有限公司) (Note ii)	PRC/Mainland China 29 January 2018	RMB1,000,000,000	–	100	Investment management
Horizon Financial Company Limited (宏信金服（天津）信息科技有限公司) (Note ii)	PRC/Mainland China 10 May 2018	RMB30,000,000	–	80	Investment management
Far East Horizon Consulting Service Co., Ltd. (遠東宏信諮詢服務有限公司) (Note ii)	PRC/Mainland China 8 December 2017	RMB50,000,000/ RMB500,000	–	100	Investment management
Yushan Yusheng Construction & Engineering Investment Co., Ltd. (玉山縣玉昇建設工程投資有限公司) (Note ii)	PRC/Mainland China 20 December 2017	RMB162,530,000	–	99	Construction
Nanchang Hongdi Infrastructure Construction Co., Ltd. (南昌市宏迪建設有限公司) (Note ii)	PRC/Mainland China 8 August 2017	RMB20,000,000/ RMB19,800,000	–	94	Construction
Far East Horizon Medical Group Co., Ltd. (遠東宏信醫院集團有限公司) (Note ii)	PRC/Mainland China 13 April 2015	RMB1,800,000,000	–	100	Investment holding
Tianjin Taolesi Education Consulting Co., Ltd. (天津市桃樂絲教育諮詢有限公司)(Note ii)	PRC/Mainland China 2 June 2016	RMB2,000,000/ RMB500,000	–	100	Education service
Suqian Hongjing Water Treatment Co., Ltd. (宿遷市宏景水處理有限責任公司) (Note ii)	PRC/Mainland China 25 July 2019	RMB287,753,200/ RMB62,411,100	–	77	Eco technology
Guangzhou JP-WH precision Circuit Co., Ltd. (廣州金鵬源康精密電路股份有限公司) (Note ii)	PRC/Mainland China 20 May 2005	RMB64,000,000	–	36.62	Eco technology
Changsha Yuhua Green Olive Kinder Garden (長沙市雨花區青橄欖幼兒園有限公司) (Note ii)	PRC/Mainland China 13 July 2018	RMB600,000	–	100	Education Service

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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
Chengdu Jinsha Hospital Co., Ltd. (成都金沙醫院有限公司) (Note ii)	PRC/Mainland China 18 June 2014	RMB10,000,000	–	100	Medical Service
Ningbo Zhenhai Second Hospital Co., Ltd. (寧波鎮海第二醫院) (Note ii)	PRC/Mainland China 27 September 2017	RMB25,171,080	–	70	Medical Service
Zhecheng Hospital of Traditional Chinese Medicine Co., Ltd. (柘城中醫院有限公司) (Note ii)	PRC/Mainland China 21 March 2019	RMB3,630,858	–	51	Medical Service
Tianjin Horizon Asset Management Co., Ltd. (天津宏信資產管理有限公司) (Note ii)	PRC/Mainland China 23 November 2017	RMB4,000,000,000	–	100	Investment management
Shanghai Baiyue Property Service Co., Ltd. (上海柏悦物業服務有限公司)(Note ii)	PRC/Mainland China 16 August 2016	RMB5,000,000	–	100	Property Service
Shanghai Jingyi Enterprise Management Co., Ltd (上海景屹企業管理有限公司) (Note ii)	PRC/Mainland China 31 December 2016	RMB10,000,000	–	100	Investment management
Tianjin Hongmao Enterprise Management Co., Ltd (天津宏茂企業管理有限公司) (Note ii)	PRC/Mainland China 5 January 2018	RMB730,000,000/ RMB511,000,000	–	100	Investment management
Tianjin Horizon Yuanpeng Enterprise Management Co., Ltd (天津宏信遠鵬企業管理有限公司) (Note ii)	PRC/Mainland China 27 February 2018	RMB700,000,000	–	100	Investment management
Tianjin Junmeng Management Co., Ltd (天津駿盟企業管理有限公司) (Note ii)	PRC/Mainland China 12 April 2017	RMB100,000,000	–	100	Investment management
Tianjin Juntai Enterprise Management Co., Ltd (天津駿泰企業管理有限公司) (Note ii)	PRC/Mainland China 16 March 2017	RMB300,000,000	–	100	Investment management
Tianjin Junjia Enterprise Management Co., Ltd (天津駿嘉企業管理有限公司) (Note ii)	PRC/Mainland China 12 July 2017	RMB700,000,000	–	100	Investment management
Tianjin Junhai Enterprise Management Co., Ltd (天津駿海企業管理有限公司) (Note ii)	PRC/Mainland China 12 July 2017	RMB300,000,000	–	100	Investment management

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2019, 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	
Tianjin Junyang Enterprise Management Co., Ltd (天津駿洋企業管理有限公司) (Note ii)	PRC/Mainland China 12 July 2017	RMB180,000,000/ RMB113,000,000	–	100	Investment management
Tianjin Kaifeng Enterprise Management Co., Ltd (天津凱鋒企業管理有限公司) (Note ii)	PRC/Mainland China 10 January 2018	RMB10,000,000	–	100	Investment management
Shanghai Hongzuo New Energy Co., Ltd (上海宏祚新能源科技有限公司) (Note ii)	PRC/Mainland China 14 August 2017	RMB111,110,000/ RMB61,890,000	–	100	Eco technology
Tianjin Junrui Enterprise Management Co., Ltd (天津駿瑞企業管理有限公司) (Note ii)	PRC/Mainland China 12 July 2017	RMB33,100,000	–	57.4	Investment management
Yangzhou Jianglin Construction & Investment Co., Ltd (揚州江臨投資建設有限公司) (Note ii)	PRC/Mainland China 21 April 2017	RMB300,000,000	–	90	Construction investment
Jinyun Hongzhi Transportation Investment Co., Ltd (縉雲縣宏冶交通投資有限公司) (Note ii)	PRC/Mainland China 29 September 2018	RMB346,122,000/ RMB85,061,300	–	94.05	Investment management
Linghai Dalinghe Hospital Co., Ltd (淩海大淩河醫院有限責任公司) (Note ii)	PRC/Mainland China 8 August 2016	RMB87,833,334	–	70	Medical service
Changxing Zhizhou Hospital Co., Ltd (長興雉州醫院有限公司) (Note ii)	PRC/Mainland China 5 March 2019	RMB6,288,110	–	52	Medical service

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

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18. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	2,307,087	1,947,408
Excess of consideration over share of net assets acquired	93,637	121,605
Provision for impairment	(170,000)	(170,000)
	2,230,724	1,899,013

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
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 RMB7,576,000	PRC/Mainland China	41.4	41.4	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

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18.INVESTMENTS IN JOINT VENTURES (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
Grand Flight Hooyoung Investment L.P. (遠翼宏揚投資有限合夥)	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
Grand Flight Investment Management Co., Ltd. (遠翼投資管理有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	90*	90	Investment holding
Tianjin Yuanyi Kaiyuan Asset Management Centre ("Yuanyi Kaiyuan") (Limited Partnership) (天津遠翼開元資產管理中心 (有限合夥))	Registered capital of RMB1,505,420,000	PRC/Mainland China	39.856	39.856	Investment holding
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd. (廣州藝美天成裝飾 工程有限公司)	Registered capital of RMB5,000,000	PRC/Mainland China	60*	60	Decoration engineering
Wuhan Matang Hospital of Traditional Chinese Medicine Co., Ltd. (武漢麻塘中醫醫院有限公司)	Registered capital of RMB16,040,000	PRC/Mainland China	49	49	Medical service

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18.INVESTMENTS IN JOINT VENTURES (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
Shanghai Xiangyun Enterprise Management Partnership (Limited Partnership) (上海襄鋆企業管理合夥企業 (有限合夥))	Registered capital of RMB350,010,000	PRC/Mainland China	51.9985*	51.9985	Management consulting
Shanghai Jinghong Yuanyu Apartment Management Co., Ltd. (上海景閎遠寓公寓管理有限公司)	Registered capital of RMB40,000,000	PRC/Mainland China	51*	51	Property management
Wuhan Hongye Construction Development Co., Ltd. (武漢泓冶建設發展有限公司)	Registered capital of RMB328,000,000	PRC/Mainland China	47	47	Drainage works
Guixi Hongyu Infrastructure Investment Co., Ltd. (貴溪市宏宇基礎設施投資有限公司)	Registered capital of RMB146,280,748	PRC/Mainland China	48	48	Infrastructure construction
Xi'an Chuxin Investment Construction Co., Ltd. (西安楚信投資建設有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	46	46	Municipal engineering

* 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 22 to the financial statements. There was no recent history of default and past due amounts for loans to joint ventures. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

Kangda and Yuanyi Kaiyuan, which are considered material joint ventures of the Group, are mainly engaged in the development, construction and investment holding business in Mainland China respectively. The aforementioned companies are accounted for using the equity method.

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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 carrying amount of the net assets in the financial statements.

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	56,685	140,975
Other current assets	2,556,516	2,536,304
Current assets	2,613,201	2,677,279
Non-current assets	22,733	9,464
Financial liabilities, excluding other payables and accruals	(43,000)	(43,000)
Other payables and accruals	(618,732)	(575,275)
Current liabilities	(661,732)	(618,275)
Non-current liabilities	(520,000)	(520,000)
Net assets	1,454,202	1,548,468
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	60%	60%
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	872,521	929,081
Cumulative impairment	(170,000)	(170,000)
Carrying amount of the investment	702,521	759,081

	2019 RMB'000	2018 RMB'000
Revenue	127,782	–
Cost of sales	(199,599)	–
Administrative expenses	(12,277)	(12,808)
Other expenses	(10,172)	(8,498)
Loss and total comprehensive income for the year	(94,266)	(21,306)

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18. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information in respect of Yuanyi Kaiyuan adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	127,825	60,284
Other current assets	1,929,228	1,995,600
Current assets	2,057,053	2,055,884
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–
Net assets	2,057,053	2,055,884
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	39.856%	39.856%
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	819,859	819,393
Capital to be injected to the joint venture	(53,061)	(302,871)
Carrying amount of the investment	766,798	516,522

	2019 RMB'000	2018 RMB'000
Other expenses	(34,131)	(35,155)
Other income	35,300	640,547
Profit and total comprehensive income for the year	1,169	605,392
Dividend received	–	53,578

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18. INVESTMENTS IN JOINT VENTURES (continued)

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

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' loss for the year	(95,745)	(4,276)
Aggregate carrying amount of the Group's investments in the joint ventures	761,405	623,410

19. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	4,305,232	3,382,840
Excess of consideration over share of net assets acquired	682,710	682,710
	4,987,942	4,065,550

Particulars of the material associate 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 Yijia Construction Development Co., Ltd. (上海藝佳建設發展有限公司)	Registered capital of RMB14,285,800	PRC/Mainland China	30	30	Development and construction
Hangzhou Guoya Stomatological Hospital Co., Ltd. (杭州國雅口腔醫院有限公司)	Registered capital of RMB32,574,700	PRC/Mainland China	34.98	34.98	Medical service

As at 31 December 2019, the Group also invested in six companies which are mainly engaged in the investment holding business in Mainland China, with the registered capital of RMB2,600,000,000, RMB3,000,000,000, RMB6,018,000,000, RMB4,508,514,000, RMB1,000,000,000 and RMB3,000,000,000 respectively. The percentage of ownership interest and profit sharing of the Group in these companies are 27.20%, 19.50%, 10.0254%, 13.3082%, 10.00% and 17.00% respectively. The aforementioned companies are accounted for using the equity method.

