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 2020

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 2020. This announcement, containing the full text of the 2020 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, 30 March 2021

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.

Contents

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

Unit 6608, 66/F,
International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong
(Effective from 31 July 2020)

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

Unit 6608, 66/F,
International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong
(Effective from 31 July 2020)

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.

OFFICE LAYOUT NATIONWIDE

CHAIRMAN'S STATEMENT

Far East Horizon Limited
Chairman of the Board

NING Gaoning

Dear Shareholders,

Looking back on 2020, the domestic and international environment was complicated and challenging. The novel coronavirus disease (the "COVID-19") and the ever-changing situation of the world brought huge challenges to the global economy and the Chinese economy. As a result, the Chinese economy declined at the beginning of the year. However, the domestic economic fundamentals were rapidly stabilized by a series of measures in terms of advancing stability on the six fronts and security in the six areas, such as "stabilizing foreign investment", "stabilizing foreign trade", "ensuring security in the operations of market entities" and "ensuring security in stable industrial and supply chains" due to the timely and centralized deployment of the central government and its effective prevention and control measures, thus timely promoted the resumption of work, production, business and market. By effectively capitalizing on the advantages of China's industrial chain and supply chain, the "dual circulation" development pattern centering on internal circulation with the domestic and international markets promoting each other was formed. The central government continuously consolidated the achievements of domestic economic development, and keenly and firmly seized the opportunities in the global market. Hence, China achieved a year-on-year GDP growth of 2.3%, was the only major economy achieving positive economic growth in the world. At the same time, China successfully completed the tasks, of poverty alleviation in the new era, demonstrating its strong resilience.

In 2020, in the face of the severe and changing domestic and international environment, the Group always adhered to the development strategy of "finance + industry with organic and efficient synergy", actively adopted prudent and steady development strategy, kept abreast with the national development, and coordinated with the real industry. At the same time, by comprehensively deepening the business layout, continuously enriching the business connotation, and using innovative and flexible resource allocation and operation techniques, the Group continuously optimized the income structure of its financial business and industrial operation, thereby further consolidating the foundation of the Group's long-term strategic development. The Group achieved satisfactory annual performance and created optimal value for shareholders in a tough situation. All these achievements are inseparable from the valuable support from shareholders last year. On behalf of the Board and all staff, I would like to hereby express our sincere gratitude.

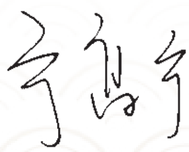
CHAIRMAN'S STATEMENT

As at the end of 2020, the Group had adjusted the development strategies for promoting each industry based on dynamic environment and industry situation, and steadily promoted the expansion of the financial business while safeguarding its assets. As a result, the total interest-bearing assets of the Group exceeded RMB235.414 billion, representing an increase of approximately 15.88% from the beginning of the year. Thoughout the year, profit attributable to ordinary shareholders amounted to approximately RMB4.576 billion, representing a year-on-year increase of approximately 5.49%. At the same time, the asset quality of the Group remained safe and steady, with the rate of non-performing assets of 1.10% and provision coverage rate of over 250%. In general, the Group maintained a steady upward trend as compared to prior years, and the asset return rate was maintained at a good level.

Looking back on 2020, the Board of the Group took 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 Hong Kong Stock Exchange, the Company convened four regular Board meetings in 2020 to review and approve various matters, including, the 2019 annual results, the 2020 interim results, the annual operating budget, the labor cost budget, the continuing connected transactions, the granting under the equity incentive plans, and the spin-off and separate listing of Horizon Construction Development, 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 2021, it will be the first year to implement the 14th Five-Year Plan, adopt the new development concept and promote high-quality development. However, there are many uncertainties due to the changing the pandemic situation and the external environment. The Chinese economy will encounter both opportunities and challenges. During the period of the 14th Five-Year Plan, China will strive to promote high-quality and sustainable economic development by adhering to innovation, the deepening of reform and opening up and other measures. This will provide a spacious market and excellent external conditions for the sustainable, steady development of the Group. Adhering to the mission of "Integrating global resources and promoting China's industries", and the "finance + industry" double driven development, the Group will carry out model-driven operation and innovation, as well as enrich its business operation, thus develops itself into an excellent enterprise and continuously create value.

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,

Looking back on 2020, the Chinese economy experienced unprecedented difficulties and challenges. The sudden outbreak of novel coronavirus disease (the "COVID-19") spread globally, and the world economy stepped into deep recession. Being confronted with multiple challenge from domestic and international environment, the Chinese government adjusted its pandemic prevention and control measures in a timely manner, thus achieving effective control over the pandemic. The government proposed the missions for the stability on the six fronts based on the policy of security in the six areas, aiming to achieve stability by ensuring security and make progress in stability. As such, the Chinese government was able to maintain stability in economic fundamentals, making China became the only major economy in the world achieving positive economic growth. Looking back at the extraordinary year of 2020 and in face of the drastic changes, under the guidance and support of the Board and the "finance + industry" strategic framework, the Group was able to capture opportunities arising from different challenges and overcome difficulties, thereby creating greater value for the Shareholders, customers, partners, employees, the government and other parties of the society.

In 2020, the effects of reform of traditional business have been gradually emerging, with potential productive capabilities fully unleashed. Various new businesses were developing in an orderly manner, resulting in a structural growth. Horizon Construction Development maintained its leading position in the industry, contributing to the capital value enhancement of the Company. With the comprehensive optimization of its management system, Horizon construction Development strove for sustainable development in times of pandemic prevention. The financial structure of the Group continued to optimize, with the proportion of revenue generated from our non-leasing operation continued to rise.

In respect of financial operation, we expanded the market coverage of our traditional business in target markets, deepen the reform of market-orientated system, and further enhanced the quality of our operations. In respect of new businesses, centering on the needs of customers, we continued to expand of scope of services in inclusive finance, commercial factoring, asset business, overseas business, construction project investment, equity investment and other aspects, thus producing a synergy effect between new businesses and traditional businesses. As at the end of 2020,

CEO’S STATEMENT

the interest-earning assets of the Group amounted to RMB235.414 billion, representing an increase of 15.88% as compared to the beginning of the year. We strictly controlled our asset quality, which has further enhanced as the economy recovered. The asset quality has further improved with a non-performing asset ratio of 1.10%. New businesses, such as inclusive finance, factoring, PPP investment and overseas financing, contributed interest income of RMB1.032 billion, representing a year-on-year increase of 82.05%.

In respect of industrial operation, with the implementation of the Group’s strategy on integrated industrial operation, revenue generated from industrial operation segment continued to record significant growth in 2020, which amounted to RMB8.811 billion, representing an increase of 35.11% as compared to the last year and 30.21% of total revenue. As a leading comprehensive equipment operation service provider in China, as at the end of 2020, Horizon Construction Development owned more than 55,000 sets of equipment and more than 1.3 million tons of materials, with the total original value of its operating assets ranking No. 1 in China as at the end of 2020. It has 207 service outlets, covering more than 100 cities. Horizon Construction Development has developed its competitive edges in facing challenges ahead, and has commenced the spin-off and separate listing process. As at 31 December 2020, the total revenue of Horizon Construction Development amounted to RMB3.664 billion, representing an increase of 39.70% as compared to the corresponding period of the last year. The net profit amounted RMB491 million, representing an increase of 29.15% as compared to the last year. As for Horizon Healthcare, it stared a new chapter of development under a new brand name in August 2020. In 2020, adhering to the strategic direction of “100 Counties Plan (百縣計劃)”, Horizon Healthcare has enhanced its internal efficiency and implemented the “Three Connections (三個一)” mode. As a supportive force to the public healthcare system in combating the pandemic, Horizon Healthcare has showed a great sense of social responsibility. In addition, amid the extremely unfavourable environment caused by repeated outbreaks of the pandemic in China and overseas throughout last year, Horizon Healthcare generated revenue of RMB3.447 billion, representing a year-on-year increase of 18.35%, which reflected the stability of our operation mode, and verified the correctness of the Far East model of healthcare operation.

In conclusion, the Group has been adhering to the strategic direction of “finance + industry” during last year. It has continuously improved its comprehensive service capacity, enriched the connotation of operation, continuously explored new driving forces for development and optimized its financial structure, thus achieving satisfactory operating performance. As at the end of 2020, the total assets of the Group amounted to RMB299.927 billion, representing an increase of approximately 15.10% as compared to the corresponding period of last year. The total operating revenue for the year amounted to approximately RMB29.042 billion, representing an increase of 8.14% as compared to the corresponding period of last year. Net profit attributable to ordinary shareholders for the year amounted to RMB4.576 billion, representing an increase of approximately 5.49% as compared to last year. Return on average equity was 14.24%, which maintained at a relatively high level, thus realizing our promise to Shareholders as usual.

CEO'S STATEMENT

Looking forward, the Chinese economy will step in a new stage of development, with both opportunities and challenges ahead. The Group will, adhere to the concept of "market-oriented, three-dimensional operation", constantly forge ahead. In respect of financial operation, the operational quality of our traditional financial businesses will further enhance, with market coverage in target markets to be expanded and the reform of market-orientated system to be deepened. In respect of new businesses, we will continue to make innovation in service modes. The development is in an upward trend, thus promoting the improvement of our overall comprehensive service capability. In respect of industrial operation, we will grasp the opportunities arising in the rapid development of major infrastructure and major health industries. Adhering to the principle of "providing customers with multi-functional and full-cycle comprehensive services based on equipment operation", Horizon Construction Development will continue to expand operation scale and improve management system. Horizon Healthcare will continue to optimize the "Three Connections (三個一)" management mode, and steadily facilitate the implementation of the "100 Counties Plan (百縣計劃)". We are confident that 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

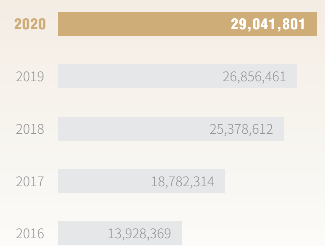
BUSINESS OVERVIEW

For the year ended 31 December

2020

Total revenue
(RMB'000)

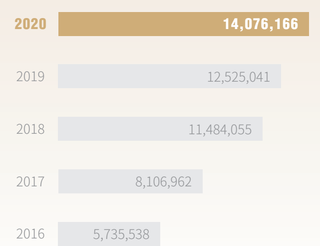
29,041,801



For the twelve months ended 31 December

Cost of sales
(RMB'000)

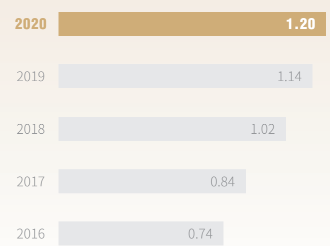
14,076,166



For the twelve months ended 31 December

Basic Earnings per Share
(RMB)

1.20



For the twelve months ended 31 December

Diluted earnings per share (RMB)	Return on average assets [2] For the twelve months ended 31 December	Return on average equity [3] For the twelve months ended 31 December	Gearing ratio For the twelve months ended 31 December
1.16	**1.80%**	**14.24%**	2019: **84.06%** 2020: **84.91%**

Net interest margin [4] For the twelve months ended 31 December	Net interest spread [5] For the twelve months ended 31 December	Cost to income ratio [6] For the twelve months ended 31 December	Net assets per share (RMB) For the twelve months ended 31 December
3.83%	**2.85%**	**33.88%**	2019: **7.61** 2020: **8.58**

BUSINESS OVERVIEW

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Total revenue	**29,041,801**	26,856,461	25,378,612	18,782,314	13,928,369
Financial services (interest income)	**16,521,643**	15,841,562	16,137,698	10,972,384	8,139,285
Advisory services (fee income)	**3,836,492**	4,573,954	4,889,048	4,661,303	3,820,487
Revenue from industrial operation	**8,811,129**	6,521,280	4,515,625	3,254,433	2,113,804
Tax and surcharges	**(127,463)**	(80,335)	(163,759)	(105,806)	(145,207)
Cost of sales	**(14,076,166)**	(12,525,041)	(11,484,055)	(8,106,962)	(5,735,538)
Borrowing costs	**(8,069,641)**	(8,038,630)	(8,527,275)	(5,801,693)	(4,131,599)
Costs for industrial operation	**(6,006,525)**	(4,486,411)	(2,956,780)	(2,305,269)	(1,603,939)
Pre-provision operation profit(1)	**11,248,938**	9,917,400	9,152,801	6,739,557	5,333,732
Profit before tax	**7,507,546**	7,144,830	6,492,567	4,787,188	4,072,470
Profit for the year attributable to holders of ordinary shares of the Company	**4,575,751**	4,337,602	3,927,472	3,229,057	2,882,208
Basic earnings per share (RMB)	**1.20**	1.14	1.02	0.84	0.74
Diluted earnings per share (RMB)	**1.16**	1.14	1.02	0.84	0.74
Profitability indicators					
Return on average assets(2)	**1.80%**	1.83%	1.78%	1.73%	1.92%
Return on average equity(3)	**14.24%**	14.99%	14.80%	13.37%	13.00%
Net interest margin(4)	**3.83%**	3.66%	3.51%	3.09%	3.04%
Net interest spread(5)	**2.85%**	2.48%	2.28%	1.96%	1.79%
Cost to income ratio(6)	**33.88%**	33.53%	35.36%	36.64%	35.07%

BUSINESS OVERVIEW

	31 December 2020	31 December 2019	31 December 2018	31 December 2017	31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	**299,926,788**	260,570,588	265,969,794	227,454,273	166,560,921
Net interest-earning assets	**235,414,093**	203,149,075	223,989,078	193,977,583	139,798,341
Total liabilities	**254,659,655**	219,035,813	226,877,290	191,046,481	141,714,820
Interest-bearing bank and other borrowings	**205,216,155**	162,396,266	172,514,982	144,899,680	106,937,588
Gearing ratio	**84.91%**	84.06%	85.30%	83.99%	85.08%
Total equity	**45,267,133**	41,534,775	39,092,504	36,407,792	24,846,101
Equity attributable to holders of ordinary shares of the Company	**34,119,452**	30,128,436	27,729,743	25,340,869	22,959,230
Net assets per share (RMB)	**8.58**	7.61	7.01	6.41	5.81
Duration matching of assets and liabilities					
Financial assets	**259,849,382**	224,024,699	238,575,428	208,240,849	152,479,868
Financial liabilities	**241,556,177**	206,139,112	216,469,936	183,911,170	136,157,626
Quality of interest-earning assets					
Non-performing asset ratio(7)	**1.10%**	1.11%	0.96%	0.91%	0.99%
Provision coverage ratio(8)	**252.20%**	246.11%	236.73%	219.71%	212.13%
Write-off of non-performing assets ratio(9)	**52.92%**	40.30%	34.41%	5.21%	29.82%
Overdue interest-earning assets (over 30 days) ratio(10)	**0.99%**	1.29%	0.94%	0.72%	0.98%

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 = written-off and disposal of non-performing assets/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

2020 was a very unusual year in the history of China. Facing the heavy blows from the sudden outbreak of the COVID-19 pandemic and the deep recession of the global economy, China's mission of domestic reform and steady development remained arduous and challenging. In 2020, in testimony of the resilience of China's economy, the gross domestic product (GDP) exceeded RMB100 trillion with a growth rate of 2.3%, being the only major economy in the world to realize positive economic growth.

In terms of the supply side, all three sectors resumed growth as China quickened its pace in industrial transformation and upgrade. In particular, the added value of primary sector was RMB7.8 trillion, representing a year-on-year increase of 3.0%. The added value of secondary sector was RMB38.4 trillion, representing a year-on-year increase of 2.6%. The added value of tertiary sector was RMB55.4 trillion, representing a year-on-year increase of 2.1%. Each of the primary sector, secondary sector and tertiary sector accounted for 7.7%, 37.8% and 54.5% of GDP, respectively.

In terms of the demand side, foreign trade recorded outstanding performance as investment recovered at a rate faster than consumption. In particular, the final consumer spending, gross capital formation and net export of goods and services drove GDP growth by -0.5 percentage point, 2.2 percentage points and 0.7 percentage point, respectively. In 2020, the total sales of social consumer goods amounted to RMB39.2 trillion, down by 3.9% year-on-year; total investments in fixed assets amounted to RMB52.7 trillion, up by 2.7% year-on-year; and total goods imports and exports amounted to RMB32.2 trillion, which was a historical high, up by 1.9% year-on-year and continuing to top the global trade in goods.

The proactive fiscal policy became more active and promising. In 2020, attributable to China's phased large-scale tax and fee cuts around market entities, revenue in the national general public budget decreased by 3.9% year-on-year to RMB18.3 trillion; and expenditure in the national general public budget increased by 2.8% year-on-year to RMB24.6 trillion. The issuance of an additional RMB3.6 trillion of local government special bonds was instrumental in stimulating investment and stabilizing economy.

MANAGEMENT DISCUSSION AND ANALYSIS

The stable monetary policy became more flexible and moderate. The total liquidity was moderate and financing costs decreased significantly. As at the end of 2020, the balance of the broad money supply (M2) was RMB218.7 trillion, representing a year-on-year increase of 10.1%. The scale of social financing amounted to RMB284.8 trillion, representing a year-on-year increase of 13.3%. With the deepening of the interest rate market-oriented reform, the comprehensive corporate financing costs decreased year-on-year by 0.51 percentage point to 4.61%, the lowest since the statistic was initiated in 2015.

In 2021, with the COVID-19 pandemic continuing its global spread, the world's economic situation remains complicated and severe, with increased factors contributing to the uncertainty and instability. As the second largest economy in the world, China is accelerating the establishment of a "dual circulation" development pattern centering on internal circulation with the domestic and international markets promoting each other. In the fourteenth five-year plan period, China will strive to promote high-quality and sustainable economic development through innovation and deepening of reform and opening up, which will provide ample market scope and sound external conditions for the Group's continuous stable development.

Source: National Bureau of Statistics of China

1.2 Industry Environment

In 2020, impacted by the sudden COVID-19 outbreak, industrial economic operation managed to recover after a decline and entered a state of steady recuperation. During the year, the added value of the industrial industry amounted to RMB31.3 trillion, representing a year-on-year increase of 2.4%, with the added value of the equipment manufacturing industry contributing 70.6% to the growth of industrial enterprises above designated size. The added value of the construction industry was RMB7.3 trillion, representing a year-on-year increase of 3.5%. The added value of the service industry was RMB55.4 trillion, representing a year-on-year increase of 2.1%, with the information transmission, software and IT service industry, the financial industry and the real estate industry in aggregate driving the added value of the service industry up by 2.7 percentage points.

For the various industry sectors served by the Group, the commencement of major domestic engineering projects and infrastructure construction promoted the rapid recovery of the construction industry, with its business activities index remaining at a high level. Accordingly, segments such as engineering machinery, heavy trucking and steel were also benefitted. In addition, under the new development pattern of "dual circulation", policies clearly orient towards industrial innovation. As such, rapid development has been achieved in the areas of semiconductor, photovoltaic and electronic components. The global demand for anti-pandemic materials, home office and healthy travel drove China's exports of, among others, textiles, medical equipment, medicine, household appliances, laptops, mobile office equipment, bicycles and electric vehicles beyond expectation. Moreover, structural damage was caused to the tourism, transportation and other areas as a result of the travel restrictions imposed during the first half of the year. However, with the steady recovery of the economy, industries such as logistics and express delivery and domestic tourism achieved growth in spite of the general decline. Medical institutions have resumed orderly diagnostics and treatment, comprehensively guaranteeing day-to-day medical services. The globally recurring outbreak of COVID-19 led to a shortage in supply of freight capacity, which benefitted the international shipping, port trading and other areas.

Source: National Bureau of Statistics of China

MANAGEMENT DISCUSSION AND ANALYSIS

1.3 Leasing Industry

In 2020, owing to the economic slowdown and stricter supervision in an effort to strengthen weak points, the business scope of the leasing industry registered a decline for the first time since 2007. According to the China Leasing Industry Development Report 2020 (《2020年中國租賃業發展報告》), the total number of financial leasing companies in China was approximately 12,156, increased by 26 as compared to the end of last year. The balance of financial leasing contracts in China totaled approximately RMB6.5 trillion, representing a decrease of 2.3% as compared to the previous year.

Not only has the gradual refinement and clarification of the regulation over the financial leasing industry further contributed to the standardization as well as orderly and healthy development of the industry, it has also provided strong support for leasing companies confronting multiple challenges. The Civil Code of the People's Republic of China adopted in May 2020 set out specific requirements for the practical operation of financial leasing transactions. The Interim Measures for the Supervision and Management of Financial Leasing Companies (《融資租賃公司監督管理暫行辦法》) issued by the China Banking and Insurance Regulatory Commission in May 2020 clarified prudent supervision indicators such as the proportion of financial lease assets, the proportion of fixed income securities investment and the leasee concentration and relevance. In multiple regions, local financial supervisory authorities commenced mass public notification and clean-up of improperly operating financial leasing companies. Such operations effectively facilitated the development of the industry by decreasing the number and improving the quality of the companies, while also providing favorable conditions for the continuous healthy development of compliant, professional and diversified financial leasing companies.

Source: China Leasing Union (中國租賃聯盟), the Joint Leasing Research and Development Center (租賃聯合研發中心), and Tianjin Binhai Financial Leasing Research Institute (天津濱海融資租賃研究院)

1.4. Company's Solutions

Against the complex and ever-changing external environment in 2020, the Group maintained its strategic determination, concentrated on the mission of "integrating global resources and promoting China's industries" and adhered to the development strategy of "finance + industry", achieving synchronicity with national development and the real economy. Through tireless innovation and flexible resource allocation and operation, the Group strove for mutual benefit and value creation. In 2020, the Group actively responded to the impact of the COVID-19 pandemic to stabilize the operating and security fundamentals. On such basis, it comprehensively deepened its business layout and continuously enriched business operation. The continuous optimization of the financial business and industrial operation income structure further consolidated the strategic foundations for the long-term development of the Group.

In terms of the financial business, first, on the basis of securing pandemic prevention and control at the beginning of the year, the Group led the way in resuming operation step by step and achieved growth in spite of the general decline by resorting to timely adjustment of operating strategies and enrichment of operating approaches, which, to the maximum extent, made up for the losses caused by the lockdowns during the pandemic. Second, the Group continued to enrich new types of businesses, gradually forming a comprehensive service platform featuring, with positive synergy, multiple business formats and products with steadily improving profitability. Finally, the Group continued to fine-tune the organizational structure after last year's optimization efforts by creating an open resource platform and extending its professional service capacity with fundamental market orientations, which effectively promoted and safeguarded the efficiency, stability and security of its operations.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of industrial operations, in line with the planning and vision for the national construction and health industry, industrial groups such as Horizon Construction Development and Horizon Health registered rapid development, forming a nationally leading industrial group with strong social influence.

Horizon Construction Development is one of the top 100 comprehensive equipment operation service providers in the world. In 2020, Horizon Construction Development voluntarily joined the national emergency mobilization system for pandemic prevention and control and spared no efforts in supporting the rescue and relief of flood-stricken regions. Its efficiency and professionalism were highly acclaimed and its overall brand awareness was elevated. In respect of operations, Horizon Construction Development continued to consolidate its competitive advantages and expanded its operating scale, with the inventory size of aerial work platforms, new support systems and new formwork systems leading the market. Additionally, it continued to expand and refine the network. As at the end of 2020, the Group had 207 service outlets with coverage of 133 cities, striving to provide multi-functional, multi-directional, full-cycle comprehensive services to customers.

As a large medical platform funded by social capital in China, Horizon Health is dedicated to providing high-quality medical services available to everyone and building a long-living health brand. During the pandemic, in response to its social mission of providing medical service, Horizon Health deployed a total of over 30 medical personnel from its five hospitals in support of Hubei Province. Continued to focus on regions with weaker medical resources, Horizon Health steadily advanced the "Hundred County Program", creating a medical service network that deepens its nationwide coverage to the county level. Moreover, Horizon Health comprehensively upgraded its operating and management system, implemented the management model of "one system, one network, one hospital", optimized the disposal of hospitals lacking an operation basis and continued to upgrade its business operation. In addition, it explored medical disciplines with advantages in order to consolidate its discipline foundation through accumulation of resources, regulating the system and active empowerment. As at the end of 2020, the number of controlled hospitals was 29 and the number of beds available was over 12,000.

In terms of resource guarantee, focusing on pandemic prevention and control and economic recovery, the Group issued the first renewable epidemic prevention and control bonds in the industry, using its financial strength to provide timely support to provinces and relevant industries that suffered the most during the pandemic. In addition, the Group continued to strengthen cooperation with large financial institutions and dug deep into the resources of small and medium-sized banks. With access to multi-entity financing channel, the Group continued to promote product innovation to balance and diversify the financing system. In terms of overseas bonds, the Group successfully issued bonds including USD senior fixed interest bonds and guaranteed convertible bonds, receiving high acclaim from the market and investors.

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF PROFIT AND LOSS

2.1 Analysis of Profit and Loss (Overview)

In 2020, in reliance upon China's real economy, the Group continued to adhere to the operational philosophy of "finance + industry", and achieved stable growth in overall results in spite of the complicated economic environment ravaged by the pandemic, with profit before tax amounting to RMB7,507,546,000, representing an increase of 5.08% as compared to the corresponding period of the previous year. The profit attributable to holders of ordinary shares of the Company during the period was RMB4,575,751,000, representing an increase of 5.49% as compared to the corresponding period of the previous year. The following table sets forth the comparative figures with 2019.

	For the year ended 31 December		
	2020	2019	
	RMB'000	RMB'000	Change %
Revenue	**29,041,801**	26,856,461	8.14%
Cost of sales	**(14,076,166)**	(12,525,041)	12.38%
Gross profit	**14,965,635**	14,331,420	4.43%
Other income/gains	**1,981,324**	1,157,073	71.24%
Selling and administrative expenses	**(5,069,712)**	(4,805,301)	5.50%
Other expenses and losses	**(478,796)**	(497,393)	(3.74%)
Finance costs	**(617,171)**	(460,632)	33.98%
Gains and loss on investment in joint ventures/associates	**467,658**	192,233	143.28%
Pre-provision operating profit	**11,248,938**	9,917,400	13.43%
Provision for assets	**(3,741,392)**	(2,772,570)	34.94%
Profit before tax	**7,507,546**	7,144,830	5.08%
Income tax expense	**(2,474,559)**	(2,316,573)	6.82%
Profit for the year	**5,032,987**	4,828,257	4.24%
Attributable to:			
Holders of ordinary shares of the Company	**4,575,751**	4,337,602	5.49%
Holders of perpetual securities	**455,022**	511,335	(11.01%)
Non-controlling interests	**2,214**	(20,680)	(110.71%)

MANAGEMENT DISCUSSION AND ANALYSIS

2.2 Revenue

In 2020, the Group realized revenue of RMB29,041,801,000, representing a growth of 8.14% from RMB26,856,461,000 as compared to the corresponding period of the previous year. Income in financial and advisory segment remained stable, and income in industrial operation segment continued to increase significantly. In 2020, income (before taxes and surcharges) of the financial and advisory segment was RMB20,358,135,000, accounting for 69.79% of the total income (before taxes and surcharges) and representing a decrease of 0.28% as compared to the corresponding period of the previous year. Income derived from advisory services decreased by 16.12%, mainly due to the continuous optimization and adjustments to the Company’s advisory services and products, in order to cater to the needs of the customers with the complicated and ever-changing external economic environment. The Group also accelerated its pace in developing integrated industrial operation business with income derived from industrial operations grew by 35.11% as compared to the corresponding period of the previous year, accounting for 30.21% of the total income (before taxes and surcharges).

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				
	2020		2019		
	RMB’000	% of total	RMB’000	% of total	Change %
Financial and advisory segment	20,358,135	69.79%	20,415,516	75.79%	(0.28%)
Financial services (interest income)	16,521,643	56.64%	15,841,562	58.81%	4.29%
Advisory services (fee income)	3,836,492	13.15%	4,573,954	16.98%	(16.12%)
Industrial operation segment	8,811,129	30.21%	6,521,280	24.21%	35.11%
Total	29,169,264	100.00%	26,936,796	100.00%	8.29%
Taxes and surcharges	(127,463)		(80,335)		58.66%
Income (after taxes and surcharges)	29,041,801		26,856,461		8.14%

In 2020, the Group realized revenue of RMB29,041,801,000, representing a growth of 8.14% from RMB26,856,461,000. The financial and advisory segment remained stable overall with a slight decline. Structurally, financial services maintained growth, while advisory services recorded decline. The industrial operation segment continued to record substantial growth.

Income (before taxes and surcharges) of the financial and advisory segment was RMB20,358,135,000, accounting for 69.79% of the total income (before taxes and surcharges). In particular, interest income contribution from inclusive finance, commercial factoring, PPP investment, overseas financing, asset business and other new business directions amounted to RMB1,032 million, representing an increase of 82.05% year-on-year. Income derived from advisory services decreased by 16.12% mainly due to the active adjustment and continuous optimization of the Company’s the service structure in response to customers’ needs after changes in the external operating environment.

MANAGEMENT DISCUSSION AND ANALYSIS

The income of the industrial operation segment sustained continuous growth. The industrial operation segment, which comprises of Horizon Construction Development, Horizon Health and others, realized a total income of RMB8,811 million, representing an increase of 35.11% over the same period last year.

In 2020, the Group's financial structure continued to be optimized with the income of non-leasing business accounting for 46.90% of the total income (before taxes and surcharges), representing an increase of 43.30% as compared with 2019. A continuous growth was achieved. In particular, interest income contribution from inclusive finance, commercial factoring, PPP investment, overseas financing, asset business and other new business directions accounted for 3.54% (2019: 2.11%) of the total income; income of the advisory business accounted for 13.15% (2019: 16.98%) of the total income; income of the industrial operation segment accounted for 30.21% (2019: 24.21%) of the total income.