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19.INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of 5 largest associates (in terms of carrying amount as at 31 December 2019) adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	2019				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	6,901,855	3,747,764	40,722,468	5,813,864	2,537,244
Non-current assets	14,957,778	2,937,100	10,343,581	1,605,599	490,491
Current liabilities	(2,318,934)	(1,226,052)	(19,861,709)	(260,364)	(12,540)
Non-current liabilities	(12,052,648)	(1,610,332)	(19,733,088)	(3,561,677)	–
Net assets	7,488,051	3,848,480	11,471,252	3,597,422	3,015,195
Net assets attributable to the shareholders of the parent	4,182,044	3,848,480	9,186,546	3,443,439	3,015,195
Reconciliation to the Group's interest in the associates:					
Proportion of the Group's ownership	13.3082%	19.5%	10.0254%	27.200%	17.000%
Group's share of net assets of the associates, excluding excess of consideration over share of net assets	556,555	750,454	920,988	936,615	512,583
Excess of consideration over share of net assets	282,092	23,717	158,185	132,022	–
Carrying amount of the Investment	838,647	774,171	1,079,173	1,068,637	512,583
Revenue	748,723	544,987	5,438,795	426,983	17,793
Profit and total comprehensive income for the period after the Group's investment in the associates	631,593	319,594	829,747	173,798	15,195
Profit and total comprehensive attributable to the parent after the Group's investment in the associates	487,269	319,594	1,088,168	168,052	15,195
Dividend received	–	13,418	21,314	–	–

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19.INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of 5 largest associates (in terms of carrying amount as at 31 December 2019) adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements. (continued)

	2018				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	6,667,365	3,400,735	38,065,872	2,979,950	–
Non-current assets	5,823,946	2,985,595	8,164,023	474,430	–
Current liabilities	(2,875,661)	(1,148,189)	(22,186,772)	(103,271)	–
Non-current liabilities	(3,111,678)	(1,640,444)	(13,298,417)	(1,917,316)	–
Net assets	6,503,972	3,597,697	10,744,706	1,433,793	–
Net assets attributable to the shareholders of the parent	3,694,775	3,597,697	8,310,980	1,275,387	–
Reconciliation to the Group's interest in the associates:					
Proportion of the Group's ownership	13.3082%	19.5%	10.0254%	27.200%	–
Group's share of net assets of the associates, excluding excess of consideration over share of net assets	491,708	701,551	833,209	346,905	–
Excess of consideration over share of net assets	282,092	23,717	158,185	132,022	–
Carrying amount of the investment	773,800	725,268	991,394	478,927	–
Revenue	–	194,705	963,688	348,275	–
Profit and total comprehensive income for the period after the Group's investment in the associates	–	104,818	103,749	151,449	–
Profit and total comprehensive attributable to the parent after the Group's investment in the associates	–	104,818	90,126	141,460	–

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

	2019	2018
	RMB'000	RMB'000
Share of the associates' profit for the year	59,918	33,824
Aggregate carrying amount of the Group's investments in the associates	714,731	1,575,088

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19.INVESTMENTS IN ASSOCIATES (continued)

The above balances include a total of RMB529,379,000 (31 December 2018: RMB871,628,000) investments held by the Group as an investor in sub-ordinated tranches of several collective fund trusts, whose total funds raised amount to RMB2,700,250,000 (31 December 2018: RMB4,277,520,000), the Group had significant influence over these trusts. These trusts conduct entrusted finance lease and entrusted loan businesses. The maximum exposure of the Group to losses from those investments approximate their carrying amounts.

The Group's loan and account receivable balances due from the associates are disclosed in Note 22 to the financial statements.

20.FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted equity investments, at fair value	660,905	801,617
Unlisted debt investments, at fair value	3,781,783	1,867,787
	4,442,688	2,669,404

The above equity investments at 31 December 2019 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income. The above debt investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The above debt investments at 31 December 2019 included a carrying amount of RMB3,669,186,000 (31 December 2018: RMB1,672,901,000) were wealth management products and interests in some asset management products, issued and managed by third party financial institutions. The Group does not have the current ability to direct the activities of those products that significantly affect their returns. The Group's maximum exposure to those debt investments approximate their carrying amounts.

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Cross-currency interest rate swaps	1,528,354	(142,678)	984,879	–
Forward currency contracts	24,513	(24,482)	43,299	(204,537)
Interest rate swaps	12,969	(17,354)	14,601	(3,317)
	1,565,836	(184,514)	1,042,779	(207,854)
Portion classified as non-current:				
Cross-currency interest rate swaps	895,090	(138,891)	903,290	–
Forward currency contracts	–	–	17,368	(14,151)
Interest rate swaps	11,620	(16,641)	14,081	(3,317)
	906,710	(155,532)	934,739	(17,468)
Current portion	659,126	(28,982)	108,040	(190,386)
	1,565,836	(184,514)	1,042,779	(207,854)

Cash flow hedge under HKFRS 9

At 31 December 2019, the Group designated 62 (2018: 36) cross-currency interest rate swap contracts, 14 (2018: 17) forward currency contracts and 4 (2018: Nil) interest rate swap contracts as hedges of future cash flows arising from foreign currency borrowings, details as follows:

At 31 December 2019, the Group had 10 (2018: 7) cross-currency interest rate swaps in place with notional amounts of HK$3,354,000,000 (2018: HK$2,106,000,000) whereby the Group receives a floating rate of interest on the HK$ notional amount at HKD-HIBOR-HKAB and pays a fixed rate of interest on the RMB notional amount at 3.91% to 4.38% per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 10 floating rate long-term borrowings denominated in HK$ with the total face value of HK$3,354,000,000 (2018: HK$2,106,000,000).

At 31 December 2019, the Group had 50 (2018: 27) cross-currency interest rate swaps in place with notional amounts of US$4,122,708,000 (2018: US$2,955,000,000) whereby the Group receives a floating rate of interest on the US$ notional amount at USD-LIBOR-BBA and pays a fixed rate of interest on the RMB notional amount at 3.35% to 5.70% per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 50 floating rate long-term borrowings denominated in US$ with the total face value of US$4,122,708,000 (2018: US$2,955,000,000).

Notes to Financial Statements

31 December 2019

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

At 31 December 2019, the Group had 2 (2018: 2) cross-currency interest rate swaps in place with notional amounts of US$200,000,000 (2018: US$200,000,000) whereby the Group receives a fixed rate of interest on the US$ notional amount at 4.38% p.a. and pays a fixed rate of interest on the RMB notional amount at 5.84% and 5.88% per annum. The swaps are being used to hedge the foreign currency exposure of 2 fixed rate long-term borrowings denominated in US$ with the total face value of US$200,000,000 (2018: US$200,000,000).

At 31 December 2019, the Group had 14 (2018:17) forward currency contracts with a total notional amount of US$517,906,000 (2018: US$321,100,000, SG$200,000,000 and AU$200,000,000) as hedges of future cash flows arising from foreign currency borrowings with the total face value of $517,906,000 (2018: US$321,100,000, SG$200,000,000 and AU$200,000,000) which will be settled in United States Dollar.

At 31 December 2019, the Group had 4 (2018: Nil) interest rate swaps in place with notional amounts of US$215,000,000 (2018: Nil) whereby the Group receives a floating rate of interest on the US$ notional amount at USD-LIBOR-BBA and pays a fixed rate of interest on the US$ notional amount at 2.34% to 2.47% (2018: Nil) per annum. The swaps are being used to hedge interest rate exposure of 4 floating rate long-term borrowings denominated in US$ with the total face value of US$215,000,000 (2018: Nil).

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

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items

Notes to Financial Statements

31 December 2019

21.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

The Group holds the following cross-currency interest rate swap contracts, forward currency contracts and interest rate swaps:

	Maturity						
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Total
As at 31 December 2019							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	–	931,216	3,863,655	5,542,038	10,503,827	7,758,223	28,598,959
Average forward exchange rate (US$/RMB)	–	6.2920	6.5775	6.6133	6.5544	6.9758	
Notional amount (in RMB'000)	–	–	–	128,809	1,569,905	1,128,527	2,827,241
Average forward exchange rate (HK$/RMB)	–	–	–	0.8257	0.8061	0.9035	
Forward currency contracts							
Notional amount (in RMB'000)	1,855,836	1,337,156	424,888	–	–	–	3,617,880
Average forward exchange rate (US$/RMB)	6.8540	7.0338	7.1361	–	–	–	
Interest rate swaps							
Notional amount (in RMB'000)	–	–	104,643	1,395,240	–	–	1,499,883
Average forward exchange rate	–	–	N/A	N/A	–	–	
Hedge rate	1	1	1	1	1	1	

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31 December 2019

21.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

The Group holds the following cross-currency interest rate swap contracts and forward currency contracts: (continued)

	Maturity						
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Total
As at 31 December 2018							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	409,962	637,200	–	–	9,830,654	9,444,273	20,322,089
Average forward exchange rate (US$/RMB)	6.3071	6.3720	–	–	6.4592	6.4178	
Notional amount (in RMB'000)	–	–	–	–	128,809	1,569,905	1,698,714
Average forward exchange rate (HK$/RMB)	–	–	–	–	0.8257	0.8061	
Forward currency contracts							
Notional amount (in RMB'000)	–	619,368	826,728	–	736,601	–	2,182,697
Average forward exchange rate (US$/RMB)	–	6.6177	6.8245	–	6.8308	–	
Notional amount (in RMB'000)	–	–	1,123,341	–	–	–	1,123,341
Average forward exchange rate (AU$/RMB)	–	–	5.6154	–	–	–	
Notional amount (in RMB'000)	–	–	–	1,064,380	–	–	1,064,380
Average forward exchange rate (SG$/RMB)	–	–	–	5.3219	–	–	
Hedge rate	1	1	1	1	1	1	

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21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

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

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge Ineffectiveness for the year RMB'000
As at 31 December 2019				
Forward currency contracts	382,295	24,513	Derivative Financial Instruments (Assets)	(18,786)
Forward currency contracts	3,235,584	(24,482)	Derivative Financial Instruments (Liabilities)	180,055
Cross-currency interest rate swaps	22,992,909	1,528,354	Derivative Financial Instruments (Assets)	543,475
Cross-currency interest rate swaps	8,433,292	(142,678)	Derivative Financial Instruments (Liabilities)	(142,678)
Interest rate swap	1,499,883	(17,177)	Derivative Financial Instruments (Liabilities)	(17,177)

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge Ineffectiveness for the year RMB'000
As at 31 December 2018				
Forward currency contracts	1,079,311	43,299	Derivative Financial Instruments (Assets)	43,299
Forward currency contracts	3,291,107	(204,537)	Derivative Financial Instruments (Liabilities)	(72,616)
Cross-currency interest rate swaps	22,020,803	984,879	Derivative Financial Instruments (Assets)	862,405
Cross-currency interest rate swaps	–	–	Derivative Financial Instruments (Liabilities)	112,844

Notes to Financial Statements

31 December 2019

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

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

	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000	Cash flow hedge reserve RMB'000
As at 31 December 2019		
Foreign currency bank loans amounted to RMB equivalent 38,273,419,000	469,783	(311,956)

	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000	Cash flow hedge reserve RMB'000
As at 31 December 2018		
Foreign currency bank loans amounted to RMB equivalent 27,668,687,000	945,932	(392,491)

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31 December 2019

21.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

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

	Total hedging gain/(loss) recognised in other comprehensive income					Amount reclassified from other comprehensive income to profit or loss			
Year ended 31 December 2019	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	Hedged ineffectiveness recognised in profit or loss RMB'000	Line item in the statement of profit or loss	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	Line item (gross amount) loss in the statement of profit or loss
Forward currency contracts	18,361	(5,289)	13,072	–	N/A	(36,213)	7,110	(29,103)	Cost of sales/ other expenses
Cross-currency interest rate swaps	468,599	(92,860)	375,739	–	N/A	(328,464)	63,527	(264,937)	Cost of sales/ other expenses
Interest rate swap	(17,177)	2,834	(14,343)	–	N/A	128	(21)	107	Cost of sales/ other expenses
Total	469,783	(95,315)	374,468	–	N/A	(364,549)	70,616	(293,933)	

	Total hedging gain/(loss) recognised in other comprehensive income					Amount reclassified from other comprehensive income to profit or loss			
Year ended 31 December 2018	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	Hedged ineffectiveness recognised in profit or loss RMB'000	Line item in the statement of profit or loss	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	Line item (gross amount) loss in the statement of profit or loss
Forward currency contracts	(29,317)	(2,715)	(32,032)	–	N/A	(22,476)	7,474	(15,002)	Cost of sales/ other expenses
Cross-currency interest rate swaps	975,249	(188,321)	786,928	–	N/A	(1,433,646)	284,418	(1,149,228)	Cost of sales/ other expenses
Total	945,932	(191,036)	754,896	–	N/A	(1,456,122)	291,892	(1,164,230)	

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31 December 2019

21.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge under HKFRS 9 – Interest rate risk

At 31 December 2019, the Group had 12 (2018:14) interest rate swap agreements in place with a total notional amount of RMB9,900,000,000 (2018: RMB11,900,000,000) whereby it receives interest at fixed rates of 4.36% to 4.80% 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 fixed rate long-term bonds. The critical terms of the interest rate swaps substantially match those of the borrowings. These hedges were assessed to be highly effective.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the long-term bonds (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to that of the hedged risk component. In assessing the hedge effectiveness, the Group notes that the critical terms of the hedged items and the hedging instruments match each other, and therefore the changes in the fair value of the hedging instrument exactly offset the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- differences in the timing of interest cash flows of the hedged item and the hedging instrument

- the counterparties' credit risks may impact the fair value movements of the hedging instruments.