2.2.1 Financial Services (Interest Income)

The interest income (before taxes and surcharges) from the financial and advisory segment of the Group increased by 4.29% from RMB15,841,562,000 for 2019 to RMB16,521,643,000 for 2020, accounting for 56.64% 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					
	2020			2019		
	Average balance of interest-earning assets[1]	Interest income[2]	Average yield[3]	Average balance of interest-earning assets[1]	Interest income[2]	Average yield[3]
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Healthcare	30,363,865	2,385,423	7.86%	35,188,950	2,730,900	7.76%
Cultural & tourism	28,556,526	2,244,404	7.86%	34,243,720	2,569,608	7.50%
Engineering construction	25,453,950	1,850,862	7.27%	26,005,210	1,859,024	7.15%
Machinery	9,920,960	648,796	6.54%	11,155,623	673,104	6.03%
Chemical & medicine	4,910,229	325,692	6.63%	4,309,606	302,777	7.03%
Electronic information	9,043,861	616,707	6.82%	9,095,296	630,308	6.93%
Public consuming	10,421,022	739,415	7.10%	9,905,598	683,079	6.90%
Transportation & logistics	13,883,503	1,012,189	7.29%	16,472,855	1,232,039	7.48%
Urban public utility	88,254,333	6,698,155	7.59%	66,902,880	5,160,723	7.71%
Total	220,808,249	16,521,643	7.48%	213,279,738	15,841,562	7.43%

MANAGEMENT DISCUSSION AND ANALYSIS

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.

(5) In 2020, the average balance and interest income of the Group's interest-earning assets of inclusive finance, commercial factoring, PPP investment, overseas financing, asset business and other new business directions amounted to RMB15,102,702,000 and RMB1,032,397,000, respectively, representing a significant increase as compared with the average balance of RMB7,763,743,000 and interest income of RMB567,102,000 of the interest-earning assets in 2019. The average yield remained stable.

Analysis according to average balance of interest-earning assets

The average balance of interest-earning assets of the Group increased by 3.53% from RMB213,279,738,000 for 2019 to RMB220,808,249,000 for 2020. 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 2020, the average yield of the Group was 7.48%, representing 0.05 percentage point higher than 7.43% in the last year, which was mainly due to the fact that: (i) in 2020, the Group maintained a stable customer base coverage strategy, responded to customer needs in a timely manner, and maintained stable pricing; (ii) the Group enhanced the promotion of new services such as inclusive finance, commercial factoring, overseas financing, PPP investment and asset business, and maintained a higher return pricing.

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			
	2020		2019	
	RMB'000	% of total	RMB'000	% of total
Northeast China	**1,266,342**	**7.66%**	1,504,581	9.50%
Northern China	**1,765,746**	**10.69%**	1,736,919	10.96%
Eastern China	**4,978,742**	**30.13%**	4,221,011	26.64%
Southern China	**1,269,884**	**7.69%**	1,203,748	7.60%
Central China	**2,413,453**	**14.61%**	2,340,638	14.78%
Northwest China	**1,063,762**	**6.44%**	1,066,710	6.73%
Southwest China	**3,763,714**	**22.78%**	3,767,955	23.79%
Total	**16,521,643**	**100.00%**	15,841,562	100.00%

MANAGEMENT DISCUSSION AND ANALYSIS

2.2.2 Advisory Services (Fee Income)

In 2020, fee income (before taxes and surcharges) from financial and advisory segment decreased by 16.12% from RMB4,573,954,000 for 2019 to RMB3,836,492,000 for 2020, accounting for 13.15% 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				
	2020		2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	186,127	4.85%	937,489	20.49%	(80.15%)
Cultural & tourism	269,833	7.03%	783,447	17.13%	(65.56%)
Engineering construction	455,597	11.88%	422,522	9.24%	7.83%
Machinery	264,054	6.88%	130,819	2.86%	101.85%
Chemical & medicine	162,581	4.24%	196,148	4.29%	(17.11%)
Electronic information	174,335	4.54%	146,796	3.21%	18.76%
Public consuming	218,719	5.70%	205,098	4.48%	6.64%
Transportation & logistics	311,838	8.13%	288,567	6.31%	8.06%
Urban public utility	1,793,408	46.75%	1,463,068	31.99%	22.58%
Total	3,836,492	100.00%	4,573,954	100.00%	(16.12%)

Engineering construction, transportation & logistics and urban public utility accounted for the greatest contribution to the aggregate growth of the Group's service charge income (before taxes and surcharges). Due to the negative effects of the COVID-19, the Group actively responded to the resumption of work and production. However, due to the economic shutdown for a period of time in the first quarter, and the epidemic had greater negative effects on the industry-related sectors such as healthcare, culture & tourism and chemical & medicine, advisory service business activities in these industries were restricted, resulting in a decline in advisory service revenue. With the guidance of national macro policies and the promotion of industries such as infrastructure, public and online consumption, the Group's advisory service income in the machinery, urban public utility, electronic information and transportation & logistics increased respectively as compared to 2019. The Group will gradually enhance its service capabilities and enrich the scope and means of service based on changes in customers' requirements.

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			
	2020		2019	
	RMB'000	% of total	RMB'000	% of total
Northeast China	139,594	3.64%	280,003	6.12%
Northern China	540,486	14.09%	636,167	13.91%
Eastern China	1,386,764	36.15%	1,586,138	34.67%
Southern China	339,624	8.85%	406,097	8.88%
Central China	488,158	12.72%	496,509	10.86%
Northwest China	295,862	7.71%	301,529	6.59%
Southwest China	646,004	16.84%	867,511	18.97%
Total	3,836,492	100.00%	4,573,954	100.00%

2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group, before taxes and surcharges, increased by RMB2,289,849,000 from RMB6,521,280,000 for 2019 to RMB8,811,129,000 for 2020, accounting for 30.21% 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				
	2020		2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Revenue from industrial operation segment	8,811,129	100.00%	6,521,280	100.00%	35.11%
Including:					
Revenue from equipment operation[(1)]	3,663,590	41.58%	2,622,440	40.21%	39.70%
Revenue from hospital operation[(2)]	3,446,950	39.12%	2,912,520	44.66%	18.35%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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

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

In addition to equipment operation and hospital operation, the Group steadily promoted the layout of high-end K12 education at home and abroad. 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.

2.3 Cost of Sales

Cost of sales of the Group for 2020 was RMB14,076,166,000, representing an increase of 12.38% from RMB12,525,041,000 in the corresponding period of last year. Of which, the cost of the financial and advisory segment was RMB8,069,641,000, accounting for 57.33% of the total cost and representing an increase of 0.39% from RMB8,038,630,000 in the corresponding period of last year, mainly due to the fact that the financing costs on low interest rates were maturing one after another, which led to an increase in interest expenditure of the financial and advisory segment. The cost of the industrial operation segment was RMB6,006,525,000, accounting for 42.67% of the total cost and representing an increase of 33.88% from RMB4,486,411,000 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 and equipment operation, among which, some of the hospitals under the industrial operation of healthcare 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.

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				
	2020		2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the finance and advisory segment	**8,069,641**	**57.33%**	8,038,630	64.18%	0.39%
Cost of the industrial operation segment	**6,006,525**	**42.67%**	4,486,411	35.82%	33.88%
Cost of sales	**14,076,166**	**100.00%**	12,525,041	100.00%	12.38%

MANAGEMENT DISCUSSION AND ANALYSIS

2.3.1 Cost of the Financial and Advisory Segment

The cost of sales of the financial and advisory segment of the Group comprised solely of the relevant interest expenses of the interest-bearing bank and other financing of the Group. The following table sets forth the average balance of the interest-bearing liabilities of the Group, the interest expense of the Group and the average cost rate of the Group in the indicated periods.

	For the year ended 31 December					
	2020			2019		
	Average balance(1)	Interest expense	Average cost rate(2)	Average balance(1)	Interest expense	Average cost rate(2)
	RMB'000	RMB'000		RMB'000	RMB'000	
Interest-bearing liabilities	174,213,778	8,069,641	4.63%	162,354,288	8,038,630	4.95%

Notes:

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

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

The cost of sales of the financial and advisory segment increased by RMB31,011,000 from RMB8,038,630,000 for 2019 to RMB8,069,641,000 for 2020. The average cost rate of the Group decreased to 4.63% for 2020 as compared to that for 2019, mainly due to:

(i) affected by the loose monetary policy in 2020, market liquidity was reasonable and sufficient, domestic financing costs dropped significantly, and new domestic indirect withdrawals caused an average cost rate to decrease by 0.16% as compared to 2019; (ii) the Group completed the issuance of various product such as corporate bonds, medium-term notes, super-short financial bonds and asset securitization, due to the overall decline in bond market yields in 2020, and the average cost rate decreased by 0.26% as compared to 2019; (iii) the Group made full use of diversified financing advantages, and increased the proportion of overseas withdrawals, and the average cost rate decreased by 0.06% as compared to 2019 due to new overseas withdrawals; (iv) the increase in stock cost. The average cost rate of existing bank financing for 2020 increased by 0.16% as compared to 2019, which was due to the expiration of low-cost loans introduced in 2017 and 2018.

In 2020, under the "finance + industry" strategy, the Group continued to 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 equipment operation, cost of hospital 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				
	2020		2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the industrial operation segment	**6,006,525**	**100.00%**	4,486,411	100.00%	33.88%
Of which:					
Cost of equipment operation[1]	**2,015,230**	**33.55%**	1,283,900	28.62%	56.96%
Cost of hospital operation[2]	**2,768,080**	**46.08%**	2,170,570	48.38%	27.53%

Notes:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

2.4 Gross Profit

The gross profit of the Group for 2020 increased by RMB634,215,000 or 4.43% to RMB14,965,635,000 from RMB14,331,420,000 in the corresponding period of the previous year. For 2020 and 2019, the gross profit margin of the Group was 51.53% and 53.36%, 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 2020 was 60.36%, dropped from 60.62% 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 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		
	2020	2019	
	RMB'000	RMB'000	Change %
Interest income[1]	**16,521,643**	15,841,562	4.29%
Interest expense[2]	**8,069,641**	8,038,630	0.39%
Net interest income	**8,452,002**	7,802,932	8.32%
Net interest spread[3]	**2.85%**	2.48%	0.37%
Net interest margin[4]	**3.83%**	3.66%	0.17%

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 2020 increased by 0.37 percentage point to 2.85% as compared with 2.48% for the corresponding period of the previous year. The increase in net interest spread was primarily due to the decrease of 32 basis points in respect of the average cost rate on interest-bearing liabilities of the Group and the increase of 5 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 8.32% to RMB8,452,002,000 for 2020 from RMB7,802,932,000 for 2019. The average balance on interest-earning assets of the Group increased by 3.53% year-on-year. Based on the above-mentioned reasons, the net interest margin of the Group increased by 0.17 percentage point to 3.83% as compared with 3.66% for the corresponding period of the previous year.

2.4.2 Gross Profit of the Industrial Operation Segment

	For the year ended 31 December				
	2020		2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Gross profit of industrial operations segment	**2,804,604**	**100.00%**	2,034,869	100.00%	37.83%
Of which:					
Gross profit of equipment operation[(1)]	**1,648,360**	**58.77%**	1,338,540	65.78%	23.15%
Gross profit of hospital operation[(2)]	**678,870**	**24.21%**	741,950	36.46%	(8.50%)

Notes:

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

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

The gross profit of the industrial operation segment increased by 37.83% to RMB2,804,604,000 for 2020 from RMB2,034,869,000 for 2019. Among which, the gross profit of the equipment operation business and the hospital operation business were RMB1,648,360,000 and RMB678,870,000 respectively, accounting for 58.77% and 24.21% 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		
	2020	2019	
	RMB'000	RMB'000	Change %
Income from the holdings of off-balance-sheet assets[(1)]	1,104,605	573,282	92.68%
Bank interest income	166,067	100,630	65.03%
Gains from structured financial products	111,511	65,628	69.91%
Government grants	73,759	65,263	13.02%
Equity investment income[(2)]	325,098	217,431	49.52%
Gains from the transfer of financial assets[(3)]	1,696	14,586	(88.37%)
Other income[(4)]	198,588	120,253	65.14%
Total	1,981,324	1,157,073	71.24%

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 RMB57,483,000.

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group in 2020 were RMB5,069,712,000, representing an increase of RMB264,411,000 or 5.50% from the corresponding period of the previous year. The increase in selling and administrative expenses was mainly due to the increase in the Group's salary and welfare-related costs as compared to the previous year as a result of the increase in the total number of full-time employees of the Group.

Cost to income ratio of the Group in 2020 was 33.88%, which increased from 33.53% 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 2020 amounted to RMB478,796,000, representing a decrease of 3.74% as compared to RMB497,393,000 in the corresponding period of the previous year. Other expenses and losses comprised loss on outright sale of financial assets of RMB130,988, representing a decrease of RMB151,512 from RMB282,500 for the previous year; and loss on changes in fair value of RMB218,399,000, representing an increase of RMB140,981,000 from RMB77,418,000 for the previous year.

2.8 Finance Costs

Finance costs of the Group in 2020 amounted to RMB617,171,000, representing an increase of 33.98% as compared to RMB460,632,000 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 2020 amounted to RMB11,248,938,000, representing an increase of RMB1,331,538,000 or 13.43% from the corresponding period of the previous year. The increase of 13.43% in pre-provision operating profit was mainly due to the increase of 8.14% in the Group's revenue and the increase of 12.38% in cost of sales as compared to the corresponding period of the previous year, leading to the increase of 4.43% in gross profit of the Group during the period as well as the increase of 71.24% in other income/gains, and the increase of 33.98% in finance costs. For the changes in respect of the revenue, cost of sales, gross profit, other income/gains and other expenses and losses, 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 proactively adopted 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 the provision for assets of the Group for the periods indicated:

	For the year ended 31 December				
	2020		2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Provision for interest-earning assets	**2,168,669**	**57.97%**	1,912,753	68.99%	13.38%
Provision for accounts receivable[(1)]	**374,597**	**10.01%**	105,593	3.81%	254.76%
Provision for other receivables[(1)]	**61,646**	**1.65%**	(45,656)	(1.65%)	(235.02%)
Provision for inventories	**18,422**	**0.49%**	42,861	1.55%	(57.02%)
Provision for fixed assets[(2)]	**672,410**	**17.97%**	446,796	16.11%	50.50%
Provision for right-of-use assets[(3)]	**89,860**	**2.40%**	86,691	3.13%	3.66%
Provision for goodwill[(4)]	**274,560**	**7.34%**	118,626	4.28%	131.45%
Provision for the holdings of off-balance-sheet assets[(5)]	**–**	**–**	8,880	0.32%	(100.00%)
Provision for credit commitments[(6)]	**(5,990)**	**(0.16%)**	26	0.00%	<(100.00%)
Other provisions	**87,218**	**2.33%**	96,000	3.46%	(9.15%)
Total	**3,741,392**	**100.00%**	2,772,570	100.00%	34.94%

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 the industrial operation segment it owns;

(3) Provision for right-of-use assets mainly refers to provision for impairment of right-of-use assets of leased sites of certain subsidiaries in the industrial operation segment of the Group;

(4) Provision for goodwill is mainly the Group's goodwill impairment provision for certain subsidiaries with lower-than-expected profits;

(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 2020 was RMB2,474,559,000, which increased by RMB157,986,000 or 6.82% 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 2020 was 33.0%, 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 of the Group for the periods indicated:

	2020	2019	Change %
Domestic statutory tax rate	25.0%	25.0%	–
Cross-border business withholding income tax[(1)]	1.4%	1.6%	(0.2%)
Fees not deductible for tax[(2)]	3.1%	2.8%	0.3%
Others[(3)]	3.5%	3.0%	0.5%
Total	33.0%	32.4%	0.6%

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 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 RMB4,575,751,000, which increased by RMB238,149,000 or 5.49% from the corresponding period of the previous year.

2.13 Basic Earnings per Share

Basic earnings per share for the year amounted to RMB1.20, representing an increase of RMB0.06 or 5.26% from the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets (Overview)

As at 31 December 2020, the total assets of the Group increased by RMB39,356,200,000 or 15.10% from the end of the previous year to RMB299,926,788,000. Net interest-earning assets increased by RMB32,265,018,000 or 15.88% from the end of the previous year to RMB235,414,093,000.

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

	31 December 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Loans and accounts receivable	229,397,307	76.48%	201,120,901	77.18%	14.06%
Of which: interest-earning assets	225,676,893	75.24%	197,613,781	75.84%	14.20%
Cash and cash equivalents	11,877,235	3.96%	3,989,571	1.53%	197.71%
Restricted deposits	3,474,869	1.16%	5,966,661	2.29%	(41.76%)
Holding of asset-backed securities/notes	4,499,118	1.50%	5,850,246	2.25%	(23.10%)
Assets with continuing involvement	4,499,118	1.50%	5,850,246	2.25%	(23.10%)
Prepayment and other accounts receivable	2,485,597	0.83%	2,595,975	1.00%	(4.25%)
Deferred tax assets	5,142,900	1.71%	4,181,252	1.60%	23.00%
Property, plant and equipment	16,871,601	5.63%	11,582,978	4.45%	45.66%
Investment in joint ventures/associates	7,291,219	2.43%	7,218,666	2.77%	1.01%
Financial assets at fair value through profit or loss	9,342,565	3.11%	4,442,688	1.70%	110.29%
Of which: interest-earning assets	3,205,613	1.07%	–	–	N/A
Financial assets at fair value through other comprehensive income	108,176	0.04%	–	–	N/A
Derivative financial instruments	288,967	0.10%	1,565,836	0.60%	(81.55%)
Inventories	397,381	0.13%	403,838	0.15%	(1.60%)
Contract assets	110,132	0.04%	22,646	0.01%	386.32%
Goodwill	2,032,232	0.68%	2,321,837	0.89%	(12.47%)
Right-of-use assets	2,059,242	0.69%	3,422,782	1.32%	(39.84%)
Other assets	49,129	0.01%	34,465	0.01%	42.55%
Total assets	299,926,788	100.00%	260,570,588	100.00%	15.10%

MANAGEMENT DISCUSSION AND ANALYSIS

3.2 Interest-Earning Assets

The main component of the Group's assets was interest-earning assets, which accounted for 76.31% of the Group's total assets as at 31 December 2020. In 2020, the Group dynamically adjusted the promotion policies of each industry sector in accordance with the environment and industry patterns. While cultivating the market in depth, it also strengthened risk management and control in a prudent manner, and strengthened the risk identification of sub-sectors and customer qualifications. Under the premise of asset safety, the Group steadily promoted the expansion of financial business to maintain steady growth for its interest-earning assets.

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

	31 December 2020		31 December 2019		
	RMB' 000	% of total	RMB' 000	% of total	Change %
Net interest-earning assets					
Included in loans and accounts receivable	232,208,480	98.64%	203,149,075	100.00%	14.30%
Included in financial assets at fair value through profit or loss	3,205,613	1.36%	–	–	N/A
Total net interest-earning assets	235,414,093	100.00%	203,149,075	100.00%	15.88%
Less: interest-earning assets provisions	(6,531,587)		(5,535,294)		18.00%
Net interest-earning assets	228,882,506		197,613,781		15.82%

3.2.1 Loans and Accounts Receivable

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

	31 December 2020		31 December 2019		
	RMB' 000	% of total	RMB' 000	% of total	Change %
Net interest-earning assets included in loans and accounts receivable	225,676,893	98.38%	197,613,781	98.26%	14.20%
Others[(1)]	3,720,414	1.62%	3,507,120	1.74%	6.08%
Net loans and accounts receivable	229,397,307	100.00%	201,120,901	100.00%	14.06%

Note:

(1) Others included notes receivables and accounts receivables.

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 2020		31 December 2019		
	RMB' 000	% of total	RMB' 000	% of total	Change %
Healthcare	28,379,634	12.06%	31,239,825	15.38%	(9.16%)
Culture & tourism	25,628,688	10.88%	30,965,168	15.24%	(17.23%)
Engineering construction	26,194,464	11.13%	23,647,097	11.64%	10.77%
Machinery	11,560,868	4.91%	8,546,849	4.21%	35.26%
Chemical & medicine	5,669,403	2.41%	4,107,624	2.02%	38.02%
Electronic information	9,818,047	4.17%	8,066,091	3.97%	21.72%
Livelihood & consumption	11,667,968	4.96%	9,035,493	4.45%	29.13%
Transportation & logistics	13,967,415	5.93%	13,808,203	6.80%	1.15%
Urban public utility	102,527,606	43.55%	73,732,725	36.29%	39.05%
Total	235,414,093	100.00%	203,149,075	100.00%	15.88%

Note:

(1) Interest-earning assets for engineering construction, machinery, chemical & medicine, electronic information, livelihood & consumption and urban public utility among the target industries of the Group maintained growth during the period from 31 December 2019 to 31 December 2020, which was attributable to (i) the Group's business expansion and in-depth exploration of their respective industries, expanding the customer base in the above industries and increasing the introduction of high-quality customers in the above industries; (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) As at 31 December 2020, the net interest-earning assets of the Group's new business directions, including inclusive finance, commercial factoring, PPP investment, overseas financing and asset business, amounted to RMB20,011 million, representing an increase of RMB9,951 million or 98.92% from RMB10,060 million as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.3 Net Interest-earning Assets by Region

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Northeast China	**13,426,815**	**5.70%**	16,605,784	8.18%
Northern China	**26,163,695**	**11.12%**	23,759,302	11.70%
Eastern China	**78,752,349**	**33.45%**	58,249,785	28.67%
Southern China	**19,734,178**	**8.38%**	15,202,665	7.48%
Central China	**33,882,670**	**14.39%**	29,350,086	14.45%
Northwest China	**16,066,574**	**6.83%**	13,535,142	6.66%
Southwest China	**47,387,812**	**20.13%**	46,446,311	22.86%
Total	**235,414,093**	**100.00%**	203,149,075	100.00%

3.2.4 Aging Analysis of Net Interest-earning Assets

The following table sets forth an aging 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 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Net interest-earning assets					
Within 1 year	**130,110,706**	**55.27%**	82,278,512	40.50%	58.13%
1 to 2 years	**40,135,743**	**17.05%**	59,865,677	29.47%	(32.96%)
2 to 3 years	**32,703,059**	**13.89%**	45,765,907	22.53%	(28.54%)
3 years and beyond	**32,464,585**	**13.79%**	15,238,979	7.50%	113.04%
Total	**235,414,093**	**100.00%**	203,149,075	100.00%	15.88%

Net interests-earning assets within one year represented net interest-earning assets the Group received, and were still valid as at the end of the year or the end of the period. As at 31 December 2020, net interest-earning assets within one year as set out in the table above represented 55.27% of net interest-earning assets of the Group, an increase as compared to the end of the previous year, which meant that the Group still maintained steady growth capacity of interest-earning assets.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Maturity date					
Within 1 year	123,395,491	52.42%	97,407,550	47.95%	26.68%
1 to 2 years	68,888,578	29.26%	61,747,869	30.39%	11.56%
2 to 3 years	27,935,036	11.87%	32,232,901	15.87%	(13.33%)
3 years and beyond	15,194,988	6.45%	11,760,755	5.79%	29.20%
Total	235,414,093	100.00%	203,149,075	100.00%	15.88%

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 2020, net interest-earning assets due within one year as set forth in the table above represented 52.42% 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Special mention. Even though the debtor has been able to pay his payments in a timely manner, there are still factors that could adversely affect its ability to pay, which are related to changes in the economic, policy and industrial environment, the structure of the debtor's property rights and the debtor's management mechanisms, organizational framework and management personnel adjustments, operating capabilities, material investments and credit size and conditions, as well as the impact of changes in the value of core assets on the debtor's ability to repay; while taking into consideration the impact of subjective factors, including any change in the debtor's willingness to repay, on the quality of assets, such as if payments have been overdue for 30 days or more, then the interest-earning assets for this contract shall be classified as special mention or lower.

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

Doubtful. The debtor's ability to pay is in question as it is unable to make payments in full and/or on a timely basis with its operating revenues and we are likely to incur significant losses notwithstanding the enforcement of any guarantees underlying the contract. 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 2020, due to the sudden outbreak of the COVID-19 pandemic, the social and economic order was severely affected. After the outbreak, focusing on customer care, the Group immediately conducted communication and investigation for customers by layer and classification, so as to fully understand the impact of the pandemic on customers. In the second half of the year, the pandemic prevention and control achieved significant results, and the economic situation showed an upward trend. The pandemic did not have a significant impact on the Group.

The Group continued to facilitate system upgrades and innovation of means. Through technology empowerment, it timely and efficiently monitored assets; through the establishment and maintenance of the litigation system, the effective guarantee of judicial resources was further realized, and the ability to dispose of assets was continuously improved. During the reporting period, the safety of the Group's assets was maintained at a stable level, the provision coverage ratio was steadily improved, and the quality of assets was continuously optimized.

MANAGEMENT DISCUSSION AND ANALYSIS

Enhance technology empowerment and system upgrade, and improve asset management efficiency

The Group vigorously promoted the monitoring effectiveness of financial technology on asset safety, consolidated technology empowerment, increased investment in and construction of big data infrastructure, thus further improving the capability of asset risk management. By building an early warning platform, the Group realized AI big data mining, timely integrated internal and external early warning information, efficiently identified potential asset risks and realized information closed loop, thereby providing effective guarantee for asset monitoring. The Group also introduced robot functions to strengthen the systematic management of rents.

Optimize team structure, strengthen regional management, and conduct comprehensive asset management

The Group adopted a series of measures such as team function optimization, personnel structure improvement, and regional management functions segmentation to achieve deeper and more comprehensive asset management. During the year, we built and improved the front, middle and back office system for assets operation, effectively realized the decision-making checks and balances and management improvement of the responsibilities of the asset management team related to front office monitoring and disposal, middle office process control, and back office supervision and support, and realized the optimization of the team management mechanism. By optimizing the manpower model, we recruited elite talents from different backgrounds such as law, finance, and other professional fields, and iteratively optimized the staff structure, which brought a spiral increase in all functional capabilities of asset management. We continued to promote the concept of territorial operation and management, cultivate regions and be close to customers, and improve the risk monitoring and identification, abnormal arrival time and management service efficiency for customers, demonstrating the efficiency of our asset management.

Enhance judicial guarantees, develop disposal resources, and improve disposal capabilities for risky assets

During the year, through the establishment of a litigation management system, the disposal efficiency of risky assets in litigation procedures had been greatly improved; the continuous maintenance and expansion of national disposal resources and the exploration of different forms of disposal methods provided strong support for the disposal of risky assets. We also strengthened exchanges and cooperation with local AMCs, expanded new ideas for disposal of risky assets, and improved the efficiency of non-performing asset recovery.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020		31 December 2019		31 December 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	210,311,324	89.34%	178,912,873	88.07%	195,099,412	87.10%	174,404,617	89.91%
Special mention	22,512,881	9.56%	21,987,115	10.82%	26,737,919	11.94%	17,811,994	9.18%
Substandard	1,940,917	0.82%	1,689,815	0.83%	1,328,649	0.59%	1,202,699	0.62%
Doubtful	648,971	0.28%	559,272	0.28%	823,098	0.37%	558,273	0.29%
Loss	–	–	–	–	–	–	–	–
Net interest-earning assets	235,414,093	100.00%	203,149,075	100.00%	223,989,078	100.00%	193,977,583	100.00%
Non-performing assets	2,589,888		2,249,087		2,151,747		1,760,972	
Non-performing asset ratio	1.10%		1.11%		0.96%		0.91%	

The Group has established prudent asset quality control policy and adhered to a stringent and conservative asset classification policy. As at the end of 2020, the Group's assets under special mention accounted for 9.56% of its net interest-earning assets, representing a decrease by 1.26% from 10.82% at the end of 2019.

The assets under special mention in the urban public utility industry accounted for 34.66% of the total assets under special mention. This was mainly due to the large amount of assets in the urban public sector and the large number of individual customers. Most urban public utilities were public welfare enterprises. During the year, affected by the epidemic, customer operations in some industries (such as public transportation, heating) appeared volatile, and short-term capital position tightened. 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 20.57% of the total assets under special mention, mainly in tourism, hotels, cinemas, etc. Affected by the epidemic this year, the overall operation of the cultural & tourism industry was poor. In the second half of the year, with the steady recovery of the tourism and hotel industry and the gradual opening of cinemas, the overall operating situation improved, and the periodical tight liquidity eased. However, considering the uncertainty impact of the epidemic on the cultural & tourism industry, 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 18.89% of the total assets under special mention. In the first half of the year, some private medical industries (such as dentistry, medical aesthetics, healthcare, etc.) were greatly affected by the epidemic, and some public hospitals were affected by the decline in local fiscal revenue, resulting in a longer repayment cycle, which gradually stabilized with the epidemic being under controlled. Considering that the overall recovery is still relatively slow and needs a certain period of time, the Group prudently adjusted more of the assets of the segment to assets under special mention.

MANAGEMENT DISCUSSION AND ANALYSIS

The assets under special mention in the engineering construction industry accounted for 8.15% of the total assets under special mention. Affected by the impact of the epidemic, in the first half of the year, infrastructure construction was in a state of suspension, and infrastructure demand was sluggish. Affected by the above, some customers had periodical tight liquidity. The Group prudently adjusted more of the assets of the segment to assets under special mention.