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31 December 2019

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge under HKFRS 9 – Interest rate risk (continued)

The impact of the hedging instrument on the statement of financial position is as follows:

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
Interest rate swap	8,900,000	12,969	Derivative Financial Instruments (Assets)	(1,632)
Interest rate swap	1,000,000	(177)	Derivative Financial Instruments (Liabilities)	3,140

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position RMB'000	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2018				
Interest rate swap	9,100,000	14,601	Derivative Financial Instruments (Assets)	14,018
Interest rate swap	2,800,000	(3,317)	Derivative Financial Instruments (Liabilities)	12,194

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31 December 2019

21.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge under HKFRS 9 – Interest rate risk (continued)

The impact of the hedged item on the statement of financial position is as follows:

	Carrying amount RMB' 000	Accumulated fair value adjustments RMB' 000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB' 000
As at 31 December 2019				
Bonds amounted to RMB equivalent 9,900,000,000	9,912,792	12,792	Interest-bearing bank and other borrowings	1,508

	Carrying amount RMB' 000	Accumulated fair value adjustments RMB' 000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB' 000
As at 31 December 2018				
Bonds amounted to RMB equivalent 11,900,000,000	11,911,284	11,284	Interest-bearing bank and other borrowings	26,212

22.LOANS AND ACCOUNTS RECEIVABLES

	31 December 2019 RMB' 000	31 December 2018 RMB' 000
Loans and accounts receivables due within 1 year	98,741,019	87,790,154
Loans and accounts receivables due after 1 year	102,379,882	132,844,117
	201,120,901	220,634,271

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31 December 2019

22.LOANS AND ACCOUNTS RECEIVABLES (continued)

22a. Loans and accounts receivables by nature

	31 December 2019 RMB'000	31 December 2018 RMB'000
Lease receivables (Note 22b)*	207,655,800	233,565,773
Less: Unearned finance income	(20,786,899)	(27,249,304)
Net lease receivables (Note 22b/22c)**	186,868,901	206,316,469
Interest receivables (Note 22c)*	1,561,187	1,857,404
Factoring receivable (Note 22c/22g)**	4,156,059	2,222,096
Entrusted loans (Note 22c/22h)*/**	4,317,303	9,171,912
Long-term receivables (Note 22c/22i) */**	5,999,560	4,366,744
Secured loans (Note 22c)**	246,065	54,453
Subtotal of Interesting-earning assets	203,149,075	223,989,078
Less:		
Provision for lease receivables (Note 22d)**	(5,257,671)	(4,846,354)
Provision for factoring receivable (Note 22d)**	(92,895)	(45,088)
Provision for entrusted loans (Note 22d)**	(100,753)	(188,337)
Provision for long-term receivables (Note 22d)**	(79,492)	(13,301)
Provision for secured loans (Note 22d)**	(4,483)	(652)
Provision for interesting-earning assets	(5,535,294)	(5,093,732)
Notes receivable	230,438	162,940
Accounts receivable (Note 22e)*	3,830,788	1,983,858
Provision for accounts receivable (Note 22f)	(554,106)	(407,873)
Total of loans and accounts receivables	201,120,901	220,634,271

* These balances included balances with related parties which are disclosed in note 22j.

** These balances are included in the interest-earning assets disclosed in note 22c and note 22d.

Notes to Financial Statements

31 December 2019

22.LOANS AND ACCOUNTS RECEIVABLES (continued)

22b (1). An aging analysis of lease receivables, determined based on the age of the receivables since the effective date of the relevant lease contracts, as at the end of the reporting period is as follows:

	31 December 2019 RMB' 000	31 December 2018 RMB' 000
Lease receivables:		
Within 1 year	81,010,823	120,885,693
1 to 2 years	65,639,866	81,819,070
2 to 3 years	47,787,535	19,974,406
3 to 5 years	13,217,576	10,886,604
Total	207,655,800	233,565,773

	31 December 2019 RMB' 000	31 December 2018 RMB' 000
Net lease receivables:		
Within 1 year	72,921,942	104,914,424
1 to 2 years	58,141,813	72,788,965
2 to 3 years	43,374,076	18,483,450
3 to 5 years	12,431,070	10,129,630
Total	186,868,901	206,316,469

Notes to Financial Statements

31 December 2019

22. LOANS AND ACCOUNTS RECEIVABLES (continued)

22b (2). The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following five or more than five consecutive accounting years:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Lease receivables:		
Due within 1 year	101,704,090	93,206,939
Due in 1 to 2 years	63,404,839	69,732,415
Due in 2 to 3 years	32,945,840	42,559,640
Due in 3 to 5 years	9,231,836	27,685,931
Due after 5 years	369,195	380,848
Total	207,655,800	233,565,773

	31 December 2019 RMB'000	31 December 2018 RMB'000
Net lease receivables:		
Due within 1 year	88,949,526	79,478,262
Due in 1 to 2 years	58,017,342	61,915,905
Due in 2 to 3 years	30,863,293	38,854,786
Due in 3 to 5 years	8,696,248	25,711,412
Due after 5 years	342,492	356,104
Total	186,868,901	206,316,469

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

As at 31 December 2019, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB11,535,047,000 (31 December 2018: RMB14,870,001,000) (see note 30(a)).

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31 December 2019

22.LOANS AND ACCOUNTS RECEIVABLES (continued)

22c. Analysis of interest-earning assets

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Total RMB'000
As at 31 December 2019				
Interest-earning assets	182,252,157	18,647,831	2,249,087	203,149,075
Allowance for impairment losses	(3,438,649)	(1,627,288)	(469,357)	(5,535,294)
Interest-earning assets, net	178,813,508	17,020,543	1,779,730	197,613,781

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Total RMB'000
As at 31 December 2018				
Total interest-earning assets	203,187,703	18,649,628	2,151,747	223,989,078
Allowance for impairment losses	(3,145,672)	(1,188,069)	(759,991)	(5,093,732)
Interest-earning assets, net	200,042,031	17,461,559	1,391,756	218,895,346

Notes to Financial Statements

31 December 2019

22. LOANS AND ACCOUNTS RECEIVABLES (continued)

22d. Movement in provision for interest-earning assets

The Group has applied the general approach to providing for expected credited losses ("ECL") prescribed by HKFRS 9 from 1 January 2018, which permits the use of either a twelve-month basis or a lifetime basis to record expected credit losses based on an expected credit loss model for interest-earning assets.

The Group has conducted an assessment of ECL according to forward-looking information and used appropriate models and a large number of assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group has adopted judgement, assumptions and estimation techniques in order to measure 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.

	Year ended 31 December 2019			
	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III** (Lifetime ECL-impaired) RMB'000	Total RMB'000
At beginning of the year	3,145,672	1,188,069	759,991	5,093,732
Impairment losses for the year	928,499*	574,832	409,422	1,912,753
Disposal	(711,143)	–	–	(711,143)
Conversion to Stage I	291,617	(291,617)	–	–
Conversion to Stage II	(216,870)	220,110	(3,240)	–
Conversion to Stage III	–	(64,106)	64,106	–
Write-off	–	–	(867,150)	(867,150)
Recoveries of interest-earning assets previously written off	–	–	106,228	106,228
Exchange differences	874	–	–	874
At end of the year	3,438,649	1,627,288	469,357	5,535,294

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31 December 2019

22.LOANS AND ACCOUNTS RECEIVABLES (continued)

22d. Movement in provision for interest-earning assets (continued)

	Year ended 31 December 2018			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III** (Lifetime ECL-impaired)	Total
At beginning of the year before adopting HKFRS 9				3,869,018
At beginning of the year after adopting HKFRS 9	2,880,655	478,715	700,180	4,059,550
Impairment losses for the year	689,630*	633,372	619,767	1,942,769
Disposal	(364,689)	–	–	(364,689)
Conversion to Stage I	92,857	(92,857)	–	–
Conversion to Stage II	(157,606)	181,496	(23,890)	–
Conversion to Stage III	–	(15,227)	15,227	–
Write-off	–	–	(605,874)	(605,874)
Recovery of interest-earning assets previously written off	–	–	54,400	54,400
Exchange differences	4,825	2,570	181	7,576
At end of the year	3,145,672	1,188,069	759,991	5,093,732

* This includes RMB1,470,030,000 (2018: RMB1,775,748,000) loss allowance provided for newly originated interest-earning assets, and RMB541,531,000 (2018: RMB1,086,118,000) of loss allowances reversed as a result of repayment of existing interest-earning assets.

** The majority of the interest-earning assets are finance lease receivables, under which the lessor owns the related leased asset, so the finance leases are similar to secured lendings. Among these interest-earning assets, 94% (2018:94%) (in the terms of carrying amount) of the credit-impaired assets falling in stage 3 in the table above are finance lease receivables and hence the related leased assets owned by the Group, such leased assets are similar to security and constitute the main source of collection of impaired assets.

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31 December 2019

22. LOANS AND ACCOUNTS RECEIVABLES (continued)

22e. An aging analysis of accounts receivable as at the end of the reporting period is as follows:

Accounts receivable are non-interest-earning and are generally on 60-day terms, while the credit terms for major customers can be extended to 180 days.

	31 December 2019 RMB'000	31 December 2018 RMB'000
Within 1 year	3,211,588	1,487,678
More than 1 year	619,200	496,180
Total	3,830,788	1,983,858

22f. Movement in provision for accounts receivable

	31 December 2019 RMB'000	31 December 2018 RMB'000
At beginning of year	407,873	236,218
Charge for the year	105,593	182,197
Acquisition of a subsidiary	48,030	1,570
Write-off	(7,390)	(11,322)
Exchange differences	–	(790)
At end of year	554,106	407,873

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

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31 December 2019

22. LOANS AND ACCOUNTS RECEIVABLES (continued)

22f. Movement in provision for accounts receivable (continued)

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

As at 31 December 2019

	Aging				
	within 1 year	1-2 years	2-3 years	3-5 years	Total
Gross Carrying amount (RMB'000)	3,211,588	345,339	147,650	126,211	3,830,788
Expected credit loss (RMB'000)	199,950	118,085	109,860	126,211	554,106
Average expected credit loss rate	6.23%	34.19%	74.41%	100.00%	

As at 31 December 2018

	Aging				
	within 1 year	1-2 years	2-3 years	3-5 years	Total
Gross Carrying amount (RMB'000)	1,487,678	279,861	148,127	68,192	1,983,858
Expected credit loss (RMB'000)	133,637	97,634	108,410	68,192	407,873
Average expected credit loss rate	8.98%	34.89%	73.19%	100.00%	

22g. An aging analysis of factoring receivables as at the end of the reporting period is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Within 1 year	3,464,599	1,100,526
More than 1 year	691,460	1,121,570
	4,156,059	2,222,096

Notes to Financial Statements
31 December 2019

22. LOANS AND ACCOUNTS RECEIVABLES (continued)

22h(1). An aging 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:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Entrusted loans:		
Within 1 year	257,810	261,833
1 to 2 years	141,643	3,066,647
2 to 3 years	1,392,674	4,256,344
3 to 5 years	2,525,176	1,587,088
Total	4,317,303	9,171,912

22h(2). The table below illustrates the amounts of entrusted loans the Group expects to receive in the following five or more than five consecutive accounting years:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Entrusted loans:		
Due within 1 year	2,807,883	4,457,443
Due in 1 to 2 years	1,213,791	3,026,296
Due in 2 to 3 years	295,629	1,476,332
Due in 3 to 5 years	–	211,841
Due after 5 years	–	–
Total	4,317,303	9,171,912

22i. Long term receivables

As at 31 December 2019, the carrying value of long term receivables pledged or charged as collateral for the Group's borrowings amounted to RMB3,788,115,000 (31 December 2018: RMB2,227,156,000) (Note 30(a)).