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Healthcare	4,251,855	18.89%	4,696,256	21.36%
Cultural & tourism	4,629,827	20.57%	4,761,246	21.65%
Engineering construction	1,834,428	8.15%	2,334,046	10.62%
Machinery	616,415	2.74%	924,872	4.21%
Chemical & medicine	194,983	0.87%	73,200	0.33%
Electronic information	858,049	3.81%	815,763	3.71%
Public consuming	822,061	3.65%	604,632	2.75%
Transportation & logistics	1,499,655	6.66%	1,247,384	5.67%
Urban public utility	7,805,608	34.66%	6,529,716	29.70%
Total	22,512,881	100.00%	21,987,115	100.00%

Through prudent asset classification and prudent monitoring and management of assets under special mention, the migration from assets under special mention to non-performing assets of the Group was at a low level.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020	31 December 2019	31 December 2018	31 December 2017
	% of total	% of total	% of total	% of total
Pass	**8.91%**	22.76%	24.82%	21.73%
Special mention	**51.24%**	35.69%	29.68%	25.31%
Substandard	**4.74%**	3.15%	0.63%	4.85%
Doubtful	**0.40%**	0.05%	1.30%	0.47%
Loss	**1.96%**	0.67%	0.10%	–
Recovery	**32.75%**	37.68%	43.47%	47.64%
Total	**100.00%**	100.00%	100.00%	100.00%

The non-performing assets of the urban public utility industry accounted for 52.80% of the total non-performing assets. During the year, affected by the epidemic, the recovery cycle of receivables from some existing customers in previous years had been delayed, in addition, the slowdown in local fiscal revenue and the slow progress in financing had caused a gap in funding, resulting in accelerated risk exposure. The non-performing rate of the segment was 1.33%, representing an increase of 0.21% from the end of last year, which was a slight increase. The non-performing items were all surviving items in the past, and the single amount was relatively large. The new investment during the year performed well. With the gradual weakening of the impact of the epidemic, the overall risk of the industry was controllable, and the overall occurrence of non-performing situation in the industry was normal, loss prediction was low, and no systemic risk appeared. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the machinery industry accounted for 13.66% of the total non-performing assets. During the year, affected by the epidemic, the revenue of the automobile industry fell significantly. In particular, Hubei, as an important production and manufacturing base of the domestic automobile industry, was severely affected by the epidemic. In the second half of the year, the recovery of automobile industry was relatively slow, which affected certain upstream and downstream customers and caused them unable to conduct normal operation. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

MANAGEMENT DISCUSSION AND ANALYSIS

The non-performing assets in the healthcare industry accounted for 11.19% of the total non-performing assets. During the year, the industry segment was severely affected by the epidemic, and the number of outpatients and hospitalizations had fallen sharply, and cash flow was tight; some customers were designated as hospitals for confirmed and suspected cases of COVID-19, and other routine outpatients and hospitalizations were closed. Financial arrangements were given priority to guarantee COVID-19 prevention and control of related payments. Therefore, cash flow was tight, but the overall risk was under control. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

Non-performing assets of the engineering construction industry accounted for 8.61% of the total non-performing assets. Affected by the epidemic, the industry was in a state of shutdown in the first half of the year. Affected by this, some customers had stagnant operations, few orders, and continued overdue. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Healthcare	289,794	11.19%	24,549	1.09%
Culture & tourism	193,965	7.49%	560,214	24.91%
Engineering construction	223,021	8.61%	73,092	3.25%
Machinery	353,849	13.66%	198,660	8.83%
Chemical & medicine	25,226	0.97%	117,177	5.21%
Electronic information	6,522	0.25%	85,213	3.79%
Public consuming	46,483	1.80%	152,750	6.79%
Transportation & logistics	83,534	3.23%	213,539	9.49%
Urban public utility	1,367,494	52.80%	823,893	36.64%
Total	2,589,888	100.00%	2,249,087	100.00%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Healthcare	268,294	13.82%	22,444	1.33%
Culture & tourism	123,733	6.37%	560,214	33.15%
Engineering construction	223,021	11.49%	72,611	4.30%
Machinery	187,531	9.66%	65,661	3.89%
Chemical & medicine	25,226	1.30%	44,250	2.62%
Electronic information	6,522	0.34%	85,213	5.04%
Public consuming	43,607	2.25%	152,750	9.04%
Transportation & logistics	83,534	4.30%	42,183	2.50%
Urban public utility	979,449	50.47%	644,489	38.13%
Total	1,940,917	100.00%	1,689,815	100.00%

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Healthcare	21,500	3.32%	2,105	0.38%
Culture & tourism	70,232	10.82%	–	–
Engineering construction	–	–	481	0.09%
Machinery	166,318	25.63%	132,999	23.78%
Chemical & medicine	–	–	72,927	13.04%
Electronic information	–	–	–	–
Public consuming	2,876	0.44%	–	–
Transportation & logistics	–	–	171,356	30.64%
Urban public utility	388,045	59.79%	179,404	32.07%
Total	648,971	100.00%	559,272	100.00%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020		31 December 2019	
	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 2020	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000
At the beginning of the year	2,249,087	2,151,747	1,760,972
Downgrades[(1)]	2,698,228	1,605,061	1,819,122
Upgrades	(466,234)	(28,232)	(190,602)
Recoveries	(701,056)	(612,339)	(631,871)
Write-off/disposal	(1,190,137)	(867,150)	(605,874)
At the end of the year	2,589,888	2,249,087	2,151,747
NPA ratio	1.10%	1.11%	0.96%
Non-performing loan formation ratio[(2)]	0.76%	0.43%	0.52%

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/disposal of non-performing loan 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)

MANAGEMENT DISCUSSION AND ANALYSIS

3.2.6.2 *Interest-earning Assets Provisions*

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

	31 December 2020		31 December 2019		31 December 2018		31 December 2017	
	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	1,070,237	16.39%	469,357	8.48%	759,991	14.92%	700,180	18.10%
Provision for pass and special mention assets	5,461,350	83.61%	5,065,937	91.52%	4,333,741	85.08%	3,168,838	81.90%
Total	6,531,587	100.00%	5,535,294	100.00%	5,093,732	100.00%	3,869,018	100.00%
Non-performing assets	2,589,888		2,249,087		2,151,747		1,760,972	
Provision coverage ratio	252.20%		246.11%		236.73%		219.71%	
Credit cost ratio[1]	0.98%		0.90%		0.90%		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 2020	31 December 2019	31 December 2018	31 December 2017
	RMB'000	RMB'000	RMB'000	RMB'000
Write-off and disposal of non-performing assets	1,190,137	867,150	605,874	72,431
Non-performing assets as at the end of last year	2,249,087	2,151,747	1,760,972	1,389,124
Write-off ratio[1]	52.92%	40.30%	34.41%	5.21%

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

At the end of 2020, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB1,190,137,000, which were mainly distributed in the urban public utility, culture & tourism, transportation & logistics and healthcare, accounting for RMB308,383,000, RMB288,924,000, RMB282,125,000 and RMB151,945,000, 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 was required to write off the bad debts of the relevant non-performing assets pursuant to the requirements of the accounting standards, the Group did 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 2020, the written-off bad debts amounted to RMB3,473,751,000 and RMB316,517,000 had 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 2020	31 December 2019	31 December 2018	31 December 2017
Overdue ratio (over 30 days)	0.99%	1.29%	0.94%	0.72%

The Group adhered to the prudent strategies of risk control and asset management. The Group's lease overdue ratio (over 30 days) was 0.99% as at 31 December 2020, representing 0.30% lower than 1.29% as at the end of 2019.

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Healthcare	174,937	7.48%	431,797	16.46%
Culture & tourism	149,578	6.40%	976,592	37.23%
Engineering construction	237,010	10.14%	479,784	18.29%
Machinery	337,710	14.44%	84,986	3.24%
Chemical & medicine	–	–	117,178	4.47%
Electronic information	78,454	3.36%	8,911	0.34%
Public consuming	51,458	2.20%	39,924	1.52%
Transportation & logistics	105,579	4.52%	41,883	1.60%
Urban public utility	1,203,276	51.46%	442,070	16.85%
Total	2,338,002	100.00%	2,623,125	100.00%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total
Special mention	985,311	42.14%	2,105,248	80.26%
Substandard	1,122,383	48.01%	400,345	15.26%
Doubtful	230,308	9.85%	117,532	4.48%
Loss	–	–	–	–
Total	2,338,002	100.00%	2,623,125	100.00%

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.

	2020		2019		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	261	11.49%	1,839	7.47%	(85.81%)
Culture & tourism	106	4.67%	2,192	8.91%	(95.16%)
Engineering construction	258	11.36%	3,503	14.24%	(92.63%)
Machinery	–	–	2,124	8.63%	(100.00%)
Chemical & medicine	133	5.85%	1,322	5.37%	(89.94%)
Electronic information	84	3.70%	1,940	7.88%	(95.67%)
Livelihood & consumption	91	4.01%	1,877	7.63%	(95.15%)
Transportation & logistics	110	4.84%	1,518	6.17%	(92.75%)
Urban public utility	1,229	54.08%	8,292	33.70%	(85.18%)
Total	2,272	100.00%	24,607	100.00%	(90.77%)

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the accumulated principal balances of interest-earning assets of off-balance sheet asset securitization that were not yet due as at the dates indicated.

	31 December 2020		31 December 2019		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	2,238	14.86%	5,302	14.35%	(57.79%)
Culture & tourism	2,715	18.03%	7,221	19.55%	(62.40%)
Engineering construction	2,337	15.52%	5,562	15.06%	(57.98%)
Machinery	653	4.34%	2,000	5.41%	(67.35%)
Chemical & medicine	406	2.70%	1,213	3.28%	(66.53%)
Electronic information	565	3.75%	1,990	5.39%	(71.61%)
Livelihood & consumption	581	3.86%	2,021	5.47%	(71.25%)
Transportation & logistics	995	6.60%	2,239	6.06%	(55.56%)
Urban public utility	4,569	30.34%	9,396	25.43%	(51.37%)
Total	15,059	100.00%	36,944	100.00%	(59.24%)

As at 31 December 2020, the balance of the holding of asset-backed securities/notes-related assets items amounted to RMB4,499,118,000, representing a decrease of 23.10% as compared to RMB5,850,246,000 as at 31 December 2019. As an off-balance sheet asset management service provider, the Group implemented the same prudent asset management policy as the on-balance sheet asset and strengthened the monitoring process. The off-balance sheet assets were stable at the end of 2020 with no significant anomalies of asset quality. In March 2021, the Group disposed of a principal amount of approximately RMB2.33 billion of interest-earning assets through asset-backed securities/notes business. In the future, the Group will actively expand its asset securitization business based on the needs of business development.

The balance of assets with continuing involvement of the Group amounted to RMB4,499,118,000, representing a decrease of 23.10% as compared to RMB5,850,246,000 at end of last year. Pursuant to specific requirements of accounting standards, for the asset-backed securities/notes business described 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.

MANAGEMENT DISCUSSION AND ANALYSIS

3.4 Other Assets

On 31 December 2020, cash and cash equivalents of the Group amounted to RMB11,877,235,000. 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 RMB3,474,869,000.

The balance of prepayments and other receivables of the Group amounted to RMB2,485,597,000, comprised mainly of prepayments for suppliers of machinery and equipment and deductible value-added tax etc.

The balance of deferred tax assets of the Group amounted to RMB5,142,900,000, mainly for the deferred income tax provided for the time difference between accounting and taxation.

The balance of property, plant and equipment of the Group amounted to RMB16,871,601,000, comprised mainly of equipment, tools and plant for equipment operation business amounted to RMB10,348,017,000, the plant and medical equipment of its affiliated hospitals amounted to RMB3,630,778,000, and the main office building of the Group.

The balance of investments in joint ventures/associates of the Group amounted to RMB7,291,219,000, comprised mainly of the equity investments of the Group in provincial asset management companies amounted to RMB4,509,817,000 and the equity investments of the Group in joint ventures/associates such as Guangzhou Kangda industrial Technology Co., Ltd., Grand Flight Hooyoung Investment L.P., industrial fund engaged in entrusted financial leasing and entrusted loan business and the invested hospitals.

The balance of financial assets at fair value through profit or loss of the Group was RMB9,342,565,000, mainly due to the financial equity investment, interest-earning assets and wealth management products investment invested by the Group, among which the balance of interest-earning assets and wealth management products as at the end of 2020 was RMB3,205,613,000 and RMB2,284,548,000, respectively.

The balances of assets and liabilities corresponding to the Group's derivative financial instruments amounted to RMB288,967,000 and RMB1,855,165,000, respectively, which were 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.

The balance of the Group's goodwill amounted to RMB2,032,232,000, which was mainly the goodwill recognized by the Group for the acquisition of medical institutions.

The balances of the Group's right-of-use assets amounted to RMB2,059,242,000, 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 the use rights of the premises leased by subsidiary hospitals and educational institutions in accordance with the accounting standard for leases.

MANAGEMENT DISCUSSION AND ANALYSIS

3.5 Liabilities (Overview)

On 31 December 2020, total liabilities of the Group amounted to RMB254,659,655,000, representing an increase of RMB35,623,842,000 or 16.26% as compared to the end of last year, among which, the interest-bearing bank and other borrowings were the main component of the Group's total liabilities, accounting for 80.58% of the total, which increased by 6.44% as compared to 74.14% at the end of last year.

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

	31 December 2020		31 December 2019		
	RMB' 000	% of total	RMB' 000	% of total	Change %
Interest-bearing bank and other borrowings	205,216,155	80.58%	162,396,266	74.14%	26.37%
Other payables and accruals	31,315,420	12.30%	41,710,446	19.04%	(24.92%)
Liabilities for continuing involvement	4,499,118	1.77%	5,850,246	2.67%	(23.10%)
Trade and bills payables	7,880,410	3.09%	4,473,428	2.04%	76.16%
Tax payables	1,764,699	0.69%	1,256,882	0.57%	40.40%
Derivative financial instruments	1,855,165	0.73%	184,514	0.09%	905.43%
Deferred tax liabilities	244,077	0.10%	236,648	0.11%	3.14%
Deferred revenue	1,064,019	0.42%	1,054,306	0.48%	0.92%
Lease liabilities	820,592	0.32%	1,873,077	0.86%	(56.19%)
Total liabilities	254,659,655	100.00%	219,035,813	100.00%	16.26%

MANAGEMENT DISCUSSION AND ANALYSIS

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, and the financing costs have been maintained a clear advantage as compared to the peers.

With respect to direct financing market, the Group further enriched the bond portfolios, optimized product structure, introduced new innovative products such as renewable corporate bonds, short-term corporate bonds and asset-backed commercial papers, and reduced overall costs. At the same time, the Group issued US$300 million and US$200 million convertible bonds in July and December 2020, respectively. In particular, the US$200 million convertible bonds were issued at zero coupon. The two convertible bonds issued were actively subscribed by high-quality investors in the market, which not only effectively supplemented the Company's equity, but also raised low-cost funds for the Company. It reflected the Company's strong brand influence and market position in the overseas capital market and is an effective extension and verification of the Company's resource globalization development strategy.

With respect to indirect financing market, the Group, on the basis of the current financing channel as required by the Company's strategic development, strengthened its co-operation relationship with key banks and launched comprehensive cooperation in finance and industry with the six major banks and some policy banks, forming a deep strategic partnership.

During the pandemic, the Group cooperated with banks on special loans for epidemic prevention, which conformed to national policies and reduced the Company's capital costs. At the same time, the Group successfully completed the first issuance of RMB2 billion of renewable epidemic prevention and control bonds in February 2020, and the funds raised were used to support the development of enterprises in epidemic areas and pharmaceutical companies. In November 2020, it successfully entered into a special loan agreement with the Asian Development Bank for equipment leasing for medical customers, thereby supporting the prevention and control of the COVID-19 pandemic. The Group actively responded to the call of the state finance to support epidemic prevention and control, and took practical actions to effectively serve the real economy, reflecting the Group's social responsibility to actively participate in epidemic prevention.

In conclusion, the Group had diverse financing methods with a continuously improving liability structure, and further reduced its reliability on a single product and a single market, thus achieving diversification of financing products, decentralization of financing markets and continuation of maintaining a competitive cost advantage. Looking forward to 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 on liability side.

As at 31 December 2020, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB205,216,155,000, representing an increase of 26.37% as compared with RMB162,396,266,000 as at the end of last year. The increase was mainly due to the increase of interest-bearing liabilities as a result of the business expansion of the Group. The Group's borrowings were mainly denominated in RMB and USD.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Current	103,931,451	50.64%	87,744,845	54.03%	18.45%
Non-current	101,284,704	49.36%	74,651,421	45.97%	35.68%
Total	205,216,155	100.00%	162,396,266	100.00%	26.37%

As at 31 December 2020, the Group's current interest-bearing bank and other borrowings (including short-term loans and portions that are due within one year in long-term loans) as a percentage of the Group's total interest-bearing bank and other borrowings was 50.64%, which decreased as compared to the previous year, mainly because the Group moderately increased long-term debt so as to maintain liquidity security and adhere to a sound financing strategy while controlling capital costs.

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

	31 December 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	22,217,589	10.83%	11,766,200	7.25%	88.83%
Unsecured	182,998,566	89.17%	150,630,066	92.75%	21.49%
Total	205,216,155	100.00%	162,396,266	100.00%	26.37%

The Group carefully managed its funding risk in 2020. As at 31 December 2020, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 89.17% of the Group's total interest-bearing bank and other borrowings, which slightly decreased as compared with that as at 31 December 2019. The Group continued to optimize its financing conditions and acquired high-quality financing resources.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank loans	98,759,817	48.12%	85,561,053	52.69%	15.43%
Loans from connected persons	203,270	0.10%	–	–	N/A
Other loans	106,253,068	51.78%	76,835,213	47.31%	38.29%
Total	205,216,155	100.00%	162,396,266	100.00%	26.37%

As at 31 December 2020, the proportion of the Group's loans as a percentage to the Group's total bank and other borrowings decreased slightly as compared with 31 December 2019, as the Group continued to deepen its financing cooperation with other financial institutions with a sound financing strategy.

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

	31 December 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Domestic	159,955,114	77.94%	133,900,943	82.45%	19.46%
Overseas	45,261,041	22.06%	28,495,323	17.55%	58.84%
Total	205,216,155	100.00%	162,396,266	100.00%	26.37%

As at 31 December 2020, the proportion of the Group's domestic borrowings and other borrowings as a percentage to the Group's total borrowings was 77.94%, which decreased as compared with that at the end of last year as the Group proactively expanded various financing channels overseas based on the domestic and overseas market environment to satisfy the funding needs.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
RMB	158,796,794	77.38%	122,898,556	75.68%	29.21%
USD	39,223,026	19.11%	35,544,152	21.89%	10.35%
Borrowings in other currencies	7,196,335	3.51%	3,953,558	2.43%	82.02%
Total	205,216,155	100.00%	162,396,266	100.00%	26.37%

As at 31 December 2020, the Group's activities in RMB accounted for 77.38% of its total interest-bearing bank and other borrowings, representing a slightly increase from the end of last year as the Group timely introduced diversified currency financing according to the market environment.

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 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	95,114,826	46.35%	67,077,413	41.30%	41.80%
Indirect financing	110,101,329	53.65%	95,318,853	58.70%	15.51%
Total	205,216,155	100.00%	162,396,266	100.00%	26.37%

As at 31 December 2020, Group's direct borrowings accounted for 46.35% of the total, which increased as compared with 31 December 2019 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.

MANAGEMENT DISCUSSION AND ANALYSIS

3.7 Shareholders' Equity

As at 31 December 2020, the total equity of the Group was RMB45,267,133,000, representing an increase of RMB3,732,358,000 or 8.99% from the end of last year.

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

	31 December 2020		31 December 2019		
	RMB'000	% of total	RMB'000	% of total	Change %
Share capital[1]	**10,397,104**	**22.97%**	10,281,212	24.75%	1.13%
Equity component of convertible bonds	**338,050**	**0.74%**	–	–	100%
Reserve	**23,384,298**	**51.66%**	19,847,224	47.79%	17.82%
Equity attributable to ordinary shareholders of the Company[2]	**34,119,452**	**75.37%**	30,128,436	72.54%	13.25%
Perpetual securities[3]	**8,478,063**	**18.73%**	9,860,211	23.74%	(14.02%)
Non-controlling interests	**2,669,618**	**5.90%**	1,546,128	3.72%	72.66%
Total Equity	**45,267,133**	**100.00%**	41,534,775	100.00%	8.99%

Notes:

(1) The Group's share capital increased by RMB115,892,000 in 2020. 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 RMB30,128,436,000 in the end of 2019. The Group's profit for the year attributable to the ordinary shareholders of the Company was RMB4,575,751,000 in 2020. The final dividend of HK$0.33 per share for the year ended 31 December 2019 was approved at the annual general meeting on 10 June 2020 and paid on 31 July 2020. As at 31 December 2020, the equity attributable to the ordinary shareholders of the Company was RMB34,119,452,000.

(3) On 14 June 2017, the Group issued US$300,000,000 perpetual capital securities at an initial distribution rate of 4.35%. The perpetual securities have no fixed maturity date and are callable at the Group'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 6 July 2020, the Company redeemed all of the renewable corporate bonds.

On 4 December 2017, the Group issued US$400,000,000 perpetual capital securities at an initial distribution rate of 5.60%. The perpetual securities have no fixed maturity date and are callable at the Group'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 after the First Call Date, to the sum of the initial spread and the rate of the US five-year treasury notes.

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 trusted 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.

On 18 February 2020, the Group completed the issuance of Renewable Corporate Bonds (Epidemic Prevention and Control Securities) in an amount of RMB2,000,000,000 in the PRC. The securities are divided into two types, the basic term of type one will be 2 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 coupon rate of 3.87% per annum and amount of RMB1,500,000,000, and the basic term of type two is 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 renewal period) with coupon rate of 4.13% per annum and amount of RMB500,000,000.

On 18 June 2020, the Group comp leted the issuance of Renewable Corporate Bonds (Epidemic Prevention and Control Securities) in an amount of RMB700,000,000 in the PRC. The basic term of the securities will be 2 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). The coupon rate is 3.98% per annum.

On 25 December 2020, the Group completed the issuance of perpetual trusted loans in an amount of RMB970,000,000 in the PRC. The basic term of the perpetual trusted loans will be 1 year (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 5.65% per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

3.8 Completion of the issuance of Guaranteed Convertible Bonds under General Mandate

As at 31 December 2020, the Group's outstanding convertible bonds include:

1. The bonds in the principal amount of US$300,000,000 due 2025 issued by Universe Trek Limited, a wholly-owned subsidiary of the Company, on 8 July 2020 and guaranteed by the Company, convertible into fully paid ordinary shares in the issued and paid-up capital of the Company in accordance with relevant conditions, and bearing interest from and including the issue date at the rate of 2.5% per annum payable semi-annually. Based on the net proceeds from the issuance of such convertible bonds (after deducting the fees, commission and expenses) amounting to approximately US$296.6 million, the net price of each conversion share of such convertible bonds amounted to approximately HK$8.24 (at the predetermined exchange rate of US$1.00 to HK$7.7503). The convertible bonds were offered and sold to no less than six independent placees (who were independent individuals, corporates and/or institutional investors). The initial conversion price of the convertible bonds was HK$8.33 per conversion share; the conversion price was adjusted to HK$7.92 per conversion share on 31 July 2020 due to the payment of dividend; the closing price quoted by the Company on the Stock Exchange was HK$6.85 per share on 17 June 2020 (the date of the subscription agreement); the quoted closing price was HK$6.38 per share on 31 July 2020 (the effective date of the above conversion price adjustment).

2. The bonds in the principal amount of US$200,000,000 due 2025 issued by Universe Trek Limited, a wholly-owned subsidiary of the Company, on 4 December 2020 and guaranteed by the Company, convertible into fully paid ordinary shares in the issued and paid-up capital of the Company in accordance with relevant conditions, and bearing zero coupon. Based on the net proceeds from the issuance of such convertible bonds (after deducting the fees, commission and expenses) amounting to approximately US$198.77 million, the net price of each conversion share of such convertible bonds amounted to approximately HK$8.53 (at the predetermined exchange rate of US$1.00 to HK$7.7520). The convertible bonds were offered and sold to no less than six independent placees (who were independent individuals, corporates and/or institutional investors). The initial conversion price of the convertible bonds was HK$8.56 per conversion share; the closing price quoted by the Company on the Stock Exchange was HK$7.85 per share on 24 November 2020 (the date of the subscription agreement).

The above convertible bonds were issued at 100.00% of the principal amount of the bonds as the issue price, and were issued in registered form and in denominations U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof. The Company issued the above convertible bonds for the purpose of supplementing liquidity and intended to use all of the net proceeds from the bond issuance for working capital and general corporate purposes. As at the disclosure date of this report, the Company used all the net proceeds. The actual uses were as follows: (1) approximately US$368.3 million for domestic business operations, and (2) approximately US$127.07 million for working capital and other general corporate purposes, consistent with the previously disclosed use of proceeds. The proceeds from the bond issue can provide the Company with additional funding at lower cost to repay its existing debts and optimize its financing structure, to further strengthen the working capital for the Company, as well as potentially enhance the equity base of the Company.

For the principal terms and other details of the convertible bonds, please refer to the relevant announcements of the Company dated 17 June, 18 June, 19 June, 8 July, 21 July, 24 November, 4 December and 7 December 2020.

(I) Adjustment of Conversion Price of the Convertible Bonds

Effective date of conversion price adjustment	Adjusted conversion price	Disclosure date	Explanation of conversion price adjustment
31 July 2020	HK$7.92	21 July 2020	Adjust the conversion price based on the 2019 final dividend payment

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Impact of the Convertible Bonds on Earnings per Share and Share Dilution

As at the end of 2020, no conversion into shares had occurred for the above convertible bonds. If the conversion rights attaching to the above convertible bonds were fully exercised in accordance with relevant conditions, the Company would have issued 474,693,465 shares, representing approximately 11.93% of the issued share capital of the Company at the end of 2020 and approximately 10.66% of the issued share capital of the Company as enlarged by the issue of such conversion shares.

The table below sets forth the dilution impact of the full conversion of the above convertible bonds on the shareholding of the substantial shareholders (having referred to the Company's shareholding structure as at 31 December 2020 and assuming no further shares would be issued by the Company):

Name of shareholder	As of 31 December 2020		Immediately following the full conversion of all convertible bonds	
	Number of shares	Approximate percentage of total issued shares	Number of shares	Approximate percentage of total issued shares
Sinochem Group Co., Ltd	919,914,440	23.13%	919,914,440	20.66%
KONG Fanxing[(i)]	747,389,296	18.79%	747,389,296	16.79%
JPMorgan Chase & Co.	419,028,612	10.53%	419,028,612	9.41%
LIU Haifeng David[(ii)]	415,155,100	10.44%	415,155,100	9.32%
UBS Group AG	398,058,664	10.01%	398,058,664	8.94%
The holders of the Convertible Bonds issued on 8 July 2020	–	–	293,571,970	6.59%
The holders of the Convertible Bonds issued on 4 December 2020	–	–	181,121,495	4.07%
Other shareholders	1,078,109,178	27.10%	1,078,109,178	24.21%
Total	3,977,655,290	100%	4,452,348,755	100%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(i) These interests include (i) 870,000 shares held by Mr. KONG Fanxing; (ii) 18,438,234 vested restricted shares; and (iii) 728,081,062 shares whose voting rights Idea Prosperous Limited were entrusted to exercise, and Idea Prosperous Limited is an wholly-owned company of Mr. KONG Fanxing.

(ii) The shares includes (i) 1,067,000 shares of the Company held by New Trace Limited which is 100% controlled by Mr. Liu Haifeng David; and (ii) 414,088,100 shares held by DCP, Ltd which is 50% controlled by Mr. Liu Haifeng David and 50% controlled by Mr. Julian Juul Wolhardt.

Please refer to Note 12 to the financial statements for the impact on earnings per share as if the convertible bonds had been fully converted on 31 December 2020.

(III) The Company's Liabilities, Credit Changes and Cash Arrangements for Debt Repayment in the Future

In 2020, the Company's liabilities and credit status did not change significantly, and the credit ratings assigned to the Company by various credit rating agencies remained unchanged. The Company has sufficient cash flow. At the same time, the banks have granted sufficient credit lines to the Company. Even if investors hold the convertible bonds to maturity and require payment of the principal, the Company is fully capable of paying in cash.

(IV) Events after the reporting period

On 18 January 2021, the conversion rights attaching to the convertible bonds in the principal amount of US$200,000,000 due 2025 were fully exercised in accordance with the relevant conditions, and the listing of these bonds has been withdrawn. For details, please refer to the announcement of the Company dated 18 January 2021.

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 2020, no change was made to the objectives, policies or processes for managing capital.

4.1 Gearing Ratio

The Group monitors its capital by gearing ratio. The following table sets forth the gearing ratios as at the dates indicated:

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Total assets (A)	**299,926,788**	260,570,588
Total liabilities (B)	**254,659,655**	219,035,813
Total equity	**45,267,133**	41,534,775
Gearing ratio (C=B/A)	**84.91%**	84.06%

In 2020, the Group made full use of capital leverage for our operations to keep the Group's gearing ratio relatively high while at the same time closely managed the Group's gearing ratio to avoid potential liquidity risk. As at 31 December 2020, the Group's gearing ratio was 84.91%.

4.2 Ratio of Total Assets at Risk to Net Assets

According to Article 27 of the Interim Measures for the Supervision and Management of Financial Leasing Companies issued by the China Banking Regulatory Commission in May 2020, the total risky assets of a financial leasing company must not exceed 8 times of the net assets.

As at 31 December 2020, the ratios of total risky assets to net assets of International Far Eastern Leasing Co., Ltd., Far East Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd. were 6.15, 4.32 and 3.40 respectively, which was in compliance with the ratio of total risky assets to net assets 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 total assets at risk to net assets as at the dates indicated:

International Far Eastern Financial Leasing Co., Ltd. (遠東國際融資租賃有限公司)

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Total assets	211,839,706	197,945,934
Less: Cash	8,446,082	5,865,515
Total assets at risk	203,393,624	192,080,419
Net assets	33,045,275	31,608,628
Ratio of total assets at risk to net assets	6.15	6.08

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

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Total assets	72,859,139	66,375,364
Less: Cash	4,113,945	2,407,459
Total assets at risk	68,745,194	63,967,905
Net assets	15,918,809	15,360,169
Ratio of total assets at risk to net assets	4.32	4.16

Far Eastern Horizon Financial Leasing Co., Ltd.

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Total assets	18,591,404	17,433,115
Less: Cash	145,336	125,838
Total assets at risk	18,446,068	17,307,277
Net assets	5,423,447	4,291,405
Ratio of total assets at risk to net assets	3.40	4.03

MANAGEMENT DISCUSSION AND ANALYSIS

5. CAPITAL EXPENDITURES

The Group's capital expenditure was RMB7,754,490,000 in 2020, 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 2020, the COVID-19 epidemic swept the world. The economic development of most countries stalled. Because of this factor, the GDP growth rate in China during the first quarter fell by 6.8%. Thanks to unified deployment and timely prevention and control measures, China has achieved world-renowned anti-epidemic results. China actively implemented strong policies such as guiding interest rate decline and credit support, fiscal and tax reduction and exemption to hedge risks, and at the same time promoted the resumption of work, production, business, and market in a timely manner> Through combination of "six stability" and "six security" including "stabilizing foreign capital", "stabilizing foreign trade", "securing market entities" and "securing industrial chain and supply chain stability", China quickly stabilized the basic domestic economy; effectively leveraged the advantages of China's industrial chain and supply chain to build a "domestic cycle". The development pattern of "domestic and international double loops" continued to consolidate the achievements of domestic economic development, keenly captured and firmly grasped global market opportunities, and achieved sustained rebound in China's economy in the second, third, and fourth quarters, with GDP growth of 3.2 %, 4.9%, 6.5%, with an annual growth rate of 2.3%. It is the only major economy that achieved positive growth in 2020.

In the face of the sudden COVID-19 epidemic, the Company responded quickly, accurately predicted, and deployed in a unified manner. All links of operation and management were concentrated and united, and strived to recognize changes accurately, responded scientifically, and actively sought changes. By increasing policy research, the Company keenly identified the risks and opportunities brought about by internal and external changes; continued to review and improve the rationality of asset layout and the accuracy of risk assessment, and flexibly adopted differentiated measures to hedge risks; took the initiative to implement management systems; adapted, adjusted, improved, and implemented system integration and personnel linkage in accordance with changes in operations of the Company, effectively guaranteeing the business growth against the trend under the premise of safety of the Company.

(I) Recognize changes accurately – Insight into risks and grasp opportunities

1. Enhance research and broaden horizons

The Company continued to increase research and analysis of the development and changes of the epidemic, the risk hedging policies issued by the Chinese government, and the industries and customers affected by the epidemic. The Company not only saw the development trend of the epidemic in China, but also paid attention to the spread and control of the epidemic across the globe; The Company also saw the phased risk characteristics of enterprises in the contact industry, but also keenly captured the opportunities brought by the transformation and development of industry enterprises; not only understood the fiscal and monetary policies in China for supporting and benefiting enterprises, but also paid attention to the survival and development status of different industries and types of enterprises; kept a close eye on the macro trends in China, analyzed the evolution of the industry structure, and studied and judged the prospects of customers' business development.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Close to the market rigorously and pragmatically*

While strengthening research, the Company should be close to the market to understand the true living conditions of the target market and customers, understood the business risks and staged financing needs of the Company, etc., to ensure that the Company can see a complete perspective of the industry, customers and their environment prior to policy formulation,. The Company can also hear the "fire from the front line" to avoid metaphysics and divorce from reality. The Company ensured that policy-making stems from practice and serves real case.

3. *Multi-party consultations, and strive to be objective*

For policy research and analysis of market research information, the Company ensured multi-party participation, diversified information, and objective analysis. Through the cooperation of front, middle, and back offices, the Company keenly captured the signals of risks and opportunities, and strived to identify risks and seize opportunities.

(II) Scientific adaptability to changes – Dynamic configuration, precise control

1. *Strengthen the dynamic allocation of assets*

Studies confirmed that to maintain the coverage of anti-cyclical industries that are relatively less affected by the epidemic and are related to the national economy and people's livelihood, such as maintaining the coverage of urban public utilities and enterprises such as water, electricity, gas, medical institutions, educational institutions, and optimizing the regional and customer structure; the Company further increased the coverage of high-quality state-owned enterprise customers with strong ability to counter risks; further increased the asset allocation and investment of existing high-quality customers; timely adjusted the credit policy of the aforementioned industry entities, appropriately expanded the customer base of the type, and stabilized the "basic assets" plate.

During the stage of economic rebound after the epidemic is under control, the Company seized the opportunity and appropriately deployed industry enterprises that benefited from manufacturing upgrades and consumption upgrades, and possessed apparent supply chain and industrial chain advantages, as well as domestic market entities with outstanding domestic substitution capabilities.

At the same time, for the contact industries affected by the epidemic, such as tourism, catering, accommodation, offline film and television, and entertainment, customers were segmented based on long-term development prospects, corporate cross-cycle capabilities, and external financing support, so as to maintain support from high-quality customers on the one hand, on the other hand, appropriate restrictions were placed on the growth rate of new businesses in related industries. The Company kept close tracking of the status of the industry, and made periodic assessments and policy adjustments in a timely manner based on the development of the epidemic.

2. *Improve the accuracy of risk management and control*

1) *Raise standard for customer introduction*

The Company expanded the application scope of the list system, especially intensified the selection and development of customers who meet the requirements for introduction, thus forming a whitelist and encouraging cooperation. For customers having negative information, entering into the scope of attention with long overdue time and high frequency, they will be included in the greylist, and should be dealt with caution. For discredited customers who defaulted in the open market, they will be blacklisted and resolutely refrained from entry.

MANAGEMENT DISCUSSION AND ANALYSIS

2) Multiple credit channels

For different types of customers, the Company designed different credit channels, and adopted a differentiated review mode for differentiated risk characteristics. Different credit channels adopted different quality control station positions to give full play to their differentiated professional capabilities to realize effective risk identification and control.

For customers affected by the epidemic who meet the introduction conditions, the Company will enhance effort in customer review, including the introduction of multiple third-party verification tools, which further strengthens multidimensional cross-validation; on the basis of the original queries during the credit-granting stage, it has been expanded to multiple inquires and verifications during the lending and post-loan stages, in order to deal with the complex external environment related to credit risks and operational risks that are magnified and rapidly changing during the epidemic.

3) Operational flexibility

According to the classification of national COVID-19 epidemic risk levels, on-site due diligence and review work are carried out in different levels. For customers who are difficult to reach due to isolation and inconvenience of travel, under the premise of ensuring reliable quality, and safety and controllability, the Company adopts evidence obtaining through telephone, electronic means and videos to respond flexibly.

The above management and control requirements are all carried out under the premise of "increased management flexibility and undiminished business security" to ensure that risks are controlled.

(III) Actively seeking change-system integration, personnel linkage

The Company enhanced information linkage, strengthening management coordination, and getting through the management system, and therefore the management system can be opened up, so as to realize the whole process of abnormal identification and alarm, and rapid decision-making and processing; organically integrate the management of "things" with the management of "people". "People" and "things" were linked together. People were managed with things. Things were promoted by people. It constantly improved management standards.

1. Strengthen information linkage and management collaboration

The Company strengthened information output and input with related parties from the dimensions of daily operation monitoring, abnormal operation monitoring, and closed-loop risk management to achieve internal and external linkages.

The Company integrated the large-scale operation and the whole process, and solidified the management coordination mechanism with the front-line and various functional departments. Use the two-session mechanism, industry operation joint meeting, business strategy exchange, four-party review mechanism, etc., to actively carry out interactive communication with relevant departments to promote information sharing and management coordination.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Strengthen abnormal detection and rapid decision-making*

In the credit link, the credit system and the marketing system were linked to each other to automatically identify and alarm; in the business link, the Company strengthened the monitoring of abnormal operations to ensure that abnormal information can be fed back to the front and the back; in the asset link, the Company strengthened the interaction with the assets, and opened up the front and back channels and the various stages of the system, Therefore, the Company realized information connection, timely investigation and early warning.

For the rapidly changing external environment, the Company establishes a regular exchange mechanism with respect to management and control policy on a monthly basis, listens to the opinions of various departments, carefully reviews and timely and reasonably adjusts the risk management strategy. For emergencies and significant events, special meetings are initiated at any time for research and discussion so as to make quick decisions and respond effectively.

3. *Strengthen system integration and personnel linkage*

Through the integration of the aforementioned business links and the coordination of various management departments, the system is strengthened. Through scanning of business indicators, we can identify abnormal persons in time and take effective control measures.

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 actively using interest rate swaps and other financial instruments to hedge interest rate risk exposure. The distribution of interest rate sensitive assets and liabilities of the Group is as follows:

	As of 31 December 2020	As of 31 December 2019
	RMB'000	RMB'000
Variable interest bearing assets	26,871,970	58,285,143
Variable interest bearing liabilities	(83,248,638)	(79,083,968)
Monetary funds and others	16,542,660	11,733,432
Derivative financial instruments	44,778,713	23,365,166
Net exposure	4,944,705	14,299,773

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 2020	As of 31 December 2019
	RMB'000	RMB'000
Change in basis points		
+ 100 basis points	**30,639**	30,798
– 100 basis points	**(30,639)**	(30,798)

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 2020, the Group's actual exposure to foreign exchange risk (excluding perpetual securities) approximately amounted to US$5,927 million, hedges against foreign exchange exposure amounted to US$5,641 million with the hedge ratio (percentage of the aforesaid two items) of 95.17% (approximately 101.48% as of 31 December 2019). The Group's actual exposure to foreign exchange risk is limited. As at 31 December 2020, the Group's foreign exchange risk exposure (including perpetual securities) was approximately US$6,627 million and the hedge ratio was approximately 85.12% (approximately 89.43% as of 31 December 2019). 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 2020	As of 31 December 2019
		RMB'000	RMB'000
Effect on the profit before tax	+1%	18,658	(5,354)
Direct effect of perpetual securities on the equity in the event of future redemption	+1%	45,674	48,833
		64,332	43,479

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 refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

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	Less than 3 months	3 to 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
				As of 31 December 2020			
Total financial assets	**15,251,872**	**42,854,039**	**101,092,228**	**124,431,629**	**3,275,855**	**1,268,060**	**288,173,683**
Total financial liabilities	**138,723**	**42,726,178**	**83,076,559**	**120,924,888**	**1,338,329**	**–**	**248,204,677**
Net liquidity gap	**15,113,149**	**127,861**	**18,015,669**	**3,506,741**	**1,937,526**	**1,268,060**	**39,969,006**
				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

6.5 Operational Risk

The Group continuously enhanced the internal control mechanism of various industrial groups and continued to improve the management over HSE major risks. The Group further strengthened the headquarters' effectiveness of implementation of policies and professional guidance and management, ensuring that the overall operational process risks were under control.

7. CHARGE ON GROUP ASSETS

The Group had lease receivables of RMB17,856,783,000, long-term receivables of RMB4,873,854,000, cash of RMB379,104,000, property, plant and equipment of RMB2,551,259,000 and right-of-use asset (the original prepaid land lease payments) of RMB863,748,000 as of 31 December 2020 in order to secure or pay the bank borrowings, cash of RMB991,950,000 was pledged for bank acceptances, letter of credit and etc..

MANAGEMENT DISCUSSION AND ANALYSIS

8. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

Hospitals included in the scope of consolidation upon the new delivery in 2020 include Pizhou Dongda Hospital. Meanwhile, taking into account the impact of external environment and actual operation conditions, the Group proactively transferred, disposed of and closed approximately 31 hospitals that the Group invested in, were under preparation for construction, to be delivered or in the early stage of operation. As at the end of 2020, the number of hospitals controlled by the Group was 29 with the number of beds available and the actual number of beds available amounting to more than 12,000 and approximately 10,000, respectively. A nationwide hospital operation network covering East China, South China, North China, Southwest, and Northeast China has been formed. 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 2020, one new school in the UK was consolidated into the Group. One kindergarten was closed in Shanghai. Three kindergartens in Qingdao, Hangzhou and Chongqing were sold. 11 kindergartens and 4 schools are currently operated. In accordance with the overall orientation of the national education policy, the Group has no plans to acquire or build new schools and gardens for the time being, extend the school period on the original site, improve the quality of education and the fineness of operation and management, adhere to the concept of high-quality schools, and continue to develop in the industry. The internal brand has a high reputation, strong service capabilities, and the most distinctive high-end education system.

In 2020, 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 2020, the Group had 21,672 full-time employees, an increase of 3,769 full-time employees as compared to 17,903 in the corresponding period of 2019.

The Group believes it has a high quality work force with specialized industry expertise. As at 31 December 2020, approximately 39.5% of the Group's employees had bachelor's degrees and above, and approximately 7.1% 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 2020, 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.

	As of 31 December 2020	As of 31 December 2019
	RMB'000	RMB'000
Legal proceedings:		
Claimed amounts	6,310	15,417

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:

	As of 31 December 2020	As of 31 December 2019
	RMB'000	RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and equipment	324,921	248,141
Capital expenditure for equity investment(1)	–	10,000
Irrevocable credit Commitment(2)	8,101,274	9,713,667

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

Looking back at 2020, under the strong and unified leadership of the Chinese government, major strategic results were achieved in the prevention and control of the epidemic, creating necessary conditions for the restoration of production and living order and the growth of economic activities. The International Monetary Fund (IMF) stated that as China's economic growth is more driven by domestic consumption, while continuing to expand its opening up, China will inject more growth momentum into the global economic recovery.

Looking forward to 2021, China has entered a new stage of development, with new challenges and opportunities coexisting. As the economy gradually returns to a reasonable range, the policy environment and growth momentum will change. In this context, the Group will adhere to the original intention of the strategy, adapt to environmental changes, and constantly innovate to achieve a new stage of business model driven by the dual engine of "finance + industry" and benign interactive development, and vigorously build excellent enterprises to be sustainable, effective and continuously increase value creation.

In respect of financial business, the Group will seize opportunities and accelerate development. By optimizing the top-level design and professional platform construction, forming a horizontal and vertical three-dimensional business structure, insisting on intensively cultivate the industry, the Group will carefully cultivate the region, consolidate the customer base, enrich the products, increase the target market coverage, extend the value service connotation, and continuously strengthen the "industry division, industry attachment, professional operation", to provide customers with comprehensive and diversified financial service guarantees such as financial leasing, inclusive finance, commercial factoring, asset business, equity investment, construction project investment, and overseas financing. At the same time, the Group closely track changes in the external environment and policy trends, focus on business safety, strengthen risk management in "all-round, full-process, multi-angle, and uninterrupted" manner, deepen refined lean operations and closed-loop full-process management, achieving healthy, sustained and balanced development in a constantly changing and challenging market environment.

In respect of industrial operations, Horizon Construction Development will follow the trends of economic recovery, new urbanization and other industry, effectively seize market opportunities, continue to expand the scale of business and service network, accelerate the digital upgrade, continue to consolidate the leading advantages in the industry, and provide customers with multi-functional and comprehensive full-cycle one-stop solution services based on equipment operation.. Horizon Health will continue to promote the "Hundred Counties Project", focus on high-quality regions, expand the scale of operations, and create synergies in characteristic disciplines, supply chains, and talents to enhance value creation capabilities. At the same time, based on the distribution of medical resources, we will continue to promote strategic exploration and implementation in the fields of rehabilitation and elderly care, hospital management consulting, and Internet medical health education. At the same time, the Group will continue to explore the incubation of industrial operation platforms in the fields of new energy, electronics, and entertainment, to help the upgrading and development of China's industries, and to satisfy the people's yearning for a better life.

MANAGEMENT DISCUSSION AND ANALYSIS

12. EQUIPMENT OPERATION SEGMENT REPORT

12.1 Profit Statement Analysis of Equipment Operation Segment

	For the year ended 31 December		
	2020	2019	
	RMB' million	RMB' million	Change %
Total revenue	3,663.59	2,622.44	39.70%
Revenue from operating lease[1]	2,484.55	2,036.44	22.00%
Revenue from engineering and technical services[2]	1,062.76	470.49	125.88%
Revenue from platforms and others	116.28	115.51	0.67%
Total Cost	(2,015.23)	(1,283.90)	56.96%
Cost of operating lease[1]	(1,185.39)	(905.87)	30.86%
Cost of engineering and technical services[2]	(756.81)	(272.31)	177.92%
Cost of platforms and others	(73.03)	(105.72)	-30.92%
Gross profit	1,648.36	1,338.54	23.15%
Gross profit of operating lease[1]	1,299.16	1,130.57	14.91%
Gross profit of engineering and technical services[2]	305.95	198.18	54.38%
Gross profit of platforms and others	43.25	9.79	341.78%
Administrative and selling expenses	(684.51)	(585.58)	16.89%
Provision for assets	(91.79)	(102.64)	-10.57%
Other profit	73.43	55.69	31.85%
Earnings before interest and tax	945.49	706.01	33.92%
Finance costs	(303.98)	(234.20)	29.80%
Profit before tax	641.51	471.81	35.97%
Income tax expense	(150.30)	(91.49)	64.28%
Profit for the year	491.21	380.32	29.16%

MANAGEMENT DISCUSSION AND ANALYSIS

12.2 Asset Analysis of Equipment Operation Segment

	31 December 2020		31 December 2019		
	RMB' million	% of total	RMB' million	% of total	Change %
Monetary fund	162.70	1.04%	22.78	0.25%	614.22%
Bill receivables, bill and contract assets	2,830.92	18.07%	1,775.60	19.33%	59.43%
Prepayments and other receivables	1,248.39	7.97%	949.18	10.33%	31.52%
Entrusted loans	–	–	45.03	0.49%	N/A
Inventories	165.76	1.06%	143.49	1.56%	15.52%
Fixed assets and other intangible assets	10,352.96	66.10%	4,749.99	51.70%	117.96%
Right-of-use assets	681.88	4.35%	1,309.51	14.25%	(47.93%)
Deferred income tax assets	192.43	1.23%	181.67	1.98%	5.92%
Other assets	27.79	0.18%	10.36	0.11%	168.24%
Total assets	15,662.83	100.00%	9,187.61	100.00%	70.48%

Notes:

Horizon Construction Development is a comprehensive equipment service provider established by the Group in the construction sector in China. Building on its offering of construction equipment and materials, the Equipment Operation Business is committed to providing customers with multi-functional, multi-latitude and full-cycle comprehensive services, and has been consistently creating value for customers leveraging its layout of multiple product lines, nation-wide operation network and comprehensive operation capabilities with synergetic nature. Its main business scope includes equipment operation services in the fields of aerial work platforms, new support systems, new frame systems, road equipment, and power equipment. Horizon Construction Development 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, 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 40,000 customers, involving large projects such as the construction of the Vulcan Mountain Hospital, Tianjin Convention and Exhibition Center, Hangzhou Metro, Xi'an Olympic Sports Center, Wuhan Huawei, Xi'an Cainiao Logistics, Changchun Jingdong Logistics.

As at 31 December 2020, Horizon Construction Development owned more than 55,000 pieces of equipment and over 1,300,000 tons of 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 50,000. The new 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.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, Horizon Construction Development had more than 207 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 147 authorized patents, 13 invention patents and 31 software copyrights. In 2020, Horizon Construction Development jumped to the 39th place in the IRN 100 ranking among the top 100 global leasing companies, and Access 50, an international aerial work machinery leasing company, climbed to the sixth place in the world.

As at 31 December 2020, the total income of Horizon Construction Development was RMB3.664 billion, representing an increase of 39.70% over the previous year. Net profit was RMB491 million, representing an increase of 29.15% over the previous year. The main reasons were:

(1) The market demand for engineering construction in China was strong. On the one hand, it came from the continuous drive of industrialization and urbanization. On the other hand, China's 14th Five-Year Plan accelerated the construction of municipal engineering and infrastructure. Therefore, there is a strong market space demand for equipment operation services with "equipment instead of labor". The asset scale of the Company has also expanded rapidly in response to market demand, with an asset growth rate exceeding 70%. Under the condition of ensuring that the asset utilization rate is stable at a high level, with the rapid increase in assets, operating lease income has also increased year by year. This year, operating lease income was RMB2.485 billion, representing a year-on-year increase of 22.00%.

(2) On the other hand, the construction services of the Company have grown rapidly in the past two years. The growth rate of construction service revenue has exceeded 125%, and the proportion of service revenue has increased from 17.94% last year to 29.01% this year. In recent years, the market has emphasized the construction concept of "safety" as the leading, "environmental protection" and "timeliness", which has enabled customers to gradually shift from the past leasing demand to the supply requirements of comprehensive service capabilities, further increasing the company's comprehensive service barrier advantage in the industry obvious. At the same time, the Company actively increased its service outlets. As of the end of 2020, there were 207 service outlets (end of 2019: 148), distributed in 133 cities, 4 equipment refurbishment bases, 98 equipment storage bases and 105 equipment maintenance bases, that provide adequate service guarantees.

(3) Based on the industry traffic and standardized operations formed on a self-support basis, the Company gradually built a full-category engineering equipment service platform in the industry. The platform business takes the joint operation (sublease) business as the entry point, and the trading platform was also incorporated to enrich the income source of the Company. In 2020, platform revenue reached RMB116 million, and gross profit increased by more than 340%.

(4) At the beginning of 2020, affected by the epidemic prevention and control, projects across China were affected by the suspension of work to varying degrees, which affected the profitability of Company to a certain extent. Subsequently, as the epidemic improved and the Chinese government increased investment in infrastructure, market demand was gradually tapped, and the asset operation efficiency of the Company quickly recovered to the same level after April. In the long run, as the industrial industry upgrades, the Chinese government's investment in infrastructure such as railways, highways, urban rail transits, underground pipe corridors, urban renewal and transformation, will bring about expectations of long-term and stable market growth.

MANAGEMENT DISCUSSION AND ANALYSIS

13. HOSPITAL OPERATION SEGMENT REPORT

13.1 Profit Statement Analysis of Hospital Operation Segment

	For the year ended 31 December		
	2020	2019	
	RMB' million	RMB' million	Change %
Total Revenue	**3,446.95**	2,912.52	18.35%
Revenue from hospital operation	**3,369.38**	2,841.06	18.60%
Other relevant revenue from hospital operation	**77.57**	71.46	8.55%
Total Cost	**(2,776.79)**	(2,173.71)	27.74%
Cost from hospital operation[3]	**(2,768.08)**	(2,170.57)	27.53%
Other cost	**(8.71)**	(3.14)	177.39%
Gross profit	**670.16**	738.81	(9.29%)
Gross profit from hospital operation[4]	**678.87**	741.95	(8.50%)
Other cost	**(8.71)**	(3.14)	177.39%
Labor cost[5]	**(99.55)**	(240.06)	(58.53%)
Other administrative and selling expenses[5]	**(238.07)**	(224.12)	6.22%
Provision for assets	**(168.72)**	(61.94)	172.39%
Other profit	**42.78**	46.36	(7.72%)
Profit before tax	**206.60**	259.05	(20.25%)
Income tax expense	**(91.10)**	(80.14)	13.68%
Profit for the year	**115.50**	178.91	(35.44%)

Notes:

(1) In 2020, the Group's hospitals actively responded to the government's call and fully supported the epidemic prevention and control work. Although the hospital's operating income was affected by the epidemic during the period, its operations have been steadily restored by virtue of its large-scale and intensive resource integration capabilities. The Group reorganized and optimized its affiliated hospitals in response to changes in the epidemic. Hospitals included in the scope of consolidation upon the new delivery in 2020 include Pizhou Dongda Hospital. Meanwhile, taking into account the impact of external environment and actual operation conditions, the Group proactively transferred, disposed of and closed approximately 31 hospitals that the Group invested in, were under preparation for construction, to be delivered or in the early stage of operation. As at the end of 2020, the number of hospitals controlled by the Group was 29 with the number of beds available and the actual number of beds available amounting to more than 12,000 and approximately 10,000, respectively. A nationwide hospital operation network covering East China, South China, North China, Southwest, and Northeast China has been formed. 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 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 2020 increased from approximately RMB2.171 billion of 2019 to RMB2.768 billion. In 2020, due to the impact of the epidemic, the protection of medical staff was strengthened. It actively cooperated in the fight against the epidemic. Therefore, the overall operating cost growth rate was more obvious than the income growth rate.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) The gross profit margin of the Group's hospital operation in the 2020 was approximately 20%, which was mainly due to the impact of COVID-19 epidemic and therefore declined from 26% in 2019. Currently, with the control of the epidemic and the recovery of hospital operations, gross profit will gradually rise.

(5) 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' borrowings and goodwill.

(7) According to the actual situation of the hospital operation sector, the scope of the hospital operation sector has been adjusted and the comparative data has been restated this year.

13.2 Asset Analysis of Hospital Operation Segment

	31 December 2020		31 December 2019		
	RMB' million	% of total	RMB' million	% of total	Change %
Monetary fund	117.61	1.43%	113.16	1.47%	3.93%
Amount of the Group's cash pool	581.39	7.06%	387.99	5.03%	49.85%
Bill receivables	410.84	4.99%	466.85	6.05%	(12.00%)
Prepayments[1]	96.91	1.18%	137.33	1.78%	(29.43%)
Other receivables	156.80	1.90%	123.16	1.60%	27.31%
Entrusted loans	174.66	2.12%	251.48	3.26%	(30.55%)
Inventories	151.78	1.84%	156.43	2.03%	(2.97%)
Fixed asset and Intangible assets[2]	4,077.18	49.52%	3,320.08	43.00%	22.80%
Goodwill[3]	2,026.67	24.61%	2,315.86	30.00%	(12.49%)
Investments in joint ventures/associates[4]	280.33	3.40%	289.52	3.75%	(3.17%)
Deferred income tax assets	41.06	0.50%	23.80	0.31%	72.52%
Right-of-use assets[5]	116.53	1.42%	129.00	1.67%	(9.67%)
Other assets	1.99	0.03%	5.57	0.05%	(64.27%)
Total assets	8,233.75	100.00%	7,720.23	100.00%	6.65%

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 the clinics under Hangzhou Dental.

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

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 2020.

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 2020, 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 2020.

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 2020.

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 2020, 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.

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' legal liabilities that may arise 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 2020, 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. The Policy for the Nomination of Directors 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 2020.

BOARD COMMITTEES

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 annual 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 92.

The Audit and Risk Management Committee held 4 meetings during the year ended 31 December 2020 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 89.

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 2020 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 2020 to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience required for the Company's business, 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 89.

STRATEGY AND INVESTMENT COMMITTEE

The Strategy and Investment Committee comprises three 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 2020, the Strategy and Investment Committee did not hold any meeting. The attendance records of the Strategy and Investment Committee are set out under "Attendance Record of Directors and Committee Members" on page 89.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2020, four 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 2020 is set out in the table below:

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

Apart from the Board meetings stated above, the chairman of the Board also held 1 meeting with the independent non-executive directors without the presence of other directors on 26 August 2020.

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 2020.

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 2020, 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 2020.

The Board shall conduct a balanced, clear and understandable assessment in the 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 324.

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 2020 is set out below:

	Amount of fees
Type of services provided by the external auditors	RMB'000
Audit services	4,500
Non-audit service	5,814
Other audit & assurance service	3,800
Total	14,114

The Group's non-audit service fees mainly comprise of: (i) interim review service fee amounted to RMB1,350,000; (ii) asset securitization business related service fee amounted to RMB1,050,000; (iii) bond issue related service fee amounted to RMB2,480,000; and (iv) tax service fee amounted to RMB29,000.

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 Employee Written 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:	Unit 6608, 66/F, International Commerce Centre, 1 Austin Road West, Kowloon, 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 10 June 2020 (the "2020 AGM"), Mr. Ning Gaoning (Chairman of the Board) and Mr. Liu Haifeng, David (Chairman of the Strategy and Investment Committee) were unable to attend due to other important business engagements. In order to ensure smooth transaction of business at the 2020 AGM, Mr. Liu Jialin (Chairman of the Remuneration and Nomination Committee) chaired the 2020 AGM and Mr. Yip Wai Ming (Chairman of the Audit and Risk Management Committee) attended the 2020 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 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 endeavours 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 62, 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 four 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 57, 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 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 26 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 50, 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 25 years of experience in finance management.

MR. YANG LIN (楊林) – NON-EXECUTIVE DIRECTOR

Mr. YANG Lin (楊林), aged 57, 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) 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 25 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 51, 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 27 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 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 59, 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, and a director of Avary Holding (Shenzhen) Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002938). 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), 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 70, 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).

Mr. Law holds a master degree in business administration (finance) from Indiana University in USA and has more than 32 years' experience in finance.

MR. CAI CUNQIANG (蔡存強) – INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CAI Cunqiang (蔡存強), aged 71, 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 43 years of experience in the shipping industry.

MR. HAN XIAOJING (韓小京) – INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. HAN Xiaojing (韓小京), aged 66, 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 34 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 the Supervisor 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).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MR. LIU JIALIN (劉嘉凌) – INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. LIU Jialin (劉嘉凌), aged 58, 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 32 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 56, 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 (火幣科技控股有限公司) (a company listed on the Stock Exchange, stock code: 1611) and Peijia Medical Limited (沛嘉醫療有限公司) (a company listed on the Stock Exchange, stock code: 9996).

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 30 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 46, 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 18 years of experience in the financial leasing industry.

MR. WANG RUISHENG (王瑞生) – VICE PRESIDENT

Mr. WANG Ruisheng (王瑞生), aged 67, 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 29 years of experience in enterprise management.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MR. LI JIANCHENG (李建成) – VICE PRESIDENT

Mr. LI Jiancheng (李建成), aged 49, 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 Far East Horizon Health Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司).

Mr. Li has over 19 years of experience in the financial leasing industry.

MR. ZHAN JING (詹靜) – ASSISTANT PRESIDENT

Mr. ZHAN Jing, aged 45, is the Assistant President of the Company. Mr. Zhan graduated from Nanjing Audit University in July 1997 with a bachelor's degree in international finance. He obtained a 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.

Mr. Zhan has more than 16 years of financial leasing industry experience and 5 years of banking experience.

MR. GUO CHUNHAO (郭春浩) – ASSISTANT PRESIDENT

Mr. Guo Chunhao, aged 44, is the Assistant President of the Company. Mr. Guo graduated from Yantai University in July 1999 with a bachelor's degree in international trade. He obtained a master's degree in finance from Tianjin University of Finance and Economics in July 2004. He joined the Company in the same year and served successively as finance manager, assistant general manager, deputy general manager, deputy general manager (in charge of work), general manager, general manager of capital department, general manager of strategic management department, general manager of human resources department, and general manager of overseas business department. Mr. Guo has been appointed as the Assistant President of the Company since August 2020. Currently, Mr. Guo also serves as the general manager of the Company's strategic operations department, general manager of factoring business department, general manager of overseas business department, general manager of Horizon Financial Company Limited (宏信金服（天津）信息科技有限公司) and the executive director of East Horizon Factoring (Tianjin) Co., Limited (遠宏商業保理（天津）有限公司).

Mr. Guo has more than 17 years of financial leasing industry experience.

DIRECTORS' REPORT

The Board is pleased to present the Directors' Report of the year 2020 together with the audited financial statements of the Group for the year ended 31 December 2020.