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22. LOANS AND ACCOUNTS RECEIVABLES (continued)

22j. Balances with related parties

		31 December 2019 RMB'000	31 December 2018 RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	60,000	60,000
Long-term receivables	(ii)	135,000	75,000
Interest receivables		17,514	17,348
– Weihai Haida Hospital Co., Ltd.			
Long-term receivables	(ii)	–	30,000
Interest receivables		–	1,720
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Lease receivables		–	15,935
Interest receivables		–	36
– Fengyang Gulou Hospital Co., Ltd.			
Accounts receivables		14,295	14,540
– Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.			
Entrusted loan	(i)	50,553	16,500
Associates:			
– Tianjin FIS Asset Management Co., Ltd.			
Long-term receivables	(ii)	814,600	496,496
Interest receivables		622	434
Provision		(24,449)	(7,733)
		1,118,135	770,276

(i) Balances of entrusted loans interest-earning at annual interest rates ranging from 6% to 13% (31 December 2018: from 6.175% to 13%).

(ii) Balances of long-term receivables interest-earning at annual interest rates ranging from 4.85% to 9% (31 December 2018: from 4.85% to 6.05%).

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23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2019 RMB'000	2018 RMB'000
Current assets:			
Prepayments		699,126	579,007
Leased assets*		24,671	653,837
Rental and project deposit		203,850	146,806
Other receivables		478,230	360,412
Input VAT		525,307	278,198
Amounts deductible against output VAT		177,135	339,135
Subordinated tranches of asset-backed securities/notes (Note 47)		280,991	206,317
Continuing involvement in transferred assets (Note 47)		280,991	–
Due from related parties	23a	54,196	97,021
Other current asset		5,998	5,987
Impairment allowance		(14,632)	(51,408)
		2,715,863	2,615,312
Non-current assets:			
Rental deposit due after 1 year		36,826	17,936
Subordinated tranches of asset-backed securities/notes (Note 47)		5,569,255	2,121,005
Continuing involvement in transferred assets (Note 47)		5,569,255	2,327,322
Preference tranches of asset-backed securities		–	63,112
Long-term other receivables		312,358	80,265
Others		188,910	107,024
Impairment allowance		(96,000)	–
		11,580,604	4,716,664
		14,296,467	7,331,976

* 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 2019

23.PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

23a. BALANCES WITH RELATED PARTIES

		2019 RMB'000	2018 RMB'000
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
China Jin Mao Group Co., Ltd.	(i)	–	21,363
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,493
Jin Mao (Shanghai) Property Management Service Co., Ltd.	(i)	–	6
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	175
Joint ventures:			
Gold Chance Shipping Limited	(i)	24,806	35,621
Teamway Shipping Limited	(i)	25,119	35,965
Weihai Haida Hospital Co., Ltd.	(i)	–	566
Fengyang Gulou Hospital Co., Ltd.	(i)	422	422
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	(i)	1,181	–
Kunming Broadhealthcare Investment Co., Ltd.	(i)	–	410
		54,196	97,021

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

24.CONTRACT ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contract assets arising from construction services	22,646	27,168
	22,646	27,168

Contract assets are initially recognised for revenue earned from the provision of related construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

Notes to Financial Statements

31 December 2019

24. CONTRACT ASSETS (continued)

The expected timing of recovery or settlement for contract assets as at 31 December 2019 is as follows:

	RMB'000
Within one year	22,646
Total contract assets	22,646

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 2019	381,518	636,245	143,566	1,652,968	1,074,297	144,834	98,238	10,159	4,141,825
(Charged)/credited to the statement of profit or loss during the year	(119,238)	154,080	(60,666)	65,590	193,546	(50,390)	–	986	183,908
Acquisition of subsidiaries	–	–	–	877	–	–	–	663	1,540
(Charged)/credited to reserve	–	–	–	–	–	–	(24,699)	–	(24,699)
Exchange differences	–	–	–	116	–	1	–	–	117
Gross deferred tax assets at 31 December 2019	262,280	790,325	82,900	1,719,551	1,267,843	94,445	73,539	11,808	4,302,691

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25. DEFERRED TAX (continued)

Deferred tax assets (continued)

	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 2018	466,727	467,860	127,090	1,157,620	862,550	156,855	1,744	9,830	3,250,276
Effect of adoption of HKFRS 9	–	–	–	54,475	–	–	–	–	54,475
(Charged)/credited to the statement of profit or loss during the year	(85,209)	168,385	16,476	439,397	212,186	(12,345)	–	1,312	740,202
Disposal of subsidiaries	–	–	–	–	(439)	(12)	–	(983)	(1,434)
Credited to reserve	–	–	–	–	–	–	96,494	–	96,494
Exchange differences	–	–	–	1,476	–	336	–	–	1,812
Gross deferred tax assets at 31 December 2018	381,518	636,245	143,566	1,652,968	1,074,297	144,834	98,238	10,159	4,141,825

Notes to Financial Statements

31 December 2019

25. DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from financial assets 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 2019	59,416	–	76,190	9,385	114,579	259,570
(Credited)/charged to the statement of profit or loss during the year	(8,176)	–	57,229	–	11,341	60,394
Arising from acquisition of subsidiaries	38,123	–	–	–	–	38,123
Gross deferred tax liabilities at 31 December 2019	89,363	–	133,419	9,385	125,920	358,087

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from financial assets 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 2018	34,953	4,362	29,626	9,385	79,251	157,577
(Credited)/charged to the statement of profit or loss during the year	(2,822)	–	46,564	–	35,328	79,070
Arising from acquisition of subsidiaries	27,285	–	–	–	–	27,285
Credited to reserve	–	(4,362)	–	–	–	(4,362)
Gross deferred tax liabilities at 31 December 2018	59,416	–	76,190	9,385	114,579	259,570

Notes to Financial Statements

31 December 2019

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:

	31 December 2019 RMB'000 (Audited)	31 December 2018 RMB'000 (Audited)
Net deferred tax assets recognised in the consolidated statement of financial position	4,181,252	4,031,727
Net deferred tax liabilities recognised in the consolidated statement of financial position	236,648	149,472

As at 31 December 2019, the Group had tax losses arising in Hong Kong of RMB363,410,000 (31 December 2018: RMB273,775,000) 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 RMB103,938,000 (31 December 2018: RMB364,656,000) 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 2019, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB1,266,992,000 (31 December 2018: RMB490,941,000) and RMB555,064,000(31 December 2018: RMB276,628,000), 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 2019, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB903,896,000 (31 December 2018: RMB684,582,000).

Notes to Financial Statements

31 December 2019

26.CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	9,930,952	10,498,240
Time deposits	25,280	51,275
	9,956,232	10,549,515
Less:		
Pledged deposits	822,709	845,015
Restricted bank deposits related to asset securitisations	4,955,344	4,314,961
Restricted bank deposits related to collective fund trusts	188,608	120,147
Cash and cash equivalents	3,989,571	5,269,392

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB9,459,552,000 (31 December 2018: RMB9,440,130,000). 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 2019, cash of RMB523,609,000 (31 December 2018: RMB510,222,000) was pledged for bank and other borrowings (Note 30(b)).

As at 31 December 2019, cash of RMB284,181,000 (31 December 2018: RMB319,874,000) was pledged for bank acceptances, letters of credit and others.

As at 31 December 2019, cash of RMB14,919,000 (31 December 2018: RMB14,919,000) was pledged for collective fund trusts.

As at 31 December 2019, cash of RMB253,606,000 (31 December 2018: RMB372,120,000) was deposited with Sinochem Finance Co.,Ltd. a subsidiary of the ultimate holding company of a shareholder with significant influence.

Notes to Financial Statements

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27. INVENTORIES

	2019 RMB'000	2018 RMB'000
Finished goods	338,373	350,435
Work in process	43,445	32,109
Raw materials	22,020	65,784
	403,838	448,328

28. TRADE AND BILLS PAYABLES

	Note	2019 RMB'000	2018 RMB'000
Current:			
Bills payable		2,523,404	2,103,326
Trade payables		1,489,063	1,268,387
Due to related parties	28a	460,961	60,201
		4,473,428	3,431,914
		4,473,428	3,431,914

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

	2019 RMB'000	2018 RMB'000
Within 1 year	4,192,034	3,181,260
1 to 2 years	174,710	110,837
2 to 3 years	27,286	73,761
3 years and beyond	79,398	66,056
	4,473,428	3,431,914

Notes to Financial Statements
31 December 2019

28. TRADE AND BILLS PAYABLES (continued)

28a. BALANCES WITH RELATED PARTIES

	2019 RMB'000	2018 RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	460,761	60,000
Associate:		
Shanghai Yijia Construction Development Co., Ltd.	200	201
	460,961	60,201

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

Notes to Financial Statements

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29. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Current:			
Lease deposits, entrusted loan deposits and factoring deposits due within one year		4,088,270	3,484,025
Salary payables		1,812,095	2,187,664
Welfare payables		105,283	84,104
Advances from customers		889,752	920,817
Due to related parties	29a	88,665	50,716
Contract liabilities	29b	439,232	425,273
Other taxes payable		876,823	850,494
Interest payable		1,702,842	2,062,235
Funds collected on behalf of special purpose entities in relation to asset-backed securitisations		4,955,344	4,314,961
Funds collected on behalf of collective fund trusts		21,453	17,492
Funds collected on behalf of collective fund trusts – due to related parties	29a	167,155	102,655
Provision of credit commitments		36,426	36,400
Non-controlling interests purchase consideration to be paid		73,662	–
Other payables		1,892,439	1,337,345
Dividend payables		39,031	12,359
Continuing involvement in transferred assets	47	280,991	–
		17,469,463	15,886,540
Non-current:			
Lease deposits, entrusted loan deposits and factoring deposits due after one year		23,787,610	29,008,011
Shareholding purchase consideration to be paid		53,005	–
Non-controlling interests purchase consideration to be paid		301,289	–
Contract liabilities	29b	230,196	222,505
Other payables		148,541	120,490
Quality guarantee deposit		1,333	1,333
		24,521,974	29,352,339
		41,991,437	45,238,879

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31 December 2019

29. OTHER PAYABLES AND ACCRUALS (continued)

29a. Balances with Related Parties

	2019 RMB'000	2018 RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	4,676	12,343
Joint ventures:		
Fengyang Gulou Hospital Co., Ltd.	588	20
Kunming Broadhealthcare Investment Co., Ltd.	1	1
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	13,104	2,494
Grand Flight Hooyoung Investment Management Co., Ltd.	2,003	1,983
Grand Flight Investment Management Co., Ltd.	35,915	33,874
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.	32,378	–
	83,989	38,372
Associates:		
Hua Bao – Far Eastern Leasing portfolio investment collective fund trust	–	9,058
CITIC – Far Eastern Leasing portfolio investment collective fund trust	61,925	53,475
XMITIC – Far Eastern Leasing portfolio investment collective fund trust	103,401	34,397
SCHTRUST- Far Eastern Leasing portfolio investment collective fund trust	1,829	5,725
Tianjin FIS Asset Management Co., Ltd.	–	1
	167,155	102,656
	255,820	153,371

Except for the amounts due to Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd. which bear interest at an interest rate of 4.35%, and the amounts due to Fengyang Gulou Hospital Co., Ltd., Kunming Broadhealthcare Investment Co., Ltd. , Grand Flight Investment Management Co., Ltd., Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd and Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. which bear interest at an interest rate of 1.485%, amounts due to other related parties are unsecured and non-interest-bearing.

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29. OTHER PAYABLES AND ACCRUALS (continued)

29b. Contract Liabilities

Details of contract liabilities as at 31 December 2019 and 1 January 2019 are as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Contract liabilities		
Short-term:		
– Sale of goods	–	10,343
– Service fee	439,232	414,930
Long-term:		
– Service fee	230,196	222,505
Total contract liabilities	669,428	647,778

Contract liabilities include short-term advances received to deliver goods and services. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers in relation to the provision of services at the end of the year.

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30.INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	3.30~5.44	2020	156,610	5.00~5.44	2019	519,800
Current portion of long term bank loans – secured	3.92~6.41	2020	5,414,006	2.30~6.41	2019	9,312,914
Bank loans – unsecured	2.88~5.10	2020	12,544,331	2.33~6.10	2019	15,136,896
Current portion of long term bank loans – unsecured	2.43~6.50	2020	28,299,097	2.30~5.70	2019	18,957,422
Other loans – unsecured	6.10~6.80	2020	2,626,800	6.10~7.80	2019	315,400
Bonds – unsecured*	2.30~5.90	2020	38,704,001	2.99~6.40	2019	22,393,105
			87,744,845			66,635,537
Non-current						
Bank loans – secured	3.92~6.41	2021~2032	5,795,584	3.24~6.41	2020~2032	24,497,235
Bank loans – unsecured	2.43~5.70	2021~2026	33,351,425	2.90~8.20	2020~2023	19,584,540
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	–	–	–	5.60	2021	1,000,000
Other loans – secured	6.78	2021	400,000	6.78	2021	400,000
Other loans – unsecured	5.90~6.71	2021~2022	6,731,000	4.00~10.26	2020~2021	8,396,617
Bonds – unsecured*	3.69~6.40	2021~2023	28,373,412	3.60~6.40	2020~2023	52,001,053
			74,651,421			105,879,445
			162,396,266			172,514,982

* includes the effect of fair value gains/losses on the hedged item attributable to the hedged risk in the fair value hedges as further details in note 21 to the financial statements.