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 5 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 2020, 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 2020 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$0.36 (2019: HK$0.33) per share in respect of the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on Monday, 21 June 2021. The proposed final dividend will be paid on Wednesday, 30 June 2021 after approval at the Annual General Meeting ("AGM") to be held on Wednesday, 9 June 2021.

CLOSURE OF SHARE REGISTER

The AGM of the Company is scheduled to be held on Wednesday, 9 June 2021. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 4 June 2021 to Wednesday, 9 June 2021, 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, 3 June 2021, 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 Thursday, 17 June 2021 to Monday, 21 June 2021, 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 Monday, 21 June 2021. 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 Wednesday, 16 June 2021, being the last registration date.

FINANCIAL HIGHLIGHTS

The summary of the Group's results, assets, liabilities and non-controlling interests for the past five financial years is extracted from the audited financial information and financial statements published, which is set out on pages 14 to 15 to this annual report. This summary does not form a part of the audited financial statements.

DIRECTORS' REPORT

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 34 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any shares of the Company for the year ended 31 December 2020.

DIRECTORS' REPORT

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 140 of this annual report and Note 37 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 (2019: RMB4,300,000).

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

There has been no changes in director's biographical details since the date of the 2020 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

In accordance with the Article of Association of the Company, Mr. KONG Fanxing, Mr. WANG Mingzhe, Mr. YANG Lin and Mr. LIU Haifeng David will retire at the 2021 Annual General Meeting. All of the retiring directors above are eligible for re-election at the 2021 Annual General Meeting.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management are set out on pages 95 to 101 of this annual report.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2020, 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 2020. Either party has the right to give not less than three months' written notice to terminate the service contract. Each of the executive directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of the Board, and social welfare benefits provided under the relevant PRC laws and regulations. The aggregate amount of the annual salaries of the two executive directors is RMB11,746,000.

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 2020.

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 2020.

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 2020 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 2020, 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

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.

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, representing 3.31% of the issued share capital of the Company as at the disclosure date of this report.

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 2020	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding as at 31 December 2020
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**
Employees	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	6,060,667	–	2,705,424	–	88,664	3,266,579
Employees	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	10,821,904	–	2,321,665	–	2,002,961	6,497,278

DIRECTORS' REPORT

					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 2020	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding as at 31 December 2020
Employees	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	22,114,019	–	7,132,200	–	3,217,891	11,763,928
Employees	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	24,770,110	–	3,190,310	–	6,504,725	15,075,075
Employees	18 July 2018	18 July 2020 – 18 July 2022	18 July 2020 – 18 July 2028	7.36	27,611,446	–	916,349	–	8,538,836	18,156,261
TOTAL					**108,768,009**	**–**	**16,265,948**	**–**	**20,353,077**	**72,148,984**

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 need to be achieved by a grantee before the vested options can be exercised.

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

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

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

Note 6: The exercise price is not less than the higher of (i) the closing price of HK$6.820 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 20 June 2017 (i.e. the grant date) and (ii) the average closing price of HK$6.714 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 20 June 2017. The Share does not carry nominal value. The closing price of shares immediately before the date on which the options were granted is HK$6.8 per share.

Note 7: The 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$7.4516.

Please refer to note 35 to the financial statements for details of accounting treatment for share options 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, representing 3.98% of the issued share capital of the Company as at the disclosure date of this report.

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

During the reporting period, options entitling the holders thereof to subscribe for an aggregate of 5,362,967 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 19,627,562 Shares were granted to 80 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 periodis as follows:

					Number of share options					
Grantee	Date of grant	Vesting period (Note 1)	Exercise period (Note 2)	Exercise price per share HK$ (Note 3)	Outstanding as at 1 January 2020	Granted	Exercised	Lapsed	Cancelled	Outstanding as at 31 December 2020
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
KONG Fanxing, CEO and executive Director	23 July 2020	23 July 2021 – 23 July 2023	23 July 2021 – 23 July 2030	6.70	–	3,748,579	–	–	–	3,748,579
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
Mr. WANG Mingzhe, CFO and executive Director	23 July 2020	23 July 2021 – 23 July 2023	23 July 2021 – 23 July 2030	6.70	–	1,614,388	–	–	–	1,614,388
SUBTOTAL FOR DIRECTORS					**4,159,816**	**5,362,967**	**–**	**–**	**–**	**9,522,783**
Employees	19 July 2019	19 July 2020 – 19 July 2022	19 July 2020 – 19 July 2029	7.618	26,262,200	–	570,316	–	7,889,546	17,802,338
Employees	23 July 2020	23 July 2021 – 23 July 2023	23 July 2021 – 23 July 2030	6.700	–	19,627,562	–	–	1,924,271	17,703,291
TOTAL					**30,422,016**	**24,990,529**	**570,316**	**–**	**9,813,817**	**45,028,412**

Note 1: Subject to the rules of the 2019 Share Option Scheme, the options granted on 19 July 2019 will be vested 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 need to be achieved by a grantee before the vested options can be exercised.

Note 3: The exercise price is not less than the higher of (i) the closing price of HK$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.

Note 4: The exercise price is not less than the higher of (i) the closing price of HK$6.480 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 23 July 2020 (i.e. the grant date) and (ii) the average closing price of HK$6.700 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 23 July 2020. The Share does not carry nominal value.

Note 5: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK$7.4516.

Please refer to note 35 to the financial statements for details of accounting treatment for share options and the remaining life of the 2019 Share Option Scheme.

DIRECTORS' REPORT

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 2020, the Company granted 37,485,793 Shares under the 2014 Restricted Share Award Scheme and as at 31 December 2020, the Company granted an aggregate of 283,740,200 Shares under the 2014 Restricted Share Award Scheme.

MANAGEMENT CONTRACTS

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

ARRANGEMENTS FOR THE DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, 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	51,073,843(L)[2]	1.28%
		Interest in a controlled corporation	728,081,062(L)[3]	18.30%
WANG Mingzhe	The Company	Beneficial owner	17,563,775(L)[4]	0.44%
LIU Haifeng David	The Company	Interest in a controlled corporation	415,155,100(L)[5]	10.43%
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, 6,911,937 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 30,122,307 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. Kong Fanxing is interested in 870,000 ordinary shares of the Company as at 31 December 2020. Please refer to the section headed "Incentive Schemes" for the details of those schemes and the grants of share options.

(3) The interest includes 40,726,000 shares held directly by Powerful Force HK Limited, 159,670,000 shares held directly by Will of Heaven HK Limited, 107,503,000 shares held directly by Swallow Gird HK Limited, 197,945,000 shares held directly by Energon HK Limited, and 222,237,062 shares held directly by Idea Delicacy Limited. All of them had unconditionally, irrevocably and permanently entrusted Idea Prosperous Limited, a company 100% owned by Mr. Kong Fanxing, to exercise the voting rights attached to the shares.

(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, 2,610,846 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 10,346,665 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 2020. 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) 32,055,000 ordinary shares of the Company held directly by Capital Bridge Limited; (3) 332,033,100 ordinary shares of the Company held directly by Capital Rise Limited; and (4) 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 Mr. Liu Haifeng David.

Save as disclosed above, as at 31 December 2020, 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 2020 (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 2020, 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)	23.12%
Sinochem Capital Investment Management Limited[2]	Interest in a controlled corporation	919,914,440(L)	23.12%
Sinochem Corporation[2]	Interest in a controlled corporation	919,914,440(L)	23.12%
Sinochem Group Co., Ltd[2]	Interest in a controlled corporation	919,914,440(L)	23.12%
The State-owned Assets Supervision and Administration Commission of the State Council[2]	Interest in a controlled corporation	919,914,440(L)	23.12%
KONG Fanxing	Beneficial owner	51,073,843(L)[3]	1.28%
	Interest in a controlled corporation	728,081,062(L)[4]	18.30%
Idea Prosperous Limited[4]	Entrusted to exercise voting rights	728,081,062(L)	18.30%
JPMorgan Chase & Co.[5]	Interest in a controlled corporation	64,630,351(L)	1.62%
		38,457,324(S)	0.96%
	Person having a security interest in shares	5,518,579(L)	0.13%
	Approved lending agent	348,879,682(P)	8.77%
Cathay Financial Holding Co., Ltd.	Beneficial owner	326,407,000(L)	8.20%
Aim Future Limited[6]	Interest in a controlled corporation	307,899,000(L)	7.74%
Gold Stone Enterprise Limited[6]	Interest in a controlled corporation	307,899,000(L)	7.74%
Cantrust (Far East) Limited[6]	Trustee	307,899,000(L)	7.74%
UBS Group AG[7]	Interest in a controlled corporation	398,058,664(L)	10.00%
Sunshine Trust Company Limited[8]	Trustee	217,537,062(L)	5.46%
LIU Haifeng David	Interest in a controlled corporation	415,155,100(L)[9]	10.43%

DIRECTORS' REPORT

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares[1]	Approximate percentage of interest
Capital Rise Limited[9]	Beneficial owner	332,033,100(L)	8.34%
Capital Bridge Limited[9]	Interest in a controlled corporation	382,033,100(L)	9.60%
	Beneficial owner	32,055,000(L)	0.80%
DCP Capital Partners, L.P.[9]	Interest in a controlled corporation	414,088,100(L)	10.41%
DCP General Partner, Ltd[9]	Interest in a controlled corporation	414,088,100(L)	10.41%
DCP, Ltd.[9]	Interest in a controlled corporation	414,088,100(L)	10.41%
Julian Juul WOLHARDT[9]	Interest in a controlled corporation	414,088,100(L)	10.41%

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 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.

(4) 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.

(5) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 14 December 2020 for further details of the shareholding structure.

(6) The interest is held directly by Will of Heaven HK Limited, Swallow Gird HK Limited and Powerful Force HK Limited. Will of Heaven HK Limited, Swallow Gird HK Limited and Powerful Force HK Limited are 100% controlled by Aim Future Limited, which is in turn 100% controlled by Gold Stone Enterprise Limited. Cantrust (Far East) Limited is the trustee of The Gold Stone I Trust and holds 100% interest in Gold Stone Enterprise Limited.

(7) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 31 December 2020 for further details of the shareholding structure.

(8) The interest is held directly by Idea Delicacy Limited, which is 100% controlled by Sunshine Trust Company Limited, trustee of Sunshine Trust Company Limited-Fortune Investment Fund.

(9) 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 2020, 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 36 issuances in the year, with an aggregate amount of RMB57.9 billion, including ultra-short financial bonds of RMB11.0 billion, corporate bonds of RMB38.9 billion, and midterm notes of RMB8.0 billion as follows:

(1) In 2020, it completed the issuance of eleven 270-day ultra-short financial bonds totaling RMB11.0 billion with an annual interest rate range of 1.50% to 2.10% in China.

(2) In 2020, it completed the issuance of nineteen 5-year corporate bonds totaling RMB38.9 billion with an annual interest rate range of 3.17% to 4.35% in China.

(3) It completed the issuance of six 2-year to 3-year mid-term notes totaling RMB8.0 billion with an annual interest rate range of 3.10% to 4.00% in China.

In 2020, the Group had one issue of off-shore senior bonds and two guaranteed convertible bonds totaling RMB0.8 billion abroad. Details are as follows:

(1) On 18 February 2020, it completed the issuance of 5-year senior bonds of RMB0.3 billion under MTN with an annual interest rate of 3.375% abroad.

(2) On 8 July 2020, Universe Trek Limited (a wholly-owned subsidiary of the Company) completed the issuance of 5-year guaranteed convertible bonds of RMB0.3 billion with an annual interest rate of 2.50%.

(3) On 4 December 2020, Universe Trek Limited (a wholly-owned subsidiary of the Company) completed the issuance of 5-year guaranteed convertible bonds of RMB0.2 billion with an annual interest rate of 0%.

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 2020 Percentage of the total income (before business taxes and surcharges) (%)
Top five customers	1.43%
The largest customer	0.57%

	Percentage of total costs (%)
Top five suppliers	11.24%
The largest supplier	3.31%

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 2020, 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 has expired on 31 December 2020. On 16 December 2020, the Company entered into a new framework agreement with Sinochem Finance to carry out the continuing connected transactions of provision of financial services by Sinochem Finance to the Group with a term of three years effective from 1 January 2021. 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 2020.

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, 6 June 2018 and 16 December 2020 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 2020.

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 2020 are set out in Note 45 to the consolidated financial statements. Save for the related party transactions as set out under items (ii), (iv), (vii), (ix), (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 45 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 2020.

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 2020.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2020 have been audited by Ernst & Young, the auditor of the Company.

AUDITOR

Pursuant to the resolution of the 2020 AGM of the Company, the Company reappointed Ernst & Young as the auditor of the Company in 2020. The Company has not changed its auditor in the past three years. The proposal of reappointing Ernst & Young as the auditor of the Company will be put forward at the AGM to be held on Wednesday, 9 June 2021 for consideration and approval.

By order of the Board
NING Gaoning
Chairman
30 March 2021

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 Healthcare Group 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 Infrastructure Construction Group 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 and sports in China, Far East Horizon Education Group 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 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.

CORPORATE SOCIAL RESPONSIBILITY REPORT

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.

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 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 RMB23 million of donations and over 31,000 beneficiaries.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Education subsidy

For seven years, the foundation has organized scholarship and student grant programs in nearly 20 cities and 22 schools across China, benefitting over 8,500 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 1,800 beneficiaries in total.

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 8,500 beneficiaries to date. 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 continuously carried out various diverse volunteer activities such as the "Dishui Lake Charity Run" (滴水湖公益跑活動), "Care for Left-behind Children in Chongming Volunteer Activities" (關愛崇明留守兒童志願者活動) 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

- The honor of full score under the CFC Foundation Transparency Index and ranking first in China for consecutive years
- The "Corporate Social Responsibility Model Award" at the 9th China Finance Summit in 2020
- The "Hainuo Award-Excellent Quality Award" at the BID Brand Innovation Development Conference in 2020
- The "Intelligent Assistive" Outstanding Group Award of Shanghai Disabled Person Association in 2020

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

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 324, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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	
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 76.5% 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 reasonable ECL model methodology 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 23 and Note 48 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 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 appropriateness 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 23 and Note 48 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
As at 31 December 2020, the Group's goodwill amounted to RMB2,032 million, representing 4.5% of net assets. 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 evaluated the reasonableness of the forecasted future profitability and discount rates used. We also assessed the historical reasonableness of the management's forecasts. We also assessed the appropriateness of the Group's disclosures included in Note 2.4, Note 3 and Note 15 to the consolidated financial statements about the key assumptions.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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, actions taken to eliminate threats or safeguards applied.

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
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
Interest Income	5	16,521,643	15,841,562
Revenue from operating leases	5	2,484,554	2,036,435
Revenue from contracts with customers	5	10,163,067	9,058,799
Tax and surcharges		(127,463)	(80,335)
Cost of sales	7	(14,076,166)	(12,525,041)
Other income and gains	5	1,979,628	1,142,487
Selling and distribution costs		(2,135,955)	(1,954,977)
Administrative expenses		(4,076,227)	(3,641,298)
Impairment losses on financial and contract assets, net		(2,598,922)	(1,981,596)
Losses on disposal of financial assets measured at amortised cost		(129,292)	(267,914)
Other expenses		(347,808)	(214,893)
Finance costs	6	(617,171)	(460,632)
Share of net profits of:			
Associates		492,457	344,072
Share of net losses of:			
Joint ventures		(24,799)	(151,839)
PROFIT BEFORE TAX	7	7,507,546	7,144,830
Income tax expense	10	(2,474,559)	(2,316,573)
PROFIT FOR THE YEAR		5,032,987	4,828,257
Attributable to:			
Ordinary shareholders of the parent		4,575,751	4,337,602
Holders of perpetual securities	38	455,022	511,335
Non-controlling interests		2,214	(20,680)
		5,032,987	4,828,257
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12	RMB	RMB
Basic			
– Earnings per share		1.20	1.14
Diluted			
– Earnings per share		1.16	1.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
PROFIT FOR THE YEAR		**5,032,987**	4,828,257
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	22	**(2,476,186)**	469,783
Reclassification to the consolidated statement of profit or loss		**2,553,261**	(364,549)
Income tax effect		**(19,408)**	(24,699)
		57,667	80,535
Exchange differences on translation of foreign operations		**141,931**	(9,422)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**199,598**	71,113
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**199,598**	71,113
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,232,585**	4,899,370
Attributable to:			
Ordinary shareholders of the parent		**4,775,349**	4,408,715
Holders of perpetual securities		**455,022**	511,335
Non-controlling interests		**2,214**	(20,680)
		5,232,585	4,899,370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		31 December 2020	31 December 2019
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**16,871,601**	11,582,978
Right-of-use assets	14(a)	**2,059,242**	3,422,782
Goodwill	15	**2,032,232**	2,321,837
Other intangible assets	16	**49,129**	34,465
Investments in joint ventures	18	**2,326,760**	2,230,724
Investments in associates	19	**4,964,459**	4,987,942
Financial assets at fair value through profit or loss	20	**6,176,714**	4,130,091
Derivative financial instruments	22	**69,202**	906,710
Loans and accounts receivables	23	**106,476,358**	102,379,882
Prepayments, other receivables and other assets	24	**8,579,835**	11,580,604
Deferred tax assets	26	**5,142,900**	4,181,252
Restricted deposits	27	**142**	3,871
Total non-current assets		**154,748,574**	147,763,138
CURRENT ASSETS			
Inventories	28	**397,381**	403,838
Loans and accounts receivables	23	**122,920,949**	98,741,019
Contract assets	25	**110,132**	22,646
Prepayments, other receivables and other assets	24	**2,903,998**	2,715,863
Debt investment at fair value through other comprehensive income	21	**108,176**	–
Financial assets at fair value through profit or loss	20	**3,165,851**	312,597
Derivative financial instruments	22	**219,765**	659,126
Restricted deposits	27	**3,474,727**	5,962,790
Cash and cash equivalents	27	**11,877,235**	3,989,571
Total current assets		**145,178,214**	112,807,450
CURRENT LIABILITIES			
Trade and bills payables	29	**7,880,410**	4,473,428
Other payables and accruals	30	**15,223,636**	17,469,463
Derivative financial instruments	22	**297,441**	28,982
Interest-bearing bank and other borrowings	31	**103,931,451**	87,744,845
Lease liabilities	14(b)	**237,544**	236,375
Income tax payable		**1,764,699**	1,256,882
Total current liabilities		**129,335,181**	111,209,975
NET CURRENT ASSETS		**15,843,033**	1,597,475
TOTAL ASSETS LESS CURRENT LIABILITIES		**170,591,607**	149,360,613

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**170,591,607**	149,360,613
NON-CURRENT LIABILITIES			
Convertible bonds-host debts	32	**2,924,074**	–
Interest-bearing bank and other borrowings	31	**98,360,630**	74,651,421
Lease liabilities	14(b)	**583,048**	1,636,702
Derivative financial instruments	22	**1,557,724**	155,532
Deferred tax liabilities	26	**244,077**	236,648
Other payables and accruals	30	**16,304,185**	24,521,974
Deferred revenue	33	**1,064,019**	1,054,306
Other non-current liabilities	49	**4,286,717**	5,569,255
Total non-current liabilities		**125,324,474**	107,825,838
Net assets		**45,267,133**	41,534,775
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	34	**10,397,104**	10,281,212
Equity component of convertible bonds	32	**338,050**	–
Reserves	37	**23,384,298**	19,847,224
		34,119,452	30,128,436
Holders of perpetual securities	38	**8,478,063**	9,860,211
Non-controlling interests		**2,669,618**	1,546,128
Total equity		**45,267,133**	41,534,775

Kong Fanxing

Director

Wang Mingzhe

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to ordinary shareholders of the parent												
	Share capital	Capital reserve	Shares held for the share award scheme	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total	Perpetual securities	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 34)	(Note 37)	(Note 36)		(Note 37)	(Note 37)					(Note 38)		
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													
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 the 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 the 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 the 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	–
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	–	–	–	–	–	–	–	–	–	–	–	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to ordinary shareholders of the parent													
	Share capital	Equity component of convertible bonds	Capital reserve	Shares held for the share award scheme	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total	Perpetual securities	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 34)	(Note 32)	(Note 37)	(Note 36)		(Note 37)	(Note 37)					(Note 38)		
At 1 January 2020	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
Profit for the year	-	-	-	-	-	-	-	-	-	4,575,751	4,575,751	455,022	2,214	5,032,987
Other comprehensive income for the year:														
Cash flow hedges, net of tax	-	-	-	-	-	-	-	57,667	-	-	57,667	-	-	57,667
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	141,931	-	141,931	-	-	141,931
Total comprehensive income	-	-	-	-	-	-	-	57,667	141,931	4,575,751	4,775,349	455,022	2,214	5,232,585
Final 2019 dividend declared (net of dividends received from shares held for the share award scheme)	-	-	-	-	-	-	-	-	-	(1,143,486)	(1,143,486)	-	-	(1,143,486)
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	-	(499,070)	-	(499,070)
Shares vested under the restricted share award scheme	-	-	-	203,131	(166,840)	-	-	-	-	(36,291)	-	-	-	-
Transfer of share option reserve upon exercise of share options	115,892	-	-	-	(23,798)	-	-	-	-	-	92,094	-	-	92,094
Recognition of equity-settled share-based payments	-	-	-	-	162,846	-	-	-	-	-	162,846	-	-	162,846
Special reserve – safety fund appropriation	-	-	-	-	-	16,568	-	-	-	(18,063)	(1,495)	-	1,495	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to ordinary shareholders of the parent													
	Share capital	Equity component of convertible bonds	Capital reserve	Shares held for the share award scheme	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total	Perpetual securities	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 34)	(Note 32)	(Note 37)	(Note 36)		(Note 37)	(Note 37)					(Note 38)		
Capital injection by non-controlling shareholders	-	-	4,182	-	-	-	-	-	-	-	4,182	-	1,117,966	1,122,148
Disposal of subsidiaries (Note 40)	-	-	-	-	-	-	-	-	-	-	-	-	(20,798)	(20,798)
Purchase of non-controlling interests	-	-	(236,524)	-	-	-	-	-	-	-	(236,524)	-	(140,491)	(377,015)
Acquisition of subsidiaries (Note 39)	-	-	-	-	-	-	-	-	-	-	-	-	210,871	210,871
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(47,767)	(47,767)
Issue of perpetual securities (Note 38)	-	-	-	-	-	-	-	-	-	-	-	3,661,900	-	3,661,900
Redemption of perpetual securities (Note 38)	-	-	-	-	-	-	-	-	-	-	-	(5,000,000)	-	(5,000,000)
Issue of convertible bonds (Note 32)	-	338,050	-	-	-	-	-	-	-	-	338,050	-	-	338,050
Total comprehensive income	10,397,104	338,050	1,303,120*	(866,947)*	379,223*	24,914*	121,913*	(254,289)*	753,819*	21,922,545*	34,119,452	8,478,063	2,669,618	45,267,133

* These reserve accounts comprise the consolidated reserves of RMB23,384,298,000 (31 December 2019: RMB19,847,224,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,507,546**	7,144,830
Adjustments for:			
Finance costs		**8,630,202**	8,435,106
Bank interest income	5	**(166,067)**	(100,630)
Share of net profits of associates		**(492,457)**	(344,072)
Share of net losses of joint ventures		**24,799**	151,839
Gains on unlisted debt investments, at fair value	5	**(111,511)**	(65,628)
Gains on disposal of property, plant and equipment, net		**(25,699)**	(56,115)
Gains on disposal of subsidiaries	5	**(36,135)**	–
Gains on disposal of part of the equity of a joint venture	5	**(600)**	(36,364)
Gains on disposal of an associate	5	**(1,807)**	–
Depreciation of property, plant and equipment	13	**1,561,746**	1,129,448
Depreciation of right-of-use assets	14	**251,414**	197,743
Impairment of loans and accounts receivables	7	**2,543,266**	2,018,346
Impairment of property, plant and equipment	7	**672,410**	446,796
Impairment of inventories	7	**18,422**	42,861
Impairment of prepayments, other receivables and other assets		**138,448**	59,224
Impairment of right-of-use assets	7	**89,860**	86,691
Impairment of credit commitments	7	**(5,990)**	26
Impairment of an investment in a joint venture	7	**10,416**	–
Impairment of goodwill	7	**274,560**	118,626
Interest expense on lease liabilities	14	**56,610**	64,156
Amortisation of intangible assets and other assets	7	**41,821**	33,497
Equity-settled share-based payment expense	7	**162,846**	299,666
Foreign exchange (gain)/loss, net		**(41,787)**	51,775
Realised gains on derecognition of financial assets at fair value through profit or loss	5	**(30)**	(64,106)
Fair value gains from financial assets at fair value through profit or loss		**(65,405)**	(39,543)
Interest income from continuing involvement in transferred assets		**(240,746)**	(211,943)
Dividends from financial assets at fair value through profit or loss	5	**(38,857)**	–
		20,757,275	19,362,229

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
(Increase)/decrease in inventories		(8,235)	68,133
(Increase)/decrease in loans and accounts receivables		(31,033,398)	17,525,157
(Increase)/decrease in contract assets		(87,486)	4,522
Decrease/(increase) in prepayments, other receivables and other assets		1,518,583	(3,191,498)
Decrease/(increase) in restricted cash related to asset-backed securitisations and collective fund trusts		3,040,137	(708,844)
Increase in trade and bills payables		3,413,688	833,957
Decrease in other payables and accruals		(11,194,639)	(3,801,932)
Increase in other liabilities		9,713	72,912
Net cash flows (used in)/from operating activities before tax and interest		(13,584,362)	30,164,636
Interest paid		(8,060,428)	(8,667,545)
Bank interest received		166,067	100,630
Income tax paid		(2,983,629)	(3,208,653)
Net cash flows (used in)/from operating activities		(24,462,352)	18,389,068
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on unlisted debt investments, at fair value	5	111,511	65,628
Proceeds from disposal of property, plant and equipment		853,637	219,863
Acquisition of subsidiaries		(200,287)	(395,201)
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(7,173,044)	(3,295,594)
Purchase of shareholdings for joint ventures		(232,205)	(557,763)
Purchase of shareholdings for associates		(148,953)	(1,693,672)
Dividend received from joint ventures		25,531	6,053
Dividend received from associates		188,222	53,463
Proceeds from disposal of part of the equity of a joint venture		75,677	108,134
Proceeds from disposal of associates		481,050	1,061,889
Purchase of financial assets at fair value through profit or loss		(5,857,789)	(2,446,800)
Disposal of subsidiaries		252,771	–
Disposal of financial assets at fair value through profit or loss		1,068,999	688,856
Net cash flows used in investing activities		(10,554,880)	(6,185,144)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
Net cash flows used in investing activities		**(10,554,880)**	(6,185,144)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		**92,094**	36,440
Capital injection from non-controlling shareholders		**1,297,530**	78,288
Purchase of non-controlling interests		**(211,571)**	(396,820)
Cash received from borrowings		**162,505,917**	99,485,119
Repayments of borrowings		**(120,061,686)**	(110,220,934)
Principal portion of lease payments		**(962,182)**	(214,313)
Dividends paid		**(1,143,486)**	(1,001,447)
(Increase)/decrease in pledged deposits		**(548,345)**	22,306
Realised fair value gains/(losses) from derivative financial instruments in hedges for borrowings		**475,907**	(75,106)
Distribution paid to holders of perpetual securities	38	**(499,070)**	(490,503)
Dividends paid to non-controlling shareholders		**(46,896)**	(15,397)
Purchase of shares under the share award scheme		**–**	(774,973)
Issue of perpetual securities		**3,661,900**	49,786
Redemption of perpetual securities		**(5,000,000)**	–
Issue of convertible bonds		**3,382,700**	–
Net cash flows from/(used in) financing activities		**42,942,812**	(13,517,554)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**7,925,580**	(1,313,630)
Cash and cash equivalents at beginning of year		**3,989,571**	5,269,392
Effect of exchange rate changes on cash and cash equivalents		**(37,916)**	33,809
CASH AND CASH EQUIVALENTS AT END OF YEAR		**11,877,235**	3,989,571

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 address of the Company changed from Room 6305, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong to Unit 6608, 66/F, International Commerce Centre, 1 Austin Road West, Kowloon with effect from 31 July 2020.

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 2020. 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 2020

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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 did not have any material impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. Since there were no rent concessions occurring as a direct consequence of the covid-19 pandemic within the Group during the year ended 31 December 2020, the amendment to HKFRS 16 had no significant impact on the financial position and performance of the Group.

(e) 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, or both. The amendments did not have any significant impact on the financial position and 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	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3,6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

[1] Effective for annual periods beginning on or after 1 January 2021

[2] Effective for annual periods beginning on or after 1 January 2022

[3] Effective for annual periods beginning on or after 1 January 2023

[4] No mandatory effective date yet determined but available for adoption

[5] As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

[6] As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to HKFRS 3 are intended to replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

31 December 2020

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 2020

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	1.90-20.00%
Equipment, tools and moulds	5.00-33.33%
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

31 December 2020

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

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
Equipment	5 to 10 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 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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 lease. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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 income on the net investment in the lease is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY 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 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2020

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 2020

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.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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:

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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.

Current versus non-current classification

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

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

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

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

Treasury shares

Own equity instruments which are required and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instrument.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 weighted – average basis and specific identification basis. The difference between the cost and the lower net realisable value is stated as a provision. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sale.

Cash and cash equivalents

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

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

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 jurisdictions in which the Group operates.

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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 with 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.

(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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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 transfer to the customer of the goods or services to which the asset relates. 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 35 and Note 36 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in 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 measured at fair value 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have 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).

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 the 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 lease.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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

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.

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 2020 was RMB2,032,232,000 (31 December 2019: RMB2,321,837,000). 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 fair value through other comprehensive income, lease receivables, and credit commitments 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.

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 the probability of defaults (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, the exposure of defaults (EADs) and the loss given defaults (LGDs)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 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.