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

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	46,414,044	43,927,032
In the second year	23,318,321	28,982,673
In the third to fifth years, inclusive	14,827,507	14,353,712
Beyond five years	1,001,181	745,390
	85,561,053	88,008,807
Loans from subsidiaries of the ultimate holding company of a shareholder repayable:		
Within one year or on demand	–	–
In the second year	–	–
In the third to fifth years, inclusive	–	1,000,000
Beyond five years	–	–
	–	1,000,000
Other borrowings repayable:		
Within one year or on demand	41,330,801	22,708,505
In the second year	26,576,996	48,888,052
In the third to fifth years, inclusive	8,927,416	11,909,618
Beyond five years	–	–
	76,835,213	83,506,175
	162,396,266	172,514,982

(a) As at 31 December 2019, 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 RMB8,131,017,000 (31 December 2018: RMB13,747,761,000) and RMB2,706,346,000 (31 December 2018: RMB1,729,420,000), respectively.

(b) As at 31 December 2019, the Group's bank borrowings amounting to RMB127,610,000 (31 December 2018: RMB18,225,279,000) were secured by the pledge of cash.

(c) As at 31 December 2019, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB801,227,000 (31 December 2018: RMB1,027,489,000). The Group had not provided any guarantees for other entities (31 December 2018: Nil).

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31. DEFERRED REVENUE

	Government special subsidies	
	2019	2018
	RMB'000	RMB'000
At the beginning of year	981,396	704,862
Additions during the year	702,226	716,241
Amortised to the statement of profit or loss	(629,316)	(439,707)
At the end of year	1,054,306	981,396

(i) Government special subsidy

For the year ended 31 December 2019, the Group received a government special subsidy of RMB184,201,000 (2018: RMB199,763,000), which was mainly granted in accordance with the policies on Shanghai Pudong New Area government financial subsidy and the financial support funds for economic development. In addition, the Group also received a government special subsidy of RMB380,177,000 (2018: RMB473,990,000) due to policies to support finance lease industry of the Tianjin Dongjiang bonded port area. In addition, the Group received a government special subsidy of RMB85,990,000 (2018: RMB35,460,000) due to policies of Putuo District to upgrade and develop industrial support fund of enterprises. 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.

32. SHARE CAPITAL

	Number of shares	Amounts HK$
Issued and fully paid ordinary shares:		
At 31 December 2018 (note (i))	3,954,162,637	13,032,555,000
At 31 December 2019 (note (i))	3,960,819,026	13,085,638,000

Note:

(i) The Company purchased its own shares through a trust under a share award scheme (Note 34), which were presented as shares held for the share award scheme.

32. SHARE CAPITAL (continued)

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 2019 and 31 December 2018	3,954,162,637	13,032,555	10,235,373
Share options exercised (note(ii))	6,656,389	53,083	45,839
As at 31 December 2019	3,960,819,026	13,085,638	10,281,212

Note:

(ii) The subscription rights attaching to 1,441,848, 1,581,462, 2,607,916 and 1,025,163 share options were exercised at the subscription price of HK$5.86, HK$7.17, HK$5.714 and HK$6.82 per share, respectively (note 33), resulting in the issue of 6,656,389 shares for a total cash consideration, after expenses, of HK$41,680,000. An amount of HK$11,403,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

33. 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. The Share Option Scheme will be valid for 10 years from the date of its adoption.

Since the total share options under the 2014 Share Option Scheme have been fully granted, the Company adopted a New Share Option Scheme which was approved by the Shareholders at the AGM on 5 June 2019. The total number of new Shares in respect of which the Share Options may be granted under the New Share Option Scheme shall not exceed 4% of the Company's issued Shares as at the date of approval of the New Share Option Scheme by the Shareholders, which is 158,167,904 Shares.

The offer of a grant of share options ("Share Options") may be accepted 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 higher of: (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the offer date; (ii) the average of the closing prices of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the Offer Date. The Share does not carry nominal value.

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33. SHARE OPTION SCHEME (Continued)

On 19 July 2019, the Board announced that, the Company has resolved to the 6th offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 31,633,581 ordinary shares in the capital of the Company.

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

Expiry date	Exercise price* per share option HK$	Number of share options 2019	2018
11 July 2024	5.86	**7,838,563**	9,281,353
3 July 2025	7.17	**13,273,029**	15,411,202
15 June 2026	5.714	**26,459,987**	30,708,096
20 June 2027	6.82	**29,099,616**	32,166,747
18 July 2028	7.36	**32,096,814**	33,945,539
19 July 2029	7.618	**30,422,016**	–
		139,190,025	121,512,937

* 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$)	Date of grant	Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Forfeited during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Outstanding as at 31 December 2018	Granted during the year ended 31 December 2019	Forfeited during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Outstanding as at 31 December 2019
5.86	11 Jul 2014	10,214,452	–	(39,509)	(893,590)	9,281,353	–	(942)	(1,441,848)	7,838,563
7.17	3 July 2015	16,386,461	–	(258,567)	(716,692)	15,411,202	–	(556,711)	(1,581,462)	13,273,029
5.714	15 June 2016	32,123,953	–	(469,789)	(946,068)	30,708,096	–	(1,640,193)	(2,607,916)	26,459,987
6.82	20 June 2017	32,726,455	–	(559,708)	–	32,166,747	–	(2,041,968)	(1,025,163)	29,099,616
7.36	18 July 2018	–	34,109,264	(163,725)	–	33,945,539	–	(1,848,725)	–	32,096,814
7.618	19 July 2019	–	–	–	–	–	31,633,581	(1,211,565)	–	30,422,016
Total number at the end of the year		91,451,321	34,109,264	(1,491,298)	(2,556,350)	121,512,937	31,633,581	(7,300,104)	(6,656,389)	139,190,025
Weighted average exercise price (HK$)		6.39	7.36	6.57	6.17	6.66	7.618	6.87	6.26	6.89

7,838,563 (2018: 9,281,353), 13,273,029 (2018: 10,003,662), 16,550,989 (2018: 9,649,917) and 8,917,194 (2018: Nil) share options which were granted on 11 July 2014, 3 July 2015, 15 June 2016 and 20 June 2017 respectively, were vested and exercisable, but not yet exercised during the year.

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31 December 2019

33.SHARE OPTION SCHEME (continued)

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2019 was RMB213,024,000 (31 December 2018: RMB185,356,000). The weighted average fair values were RMB1.47, RMB1.51, RMB1.55 and RMB1.55 per option (31 December 2018: RMB1.49, RMB1.53 and RMB1.55 per option) each for four tranches with one-year, two-year, three-year and four-year (31 December 2018: two-year, three-year and four-year) vesting periods, respectively. The Group recognised a share option expense of RMB31,505,000 (2018: RMB43,779,000) during the year ended 31 December 2019 in employee benefit expense.

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

	2019	2018
Expected dividend yield (%)	4.05	4.08
Expected volatility (%)	33.83	34.72
Risk-free interest rate (%)	1.61	2.19
Validity period of the share options (year)	10	10
Share price (HK$ per share)	7.40	7.36
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 2019, the Company had 92,610,250 (31 December 2018: 92,578,005) non-vested share options (including 12,980,177 (31 December 2018: 12,529,229) non-vested share options granted to certain executive directors, 21,333,989 (31 December 2018: 20,613,500) non-vested share options granted to certain employees among five highest paid employees and 28,330,071 (31 December 2018: 27,767,479) 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 92,610,250 (31 December 2018: 92,578,005) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 139,190,025 (2018: 121,512,937) share options outstanding under the Share Option Scheme, which represented approximately 3.67% (2018: 3.16%) of the Company's shares in issue as at that date.

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34. 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.

Since the number of Restricted Shares administered by the Trustee has reached the maximum limit as stipulated in the Share Award Scheme, the Board has resolved to make certain amendments to the Share Award Scheme. The Board resolved to refresh the maximum limit of the Shares as Restricted Shares under the Restricted Share Award Scheme (the "Maximum Award Scheme Limit") to 6% of the total number of issued Shares as at the date of approval of the amendments to the Restricted Share Award Scheme by the Board on 20 March 2019, being 237,251,856 Shares.

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 2018	104,216,644
Granted	51,163,896
Vested	(46,323,920)
Forfeited	(1,646,536)
At 31 December 2018 and 1 January 2019	107,410,084
Granted	47,450,371
Vested	(54,363,996)
Forfeited	(7,629,794)
At 31 December 2019	92,866,665

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31 December 2019

34. RESTRICTED SHARE AWARD SCHEME (continued)

54,363,996 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:

2019

Number of Restricted Shares	Vesting period
15,136,817	20 June 2017 to 20 June 2020
16,048,415	18 July 2018 to 18 July 2020
16,048,415	18 July 2018 to 18 July 2021
15,211,006	19 July 2019 to 19 July 2020
15,211,006	19 July 2019 to 19 July 2021
15,211,006	19 July 2019 to 19 July 2022
92,866,665	

2018

Number of Restricted Shares	Vesting period
8,531,358	3 July 2015 to 3 July 2019
15,793,665	15 June 2016 to 15 June 2019
16,083,376	20 June 2017 to 20 June 2019
16,083,376	20 June 2017 to 20 June 2020
16,972,760	18 July 2018 to 18 July 2019
16,972,760	18 July 2018 to 18 July 2020
16,972,789	18 July 2018 to 18 July 2021
107,410,084	

At 31 December 2019, the Company had 92,866,665 (31 December 2018: 107,410,084) non-vested Restricted Shares (including 12,889,845 (31 December 2018: 14,489,441) non-vested Restricted Shares granted to certain executive directors, 21,172,672 (31 December 2018: 23,909,075) non-vested Restricted Shares granted to certain employees among five highest paid employees and 28,255,128 (31 December 2018: 32,295,232) non-vested Restricted Shares granted to certain key management personnel) outstanding under the Share Award Scheme.

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31 December 2019

34. RESTRICTED SHARE AWARD SCHEME (continued)

Under the Share Award Scheme, there were shares of 165,353,030 (31 December 2018: 109,717,026) in total amounting to RMB1,070,078,000 (31 December 2018: RMB673,079,000), i.e. at a weighted average price of RMB6.47 (2018: RMB6.13), held by the trust at 31 December 2019. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount RMB'000
At 1 January 2018	109,566,946	659,384
Purchase of shares under Share Award Scheme	46,474,000	300,575
Vested	(46,323,920)	(286,880)
At 31 December 2018 and 1 January 2019	109,717,026	673,079
Purchase of shares under Share Award Scheme	110,000,000	774,973
Vested	(54,363,996)	(377,974)
At 31 December 2019	165,353,030	1,070,078

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2019 was RMB536,900,000 (31 December 2018: RMB577,643,000). The weighted average fair values were RMB6.25, RMB5.88 and RMB5.56 per share (31 December 2018: RMB6.03, RMB5.68, RMB5.06 and RMB4.74 per share) each for four tranches with one-year, two-year and three-year vesting periods (31 December 2018: for four tranches with one-year, two-year, three-year and four-year vesting periods), respectively. The Group recognised an amount of RMB268,161,000 (2018: RMB262,125,000) in employee benefit expense during the year ended 31 December 2019.

The fair value of the Restricted Shares granted during the year was estimated as at their respective dates of grant, using a no-arbitrage model, taking into account the terms and conditions upon which the restricted shares were granted. The following table lists the main inputs to the model used:

	2019	2018
Expected dividend yield (%)	4.05	4.08
Share price (HK$ per share)	7.40	7.36

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35.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 be transferred to share capital or shares held for share award scheme when the related Share Options are exercised or Restricted Shares are vested.

36.PERPETUAL SECURITIES

On 14 June 2017, the Company issued US$300,000,000 perpetual capital securities (the "Perpetual Securities") 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 Securities are unsecured.

Distributions of the Perpetual Securities may be paid semi-annually in arrears on 14 June and 14 December of each year (the "Distribution Payment Date") and may be deferred at the discretion of the Company unless a compulsory distribution payment event (including distributions to ordinary shareholders of the Company) has occurred. Following a deferral, arrears of distributions are cumulative.