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 the 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, the expected exercise behaviour and dividend yield, etc, and making assumptions about them. The assumptions and models used for estimating the fair value for share-based payment transactions are disclosed in Note 35 and Note 36.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 the 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 2020

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2020

	Financial, lease and advisory	Industrial operation and management	Adjustments and eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue: (Note 5)				
Sales to external customers	24,244,818	4,796,983	–	29,041,801
Intersegment sales	250,416	59,617	(310,033)	–
Cost of sales	(10,106,625)	(3,978,614)	9,073	(14,076,166)
Other income and gains	1,591,966	399,381	(11,719)	1,979,628
Selling and distribution costs and administrative expenses	(4,702,882)	(1,570,733)	61,433	(6,212,182)
Other expenses	(204,566)	(143,242)	–	(347,808)
Finance costs	(547,066)	(321,351)	251,246	(617,171)
Impairment losses on financial and contract assets	(2,378,935)	(219,987)	–	(2,598,922)
Losses on disposal of financial assets measured at amortised cost	(129,292)	–	–	(129,292)
Share of profits of associates	385,515	106,942	–	492,457
Share of losses of joint ventures	(12,633)	(12,166)	–	(24,799)
Profit before tax	8,390,716	(883,170)	–	7,507,546
Income tax expense	(2,404,475)	(70,084)	–	(2,474,559)
Profit after tax	5,986,241	(953,254)	–	5,032,987
Segment assets	293,787,662	20,991,692	(14,852,566)	299,926,788
Other segment information:				
Impairment losses recognised in the statement of profit or loss	2,495,478	1,245,914	–	3,741,392
Depreciation and amortisation	1,260,039	594,942	–	1,854,981
Capital expenditure	5,788,295	1,966,195	–	7,754,490

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2019

	Financial, lease and advisory	Industrial operation and management	Adjustments and eliminations	Total
	RMB'000	RMB'000	RMB'000	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 profits/(losses) 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 2020

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	RMB'000
Mainland China	28,686,665	26,584,051
Hong Kong	38,368	98,228
Other locations	316,768	174,182
	29,041,801	26,856,461

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

(b) Non-current assets

	2020	2019
	RMB'000	RMB'000
Mainland China	31,487,806	29,251,244
Hong Kong	950,688	1,318,977
	32,438,494	30,570,221

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS

	Note	2020 RMB'000	2019 RMB'000
Interest Income			
Interest income from finance leases, factoring and loans		16,509,787	15,841,562
Interest income from financial assets at fair value through profit or loss		11,856	–
Revenue from operating leases		2,484,554	2,036,435
Revenue from contracts with customers	(i)	10,163,067	9,058,799
Taxes and surcharges		(127,463)	(80,335)
		29,041,801	26,856,461

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2020

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Types of goods or services			
Sale of goods	81,143	541,685	622,828
Construction services	1,062,760	–	1,062,760
Service fee income	3,836,492	–	3,836,492
Healthcare service income	–	3,359,729	3,359,729
Education service income	–	227,573	227,573
Chartering and brokerage income	–	372,910	372,910
Other income	363,382	317,393	680,775
Total revenue from contracts with customers	5,343,777	4,819,290	10,163,067
Geographical markets			
Hong Kong	17,793	20,575	38,368
Mainland China	5,325,984	4,481,947	9,807,931
Other locations	–	316,768	316,768
Total revenue from contracts with customers	5,343,777	4,819,290	10,163,067
Timing of revenue recognition			
Goods or services transferred at a point in time	3,304,346	2,048,008	5,352,354
Services transferred over time	2,039,431	2,771,282	4,810,713
Total revenue from contracts with customers	5,343,777	4,819,290	10,163,067

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

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

For the year ended 31 December 2019

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Types of goods or services			
Sale of goods	94,727	467,315	562,042
Construction services	470,485	5,270	475,755
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	11,455	43,314	54,769
Total revenue from contracts with customers	5,150,621	3,908,178	9,058,799
Geographical markets			
Hong Kong	10,873	74,049	84,922
Mainland China	5,124,369	3,675,326	8,799,695
Other locations	15,379	158,803	174,182
Total revenue from contracts with customers	5,150,621	3,908,178	9,058,799
Timing of revenue recognition			
Goods or services transferred at a point in time	4,230,044	1,752,762	5,982,806
Services transferred over time	920,577	2,155,416	3,075,993
Total revenue from contracts with customers	5,150,621	3,908,178	9,058,799

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, 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 2020

	Financial, lease and advisory	**Industrial operation and management**	**Total**
Segments	RMB'000	RMB'000	RMB'000
Revenue from contracts with customers			
External customers	**5,343,777**	**4,819,290**	**10,163,067**
Intersegment sales	**5,999**	**58,516**	**64,515**
Intersegment adjustments and eliminations	**(5,999)**	**(58,516)**	**(64,515)**
Total revenue from contracts with customers	**5,343,777**	**4,819,290**	**10,163,067**

For the year ended 31 December 2019

	Financial, lease and advisory	Industrial operation and management	Total
Segments	RMB'000	RMB'000	RMB'000
Revenue from contracts with customers			
External customers	5,150,621	3,908,178	9,058,799
Intersegment sales	1,126	7,115	8,241
Intersegment adjustments and eliminations	(1,126)	(7,115)	(8,241)
Total revenue from contracts with customers	5,150,621	3,908,178	9,058,799

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, 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:

	2020	2019
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Service fee income	439,232	391,443
Sale of goods	–	8,916
	439,232	400,359

(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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, 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:

	2020	2019
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	534,306	439,232
After one year	362,279	230,196
	896,585	669,428

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 4 to 30 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. INTEREST INCOME, REVENUE FROM OPERATING LEASES, REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS (continued)

		2020	2019
	Notes	RMB'000	RMB'000
Other income and gains			
Bank interest income		166,067	100,630
Gains on unlisted debt investments, at fair value		111,511	65,628
Gains on disposal of property, plant, and equipment		57,483	63,295
Government grants	5a	73,759	65,263
Fair value gains from financial assets at fair value through profit or loss		283,804	116,961
Interest income from continuing involvement in transferred assets		1,104,605	573,282
Dividends of financial assets at fair value through profit or loss		38,857	–
Realized gains on derecognition of financial assets at fair value through profit or loss		30	64,106
Gains on disposal of subsidiaries		36,135	–
Gains on disposal of part of the equity of a joint venture		600	36,364
Gains on disposal of an associate		1,807	–
Foreign exchange gains, net:			
Cash flow hedges (transfer from equity to offset foreign exchange)		(2,488,036)	–
Foreign exchange gains		2,529,823	–
		41,787	–
Others		63,183	56,958
		1,979,628	1,142,487

5a. Government grants

	2020	2019
	RMB'000	RMB'000
Government special subsidies	73,759	65,263

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2020	2019
	RMB'000	RMB'000
Interest on bank loans, overdrafts and other loans for the industrial operation business	560,684	251,646
Interest on lease liabilities	56,610	209,652
Total interest expense on financial liabilities not at fair value through profit or loss	617,294	461,298
Less: Interest capitalised	(123)	(666)
	617,171	460,632

7. PROFIT BEFORE TAX

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

	2020	2019
	RMB'000	RMB'000
Cost of borrowings included in cost of sales	8,069,641	8,038,630
Cost of inventories sold	539,321	520,678
Cost of construction services	756,813	278,989
Cost of operating leases	1,185,393	905,865
Cost of chartering	218,211	186,701
Cost of healthcare services	2,747,195	2,165,378
Cost of education services	227,023	232,000
Cost of others	332,569	196,800
Depreciation of property, plant and equipment	254,823	232,779
Less: Government grants released*	(1,145)	(1,970)
	253,678	230,809

NOTES TO FINANCIAL STATEMENTS

31 December 2020

7. PROFIT BEFORE TAX (continued)

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

	2020	2019
	RMB'000	RMB'000
Depreciation of right-of-use assets	146,773	183,585
Amortisation of intangible assets and other assets	41,821	33,497
Auditors' remuneration – audit services	4,500	3,940
– other services	5,814	6,530
– other audit & assurance service	3,800	–
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
Current year expenditure	3,711,139	3,087,801
Less: Government grants released*	(648,340)	(588,179)
	3,062,799	2,499,622
– Equity-settled share-based payment expense	162,846	299,666
– Pension scheme contributions	47,090	115,897
– Other employee benefits	211,778	278,939
	3,484,513	3,194,124

NOTES TO FINANCIAL STATEMENTS

31 December 2020

7. PROFIT BEFORE TAX (continued)

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

	2020	2019
	RMB'000	RMB'000
Impairment of an investment in a joint venture	10,416	–
Impairment of goodwill (Note 15)	274,560	118,626
Impairment of loans and accounts receivables (Note 23)	2,543,266	2,018,346
Impairment of financial assets included in prepayments, other receivables and other assets	61,646	(36,776)
Impairment of credit commitments	(5,990)	26
Impairment of inventories	18,422	42,861
Impairment of property, plant and equipment	672,410	446,796
Impairment of right-of-use assets	89,860	86,691
Impairment of other asset	76,802	96,000
Lease payments not included in the measurement of lease liabilities	3,829	9,125
Entertainment expenses	108,508	107,687
Business travelling expenses	200,005	264,400
Consultancy fees	231,400	149,600
Office expenses	70,106	44,297
Advertising and promotional expenses	38,663	28,680
Transportation expenses	60,718	34,705
Communication expenses	26,896	21,683
Litigation expenses	28,969	11,472
Other miscellaneous expenses:		
Current year expenditure	375,436	520,334
Less: Government grants released*	(15,717)	(39,167)
	359,719	481,167

NOTES TO FINANCIAL STATEMENTS

31 December 2020

7. PROFIT BEFORE TAX (continued)

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

	2020	2019
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment	31,784	7,180
Donation	5,904	4,798
Bank commission expenses	43,935	33,967
Foreign exchange losses, net:		
Cash flow hedges (transfer from equity to offset foreign exchange)	–	(420,052)
Foreign exchange losses	–	471,827
	–	51,775
Fair value losses from financial assets at fair value through profit or loss	218,399	77,418
Other expenditure	47,786	39,755
Losses on derecognition of loans and accounts receivables measured at amortised cost**	129,292	267,914

* 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 33).

** 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

31 December 2020

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:

	2020	2019
	RMB'000	RMB'000
Fees	2,555	2,604
Other emoluments:		
Salaries, allowances and benefits in kind	7,364	7,632
Performance related bonuses*	4,300	4,300
Pension scheme contributions	82	98
	11,746	12,030
	14,301	14,634

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

During 2020, 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 35 and Note 36 to the financial statements, respectively.

(a) Independent non-executive directors

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

	2020	2019
	RMB'000	RMB'000
Mr. Cai Cunqiang	365	372
Mr. Han Xiaojing	365	372
Mr. Liu Jialing	365	372
Mr. Yip Wai Ming	365	372
	1,460	1,488

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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:

	2020	2019
	RMB'000	RMB'000
Mr. Liu Haifeng	365	372
Mr. Luo Qiang	365	372
Mr. Kuo Mingjian	365	372
	1,095	1,116

(c) Executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2020					
Executive directors:					
Mr. Kong Fanxing	–	4,650	2,500	41	7,191
Mr. Wang Mingzhe	–	2,714	1,800	41	4,555
	–	7,364	4,300	82	11,746

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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	
	2020	2019
Directors	**2**	2
Non-directors	**3**	3
	5	5

The five highest paid employees during the year included two (2019: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2019: three) non-director, highest paid employees for the year are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**7,312**	7,127
Performance related bonuses	**3,900**	3,900
Pension scheme contributions	**81**	147
	11,293	11,174

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

	Number of employees	
	2020	2019
HK$3,500,001 to HK$4,000,000 (Equivalent to RMB3,040,486 to RMB3,474,840)	**1**	2
HK$4,000,001 to HK$4,500,000 (Equivalent to RMB3,474,841 to RMB3,909,195)	**1**	–
HK$4,500,001 to HK$5,000,000 (Equivalent to RMB3,909,196 to RMB4,343,550)	**–**	1
HK$5,000,001 to HK$5,500,000 (Equivalent to RMB4,343,551 to RMB4,777,905)	**1**	–
	3	3

During the year ended 31 December 2020, 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 35 and Note 36 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. FIVE HIGHEST PAID EMPLOYEES (continued)

The Group has 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 in 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 Schemes 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 2020, the above information of the five highest paid employees has not taken employees' potential entitlement under the Schemes into consideration.

10. INCOME TAX

	2020	2019
	RMB'000	RMB'000
Current – Hong Kong		
Charge for the year	74,019	75,787
Current – Mainland China		
Charge for the year	3,417,507	2,364,300
Deferred tax (Note 26)	(1,016,967)	(123,514)
Total tax charge for the year	2,474,559	2,316,573

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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% (2019: 25%) on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

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, they have enjoyed a preferential tax rate of 15% since 2016. Zhaotong Renan Hospital Co., Ltd. and Qiaojia Renan Hospital Co., Ltd. were recognised to fulfill the aforesaid preferential taxation policy and thus, they have enjoyed a preferential tax rate of 15% since 2017. Qinghai Kangle Hospital Company Ltd. and Renshou Yunchang Hospital Company Limited were recognised to fulfil the aforesaid preferential taxation policy and thus, they have enjoyed a preferential tax rate of 15% since 2020.

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:

	2020	2019
	RMB'000	RMB'000
Profit before tax	7,507,546	7,144,830
Tax at the statutory income tax rates	2,147,858	1,958,619
Expenses not deductible for tax	256,128	62,167
Income not subject to tax	(211,087)	(76,786)
Adjustment on current income tax in respect of prior years	(76,217)	40,391
Utilisation of previously unrecognised tax losses	(32,761)	(554)
Unrecognised tax losses	291,834	240,509
Effect of recognition of deductible temporary differences that were not recognised in prior years	(4,366)	–
Effect of withholding tax on interest on intra-group balances	103,170	92,227
Income tax expense as reported in the consolidated statement of profit or loss	2,474,559	2,316,573

The share of tax attributable to associates and joint ventures amounting to approximately RMB126,535,000 (31 December 2019: RMB114,691,000) and RMB13,887,000 (31 December 2019: a credit amount of RMB10,958,000), respectively, is included in "Share of net profits of: Associates" and "Share of net losses of: Joint ventures" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

11. DIVIDENDS

	2020	2019
	RMB'000	RMB'000
Proposed final dividend – HK$0.36 (2019: HK$0.33) per ordinary share	1,163,788	1,121,968

A final dividend for the year of 2020 of HK$0.36 per share was proposed at the meeting of the Board of directors ("the Board") held on 30 March 2021. As at 31 December 2020, based on the total number of outstanding ordinary shares of 3,841,006,923 (2019: 3,795,465,996) (excluding the 136,648,367 (2019: 165,353,030) shares held for the share award scheme (Note 36)), the proposed final dividend amounted to approximately HK$1,382,762,000 (2019: HK$1,252,504,000) (equivalent to RMB1,163,788,000 (2019: RMB1,121,968,000)). 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 3,813,054,365 (2019: 3,807,038,914) 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, adjusted to reflect the interest on the host debt component of convertible bonds. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

	2020	2019
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculations	**4,575,751**	4,337,602
Interest on the host debt component of convertible bonds	**42,993**	–
Profit attributable to ordinary equity holders of the parent, before the above impact arising from convertible bonds	**4,618,744**	4,337,602

Shares

	Number of shares	
	2020	2019
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	**3,813,054,365**	3,807,038,914
Effect of dilution – weighted average number of ordinary shares:		
Share options	**4,202,560**	6,997,292
Convertible bonds	**155,829,619**	–
Weighted average number of ordinary shares for diluted earnings per share	**3,973,086,544**	3,814,036,206

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2020

	Leasehold improvements	Buildings	Equipment, tools and moulds	Office equipment and computers	Motor vehicles	Construction in progress	Vessels	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020:									
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
At 1 January 2020, 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
Additions	110,626	130,346	6,100,715	82,281	47,919	602,572	–	5,079	7,079,538
Transfer from right-of-use assets (Note 14)	–	–	126,670	–	–	–	672,427	–	799,097
Acquisition of subsidiaries (Note 39)	–	464,588	58,134	7,638	385	1,077	–	–	531,822
Depreciation provided during the year	(97,621)	(158,614)	(1,073,433)	(59,579)	(16,937)	–	(71,433)	(84,129)	(1,561,746)
Disposal of subsidiaries (Note 40)	(2,090)	–	(10,121)	(20)	–	(540)	–	–	(12,771)
Transfers	15,542	401,202	100,327	11,049	–	(531,129)	–	3,009	–
Disposals	–	(7,384)	(146,109)	(2,302)	(711)	–	(671,432)	–	(827,938)
Exchange realignment	–	–	–	–	–	–	(46,969)	–	(46,969)
Impairment	(165,138)	(39,703)	(207,280)	(9,412)	–	–	(250,877)	–	(672,410)
At 31 December 2020, net of Accumulated depreciation and impairment	174,275	4,112,417	10,682,687	181,078	72,465	509,415	950,681	188,583	16,871,601
At 31 December 2020:									
Cost	650,852	4,833,966	14,110,191	465,667	143,209	509,415	1,679,840	424,943	22,818,083
Accumulated depreciation and impairment	(444,944)	(721,548)	(3,459,138)	(284,588)	(70,744)	–	(729,159)	(236,361)	(5,946,482)
Net carrying amount	205,908	4,112,418	10,651,053	181,079	72,465	509,415	950,681	188,582	16,871,601

As at 31 December 2020, the Group has not obtained the property ownership certificates for five buildings (31 December 2019: four) with a net book value of RMB569,052,000 (31 December 2019: RMB347,023,000).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 31 December 2020.

As at 31 December 2020, property, plant and equipment with a net carrying amount of RMB2,551,259,000 (31 December 2019: RMB1,296,147,000) were pledged to secure general banking facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2019

	Leasehold improvements	Buildings	Equipment, tools and moulds	Office equipment and computers	Motor vehicles	Construction in progress	Vessels	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019:									
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 1 January 2019, net of accumulated depreciation and impairment	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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 10 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) Right-of-use assets

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

	Leasehold land	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 and 1 January 2020	**1,605,419**	**980,227**	**837,136**	**3,422,782**
Additions	**32,084**	**164,405**	**–**	**196,489**
Acquisition of subsidiaries (Note 39)	**54,003**	**–**	**19,995**	**73,998**
Impairment	**–**	**(89,860)**	**–**	**(89,860)**
Depreciation charge	**(40,703)**	**(171,802)**	**(38,909)**	**(251,414)**
Disposal of subsidiaries (Note 40)	**(177,075)**	**(234,083)**	**–**	**(411,158)**
Transfer to property, plant and equipment	**–**	**–**	**(799,097)**	**(799,097)**
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(4,156)**	**(78,342)**	**–**	**(82,498)**
As at 31 December 2020	**1,469,572**	**570,545**	**19,125**	**2,059,242**

As at 31 December 2020, the Group's leasehold land of approximately RMB863,748,000 (31 December 2019: RMB889,712,000) was pledged to secure general banking facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

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

	2020	2019
	RMB'000	RMB'000
Carrying amount at 1 January	1,873,077	844,821
New leases	155,427	1,111,424
Additions as a result of acquisition of subsidiaries (Note 39)	32,981	66,989
Accretion of interest recognised during the year (Note 6)	56,610	64,156
Payments	(962,182)	(214,313)
Disposal of subsidiaries (Note 40)	(254,491)	–
Revision of a lease term arising from a change in the non-cancellable period of a lease	(80,830)	–
Carrying amount at 31 December	820,592	1,873,077
Analysed into:		
Current portion	237,544	236,375
Non-current portion	583,048	1,636,702

The maturity analysis of lease liabilities is disclosed in Note 48 to the financial statements.

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

	2020	2019
	RMB'000	RMB'000
Interest on lease liabilities	56,610	64,156
Depreciation charge for right-of-use assets	251,414	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)	3,798	8,753
Expense relating to leases of low-value assets (included in administrative expenses)	31	372
Total amount recognised in profit or loss	311,853	271,024

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. LEASES (continued)

The Group as a lessee (continued)

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in Note 41(c) and Note 44, respectively, to the financial statements.

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 RMB2,484,554,000 (2019: RMB2,036,435,000), details of which are included in Note 5 to the financial statements.

At 31 December 2020, undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020	2019
	RMB'000	RMB'000
Within one year	2,254,990	1,370,311
After one year but within two years	335,435	410,009
After two years but within three years	12,121	205,005
After three years but within four years	–	64,722
	2,602,546	2,050,047

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. GOODWILL

	RMB'000
Cost at 1 January 2019, net of accumulated impairment	1,716,527
Acquisition of subsidiaries	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
Cost at 1 January 2020, net of accumulated impairment	2,321,837
Acquisition of subsidiaries (Note 39)	28,978
Disposal of subsidiaries (Note 40)	(44,023)
Impairment during the year	(274,560)
Cost and net carrying amount at 31 December 2020	2,032,232
At 31 December 2020:	
Cost	2,587,343
Accumulated impairment	(555,111)
Net carrying amount	2,032,232

Goodwill acquired through business combinations is allocated to each acquired subsidiary (Note 39) as the cash-generating units ("CGUs") within the medical service industry and educational service industry for impairment testing, which, for the purpose of the presentation, were grouped as follows:

- Medical service industry;
- Educational service industry.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. GOODWILL (continued)

For cash-generating units within medical service industry

The recoverable amount of each CGU within the medical service industry has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period or a longer period which can be justified and approved by senior management. The post-tax discount rate applied to the cash flow projections is 14.0% (2019: 14.0%). The implied pre-tax discount rates for the cash flow projections are 15.9% to 17.8% (2019: 16.0% to 17.9%).

As at 31 December 2020, the Group assessed the impairment of goodwill and determined that the carrying amount of goodwill of RMB251,565,000 arising from the acquisition of some hospitals was higher than its recoverable amount, which is nil. Considering the fact that the actual medical service income was below the previously expected financial budget, management estimated that the future cash flows of these hospitals would probably be reduced to lower than originally expected, resulting in a decrease in value-in-use calculation. As a result, an impairment loss of approximately RMB251,565,000 (2019: Nil) was recognised in the Group's consolidated financial statements for the year ended 31 December 2020.

For cash-generating units within the 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% (2019: 17.0%). The implied pre-tax discount rate for the cash flow projections is 23.4% (2019: 22.3%).

As at 31 December 2020, the Group assessed the impairment of goodwill and determined that the carrying amount of goodwill of RMB22,995,000 arising from the acquisition of a school was higher than its recoverable amount, which is nil. Considering the fact that the actual educational service income was below the previously expected financial budget, management estimated that the future cash flows of the school would probably be reduced to lower than originally expected, resulting in a decrease in value-in-use calculation. As a result, an impairment loss of approximately RMB22,995,000 (2019: RMB53,510,000) was recognised in the Group's consolidated financial statements for the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. GOODWILL (continued)

The carrying amounts of goodwill are as follows:

	2020	2019
	RMB'000	RMB'000
Medical service industry	2,026,667	2,316,272
Educational service industry	5,565	5,565
Total	2,032,232	2,321,837

Assumptions were used in the value-in-use calculation of each CGU within the medical service industry and educational service industry for 31 December 2020 and 31 December 2019. 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 the 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 and the educational service industry, and the discount rates are comparable to external information sources.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. OTHER INTANGIBLE ASSETS

	2020	2019
	RMB'000	RMB'000
Software (Note 16a)	49,079	34,063
Others	50	402
	49,129	34,465

16a. SOFTWARE

	2020	2019
	RMB'000	RMB'000
Cost:		
At the beginning of the year	104,084	93,822
Acquisition of subsidiaries (Note 39)	6,961	5,212
Additions	22,384	18,940
Disposals	(11,771)	(13,890)
Disposal of subsidiaries (Note 40)	(3,689)	–
At the end of the year	117,969	104,084
Accumulated amortisation:		
At the beginning of the year	(70,021)	(72,280)
Acquisition of subsidiaries (Note 39)	(1,145)	(1,344)
Additions	(12,098)	(8,918)
Disposals	11,693	12,521
Disposal of subsidiaries (Note 40)	2,681	–
At the end of the year	(68,890)	(70,021)
Net carrying amount:		
At the end of the year	49,079	34,063
At the beginning of the year	34,063	21,542

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION

As at 31 December 2020, 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	RMB10,400,000,000/ RMB9,700,000,000	–	100	Trading
Shanghai Domin Medical Engineering Co., Ltd. (上海德明醫用設備工程有限公司) (Note ii)	PRC/Mainland China 4 March 2010	RMB100,000,000	–	100	Engineering and trading
Shanghai Dopont Industrial Co., Ltd. ("Dopont") (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB7,000,000,000/ 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	RMB3,000,000,000	–	91.72	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	RMB3,712,984,400	–	91.72	Operating leasing

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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 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	–	91.72	Operating leasing
Shanghai Horizon Construction Investment Co., Ltd. (上海宏信建設投資有限公司) (Note ii)	PRC/Mainland China 12 January 2016	RMB3,000,000,000/ RMB2,500,000,000	–	100	Investment holding
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司) (Note ii)	PRC/Mainland China 2 August 2013	RMB600,000,000	–	91.72	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 Zhou Yuhong Infrastructure Investment Co., Ltd. (盤州市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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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	RMB1,133,220,000	–	91.72	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
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
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	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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	–	100	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	–	100	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	–	100	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	–	100	Investment holding
Montessori Academy Biyun Campus (上海浦東新區民辦習威幼兒園) (Note ii)	PRC/Mainland China 8 October 2014	RMB2,000,000	–	100	Education services
Shanghai Montessori Academy Development Co., Ltd. (上海蒙世學堂文化發展有限公司) (Note ii)	PRC/Mainland China 7 March 2002	RMB1,000,000	–	100	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	–	100	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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
Hongwen School Chengdu Anren Campus (成都大邑縣安仁宏文外國語培訓學校) (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$433,986,634	–	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
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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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
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 (深圳慈海醫院) (Note ii)	PRC/Mainland China 21 December 2015	RMB50,000,000/ RMB0	–	80	Medical services
Shenzhen ZhongHai Hospital (深圳中海醫院) (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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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 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
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	–	100	Ecotechnology
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	–	100	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	–	60	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	RMB84,920,000/ RMB34,560,100	–	81.63	Construction

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai 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	–	100	Education services
Montessori Academy Xuhui Campus (上海徐匯區民辦蒙世學堂幼兒園) (Note ii)	PRC/Mainland China 3 January 2018	RMB2,000,000	–	100	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
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
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 (金華宏悅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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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
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	RMB100,000,000	–	100	Investment management
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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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	RMB3,000,000,000/ RMB2,826,890,000	–	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 services
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	Ecotechnology
Guangzhou Wealth Healthy Electronics Co., Ltd. (廣州源康精密電子股份有限公司) (Note ii)	PRC/Mainland China 20 May 2005	RMB64,000,000	–	50.53	Ecotechnology
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 services
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 services
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 services

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
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 services
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 services
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	–	95.28	Investment management

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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 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
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	–	94.46	Ecotechnology
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 (凌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 services

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
Longpei (Shanghai) Enterprise Management Limited (礱佩(上海)企業管理有限公司) (Note ii)	PRC/Mainland China 29 June 2020	RMB5,000,000	–	100	Investment management
FE Jintai (Tianjin) Investment L.P. (遠東金泰(天津)投資合夥企業(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 7 September 2020	RMB1,001,000,000	–	30.07	Investment management
Zibo Hongjia Construction Investment Limited (淄博市宏嘉建設投資有限公司) (Note ii)	PRC/Mainland China 16 July 2020	RMB100,000,000/ RMB85,000,000	–	90	Construction
Shanghai Hongsun Engineering Management Limited (上海宏昇工程管理有限公司) (Note ii)	PRC/Mainland China 22 October 2019	RMB30,000,000/ RMB4,000,000	–	100	Construction
Tianjin Tongli Hongyang No.3 Enterprise Management and Advisory Centre (LP) (天津同曆宏陽三號企業管理諮詢中心(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 6 September 2017	RMB29,960,000/ RMB29,950,000	–	22.04	Investment management
Tianjin Tongli Bingying No.6 Equity Investment Fund Partnership Enterprise (LP) (天津同曆並贏六號股權投資基金合夥企業(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 6 August 2020	RMB50,010,000/ RMB50,000,000	–	78.86	Investment management
Tianjin Tongli Bingying No.8 Equity Investment Fund Partnership Enterprise (LP) (天津同曆並贏八號股權投資基金合夥企業(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 7 August 2020	RMB42,010,000/ RMB40,080,000	–	95.24	Investment management

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
Chuzhou Fuzuo New Energy Technology Co., Ltd (滁州市福祚新能源科技有限公司) (Note ii)	PRC/Mainland China 29 May 2020	RMB2,699,000	–	90	Ecotechnology
Kunshan Hongxu New Energy Technology Co., Ltd (昆山市宏旭新能源科技有限公司) (Note ii)	PRC/Mainland China 21 May 2020	RMB2,677,420	–	90	Ecotechnology
Nantong Hanjiang New Energy Technology Co., Ltd (南通漢將新能源科技有限公司) (Note ii)	PRC/Mainland China 10 September 2019	RMB5,000,000/ RMB4,945,563	–	90	Ecotechnology
Foshan Qingshun Solar Energy Technology Co., Ltd (佛山晴順太陽能科技有限公司) (Note ii)	PRC/Mainland China 6 December 2019	RMB5,000,000/ RMB1,853,000	–	90	Ecotechnology
Tianjin Yuhui Solar Energy Co., Ltd (天津昱輝光伏發電有限公司) (Note ii)	PRC/Mainland China 17 August 2018	RMB5,000,000/ RMB3,370,000	–	90	Ecotechnology
Foshan Qinghao Solar Energy Technology Co., Ltd (佛山晴浩新能源科技有限公司) (Note ii)	PRC/Mainland China 14 July 2020	RMB5,000,000/ RMB3,820,600	–	90	Ecotechnology
Huihong (Tianjin) Enterprise Management and Advisory Centre (LP) (天津匯宏企業管理諮詢中心(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 15 September 2020	RMB56,641,200/ RMB48,820,000	–	80	Investment management
Grand Flight Yongxuan (Tianjin) Enterprise Management Centre (LP) (天津遠翼永宣企業管理中心(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 11 October 2018	RMB701,000,000/ RMB393,060,131	–	99.76	Investment management

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
The National Mathematics and Science College Limited (英國國家文理中學) (Note i)	Britain 2 February 2015	UK£50,000	–	75	Education services
Yingke (Beijing) International Education Advisory Co., Ltd. (英科(北京)國際教育諮詢有限公司) (Note ii)	PRC/Mainland China 27 June 2017	RMB20,000,000/ RMB1,146,276	–	75	Education services
Yantai Grand Light Municiple Development Limited (煙台宏明城市發展有限公司) (Note ii)	PRC/Mainland China 19 August 2020	US$30,000,000/ US$15,096,017	–	100	Investment management
Pizhou Dongda Hospital Co., Ltd. (邳州市東大醫院有限公司) (Note ii)	PRC/Mainland China 19 September 2011	RMB181,603,602	–	54.67	Medical services
Hongyi Commercial Factoring (Tianjin) Co., Ltd. (宏伊商業保理(天津)有限公司) (Note ii)	PRC/Mainland China 5 March 2020	RMB50,000,000	–	100	Factoring
Horizon Construction Development Limited (宏信建設發展有限公司) (Note i)	Cayman Islands 28 September 2020	US$50,000	–	91.72	Construction
Jinsheng Construction (Hong Kong) Limited. (晉勝建設(香港)有限公司) (Note i)	Hong Kong 19 December 2014	HK$1	–	91.72	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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 Horizon Construction Development Investment Co., Ltd. (天津宏信建發投資有限公司) (Note ii)	PRC/Mainland China 20 June 2019	US$1,000,000,000/ US$663,933,547	–	91.72	Investment holding
Shanghai Horizon Construction Technology Co., Ltd. (上海宏信建築科技有限公司) (Note ii)	PRC/Mainland China 20 April 2020	RMB200,000,000	–	91.72	Construction
Shanghai Horizon Engineering Technology Co., Ltd. (上海宏信工程技術有限公司) (Note ii)	PRC/Mainland China 19 November 2020	RMB200,000,000/ RMB0	–	91.72	Construction
Tianjin Horizon Construction Development Leasing Co., Ltd. (天津宏信建發租賃有限公司) (Note ii)	PRC/Mainland China 16 April 2020	RMB5,000,000	–	91.72	Construction
Tianjin Hongtu Supply Chain Management Co., Ltd. (天津宏途供應鏈管理有限公司 (Note ii)	PRC/Mainland China 19 November 2020	RMB10,000,000/ RMB0	–	91.72	Construction
Tianjin Horizon Construction Development Engineering Technology Co., Ltd. (天津宏信建發工程技術有限公司) (Note ii)	PRC/Mainland China 23 November 2020	RMB10,000,000/ RMB0	–	91.72	Construction

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2020, 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	
Beijing Hongtu Equipment Leasing Co., Ltd. (北京宏途設備租賃有限公司) (Note ii)	PRC/Mainland China 2 December 2020	RMB1,000,000/ RMB0	–	91.72	Construction
Horizon Commercial Factoring Co., Ltd. (遠宏商業保理(天津)有限公司) (Note ii)	PRC/Mainland China 8 December 2019	RMB3,000,000,000/ RMB2,000,000,000	100	–	Factoring
Shanghai Chongzhi Information Technology Development Limited (上海崇至信息科技發展有限公司) (Note ii)	PRC/Mainland China 12 May 2016	RMB750,000,000	–	100	Information Technology
Far East Horizon Inclusive Financial Leasing (Tianjin) Co., Ltd. (遠東宏信普惠融資租賃(天津)有限公司) (Note ii)	PRC/Mainland China 25 October 2019	RMB2,000,000,000/ RMB1,100,000,000	45	55	Finance leasing
Far East Horizon Healthcare Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司) (Note i)	Cayman Islands 4 November 2014	RMB1,027,841,856	–	100	Medical Services

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 enterprises

Note ii: Domestic companies

Note iii: A consolidated structured entity

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. INVESTMENTS IN JOINT VENTURES

	2020	2019
	RMB'000	RMB'000
Share of net assets	2,402,552	2,307,087
Excess of consideration over share of net assets acquired	104,624	93,637
Provision for impairment	(180,416)	(170,000)
	2,326,760	2,230,724

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 services
Grand Flight Holdings Co., Ltd. (遠翼控股有限公司)	Authorised capital of US$50,000	British Virgin Islands	70*	70	Investment holding
Grand Flight Hooyoung Investment Management Co., Ltd. (遠翼宏揚投資管理有限公司)	Authorised capital of US$50,000	Cayman Islands	70*	70	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 services
Gold Chance Shipping Limited (金運船務有限公司)	HK$10,000	Hong Kong	50	50	Shipping services
Fengyang Qianmen Hospital Co., Ltd. (Formerly known as Fengyang Gulou Hospital Co., Ltd.) (鳳陽縣前門醫院有限公司) (原名：鳳陽縣鼓樓醫院有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	35	35	Medical services
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 services
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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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
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 services
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
Guixi Hongye Infrastructure Investment Co., Ltd. (貴溪市宏鄴基礎設施投資有限公司)	Registered capital of RMB151,294,129	PRC/Mainland China	48	48	Infrastructure construction

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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
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
Sichuan Hongcheng City Construction Investment Co., Ltd. (四川宏鑄城市建設投資有限公司)	Registered capital of RMB10,000,000	PRC/Mainland China	60*	60	Construction investment
Shanghai Shengjiang Investment Management Co., Ltd. (上海盛疆投資管理有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	51*	51	Investment management
Qingdao Co-e-Wins Venture Capital Limited Partnership (青島同曆並贏創業投資合夥企業（有限合夥))	Registered capital of RMB100,000,000	PRC/Mainland China	50	50	Investment management

• The decisions about relevant activities that most significantly affect the returns of these investees would be subject to the consent of others (e.g. other shareholders or directors), and 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 loans and accounts receivables balances due from the joint ventures are disclosed in Note 23j to the financial statements. There was no recent history of default and past due amounts for loans to joint ventures. As at 31 December 2020 and 2019, 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. The aforementioned companies are accounted for using the equity method.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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:

	2020	2019
	RMB'000	RMB'000
Cash and cash equivalents	436,351	56,685
Other current assets	2,918,115	2,556,516
Current assets	3,354,466	2,613,201
Non-current assets	30,554	22,733
Financial liabilities, excluding other payables and accruals	–	(43,000)
Other payables and accruals	(1,088,905)	(618,732)
Current liabilities	(1,088,905)	(661,732)
Non-current liabilities	(889,000)	(520,000)
Net assets	1,407,115	1,454,202
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 the excess of consideration over share of net assets acquired	844,269	872,521
Cumulative impairment	(170,000)	(170,000)
Carrying amount of the investment	674,269	702,521

	2020	2019
	RMB'000	RMB'000
Revenue	173,098	127,782
Cost of sales	(183,916)	(199,599)
Administrative expenses	(15,725)	(12,277)
Other expenses	(18,675)	(10,172)
Other income	31	–
Loss and total comprehensive income for the year	(45,187)	(94,266)

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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:

	2020	2019
	RMB'000	RMB'000
Cash and cash equivalents	50,422	127,825
Other current assets	1,706,416	1,929,228
Current assets	1,756,838	2,057,053
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–
Net assets	1,756,838	2,057,053
Net assets attributable to limited partners	1,662,309	2,057,053
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 the excess of consideration over share of net assets acquired	662,530	819,859
Capital to be injected to the joint venture	–	(53,061)
Carrying amount of the investment	662,530	766,798

	2020	2019
	RMB'000	RMB'000
Other expenses	(30,893)	(34,131)
Other income	15,879	35,300
(Loss)/profit and total comprehensive income for the year	(15,014)	1,169
Dividend Received	16,307	–

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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:

	2020	2019
	RMB'000	RMB'000
Share of the joint ventures' gain/(loss) for the year	36,398	(95,745)
Aggregate carrying amount of the Group's investments in the joint ventures	989,961	761,405

19. INVESTMENTS IN ASSOCIATES

	2020	2019
	RMB'000	RMB'000
Share of net assets	4,299,740	4,305,232
Excess of consideration over share of net assets acquired	664,719	682,710
	4,964,459	4,987,942

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 RMB50,000,000	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 services

As at 31 December 2020, 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, RMB7,097,107,212, 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%, 8.5011%, 13.3082%, 10.00% and 17.00%, respectively. The aforementioned companies are accounted for using the equity method.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of the 5 largest associates (in terms of carrying amount as at 31 December 2020) adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	2020				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	7,010,029	4,540,274	47,203,179	5,992,675	1,087,324
Non-current assets	28,528,195	2,216,878	15,512,817	2,738,464	4,308,722
Current liabilities	(1,888,577)	(1,509,155)	(18,414,667)	(2,169,947)	(443,242)
Non-current liabilities	(23,790,222)	(1,184,386)	(30,249,957)	(2,968,172)	(1,712,925)
Net assets	9,859,425	4,063,611	14,051,372	3,593,020	3,239,879
Net assets attributable to the shareholders of the parent	4,789,396	4,063,611	11,767,173	3,434,100	3,239,879
Reconciliation to the Group's interest in the associates:					
Proportion of the Group's ownership	13.3082%	19.500%	8.5011%	27.200%	17.000%
Group's share of net assets of the associates, excluding the excess of consideration over share of net assets	637,382	792,404	1,000,339	934,075	550,779
Excess of consideration over share of net assets	282,092	23,717	134,134	132,022	–
Carrying amount of the Investment	919,474	816,121	1,134,473	1,066,097	550,779
Revenue	788,037	602,679	5,342,583	484,997	330,095
Profit and total comprehensive income for the period after the Group's investment in the associates	1,101,952	360,132	1,085,137	172,919	224,685
Profit and total comprehensive income attributable to the parent after the Group's investment in the associates	832,809	360,132	962,770	166,112	224,685
Dividend received	30,004	28,275	33,291	47,722	–

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of the 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 the 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 income 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	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. INVESTMENTS IN ASSOCIATES (continued)

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

	2020	2019
	RMB'000	RMB'000
Share of the associates' profit for the year	139,428	59,918
Aggregate carrying amount of the Group's investments in the associates	477,515	714,731

The above balances include a total of RMB63,335,000 (31 December 2019: RMB529,379,000) investments held by the Group as an investor in sub-ordinated tranches of several collective fund trusts, whose total funds raised amount to RMB500,000,000 (31 December 2019: RMB2,700,250,000), 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 23j to the financial statements.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	RMB'000
Unlisted equity investments, at fair value	934,037	660,905
Listed equity investments, at fair value	233,100	–
Unlisted debt investments, at fair value	8,175,428	3,781,783
	9,342,565	4,442,688
Analysed into:		
Current portion	3,165,851	312,597
Non-current portion	6,176,714	4,130,091

NOTES TO FINANCIAL STATEMENTS

31 December 2020

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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 2020 included a carrying amount of RMB6,011,332,000 (31 December 2019: RMB3,669,186,000), and they 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 approximates to their carrying amounts.

21. DEBT INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	RMB'000	RMB'000
Measured at fair value:		
Notes receivable	108,176	–

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Cross-currency interest rate swaps	269,809	(1,756,842)	1,528,354	(142,678)
Forward currency contracts	–	(72,485)	24,513	(24,482)
Interest rate swaps	19,158	(25,838)	12,969	(17,354)
	288,967	(1,855,165)	1,565,836	(184,514)
Portion classified as non-current:				
Cross-currency interest rate swaps	50,193	(1,528,821)	895,090	(138,891)
Forward currency contracts	–	(24,409)	–	–
Interest rate swaps	19,009	(4,494)	11,620	(16,641)
	69,202	(1,557,724)	906,710	(155,532)
Current portion	219,765	(297,441)	659,126	(28,982)
	288,967	(1,855,165)	1,565,836	(184,514)

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9

At 31 December 2020, the Group designated 75 (2019: 62) cross-currency interest rate swap contracts, 6 (2019: 14) forward currency contracts and 22 (2019: 4) interest rate swap contracts as hedges of future cash flows arising from foreign currency borrowings, details of which are as follows:

At 31 December 2020, the Group had 15 (2019: 10) cross-currency interest rate swaps in place with notional amounts of HK$6,980,000,000 (2019: HK$3,354,000,000) whereby the Group receives a floating rate of interest on the HK$ notional amount at HKD-HIBOR-HKAB and pays a fixed rate of interest on the RMB notional amount at 3.15% to 4.38% (2019: 3.91% to 4.38%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 15 floating rate long-term borrowings denominated in HK$ with the total principal of HK$6,980,000,000 (2019: HK$3,354,000,000).

At 31 December 2020, the Group had 54 (2019: 50) cross-currency interest rate swaps in place with notional amounts of US$4,040,572,000 (2019: US$4,122,708,000) whereby the Group receives a floating rate of interest on the US$ notional amount at USD-LIBOR-BBA and pays a fixed rate of interest on the RMB notional amount at 2.70% to 4.38% (2019: 3.35% to 5.70%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 52 floating rate long-term borrowings and 2 floating rate short-term borrowings denominated in US$ with the total principal of US$4,040,572,000 (2019: US$4,122,708,000).

At 31 December 2020, the Group had 5 (2019: 2) cross-currency interest rate swaps in place with notional amounts of US$400,000,000 (2019: US$200,000,000) whereby the Group receives a fixed rate of interest on the US$ notional amount at 3.38% to 4.38% (2019: 4.38%) per annum and pays a fixed rate of interest on the RMB notional amount at 4.50% to 5.88% (2019: 5.84% and 5.88%) per annum. The swaps are being used to hedge the foreign currency exposure of 5 fixed rate long-term borrowings denominated in US$ with the total principal of US$400,000,000 (2019: US$200,000,000).

At 31 December 2020, the Group had 1 (2019: Nil) cross-currency interest rate swap in place with a notional amount of JPY6,500,000,000 (2019: Nil) whereby the Group receives floating rate interest on the JPY notional amount at JPY-LIBOR-BBA and pays a fixed rate interest on the RMB notional amount at 3.83% (2019: Nil) per annum. The swap is being used to hedge the foreign currency and interest rate exposure of 1 floating rate long-term borrowing denominated in JPY with the total principal of JPY6,500,000,000 (2019: Nil).

At 31 December 2020, the Group had 6 (2019:14) forward currency contracts with a total notional amount of US$237,835,000 (2019: US$517,906,000) as hedges of future cash flows arising from foreign currency borrowings with the total principal of US$237,835,000 (2019: US$517,906,000) which will be settled in US$.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

At 31 December 2020, the Group had 4 (2019: 4) interest rate swaps in place with notional amounts of US$300,000,000 (2019: US$215,000,000) whereby the Group receives a floating rate of interest on the US$ notional amount at USD-LIBOR-BBA and pays a fixed rate of interest on the US$ notional amount at 0.45% to 2.36% (2019: 2.34% to 2.47%) 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 principal of US$300,000,000 (2019: US$215,000,000).

At 31 December 2020, the Group had 18 (2019: Nil) interest rate swaps in place with a total notional amount of RMB10,471,232,000 (2019: Nil) whereby the Group receives interest at variable rates equal to the Loan Prime Rate on the notional amount and pays a fixed rate of interest on the RMB notional amount at 3.70% to 4.11% (2019: Nil) per annum. The swaps are being used to hedge interest rate exposure of 18 floating rate long-term borrowings denominated in RMB with the total principal of RMB10,471,232,000 (2019: 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 borrowing contracts (i.e., the 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 2020

22. 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 2020							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	5,927,433	2,750,820	2,327,074	–	9,987,735	9,024,455	30,017,517
Average forward exchange rate (US$/RMB)	6.3604	6.7213	6.7734	–	7.0525	6.7987	
Notional amount (in RMB'000)	1,569,905	–	–	–	1,485,029	2,996,371	6,051,305
Average forward exchange rate (HK$/RMB)	0.8061	–	–	–	0.9073	0.8832	
Notional amount (in RMB'000)	–	–	–	–	428,350	–	428,350
Average forward exchange rate (JPY/RMB)	–	–	–	–	0.0659	–	
Forward currency contracts							
Notional amount (in RMB'000)	–	353,430	495,117	510,154	–	298,384	1,657,085
Average forward exchange rate (US$/RMB)	–	6.9082	7.0042	6.7570	–	7.4410	
Interest rate swaps							
Notional amount (in RMB'000)	–	–	1,304,980	–	2,405,541	8,718,181	12,428,702
Average forward exchange rate	–	–	N/A	–	N/A	N/A	
Hedge rate	1	1	1	1	1	1	

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (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 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	

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. 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	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	RMB'000		RMB'000
As at 31 December 2020				
Forward currency contracts	–	–	Derivative financial instruments (assets)	(24,513)
Forward currency contracts	1,657,085	(72,485)	Derivative financial instruments (liabilities)	(48,003)
Cross-currency interest rate swaps	8,355,358	269,809	Derivative financial instruments (assets)	(1,258,545)
Cross-currency interest rate swaps	28,141,814	(1,756,842)	Derivative financial instruments (liabilities)	(1,614,164)
Interest rate swap	8,837,552	19,009	Derivative financial instruments (assets)	19,009
Interest rate swap	3,591,150	(25,838)	Derivative financial instruments (liabilities)	(8,661)

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	RMB'000		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)

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. 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	Cash flow hedge reserve
	RMB'000	RMB'000
As at 31 December 2020		
Foreign currency bank loans amounting to RMB equivalent 38,769,290,000	**(2,476,186)**	**(254,289)**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. 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			Hedge ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the statement of profit or loss
Year ended 31 December 2020	Gross amount	Tax effect	Total			Gross amount	Tax effect	Total	
	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000	RMB'000	
Forward currency contracts	(68,028)	18,853	(49,175)	–	N/A	72,302	(19,348)	52,954	Cost of sales/ other expenses
Cross-currency interest rate swaps	(2,400,108)	422,260	(1,977,848)	–	N/A	2,480,959	(442,501)	2,038,458	Cost of sales/ other expenses
Interest rate swap	(8,050)	1,328	(6,722)	–	N/A	–	–	–	Cost of sales/ other expenses
Total	(2,476,186)	442,441	(2,033,745)	–	N/A	2,553,261	(461,849)	2,091,412	

	Total hedging gain/(loss) recognised in other comprehensive income			Hedge ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the statement of profit or loss
Year ended 31 December 2019	Gross amount	Tax effect	Total			Gross amount	Tax effect	Total	
	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000	RMB'000	
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)	

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge under HKFRS 9 – Interest rate risk

At 31 December 2020, the Group had 1 (2019: 12) interest rate swap agreement in place with a total notional amount of RMB300,000,000 (2019: RMB9,900,000,000) whereby it receives interest at a fixed rate of 4.80% (2019: 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., the 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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. 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	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	RMB'000		RMB'000
As at 31 December 2020				
Interest rate swap	**300,000**	**149**	**Derivative financial instruments (assets)**	**(12,820)**
Interest rate swap	**–**	**–**	**Derivative financial instruments (liabilities)**	**177**

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	RMB'000		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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. 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	Accumulated fair value adjustments	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	RMB'000		RMB'000
As at 31 December 2020				
Bonds amounting to RMB equivalent 300,000,000	**300,149**	**149**	**Interest-bearing bank and other borrowings**	**(12,643)**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Loans and accounts receivables due within 1 year	122,920,949	98,741,019
Loans and accounts receivables due after 1 year	106,476,358	102,379,882
	229,397,307	201,120,901

23a. Loans and accounts receivables by nature

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Lease receivables (Note 23b)*	229,309,368	207,655,800
Less: Unearned finance income	(20,684,176)	(20,786,899)
Net lease receivables (Note 23b)	208,625,192	186,868,901
Interest receivables*	1,570,797	1,561,187
Factoring receivable (Note 23g)	8,237,411	4,156,059
Entrusted loans (Note 23h)*	2,148,646	4,317,303
Long-term receivables*	11,357,450	5,999,560
Secured loans	268,984	246,065
Subtotal of Interesting-earning assets (Note 23c)**	232,208,480	203,149,075
Less:		
Provision for lease receivables	(6,081,514)	(5,257,671)
Provision for factoring receivables	(204,052)	(92,895)
Provision for entrusted loans	(74,811)	(100,753)
Provision for long-term receivables	(169,144)	(79,492)
Provision for secured loans	(2,066)	(4,483)
Provision for interesting-earning assets (Note 23d)**	(6,531,587)	(5,535,294)
Notes receivable	439,661	230,438
Accounts receivable (Note 23e)*	4,180,032	3,830,788
Provision for accounts receivable (Note 23f)	(899,279)	(554,106)
Total of loans and accounts receivables	229,397,307	201,120,901

* These balances included balances with related parties which are disclosed in Note 23j.

** These balances are included in the interest-earning assets disclosed in Note 23c and Note 23d.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23b (1). An ageing analysis of lease receivables, determined based on the ageing 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 2020	31 December 2019
	RMB'000	RMB'000
Lease receivables:		
Within 1 year	122,031,640	81,010,823
1 to 2 years	39,530,206	65,639,866
2 to 3 years	34,740,573	47,787,535
3 to 5 years	33,006,949	13,217,576
Total	229,309,368	207,655,800

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Net lease receivables:		
Within 1 year	110,790,626	72,921,942
1 to 2 years	36,242,634	58,141,813
2 to 3 years	31,489,904	43,374,076
3 to 5 years	30,102,028	12,431,070
Total	208,625,192	186,868,901

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23b (2). The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following five or more than five consecutive accounting years:

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Lease receivables:		
Due within 1 year	122,165,800	101,704,090
Due in 1 to 2 years	68,625,874	63,404,839
Due in 2 to 3 years	27,256,023	32,945,840
Due in 3 to 5 years	10,490,430	9,231,836
Due after 5 years	771,241	369,195
Total	229,309,368	207,655,800

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Net lease receivables:		
Due within 1 year	109,337,798	88,949,526
Due in 1 to 2 years	63,218,357	58,017,342
Due in 2 to 3 years	25,529,827	30,863,293
Due in 3 to 5 years	9,824,101	8,696,248
Due after 5 years	715,109	342,492
Total	208,625,192	186,868,901

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 2020, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB17,856,783,000 (31 December 2019: RMB11,535,047,000) (see Note 31(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23c. Analysis of interest-earning assets

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL – impaired)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2020				
Interest-earning assets	**210,020,909**	**19,597,683**	**2,589,888**	**232,208,480**
Allowance for impairment losses	**(3,753,371)**	**(1,707,979)**	**(1,070,237)**	**(6,531,587)**
Interest-earning assets, net	**206,267,538**	**17,889,704**	**1,519,651**	**225,676,893**

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL – impaired)	Total
	RMB'000	RMB'000	RMB'000	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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23d. Movement in provision for interest-earning assets

The Group has applied the general approach to providing for expected credited losses ("ECLs") 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 ECLs 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 ECLs according to the requirements of accounting standards such as criteria for judging significant increases in credit risk, definition of credit-impaired financial assets, parameters for measuring ECLs and forward-looking information.

In response to the covid-19 pandemic, the Group has rolled out certain relief measures on a commercial basis to customers impacted by the coronavirus to support their immediate cash flows and liquidity by offering principal moratorium or tenor extension. Because of the relief measure, the Group may not have the same level of credit risk information about repayment records as compared to what they had in the past. Therefore, the Group extended its effort done to obtain additional information for credit assessment, including those in the covid-19 vulnerable sectors. The Group has paid special attention to the application of macroeconomic data and forward-looking information to ensure that the effect of covid-19 has been sufficiently reflected.

	Year ended 31 December 2020			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III** (Lifetime ECL-impaired)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	3,438,649	1,627,288	469,357	5,535,294
Impairment losses for the year	319,962*	164,871	1,683,836	2,168,669
Disposal	(59,813)	–	(94,875)	(154,688)
Conversion to Stage I	223,766	(223,766)	–	–
Conversion to Stage II	(167,849)	250,719	(82,870)	–
Conversion to Stage III	–	(111,133)	111,133	–
Write-off	–	–	(1,095,262)	(1,095,262)
Recoveries of interest-earning assets previously written off	–	–	78,918	78,918
Exchange differences	(1,344)	–	–	(1,344)
At end of the year	3,753,371	1,707,979	1,070,237	6,531,587

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23d. Movement in provision for interest-earning assets (continued)

	Year ended 31 December 2019			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III** (Lifetime ECL-impaired)	Total
	RMB'000	RMB'000	RMB'000	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

* This includes a loss allowance of RMB2,565,171,000 (2019: RMB1,470,030,000) provided for newly originated interest-earning assets, and RMB2,245,209,000 (2019: RMB541,531,000) 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, 93% (2019: 94%) (in 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 are owned by the Group. Such leased assets are similar to security and constitute the main source of collection of impaired assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23e. 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 2020	31 December 2019
	RMB'000	RMB'000
Within 1 year	3,104,035	3,211,588
More than 1 year	1,075,997	619,200
Total	4,180,032	3,830,788

23f. Movement in provision for accounts receivable

	31 December 2020	31 December 2019
	RMB'000	RMB'000
At beginning of year	554,106	407,873
Charge for the year	374,597	105,593
Acquisition of a subsidiary	14,738	48,030
Write-off	(44,162)	(7,390)
At end of year	899,279	554,106

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23f. 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 2020

	Ageing				
	Within 1 year	**1-2 years**	**2-3 years**	**3-5 years**	**Total**
Gross carrying amount (RMB'000)	**3,104,035**	**624,092**	**231,876**	**220,029**	**4,180,032**
Expected credit loss (RMB'000)	**481,477**	**183,948**	**107,860**	**125,994**	**899,279**
Average expected credit loss rate	**15.51%**	**29.47%**	**46.52%**	**57.26%**	

As at 31 December 2019

	Ageing				
	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%	

23g. An aging analysis of factoring receivables as at the end of the reporting period is as follows:

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Within 1 year	**7,006,976**	3,464,599
More than 1 year	**1,230,435**	691,460
Total	**8,237,411**	4,156,059

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23h (1). An aging analysis of entrusted loans, determined based on the ageing 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 2020	31 December 2019
	RMB'000	RMB'000
Entrusted loans:		
Within 1 year	**476,534**	257,810
1 to 2 years	**99,444**	141,643
2 to 3 years	**65,800**	1,392,674
3 to 5 years	**1,506,868**	2,525,176
Total	**2,148,646**	4,317,303

23h (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 2020	31 December 2019
	RMB'000	RMB'000
Entrusted loans:		
Due within 1 year	**1,170,723**	2,807,883
Due in 1 to 2 years	**928,860**	1,213,791
Due in 2 to 3 years	**24,414**	295,629
Due in 3 to 5 years	**24,649**	–
Total	**2,148,646**	4,317,303

23i. Long term receivables

As at 31 December 2020, the carrying value of long term receivables pledged or charged as collateral for the Group's borrowings amounted to RMB4,873,854,000 (31 December 2019: RMB3,788,115,000) (Note 31(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23j. Balances with related parties

		31 December 2020	31 December 2019
		RMB'000	RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	60,000	60,000
Long-term receivables	(ii)	535,000	135,000
Interest receivables		669	17,514
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
– Fengyang Qianmen Hospital Co., Ltd.			
Accounts receivables		4,372	14,295
– Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.			
Entrusted loan	(i)	60,079	50,553
– Shanghai Shengjiang Investment Management Co., Ltd.			
Lease receivables	(iii)	9,408	–
Associates:			
– Tianjin FIS Asset Management Co., Ltd.			
Long-term receivables	(ii)	915,000	814,600
Interest receivables		6,278	622
Provision		(33,365)	(24,449)
		1,607,441	1,118,135

(i) Balances of entrusted loans interest-earning at annual interest rates ranging from 5.81% to 8% (31 December 2019: from 6% to 13%).

(ii) Balances of long-term receivables interest-earning at annual interest rates ranging from 4.75% to 5.81% (31 December 2019: from 4.85% to 9%).

(iii) Balances of lease receivables interest-earning at an annual interest rate of 12% (31 December 2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2020 RMB'000	2019 RMB'000
Current assets:			
Prepayments		386,895	699,126
Leased assets*		12,713	24,671
Rental and project deposits		158,000	203,850
Other receivables		341,769	478,230
Input VAT		974,291	525,307
Amounts deductible against output VAT		171,835	177,135
Subordinated tranches of asset-backed securities/notes (Note 50)		434,914	280,991
Continuing involvement in transferred assets (Note 50)		434,914	280,991
Due from related parties	24a	37,781	54,196
Other current asset		9,783	5,998
Impairment allowance		(58,897)	(14,632)
		2,903,998	2,715,863
Non-current assets:			
Rental deposit due after 1 year		9,863	36,826
Subordinated tranches of asset-backed securities/notes (Note 50)		4,064,204	5,569,255
Continuing involvement in transferred assets (Note 50)		4,064,204	5,569,255
Long-term other receivables		370,705	312,358
Others		238,839	188,910
Impairment allowance		(167,980)	(96,000)
		8,579,835	11,580,604
		11,483,833	14,296,467

* 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 2020

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

24a. BALANCES WITH RELATED PARTIES

		2020	2019
		RMB'000	RMB'000
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,493
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	175
Joint ventures:			
Gold Chance Shipping Limited	(i)	16,707	24,806
Teamway Shipping Limited	(i)	17,438	25,119
Fengyang Qianmen Hospital Co., Ltd.	(i)	474	422
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	(i)	102	1,181
Kunming Broadhealthcare Investment Co., Ltd.	(i)	392	–
		37,781	54,196

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

25. CONTRACT ASSETS

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Contract assets arising from construction services	110,132	22,646

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 2020

25. CONTRACT ASSETS (continued)

The expected timing of recovery or settlement for contract assets as at 31 December 2020 is as follows:

	RMB'000
Within one year	110,132

26. DEFERRED TAX

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

Deferred tax assets

	Fee income received in advance	Government special subsidy	Share-based payments	Allowances for impairment losses	Salary and welfare payable	Losses available for offsetting against future taxable profits	Cash flow hedge	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross deferred tax assets at 1 January 2020	262,280	790,325	82,900	1,719,551	1,267,843	94,445	73,539	11,808	4,302,691
(Charged)/credited to the statement of profit or loss during the year	(24,274)	164,719	59,112	576,403	93,224	78,012	–	1,530	948,726
Acquisition of subsidiaries	–	–	–	3,769	5,073	–	–	2,037	10,879
Charged to reserve	–	–	–	–	–	–	(19,408)	–	(19,408)
Exchange differences	–	–	–	(499)	–	240	–	–	(259)
Gross deferred tax assets at 31 December 2020	238,006	955,044	142,012	2,299,224	1,366,140	172,697	54,131	15,375	5,242,629

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. DEFERRED TAX (continued)

Deferred tax assets (continued)

	Fee income received in advance	Government special subsidy	Share-based payments	Allowances for impairment losses	Salary and welfare payable	Losses available for offsetting against future taxable profits	Cash flow hedge	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation	Fair value adjustments arising from financial assets at fair value through profit or loss	Withholding income tax	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross deferred tax liabilities at 1 January 2020	89,363	133,419	9,385	125,920	358,087
(Credited)/charged to the statement of profit or loss during the year	(807)	(50,373)	–	(17,061)	(68,241)
Arising from acquisition of subsidiaries	53,960	–	–	–	53,960
Gross deferred tax liabilities at 31 December 2020	142,516	83,046	9,385	108,859	343,806

	Asset revaluation	Fair value adjustments arising from financial assets at fair value through profit or loss	Withholding income tax	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. 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 2020	31 December 2019
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	5,142,900	4,181,252
Net deferred tax liabilities recognised in the consolidated statement of financial position	244,077	236,648

As at 31 December 2020, the Group had tax losses arising in Hong Kong of RMB338,602,000 (31 December 2019: RMB363,410,000) 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 RMB433,318,000 (31 December 2019: RMB103,938,000) 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 2020, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB2,245,235,000 (31 December 2019: RMB1,266,992,000) and RMB643,014,000 (31 December2019: RMB555,064,000), 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 2020, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB1,151,682,000 (31 December 2019: RMB903,896,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2020	2019
	RMB'000	RMB'000
Cash and bank balances	15,352,104	9,930,952
Time deposits	–	25,280
	15,352,104	9,956,232
Less:		
Pledged deposits	1,371,054	822,709
Restricted bank deposits related to asset securitisations	2,090,749	4,955,344
Restricted bank deposits related to collective fund trusts	13,066	188,608
Cash and cash equivalents	11,877,235	3,989,571

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB14,549,773,000 (31 December 2019: RMB9,459,552,000). 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 2020, cash of RMB379,104,000 (31 December 2019: RMB523,609,000) was pledged for bank and other borrowings (Note 31(b)).