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36.PERPETUAL SECURITIES (continued)

The Perpetual Capital Securities have no fixed maturity date and are callable at the Company's option in whole on 14 June 2022 (the "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 be reset, (i) in respect of the period from, and including, the Issue Date to, but excluding, 14 June 2022 (the "First Call Date") at 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 (the "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.

On 6 July 2017, International Far Eastern Leasing Co., Ltd. ("Far Eastern Leasing"), a wholly-owned subsidiary of the Company, completed the issuance of renewable corporate bonds (the "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 a 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, issued US$400,000,000 guaranteed subordinated perpetual capital securities (the "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 King Talent on a Distribution Payment Date (i.e. 4 June and 4 December of each year, starting from 4 June, 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 have 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%.

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36.PERPETUAL SECURITIES (continued)

On 24 July 2019, Far Eastern Leasing completed the issuance of perpetual trusted loans (the "Perpetual Loans") in an amount of RMB49,850,000 in the PRC. The basic term of the Perpetual Loans will be 5 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 a coupon distribution rate of 6.0% per annum.

Distributions of the Perpetual Loans may be paid annually in arrears on 24 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.

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, the Guaranteed Perpetual Securities and the Perpetual Loans other than an unforeseen liquidation of the Company.

The direct transaction costs attributable to the Perpetual Capital Securities, the Renewable Bonds, the Guaranteed Perpetual Securities and the Perpetual Loans amounted to RMB5,451,000, RMB14,892,000, RMB16,309,000 and RMB64,000, respectively.

For the year ended 31 December 2019, the profits attributable to holders of the Perpetual Capital Securities, the Renewable Bonds, the Guaranteed Perpetual Securities and the Perpetual Loans (collectively "Perpetual Securities") based on the applicable distribution rates, were RMB92,304,000 (2018:RMB90,809,000), RMB263,253,000 (2018:RMB263,253,000), RMB154,440,000 (2018: RMB148,673,000) and RMB1,338,000 (2018: Nil), respectively, and the distribution made by the Group to the holders of the Perpetual Securities was RMB490,503,000 (2018: RMB510,865,000).

37.BUSINESS COMBINATIONS

In January 2019, the Group acquired 100% of the voting shares of Hongwen Montessori AcademyChangsha Campus ("Changsha Qingganlan").

In February 2019, the Group acquired 100% of the voting shares of Chengdu Jinsha Hospital ("Chengdu Jinsha Hospital").

In March 2019, the Group acquired 36.62% of the shares of Guangzhou JP-WH precision Circuit Co, Ltd ("Guangzhou Jinpeng") and held 54.87% of voting power based on agreements with some of its shareholders, 100% of the voting shares of Ningbo Qixu New Energy Technology Company Limited ("Ningbo Qixu") and 100% of the voting shares of Taizhou Dehong New Energy Technology Company Limited ("Taizhou Dehong").

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31 December 2019

37.BUSINESS COMBINATIONS (continued)

In May 2019, the Group acquired 70% of the voting shares of Ningbo Zhenhai Second Hospital ("Zhenhai Second Hospital").

In July 2019, the Group acquired 51% of the voting shares of Zhecheng Hospital of Traditional Chinese Medicine Co., Ltd, 90% of the voting shares of Shanxi Shangtaike New Energy Company Limited ("Shanxi Shangtaike"), 100% of the voting shares of Beijing Yueyang Changsheng New Energy Technology Co. LTD ("Beijing Yueyang Changsheng") and 100% of the voting shares of Hai An Tian Li Yuan New Energy Co. LTD("Hai An Tian Li Yuan").

In September 2019, the Group acquired 70% of the voting shares of Linghai Dalinghe Hospital Co., Ltd ("Linghai Dalinghe Hospital").

In October 2019, the Group acquired 100% of the voting shares of Beijing Nengrong Jingsheng Electric Power Technology Co. LTD ("Beijing Nengrong Jingsheng").

In December 2019, the Group acquired 52% of the voting shares of Changxing Zhizhou Hospital Co., Ltd ("Changxing Zhizhou Hospital").

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

Notes to Financial Statements

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37. BUSINESS COMBINATIONS (continued)

Acquisition of Changsha Qingganlan

The fair values of the identifiable assets and liabilities of Changsha Qingganlan as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	4,563
Cash	245
Prepayments, other receivables and other assets	486
	5,294
Liabilities	
Trade payables	(585)
Deferred tax liabilities	(38)
	(623)
Total identifiable net assets at fair value	4,671
Non-controlling interests	–
Goodwill arising on acquisition	6,309
Purchase consideration transferred	10,980
Including: Consideration paid upon acquisition	2,750
Consideration paid after acquisition	8,230
Consideration to be paid after acquisition	–
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	245
Cash paid	(10,980)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(10,735)
Transaction costs of the acquisition (included in cash flows from operating activities)	(70)
	(10,805)

Since the acquisition, Changsha Qingganlan has contributed RMB2,435,000 to the Group's revenue and a net loss of RMB1,452,000 to the consolidated profit for the year ended 31 December 2019.

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37. BUSINESS COMBINATIONS (continued)

Acquisition of Chengdu Jinsha Hospital, Zhenhai Second Hospital, Zhecheng Hospital of Traditional Chinese Medicine, Linghai Dalinghe Hospital and Changxing Zhizhou Hospital

The fair values of the identifiable assets and liabilities of Chengdu Jinsha Hospital, Zhenhai Second Hospital, Zhecheng Hospital of Traditional Chinese Medicine, Linghai Dalinghe Hospital and Changxing Zhizhou Hospital as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	336,885
Cash	73,117
Accounts receivable	43,594
Prepayments, other receivables and other assets	183,881
Inventories	30,809
Other intangible assets	3,157
Right-of-use assets	43,608
Deferred tax assets	744
	715,795
Liabilities	
Trade payables	(128,399)
Other payables and accruals	(126,572)
Interest-bearing bank and other borrowings	(15,000)
Taxes payable	(9,593)
Deferred tax liabilities	(38,085)
Lease liabilities	(2,697)
	(320,346)

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37. BUSINESS COMBINATIONS (continued)

Acquisition of Chengdu Jinsha Hospital, Zhenhai Second Hospital, Zhecheng Hospital of Traditional Chinese Medicine, Linghai Dalinghe Hospital and Changxing Zhizhou Hospital (continued)

The fair values of the identifiable assets and liabilities of Chengdu Jinsha Hospital, Zhenhai Second Hospital, Zhecheng Hospital of Traditional Chinese Medicine, Linghai Dalinghe Hospital and Changxing Zhizhou Hospital as at the date of acquisition were: (continued)

		Fair value recognised on acquisition RMB'000
Total identifiable net assets at fair value		395,449
Non-controlling interests		(77,485)
Goodwill arising on acquisition		652,511
Purchase consideration transferred		970,475
Including:	Consideration paid upon acquisition	79,200
	Consideration paid after acquisition	391,100
	Consideration paid as additional capital injection to the subsidiary upon acquisition	118,582
	Consideration to be paid after acquisition	348,705
	Consideration to be paid as additional capital injection to the subsidiary	32,888
Analysis of cash flows on acquisition:		
Net cash acquired with the subsidiary (included in cash flows from investing activities)		73,117
Cash paid		(470,300)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)		(397,183)
Transaction costs of the acquisition (included in cash flows from operating activities)		(2,385)
		(399,568)

Since the acquisition, Chengdu Jinsha Hospital, Zhenhai Second Hospital, Zhecheng Hospital of Traditional Chinese Medicine, Linghai Dalinghe Hospital and Changxing Zhizhou Hospital have contributed RMB275,907,000 to the Group's revenue and a net profit of RMB24,259,000 to the consolidated profit for the year ended 31 December 2019.

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31 December 2019

37. BUSINESS COMBINATIONS (continued)

Acquisition of Guangzhou Jinpeng, Ningbo Qixu, Taizhou Dehong, Shanxi Shangtaike, Beijing Nengrong Jingsheng, Beijing Yueyang Changsheng and Hai An Tian Li Yuan

The fair values of the identifiable assets and liabilities of Guangzhou Jinpeng, Ningbo Qixu, Taizhou Dehong, Shanxi Shangtaike, Beijing Nengrong Jingsheng, Beijing Yueyang Changsheng and Hai An Tian Li Yuan as at the date of acquisition were:

		Fair value recognised on acquisition RMB'000
Assets		
Property, plant and equipment		58,415
Cash		17,093
Accounts receivable		92,453
Prepayments, other receivables and other assets		39,032
Inventories		35,542
Other intangible assets		711
Deferred tax assets		796
Right-of-use assets		73,181
		317,223
Liabilities		
Trade payables		(78,319)
Other payables and accruals		(33,491)
Lease liabilities		(64,292)
Taxes payable		(969)
Other liabilities		(1,798)
		(178,869)
Total identifiable net assets at fair value		138,354
Non-controlling interests		(82,216)
Goodwill arising on acquisition		65,116
Purchase consideration transferred		121,254
Including:	Loans and accounts receivables as a consideration paid upon acquisition	112,613
	Consideration paid upon acquisition	4,376
	Consideration to be paid after acquisition	4,265
Analysis of cash flows on acquisition:		
Net cash acquired with the subsidiary (included in cash flows from investing activities)		17,093
Cash paid		(4,376)
Net inflow of cash and cash equivalents (included in cash flows from investing activities)		12,717
Transaction costs of the acquisition (included in cash flows from operating activities)		(340)
		12,377

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37. BUSINESS COMBINATIONS (continued)

Acquisition of Guangzhou Jinpeng, Ningbo Qixu, Taizhou Dehong, Shanxi Shangtaike, Beijing Nengrong Jingsheng, Beijing Yueyang Changsheng and Hai An Tian Li Yuan (continued)

Since the acquisition, Guangzhou Jinpeng, Ningbo Qixu,Taizhou Dehong, Shanxi Shangtaike, Beijing Nengrong Jingsheng, Beijing Yueyang Changsheng and Hai An Tian Li Yuan have contributed RMB344,806,000 to the Group's revenue and a net profit of RMB33,547,000 to the consolidated profit for the year ended 31 December 2019.

If the acquisitions had taken place at the beginning of the period, revenue of the Group would have been RMB27,268,083,000 and net profit of the Group for the year would have been RMB4,796,788,000.

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

Transaction costs of RMB3,990,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The Group acquired Zhengzhou Qinghai Kangle Hospital Company Limited, Xinxiang League Hospital Company Limited, Xianning Matang Hospital Company Limited, Renshou Yunchang Hospital Company Limited, Chengdu Gaoxinyuan Company Limited, Sihui Wanlong Hospital.Co.,Ltd, Montessori Kinder Garden Tianjin Taolesi Campus during the year ended 31 December 2018.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,084,652,000 and RMB1,084,652,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables/lease liabilities RMB'000
At 31 December 2018	95,861,054	78,685,669	38,593
Effect of adoption of HKFRS 16	–	–	833,000
At 1 January 2019 (restated)	95,861,054	78,685,669	871,593
Changes from financing cash flows	(322,296)	(10,413,519)	(214,313)
Foreign exchange movement	729,442	(165,923)	–
New leases	–	–	1,084,652
Interest expense	4,969,873	3,409,731	64,156
Interest paid classified as operating cash flows	(5,399,697)	(3,267,848)	–
Increase arising from acquisition of subsidiary	15,000	–	66,989
At 31 December 2019	95,853,376	68,248,110	1,873,077

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38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

	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 2018	79,599,225	66,886,439	25,444	657,851
Changes from financing cash flows	14,929,028	10,788,745	10,693	–
Foreign exchange movement	1,318,879	491,926	–	–
Interest expense	5,165,129	3,789,767	2,456	–
Interest paid classified as operating cash flows	(5,334,205)	(3,271,208)	–	–
Fair value gains	–	–	–	(5,004)
Increase arising from acquisition of subsidiary	182,998	–	–	–
Decrease arising from disposal of subsidiary	–	–	–	(652,847)
At 31 December 2018	95,861,054	78,685,669	38,593	–

(c) Total cash outflow for leases

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

	2019 RMB'000
Within financing activities	(214,313)

Notes to Financial Statements
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39. CONTINGENT LIABILITIES

At 31 December 2019, contingent liabilities that are not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Claimed amounts	15,417	2,654

40. 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, 22, 26 and 30, respectively, to the financial statements.

41. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	248,141	158,361
Purchase of shareholding	10,000	204,049
	258,141	362,410

Notes to Financial Statements

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41. COMMITMENTS (continued)

(b) Credit commitments

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

	2019 RMB'000	2018 RMB'000
Irrevocable credit commitments	9,713,667	9,706,751

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.

(c) Operating lease commitments as at 31 December 2018

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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	2018 RMB'000
Within one year	142,361
In the second to fifth years, inclusive	502,446
More than five years	395,274
	1,040,081

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42.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 the shareholder with significant influence
Sinochem Hong Kong (Group) Company Limited ("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.
Grand Flight Hooyoung Investment Management Co., Ltd.
Grand Flight Investment Management Co., Ltd.
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.

Associates
Tianjin FIS Asset Management Co., Ltd.
Shanghai Yijia Construction Development Co., Ltd.
Hua Bao – Far Eastern Leasing portfolio investment collective fund trust
CITIC – Far Eastern Leasing portfolio investment collective fund trust
XMITIC – Far Eastern Leasing portfolio investment collective fund trust
SCHTRUST – Far Eastern Leasing portfolio investment collective fund trust

* jointly controlled by the Group until 25 March, 2019.

In addition to the transactions and balances in Notes 22, 23, 26, 28, 29 and 30 to the financial statements, the Group had the following material transactions with related parties during the year.

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42. RELATED PARTY TRANSACTIONS (continued)

(i) Interest income from cash at banks

	2019 RMB'000	2018 RMB'000
Sinochem Finance Co., Ltd.	3,944	4,353

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

(ii) Service fee income

	2019 RMB'000	2018 RMB'000
Guangzhou Kangda Industrial Technology Co., Ltd.	1,132	–
Kunming Broadhealthcare Investment Co., Ltd.	3,044	196
	4,176	196

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

(iii) Interest expense on borrowings

	2019 RMB'000	2018 RMB'000
Sinochem Finance Co., Ltd.	47,342	61,432

The interest expenses were charged at a rate of 5.60% per annum.

(iv) Interest expenses

	2019 RMB'000	2018 RMB'000
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	28	28
Grand Flight Investment Management Co., Ltd.	335	206
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	33	36
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.	2,357	–
Tianjin FIS Asset Management Co., Ltd.	391	–
Beijing Chemsunny Property Co., Ltd.	615	–
	3,759	270

The interest expenses were charged at a rate of 1.485% to 4.9% per annum.

Notes to Financial Statements

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42.RELATED PARTY TRANSACTIONS (continued)

(v) Consultancy service fee and other financial service fee

	2019 RMB'000	2018 RMB'000
Sinochem Finance Co., Ltd.	22,095	11,513

(vi) Rental as a lessee

	2019 RMB'000	2018 RMB'000
	(rental payment)	(rental expenses)
China Jin Mao Group Co., Ltd.	37	28,548
Beijing Chemsunny Property Co., Ltd.	8,140	8,155
Jin Mao (Shanghai) Property Management Services Co., Ltd.	34	3,437
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	563	564
	8,774	40,704

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

(vii) Interest income from loans and accounts receivables

	2019 RMB'000	2018 RMB'000
Weihai Haida Hospital Co., Ltd.	893	1,961
Guangzhou Kangda Industrial Technology Co., Ltd.	6,531	9,547
Kunming Broadhealthcare Investment Co., Ltd.	5,512	3,963
Tianjin FIS Asset Management Co., Ltd.	19,836	410
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	2,286	366
	35,058	16,247

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42. RELATED PARTY TRANSACTIONS (continued)

(viii) Tendering service fee

	2019 RMB'000	2018 RMB'000
Sinochem International Tendering Co., Ltd.	40	–

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

(ix) Sales of goods

	2019 RMB'000	2018 RMB'000
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	8,992	–

(x) Construction services

	2019 RMB'000	2018 RMB'000
Weihai Haida Hospital Co., Ltd.	–	99

(xi) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short term employee benefits	133,511	125,567

During 2019, 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 33 and Note 34 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), (v), (vi) and (viii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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43.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 2019
Financial assets

	Financial assets at amortised cost RMB'000	Financial assets 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	201,120,901	–	–	201,120,901
Financial assets included in prepayments, other receivables and other assets	6,939,042	–	–	6,939,042
Restricted deposits	5,966,661	–	–	5,966,661
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	1,552,867	1,552,867
Derivative financial instruments designated as hedging instruments in fair value hedges	–	12,969	–	12,969
Financial assets at fair value through profit or loss	–	4,442,688	–	4,442,688
Cash and cash equivalents	3,989,571	–	–	3,989,571
	218,016,175	4,455,657	1,552,867	224,024,699

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Hedging instruments designated in cash flow hedges RMB'000	Total RMB'000
Trade and bills payables	4,473,428	–	–	4,473,428
Financial liabilities included in other payables and accruals	37,211,827	–	–	37,211,827
Interest-bearing bank and other borrowings*	162,396,266	–	–	162,396,266
Lease liabilities	1,873,077	–	–	1,873,077
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	184,337	184,337
Derivative financial instruments designated as hedging instruments in fair value hedges	–	177	–	177
	205,954,598	177	184,337	206,139,112

* 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 21 to the financial statements.

Notes to Financial Statements

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43.FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2018

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets 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	220,634,271	–	–	220,634,271
Financial assets included in prepayments, other receivables and other assets	3,679,459	–	–	3,679,459
Restricted deposits	5,280,123	–	–	5,280,123
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	1,028,178	1,028,178
Derivative financial instruments designated as hedging instruments in fair value hedges	–	14,601	–	14,601
Financial assets at fair value through profit or loss	–	2,669,404	–	2,669,404
Cash and cash equivalents	5,269,392	–	–	5,269,392
	234,863,245	2,684,005	1,028,178	238,575,428

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Hedging instruments designated in cash flow hedges RMB'000	Total RMB'000
Trade and bills payables	3,431,914	–	–	3,431,914
Financial liabilities included in other payables and accruals	40,315,186	–	–	40,315,186
Interest-bearing bank and other borrowings*	172,514,982	–	–	172,514,982
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	204,537	204,537
Derivative financial instruments designated as hedging instruments in fair value hedges	–	3,317	–	3,317
	216,262,082	3,317	204,537	216,469,936

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44.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, other receivables and other assets, 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 carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	67,077,413	74,394,157	67,832,131	75,300,048

Notes to Financial Statements

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44. 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 is not significant.

Financial instruments measured at fair value

Non-deliverable cross-currency swaps and interest rate swaps

Non-deliverable cross-currency swaps and interest rate 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.

Financial assets at fair value through profit or loss

The valuations of the financial assets at fair value through profit or loss were based on information known to the Group and market conditions existing at the end of the reporting period. The fair values were determined by using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions, 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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44.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 2019

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – assets	–	1,528,354	–	1,528,354
Forward currency contracts – assets	–	24,513	–	24,513
Interest rate swaps – assets	–	12,969	–	12,969
Cross-currency interest rate swaps – liabilities	–	(142,678)	–	(142,678)
Forward currency contracts – liabilities	–	(24,482)	–	(24,482)
Interest rate swaps – liabilities	–	(17,354)	–	(17,354)
Financial assets at fair value through profit or loss	–	4,442,688	–	4,442,688

As at 31 December 2018

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – assets	–	984,879	–	984,879
Forward currency contracts – assets	–	43,299	–	43,299
Interest rate swaps – assets	–	14,601	–	14,601
Cross-currency interest rate swaps – liabilities	–	–	–	–
Forward currency contracts – liabilities	–	(204,537)	–	(204,537)
Interest rate swaps – liabilities	–	(3,317)	–	(3,317)
Financial assets at fair value through profit or loss	–	2,669,404	–	2,669,404

During the year ended 31 December 2019, there were no transfer at fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (year ended 31 December 2018: Nil).

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44. 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 2019

	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	–	67,832,131	–	67,832,131

As at 31 December 2018

	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	–	75,300,048	–	75,300,048

45. 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.

45.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 21).

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	
	2019	2018
	RMB'000	RMB'000
Change in basis points		
+100 basis points	30,798	127,471
– 100 basis points	(30,798)	(127,471)

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 21).

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45. 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.

Group

		Increase/(decrease) in profit before tax	
		As at 31 December	
	Change in	2019	2018
Currency	currency rate	RMB'000	RMB'000
US$	+/-1%	13,434/(13,434)	24,900/(24,900)
HK$	+/-1%	(8,080)/8,080	(7,647)/7,647

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, debt investments at fair value through profit or loss. 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.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on the customers' creditworthiness information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. The amounts presented are gross carrying amounts for financial assets.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

at 31 December 2019

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Simplified Approach RMB'000	Total RMB'000
Contract assets	–	–	–	22,646	22,646
Accounts receivable	–	–	–	3,276,682	3,276,682
Notes receivable	230,438	–	–	–	230,438
Interest-earning assets	178,813,507	17,020,543	1,779,731	–	197,613,781
Financial assets included in prepayments, other receivables and other assets	6,939,042	–	–	–	6,939,042
Pledged deposits	5,966,661	–	–	–	5,966,661
Cash and cash equivalents	3,989,571	–	–	–	3,989,571
	195,939,219	17,020,543	1,779,731	3,299,328	218,038,821

at 31 December 2018

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Simplified Approach RMB'000	Total RMB'000
Contract assets	–	–	–	27,168	27,168
Accounts receivable	–	–	–	1,575,985	1,575,985
Notes receivable	162,940	–	–	–	162,940
Interest-earning assets	200,042,087	17,461,559	1,391,700	–	218,895,346
Financial assets included in prepayments, other receivables and other assets	3,679,459	–	–	–	3,679,459
Pledged deposits	5,280,123	–	–	–	5,280,123
Cash and cash equivalents	5,269,392	–	–	–	5,269,392
	214,434,001	17,461,559	1,391,700	1,603,153	234,890,413

Note:

Among which, the financial assets falling in stage 1 are mainly credit rated as Pass, except for an amount of interest-earning assets of RMB2,762,878,000 (2018: RMB8,088,291,000) are credit rated as Special Mention. All of the financial assets falling in stage 2 and stage 3 are credit rated as Special Mention and Non-performing, respectively.

Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The customer bases of the Group's financial assets are widely dispersed in different sectors and industries.

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31 December 2019

45. 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 2019						
	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	Undated RMB'000	Total RMB'000
FINANCIAL ASSETS:							
Loans and accounts receivables	2,078,411	30,256,766	81,855,032	113,454,859	369,195	–	228,014,263
Financial assets included in prepayments, other receivables and other assets	–	605,687	345,038	5,509,318	478,999	–	6,939,042
Restricted deposits	–	5,807,283	208,051	3,871	–	–	6,019,205
Derivative financial instruments	–	24,513	634,613	906,710	–	–	1,565,836
Financial assets at fair value through profit or loss	–	200,000	112,597	3,113,451	200,235	816,405	4,442,688
Cash and cash equivalents	3,989,571	–	–	–	–	–	3,989,571
Total financial assets	6,067,982	36,894,249	83,155,331	122,988,209	1,048,429	816,405	250,970,605
FINANCIAL LIABILITIES:							
Trade and bills payables	107,565	1,591,948	2,773,915	–	–	–	4,473,428
Financial liabilities included in other payables and accruals	186,563	7,576,787	5,068,373	23,833,984	546,120	–	37,211,827
Lease liabilities	–	69,493	166,882	581,419	1,055,283	–	1,873,077
Interest-bearing bank and other borrowings	–	23,108,359	70,285,780	75,962,655	1,014,648	–	170,371,442
Derivative financial instruments	–	7,885	21,097	155,532	–	–	184,514
Total financial liabilities	294,128	32,354,472	78,316,047	100,533,590	2,616,051	–	214,114,288
Net liquidity gap	5,773,854	4,539,777	4,839,284	22,454,619	(1,567,622)	816,405	36,856,317

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45.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The tables below summarise the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows: (continued)

	As at 31 December 2018						
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Undated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
FINANCIAL ASSETS:							
Loans and accounts receivables	2,173,529	28,221,034	73,686,963	148,823,317	547,465	–	253,452,308
Financial assets included in prepayments, other receivables and other assets	–	1,084,128	228,200	2,181,721	185,410	–	3,679,459
Restricted deposits	162	5,045,993	222,263	15,471	–	–	5,283,889
Derivative financial instruments	–	36,149	71,891	934,739	–	–	1,042,779
Financial assets at fair value through profit or loss	–	304,898	142,077	1,598,210	–	624,219	2,669,404
Cash and cash equivalents	5,269,392	–	–	–	–	–	5,269,392
Total financial assets	7,443,083	34,692,202	74,351,394	153,553,458	732,875	624,219	271,397,231
FINANCIAL LIABILITIES:							
Trade and bills payables	266,612	995,802	2,169,500	–	–	–	3,431,914
Financial liabilities included in other payables and accruals	219,687	6,852,837	4,115,078	29,031,036	96,548	–	40,315,186
Interest-bearing bank and other borrowings	–	25,835,577	46,730,319	111,003,149	841,610	–	184,410,655
Derivative financial instruments	–	–	190,386	17,468	–	–	207,854
Total financial liabilities	486,299	33,684,216	53,205,283	140,051,653	938,158	–	228,365,609
Net liquidity gap	6,956,784	1,007,986	21,146,111	13,501,805	(205,283)	624,219	43,031,622

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.

45.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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	
	2019	2018
	RMB'000	RMB'000
Bank and other borrowings	162,396,266	172,514,982
Total equity	41,534,775	39,092,504
Total equity and net debt	203,931,041	211,607,486
Gearing ratio	80%	82%

46.OTHER NON-CURRENT LIABILITIES

As of 31 December 2019 and 2018, other non-current liabilities represent non-current portion of the liabilities relating to continuing involvement in transferred assets (Note 47).

47.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 hold 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.

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47. TRANSFERS OF FINANCIAL ASSETS AND INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (continued)

During the year ended 31 December 2019, the Group transferred an aggregate carrying amount of RMB2,051,039,000 of loans and accounts receivable to third parties, which qualified for full derecognition. Hence, the Group derecognized those assets. The Group did not provide liquidity support to these unconsolidated structured entities. There was no exposure to losses. (2018: Nil)

The Group also transferred loans and accounts receivables to unconsolidated structured entities, where the Group held some subordinated tranches and hence retained continuing involvement in the transferred assets (i.e. loans and accounts receivables amounting to RMB97,543,087,000 as at 31 December 2019). As a result, as at 31 December 2019, the balance of subordinated tranches of asset-backed securities/notes held by the Group amounted to RMB5,850,246,000 (31 December 2018: RMB2,327,322,000). In addition, the balances of continuing involvement in transferred assets and associated liabilities both amounted to RMB5,850,246,000 (31 December 2018: both RMB2,327,322,000), which approximate the maximum exposure to losses from its involvement in such securitisation arrangements and the unconsolidated structured entities.

During the year ended 31 December 2019, as a result of the securitisation transactions, the Group recognised gains of RMB11,612,000 and losses of RMB1,840,000 (2018: gains of RMB27,619,000 and losses of RMB1,676,000) from transfers of loans and accounts receivables.

48. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of Novel Coronavirus Pneumonia ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the world. The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries, including in Hubei Province. This may affect the quality or the yields of the interesting-earning assets of the Group, and the degree of the impact depends on the situation and duration of the spread of COVID-19, and implementation of preventive and control measures.

The Group will continue to closely monitor the development of the COVID-19 assess and react actively to its impacts on the financial position and operating results of the Group. Up to the issue date of the consolidated financial statements, the assessment is still in progress.

49. COMPARATIVE AMOUNTS

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

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50.STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	12	327
Investments in subsidiaries	41,366,811	36,300,374
Deferred tax assets	114,258	102,802
Loans and accounts receivables	16,927,498	14,681,717
Derivative financial instruments	819,369	650,435
Total non-current assets	59,227,948	51,735,655
CURRENT ASSETS		
Loans and accounts receivables	3,563,189	1,070,092
Prepayments, other receivables and other assets	10,441,893	5,672,215
Dividend receivable from subsidiaries	13,248	13,033
Restricted deposits	269,322	166,733
Cash and cash equivalents	406,811	858,820
Derivative financial instruments	229,979	–
Total current assets	14,924,442	7,780,893
CURRENT LIABILITIES		
Other payables and accruals	1,573,321	1,083,404
Derivative financial instruments	17,497	186,197
Income tax payable	(220)	(168)
Interest-bearing bank and other borrowings	14,484,357	3,857,041
Total current liabilities	16,074,955	5,126,474
NET CURRENT (LIABILITIES)/ASSETS	(1,150,513)	2,654,419
TOTAL ASSETS LESS CURRENT LIABILITIES	58,077,435	54,390,074

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50.STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

	31 December 2019 RMB'000	31 December 2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	58,077,435	54,390,074
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	25,930,863	24,724,697
Derivative financial instruments	129,792	–
Total non-current liabilities	26,060,655	24,724,697
Net assets	32,016,780	29,665,377
EQUITY		
Share capital	10,281,212	10,235,373
Reserves	19,693,208	17,389,126
	29,974,420	27,624,499
Holders of perpetual securities	2,042,360	2,040,878
Total equity	32,016,780	29,665,377

Kong Fanxing
Director

Wang Mingzhe
Director

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50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve# RMB'000	Special reserve RMB'000	Reserve fund RMB'000	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	2,105,322	(659,384)	329,672	1,082	121,913	16,843	633,498	12,437,006	14,985,952
Profit for the year	–	–	–	–	–	–	–	3,795,278	3,795,278
Other comprehensive income	–	–	–	–	–	(409,334)	–	–	(409,334)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(12,188)	–	(12,188)
Total comprehensive income for the year	–	–	–	–	–	(409,334)	(12,188)	3,795,278	3,373,756
Purchase of shares under share award scheme	–	(300,575)	–	–	–	–	–	–	(300,575)
Final 2017 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	(972,002)	(972,002)
Shares vested under restricted share award scheme	–	286,880	(227,395)	–	–	–	–	(59,485)	–
Transfer of share option reserve upon exercise of share options	–	–	(3,518)	–	–	–	–	–	(3,518)
Recognition of equity-settled share-based payments	–	–	305,904	–	–	–	–	–	305,904
Special reserve – safety fund appropriation	–	–	–	2,491	–	–	–	(2,573)	(82)
Special reserve – safety fund utilisation	–	–	–	(1,147)	–	–	–	1,185	38
Purchase of non-controlling interests	(347)	–	–	–	–	–	–	–	(347)
At 31 December 2018	2,104,975	(673,079)	404,663	2,426	121,913	(392,491)	621,310	15,199,409	17,389,126

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50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: (continued)

A summary of the Company's reserves is as follows: (continued)

	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	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	2,104,975	(673,079)	404,663	2,426	121,913	(392,491)	621,310	15,199,409	17,389,126
Profit for the year	–	–	–	–	–	–	–	4,288,830	4,288,830
Other comprehensive income	–	–	–	–	–	80,535	–	–	80,535
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(9,422)	–	(9,422)
Total comprehensive income for the year	–	–	–	–	–	80,535	(9,422)	4,288,830	4,359,943
Purchase of shares under share award scheme	–	(774,973)	–	–	–	–	–	–	(774,973)
Final 2018 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	(1,001,447)	(1,001,447)
Shares vested under restricted share award scheme	–	377,974	(287,915)	–	–	–	–	(90,059)	–
Transfer of share option reserve upon exercise of share options	–	–	(9,399)	–	–	–	–	–	(9,399)
Recognition of equity-settled share-based payments	–	–	299,666	–	–	–	–	–	299,666
Special reserve – safety fund appropriation	–	–	–	5,920	–	–	–	(6,115)	(195)
Purchase of non-controlling interests	(569,513)	–	–	–	–	–	–	–	(569,513)
At 31 December 2019	1,535,462	(1,070,078)	407,015	8,346	121,913	(311,956)	611,888	18,390,618	19,693,208

Note:

\# 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 be transferred to share capital or shares held for share award scheme when the related Share Options are exercised or Restricted Shares are vested.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2020.

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				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Revenue	26,856,461	25,378,612	18,782,314	13,928,369	11,795,983
Cost of sale	(12,525,041)	(11,484,055)	(8,106,962)	(5,735,538)	(4,771,610)
Gross profit	14,331,420	13,894,557	10,675,352	8,192,831	7,024,373
Other income/gains	1,157,073	739,058	637,738	477,443	510,032
Selling and administrative expenses	(4,805,301)	(4,913,015)	(3,911,745)	(2,872,888)	(2,531,237)
Other fees and expenses	(497,393)	(395,474)	(422,743)	(306,790)	(454,489)
Finance costs	(460,632)	(459,849)	(225,372)	(157,755)	(122,221)
Gains and loss on investment in joint ventures/associates	192,233	287,524	(13,673)	891	(310)
Pre-provision operating profit	9,917,400	9,152,801	6,739,557	5,333,732	4,426,148
Provision for assets	(2,772,570)	(2,660,234)	(1,952,369)	(1,261,262)	(846,423)
Profit before tax	7,144,830	6,492,567	4,787,188	4,072,470	3,579,725
Income tax expense	(2,316,573)	(2,104,442)	(1,377,623)	(1,130,683)	(999,734)
Profit for the year	4,828,257	4,388,125	3,409,565	2,941,787	2,579,991
Attributable to					
Holders of ordinary shares of the Company	4,337,602	3,927,472	3,229,057	2,882,208	2,503,109
Holders of perpetual securities	511,335	502,735	231,264	78,284	73,080
Non-controlling interests	(20,680)	(42,082)	(50,756)	(18,705)	3,802
	4,828,257	4,388,125	3,409,565	2,941,787	2,579,991

Financial summary

The following table sets forth the results of the Group converted into USD at the respective average exchanged rate as at the end of each period(1) as of the dates indicated.

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	3,881,160	3,788,588	2,788,514	2,074,125	1,870,508
Cost of sales	(1,810,055)	(1,714,371)	(1,203,599)	(854,100)	(756,642)
Gross profit	2,071,105	2,074,217	1,584,915	1,220,025	1,113,866
Other income/gains	167,214	110,329	94,682	71,098	80,877
Selling and administrative expenses	(694,438)	(733,428)	(580,757)	(427,813)	(401,382)
Other fees and expenses	(71,882)	(59,037)	(62,762)	(45,685)	(72,069)
Finance costs	(66,568)	(68,648)	(33,460)	(23,492)	(19,381)
Gains and loss on investment in joint ventures/associates	27,781	42,922	(2,030)	133	(49)
Pre-provision operating profit	1,433,212	1,366,355	1,000,588	794,266	701,862
Provision for assets	(400,678)	(397,127)	(289,858)	(187,819)	(134,219)
Profit before tax	1,032,534	969,228	710,730	606,447	567,643
Income tax expense	(334,779)	(314,157)	(204,529)	(168,374)	(158,530)
Profit for the year	697,755	655,071	506,201	438,073	409,113
Attributable to:					
Holders of ordinary shares of the Company	626,848	586,304	479,402	429,200	396,922
Holders of perpetual securities	73,896	75,049	34,335	11,658	11,588
Non-controlling interests	(2,989)	(6,282)	(7,536)	(2,785)	603
	697,755	655,071	506,201	438,073	409,113

Financial summary

Assets, Liabilities and Non-controlling Interests

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Total assets	260,570,588	265,969,794	227,454,273	166,560,921	139,312,889
Total liabilities	(219,035,813)	(226,877,290)	(191,046,481)	(141,714,820)	(116,351,469)
Perpetual securities	(9,860,211)	(9,789,593)	(9,797,723)	(1,231,881)	(1,227,203)
Non-controlling interests	(1,546,128)	(1,573,168)	(1,269,200)	(654,990)	(343,180)
	30,128,436	27,729,743	25,340,869	22,959,230	21,391,037

The following table sets forth the assets, liabilities and non-controlling interests of the Group converted into USD at the respective average rate as at the end of each period[(1)] as of the dates indicated.

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	US$' 000	US$' 000	US$' 000	US$' 000	US$' 000
Total assets	37,351,364	38,753,030	34,809,812	24,010,512	21,453,876
Total liabilities	(31,397,582)	(33,057,071)	(29,237,930)	(20,428,834)	(17,917,868)
Perpetual securities	(1,413,407)	(1,426,389)	(1,499,453)	(177,581)	(188,987)
Non-controlling interests	(221,629)	(229,218)	(194,239)	(94,420)	(52,849)
	4,318,746	4,040,352	3,878,190	3,309,677	3,294,172

Financial summary

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	Average exchange rate
31 December 2015	6.4936	6.3063
31 December 2016	6.9370	6.7153
31 December 2017	6.5342	6.7356
31 December 2018	6.8632	6.6987
31 December 2019	6.9762	6.9197