As at 31 December 2020, cash of RMB991,950,000 (31 December 2019: RMB284,181,000) was pledged for bank acceptances, letters of credit and others.

As at 31 December 2020, nil (31 December 2019: RMB14,919,000) was pledged for collective fund trusts.

As at 31 December 2020, cash of RMB259,245,000 (31 December 2019: RMB253,606,000) was deposited with Sinochem Finance Co., Ltd., a subsidiary of the ultimate holding company of a shareholder with significant influence.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. INVENTORIES

	2020	2019
	RMB'000	RMB'000
Finished goods	286,129	338,373
Work in process	15,901	43,445
Raw materials	95,351	22,020
	397,381	403,838

29. TRADE AND BILLS PAYABLES

		2020	2019
	Note	RMB'000	RMB'000
Current:			
Bills payable		6,133,902	2,523,404
Trade payables		1,738,557	1,489,063
Due to related parties	29a	7,951	460,961
		7,880,410	4,473,428

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

	2020	2019
	RMB'000	RMB'000
Within 1 year	7,618,459	4,192,034
1 to 2 years	167,303	174,710
2 to 3 years	40,353	27,286
3 years and beyond	54,295	79,398
	7,880,410	4,473,428

NOTES TO FINANCIAL STATEMENTS

31 December 2020

29. TRADE AND BILLS PAYABLES (continued)

29a. BALANCES WITH RELATED PARTIES

	2020	2019
	RMB'000	RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	–	460,761
Associate:		
Shanghai Yijia Construction Development Co., Ltd.	7,951	200
	7,951	460,961

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. OTHER PAYABLES AND ACCRUALS

	Notes	2020 RMB'000	2019 RMB'000
Current:			
Lease deposits, entrusted loan deposits and factoring deposits due within one year		5,541,887	4,088,270
Salary payables		840,112	1,812,095
Welfare payables		179,436	105,283
Advances from customers		690,561	889,752
Due to related parties	30a	437,817	88,665
Contract liabilities	30b	534,306	439,232
Other taxes payable		839,028	876,823
Interest payable		2,108,478	1,702,842
Funds collected on behalf of special purpose entities in relation to asset-backed securitisations		2,090,749	4,955,344
Funds collected on behalf of collective fund trusts		10,317	21,453
Funds collected on behalf of collective fund trusts – due to related parties	30a	2,749	167,155
Provision for credit commitments		30,436	36,426
Purchase consideration to be paid for non-controlling interests		155,595	73,662
Other payables		1,286,492	1,892,439
Dividend payables		40,759	39,031
Continuing involvement in transferred assets		434,914	280,991
		15,223,636	17,469,463
Non-current:			
Lease deposits, entrusted loan deposits and factoring deposits due after one year		15,601,129	23,787,610
Shareholding purchase consideration to be paid		–	53,005
Purchase consideration to be paid for non-controlling interests		286,300	301,289
Contract liabilities	30b	362,279	230,196
Other payables		53,144	148,541
Quality guarantee deposit		1,333	1,333
		16,304,185	24,521,974
		31,527,821	41,991,437

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. OTHER PAYABLES AND ACCRUALS (continued)

30a. BALANCES WITH RELATED PARTIES

	2020	2019
	RMB'000	RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	–	4,676
Joint ventures:		
Fengyang Qianmen Hospital Co., Ltd.	268	588
Kunming Broadhealthcare Investment Co., Ltd.	1	1
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	8,509	13,104
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	2,033	2,003
Grand Flight Investment Management Co., Ltd.	26,782	35,915
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.	–	32,378
Shanghai Shengjiang Investment Management Co., Ltd.	273	–
Guangzhou Kangda Industrial Technology Co., Ltd.	399,951	–
	437,817	83,989
Associates:		
CITIC – Far Eastern Leasing portfolio investment collective fund trust	67	61,925
XMITIC – Far Eastern Leasing portfolio investment collective fund trust	–	103,401
SCHTRUST- Far Eastern Leasing portfolio investment collective fund trust	2,682	1,829
	2,749	167,155
	440,566	255,820

Except for the amounts due to Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd., which bear interest at an interest rate of 4.35% per annum, and the amounts due to Fengyang Qianmen Hospital Co., Ltd., Kunming Broadhealthcare Investment Co., Ltd., Grand Flight Investment Management Co., Ltd., Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd., Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. and Guangzhou Kangda Industrial Technology Co., Ltd., which bear interest at an interest rate of 1.485% per annum, amounts due to other related parties are unsecured and non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. OTHER PAYABLES AND ACCRUALS (continued)

30b. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2020	31 December 2019	1 January 2019
	RMB'000	RMB'000	RMB'000
Contract liabilities			
Short-term:			
– Sale of goods	**23,662**	–	10,343
– Service fee	**510,644**	439,232	414,930
Long-term:			
– Service fee	**362,279**	230,196	222,505
Total contract liabilities	**896,585**	669,428	647,778

Contract liabilities include short-term advances received to deliver goods and services. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in advances received from customers in relation to the provision of services at the end of the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective annual interest rate (%)	**Maturity**	**RMB'000**	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**2.00~5.00**	**2021**	**147,005**	3.30~5.44	2020	156,610
Current portion of long term bank loans – secured	**2.71~6.41**	**2021**	**4,853,992**	3.92~6.41	2020	5,414,006
Bank loans – unsecured	**1.05~5.00**	**2021**	**19,481,295**	2.88~5.10	2020	12,544,331
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	**4.19**	**2021**	**10,000**	–	–	–
Current portion of long term bank loans – unsecured	**0.84~5.46**	**2021**	**26,454,673**	2.43~6.50	2020	28,299,097
Other loans – secured	**3.93~6.78**	**2021**	**1,293,759**	–	–	–
Other loans – unsecured	**6.71**	**2021**	**6,330,000**	6.10~6.80	2020	2,626,800
Bonds – secured*	**3.15~4.23**	**2021**	**5,677,022**	–	–	–
Bonds – unsecured*	**1.50~6.40**	**2021**	**39,683,705**	2.30~5.90	2020	38,704,001
			103,931,451			87,744,845
Non-current						
Bank loans – secured	**2.71~6.41**	**2022~2045**	**6,676,568**	3.92~6.41	2021~2032	5,795,584
Bank loans – unsecured	**0.84~7.70**	**2022~2031**	**41,146,284**	2.43~5.70	2021~2026	33,351,425
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	**4.19**	**2022~2023**	**193,270**	–	–	–
Other loans – secured	**3.93~5.16**	**2022~2025**	**2,313,483**	6.78	2021	400,000
Other loans – unsecured	**5.50~5.90**	**2022**	**1,201,000**	5.90~6.71	2021~2022	6,731,000
Bonds – secured*	**3.15~4.23**	**2022~2023**	**1,255,760**	–	–	–
Bonds – unsecured*	**3.10~5.19**	**2022~2025**	**45,574,265**	3.69~6.40	2021~2023	28,373,412
			98,360,630			74,651,421
Convertible bonds-host debts (Note 32)	**0.00~2.50**	**2025**	**2,924,074**	–	–	–
			205,216,155			162,396,266

* Including the effect of fair value gains/losses on the hedged item attributable to the hedged risk in the fair value hedges as further detailed in Note 22 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

	2020	2019
	RMB'000	RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	50,936,965	46,414,044
In the second year	27,979,657	23,318,321
In the third to fifth years, inclusive	18,829,398	14,827,507
Beyond five years	1,013,797	1,001,181
	98,759,817	85,561,053
Loans from subsidiaries of the ultimate holding company of a shareholder repayable:		
Within one year or on demand	10,000	–
In the second year	10,000	–
In the third to fifth years, inclusive	183,270	–
	203,270	–
Other borrowings repayable:		
Within one year or on demand	52,984,486	41,330,801
In the second year	28,873,605	26,576,996
In the third to fifth years, inclusive	24,394,977	8,927,416
	106,253,068	76,835,213
	205,216,155	162,396,266

(a) As at 31 December 2020, 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 RMB16,502,850,000 (31 December 2019: RMB8,131,017,000) and RMB3,806,937,000 (31 December 2019: RMB2,706,346,000), respectively.

(b) As at 31 December 2020, the Group's bank borrowings amounting to RMB142,005,000 (31 December 2019: RMB127,610,000) were secured by the pledge of cash.

(c) As at 31 December 2020, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB1,765,797,000 (31 December 2019: RMB801,227,000). The Group had not provided any guarantees for other entities (31 December 2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. CONVERTIBLE BONDS

On 8 July 2020, Universe Trek Limited, a wholly-owned subsidiary of the Company issued 2.5 per cent guaranteed convertible bonds ("the 2.5 percent Bonds") with a nominal value of USD$300,000,000. The 2.5 percent Bonds will be unconditionally and irrevocably guaranteed by the Company. There was no movement in the number of these convertible bonds during the year. The 2.5 percent Bonds are convertible at the option of the bondholders into ordinary shares of the Company with the initial conversion price of HK$8.33 per share at any time on or after 18 August 2020 and up to the close of business on the date falling ten days prior to 8 July 2025. The conversion price of the 2.5 percent Bonds was adjusted from HK$8.33 per share to HK$7.92 per Share with effect from 31 July 2020 as a result of the declaration of the final dividend for the year ended 31 December 2019. The 2.5 percent Bonds are redeemable at the option of the bondholders at 100.00 per cent of its principal amount on 8 July 2023. Any 2.5 percent Bonds convertible notes not converted will be redeemed on 8 July 2025 at 100.00 per cent of its principal amount. The 2.5 percent Bonds carry interest at a rate of 2.5 per cent per annum, which is payable semi-annually in arrears on 8 July and 8 January.

On 4 December 2020, Universe Trek Limited, a wholly-owned subsidiary of the Company issued zero coupon guaranteed convertible bonds ("the zero coupon Bonds") with a nominal value of USD$200,000,000. The zero coupon Bonds will be unconditionally and irrevocably guaranteed by the Company. There was no movement in the number of the zero coupon Bonds during the year. The zero coupon Bonds are convertible at the option of the bondholders into ordinary shares of the Company with the initial conversion price of HK$8.56 per share at any time on or after 14 January 2021 and up to the close of business on the date falling ten days prior to 4 December 2025. The zero coupon Bonds are redeemable at the option of the bondholders at 100.00 per cent of its principal amount on 21 December 2023. Any zero coupon Bonds convertible notes not converted will be redeemed on 4 December 2025 at 100.00 per cent of its principal amount.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	2020
	RMB'000
Nominal value of convertible bonds issued during the year	3,416,350
Equity component	(338,050)
Direct transaction costs attributable to the equity component	(3,161)
Direct transaction costs attributable to the liability component	(30,489)
Liability component at the issuance date	3,044,650
Interest expense	42,993
Exchange realignment	(163,569)
Liability component at 31 December (Note 31)	2,924,074

NOTES TO FINANCIAL STATEMENTS

31 December 2020

33. DEFERRED REVENUE

	Government special subsidies	
	2020	2019
	RMB'000	RMB'000
At the beginning of year	**1,054,306**	981,396
Additions during the year	**674,915**	702,226
Amortised to the statement of profit or loss	**(665,202)**	(629,316)
At the end of year	**1,064,019**	1,054,306

(i) Government special subsidy

For the year ended 31 December 2020, the Group received a government special subsidy of RMB177,067,000 (2019: RMB184,201,000), which was mainly granted in accordance with the policies on the 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 RMB354,490,000 (2019: RMB380,177,000) due to policies to support the finance lease industry of the Tianjin Dongjiang bonded port area. In addition, the Group received a government special subsidy of RMB104,020,000 (2019: RMB85,990,000) due to policies of Putuo District to upgrade and develop the 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.

34. SHARE CAPITAL

	Number of shares	Amounts HK$
Issued and fully paid ordinary shares:		
At 31 December 2019 (Note (i))	3,960,819,026	13,085,638,000
At 31 December 2020 (Note (i))	3,977,655,290	13,220,189,000

Note:

(i) The Company purchased its own shares through a trust under a share award scheme (Note 36), which were presented as shares held for the share award scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

34. SHARE CAPITAL (continued)

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

	Number of shares in issue	Share capital	Equivalent share capital
		HK$'000	RMB'000
At 1 January 2020 and 31 December 2019	3,960,819,026	13,085,638	10,281,212
Share options exercised (Note(ii))	16,836,264	134,551	115,892
As at 31 December 2020	3,977,655,290	13,220,189	10,397,104

Note:

(ii) The subscription rights attaching to 2,705,424, 2,321,665, 7,132,200, 3,190,310, 916,349 and 570,316 share options were exercised at the subscription price of HK$5.86, HK$7.17, HK$5.714, HK$6.82, HK$7.36 and HK$7.618 per share, respectively (Note 35), resulting in the issue of 16,836,264 shares for a total cash consideration, after expenses, of HK$106,099,000. An amount of HK$28,452,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

35. 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 and 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 Annual General Meeting 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

35. SHARE OPTION SCHEME (continued)

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, and 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.

On 23 July 2020, the Board announced that, the Company has resolved to the seventh offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 24,990,529 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:

	Exercise price* per share option	Number of share options	
Expiry date	HK$	**2020**	2019
11 July 2024	5.86	**5,044,475**	7,838,563
3 July 2025	7.17	**8,948,403**	13,273,029
15 June 2026	5.714	**16,109,896**	26,459,987
20 June 2027	6.82	**19,404,581**	29,099,616
18 July 2028	7.36	**22,641,629**	32,096,814
19 July 2029	7.618	**21,962,154**	30,422,016
23 July 2030	6.7	**23,066,258**	–
		117,177,396	139,190,025

NOTES TO FINANCIAL STATEMENTS

31 December 2020

35. SHARE OPTION SCHEME (continued)

* 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$)	Date of grant	Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Forfeited during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Outstanding as at 31 December 2019	Granted during the year ended 31 December 2020	Forfeited during the year ended 31 December 2020	Exercised during the year ended 31 December 2020	Outstanding as at 31 December 2020
5.86	11 July 2014	9,281,353	–	(942)	(1,441,848)	7,838,563	–	(88,664)	(2,705,424)	5,044,475
7.17	3 July 2015	15,411,202	–	(556,711)	(1,581,462)	13,273,029	–	(2,002,961)	(2,321,665)	8,948,403
5.714	15 June 2016	30,708,096	–	(1,640,193)	(2,607,916)	26,459,987	–	(3,217,891)	(7,132,200)	16,109,896
6.82	20 June 2017	32,166,747	–	(2,041,968)	(1,025,163)	29,099,616	–	(6,504,725)	(3,190,310)	19,404,581
7.36	18 July 2018	33,945,539	–	(1,848,725)	–	32,096,814	–	(8,538,836)	(916,349)	22,641,629
7.618	19 July 2019	–	31,633,581	(1,211,565)	–	30,422,016	–	(7,889,546)	(570,316)	21,962,154
6.70	23 July 2020	–	–	–	–	–	24,990,529	(1,924,271)	–	23,066,258
Total number at the end of the year		121,512,937	31,633,581	(7,300,104)	(6,656,389)	139,190,025	24,990,529	(30,166,894)	(16,836,264)	117,177,396
Weighted average exercise price (HK$)		6.66	7.618	6.87	6.26	6.89	6.70	7.08	6.30	6.88

5,044,475 (2019: 7,838,563), 8,948,403 (2019: 13,273,029), 16,109,896 (2019: 16,550,989), 11,690,472 (2019: 8,917,194), 6,182,803 (2019: Nil) and 6,082,073 (2019: Nil) share options which were granted on 11 July 2014, 3 July 2015, 15 June 2016 and 20 June 2017, 18 July 2018 and19 July 2019, respectively, were vested and exercisable, but not yet exercised during the year.

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2020 was RMB171,197,000 (31 December 2019: RMB213,024,000). The weighted average fair values were RMB1.27, RMB1.43, RMB1.48 and RMB1.58 per option for each of the four tranches with one-year, two-year, three-year and four-year (31 December 2019: The weighted average fair values were RMB1.47, RMB1.51, RMB1.55 and RMB1.55 per option each for four tranches with one-year, two-year, three-year and four-year) vesting periods, respectively. The Group recognised a share option expense of RMB29,856,000 (2019: RMB31,505,000) during the year ended 31 December 2020 in employee benefit expense.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

35. SHARE OPTION SCHEME (continued)

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:

	2020	2019
Expected dividend yield (%)	**5.09**	4.05
Expected volatility (%)	**33.53**	33.83
Risk-free interest rate (%)	**0.38**	1.61
Validity period of the share options (year)	**10**	10
Share price (HK$ per share)	**6.48**	7.40
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 2020, the Company had 63,119,274 (31 December 2019: 92,610,250) non-vested share options (including 12,569,591 (31 December 2019: 12,980,177) non-vested share options granted to certain executive directors, 20,026,399 (31 December 2019: 21,333,989) non-vested share options granted to certain employees among five highest paid employees and 22,670,877 (31 December 2019: 28,330,071) 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 63,119,274 (31 December 2019: 92,610,250) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 117,177,396 (2019: 139,190,025) share options outstanding under the Share Option Scheme, which represented approximately 3.05% (2019: 3.67%) of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. 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 the sum of the following numbers of the Shares: (a) 6% of the total number of issued Shares as at the date of approval of the Restricted Share Award Scheme by the Board on 11 June 2014, being 197,544,000 Shares; and (b) 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 2019	107,410,084
Granted	47,450,371
Vested	(54,363,996)
Forfeited	(7,629,794)
At 31 December 2019 and 1 January 2020	92,866,665
Granted	37,485,793
Vested	(28,704,663)
Forfeited	(30,884,149)
At 31 December 2020	**70,763,646**

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. RESTRICTED SHARE AWARD SCHEME (continued)

28,704,663 (31 December 2019: 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:

2020

Number of Restricted Shares	Vesting period
12,344,155	18 July 2018 to 18 July 2021
11,910,052	19 July 2019 to 19 July 2021
11,910,052	19 July 2019 to 19 July 2022
11,533,129	23 July 2020 to 23 July 2021
11,533,129	23 July 2020 to 23 July 2022
11,533,129	23 July 2020 to 23 July 2023
70,763,646	

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	

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. RESTRICTED SHARE AWARD SCHEME (continued)

At 31 December 2020, the Company had 70,763,646 (31 December 2019: 92,866,665) non-vested Restricted Shares (including 14,446,951 (31 December 2019: 12,889,845) non-vested Restricted Shares granted to certain executive directors, 23,297,342 (31 December 2019: 21,172,672) non-vested Restricted Shares granted to certain employees among five highest paid employees and 26,414,504 (31 December 2019: 28,255,128) non-vested Restricted Shares granted to certain key management personnel) outstanding under the Share Award Scheme.

Under the Share Award Scheme, there were shares of 136,648,367 (31 December 2019: 165,353,030) in total amounting to RMB866,947,000 (31 December 2019: RMB1,070,078,000), i.e. at a weighted average price of RMB6.34 (2019: RMB6.47), held by the trust at 31 December 2020. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount
		RMB'000
At 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 and 1 January 2020	165,353,030	1,070,078
Purchase of shares under Share Award Scheme	–	–
Vested	(28,704,663)	(203,131)
At 31 December 2020	**136,648,367**	**866,947**

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2020 was RMB391,168,000 (31 December 2019: RMB536,900,000). The weighted average fair values were RMB5.56, RMB5.64 and RMB5.45 per share (31 December 2019: RMB6.25, RMB5.88 and RMB5.56 per share) for each of the three tranches with one-year, two-year and three-year vesting periods (31 December 2019: for three tranches with one-year, two-year and three-year vesting periods), respectively. The Group recognised an amount of RMB132,990,000 (2019: RMB268,161,000) in employee benefit expense during the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. RESTRICTED SHARE AWARD SCHEME (continued)

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:

	2020	2019
Expected dividend yield (%)	5.09	4.05
Share price (HK$ per share)	6.48	7.40

37. 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 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.

The 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.

The 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 the share award scheme when the related Share Options are exercised or when Restricted Shares are vested.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. 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.

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 day immediately following the 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. The Renewable Bonds have been fully redeemed on 6 July 2020.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. PERPETUAL SECURITIES (continued)

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%.

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.

On 18 February 2020, Far Eastern Leasing completed the issuance of renewable corporate bonds (Epidemic Prevention and Control Securities) (the "Renewable Corporate Bonds") (Phase One) in an amount of RMB2,000,000,000 in the PRC. The Renewable Corporate Bonds (Phase One) consists of Variety One and Variety Two. The issue size of Variety One was RMB1,500,000,000 and the basic term will be 2 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 3.87% per annum. The issue size of Variety Two was RMB500,000,000 and the basic term 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 4.13% per annum.

Distributions of the Renewable Corporate Bonds (Phase One) may be paid annually in arrears on 18 February 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 18 June 2020, Far Eastern Leasing completed the issuance of renewable corporate bonds (the "Renewable Corporate Bonds") (Phase Two) in an amount of RMB700,000,000 in the PRC. The basic term of the Renewable Corporate Bonds (Phase Two) will be 2 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 3.98% per annum.

Distributions of the Renewable Corporate Bonds (Phase Two) may be paid annually in arrears on 18 June 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. PERPETUAL SECURITIES (continued)

On 25 December 2020, Far Eastern Leasing completed the issuance of perpetual trusted loans (the "Perpetual Trust Loans") in an amount of RMB970,000,000 in the PRC. The basic term of the Perpetual Trust Loan will be 1 year (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 5.65% per annum.

Distributions of the Perpetual Trust Loan may be paid every three months in arrears on and after 21 March 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. The distribution rate will be reset every year. The relevant reset distribution rate shall be the higher of (A) the coupon distribution rate of 5.65% per annum plus 3%, and (B) the specified arithmetic average of the yields of PRC treasury bonds plus the initial spread plus 3%.

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, the Perpetual Loans, the Renewable Corporate Bonds and the Perpetual Trust 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, the Perpetual Loans, the Renewable Corporate Bonds and the Perpetual Trust Loan amounted to RMB5,451,000, RMB14,892,000, RMB16,309,000, RMB64,000, RMB6,000,000 and nil, respectively.

For the year ended 31 December 2020, the profits attributable to holders of the Perpetual Capital Securities, the Renewable Bonds, the Guaranteed Perpetual Securities, the Perpetual Loans, the Renewable Corporate Bonds and the Perpetual Trust Loan (collectively "Perpetual Securities"), based on the applicable distribution rates, were RMB86,569,000 (2019:RMB92,304,000), RMB130,180,000 (2019:RMB263,253,000), RMB154,433,000 (2019: RMB154,440,000), RMB2,869,000 (2019: 1,338,000), RMB65,583,000 (2019: Nil), RMB14,383,000 (2019: Nil) and RMB1,005,000 (2019: Nil), respectively, and the distribution made by the Group to the holders of the Perpetual Securities was RMB499,070,000 (2019: RMB490,503,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. BUSINESS COMBINATIONS

In May 2020, the Group acquired 54.6744% of the voting shares of Pizhou Dongda Hospital Co., Ltd. ("Pizhou Dongda Hospital").

In July 2020, the Group acquired 60% of the voting shares of The National Mathematics and Science College Limited.

The acquisitions have been accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

Acquisition of Pizhou Dongda Hospital

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

	Fair value recognised on acquisition
	RMB'000
Assets	
Property, plant and equipment	523,231
Cash	48,211
Accounts receivable	21,556
Prepayments, other receivables and other assets	44,290
Inventories	6,648
Other intangible assets	5,816
Deferred tax assets	10,879
Right-of-use assets	73,998
	734,629

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. BUSINESS COMBINATIONS (continued)

Acquisition of Pizhou Dongda Hospital (continued)

The fair values of the identifiable assets and liabilities of Pizhou Dongda Hospital as at the date of acquisition were as follows: (continued)

	Fair value recognised on acquisition
	RMB'000
Liabilities	
Trade payables	(36,822)
Other payables and accruals	(60,516)
Interest-bearing bank and other borrowings	(45,259)
Taxes payable	(6,033)
Deferred tax liabilities	(53,960)
Lease liabilities	(32,981)
	(235,571)
Total identifiable net assets at fair value	499,058
Non-controlling interests	(226,201)
Goodwill arising on acquisition	5,983
Purchase consideration transferred	278,840
Including: Consideration paid upon acquisition	55,768
Consideration paid after acquisition	195,188
Consideration to be paid after acquisition	27,884

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. BUSINESS COMBINATIONS (continued)

Acquisition of Pizhou Dongda Hospital (continued)

The fair values of the identifiable assets and liabilities of Pizhou Dongda Hospital as at the date of acquisition were as follows: (continued)

	Fair value recognised on acquisition
	RMB'000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary	
(included in cash flows from investing activities)	48,211
Cash paid	(250,956)
Net outflow of cash and cash equivalents	
(included in cash flows from investing activities)	(202,745)
Transaction costs of the acquisition	
(included in cash flows from operating activities)	(510)
	(203,255)

Since the acquisition, Pizhou Dongda Hospital has contributed RMB187,499,000 to the Group's revenue and a net profit of RMB10,275,000 to the consolidated profit for the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. BUSINESS COMBINATIONS (continued)

Acquisition of The National Mathematics and Science College Limited

The fair values of the identifiable assets and liabilities of The National Mathematics and Science College Limited as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	RMB'000
Assets	
Property, plant and equipment	8,591
Cash	2,458
Accounts receivable	7,822
Prepayments, other receivables and other assets	1,242
	20,113
Liabilities	
Trade payables	(4,333)
Other payables and accruals	(25,826)
Interest-bearing bank and other borrowings	(28,279)
	(58,438)
Total identifiable net assets at fair value	(38,325)
Non-controlling interests	15,330
Goodwill arising on acquisition	22,995
Purchase consideration transferred	–

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. BUSINESS COMBINATIONS (continued)

Acquisition of The National Mathematics and Science College Limited (continued)

The fair values of the identifiable assets and liabilities of The National Mathematics and Science College Limited as at the date of acquisition were as follows: (continued)

	Fair value recognised on acquisition
	RMB'000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,458
Cash paid	–
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	2,458
Transaction costs of the acquisition (included in cash flows from operating activities)	–
	2,458

Since the acquisition, The National Mathematics and Science College Limited has contributed RMB11,529,000 to the Group's revenue and a net loss of RMB5,939,000 to the consolidated profit for the year ended 31 December 2020.

If the acquisitions had taken place at the beginning of the year, revenue of the Group would have been RMB29,179,839,000 and the net profit of the Group for the year would have been RMB5,037,498,000.

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 RMB610,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The Group acquired Hongwen Montessori Academy Changsha Campus, Chengdu Jinsha Hospital, Guangzhou JP-WH precision Circuit Co., Ltd., Ningbo Qixu New Energy Technology Company Limited, Taizhou Dehong New Energy Technology Company Limited, Ningbo Zhenhai Second Hospital, Zhecheng Hospital of Traditional Chinese Medicine Co., Ltd., Shanxi Shangtaike New Energy Company Limited, Beijing Yueyang Changsheng New Energy Technology Co., Ltd., Hai An Tian Li Yuan New Energy Co., Ltd., Linghai Dalinghe Hospital Co., Ltd., Beijing Nengrong Jingsheng Electric Power Technology Co., Ltd. and Changxing Zhizhou Hospital Co., Ltd. during the year ended 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

40. DISPOSAL OF SUBSIDIARIES

In May 2020, the Group disposed of 100% of the voting shares of Shanghai Baishan Enterprise Management Co., Ltd. ("Shanghai Baishan").

In June 2020, the Group cancelled the registration of Shanghai Jingan Montessori Campus ("Shanghai JingAn").

In July 2020, the Group disposed of 100% of the voting shares of Hangzhou Montessori Campus ("Hangzhou Mengshi"), 100% of the voting shares of Hangzhou Montessori Academy Co., Ltd. ("Hangzhou Montessori") and 100% of the voting shares of Qingdao Montessori Campus ("Qingdao Campus").

In August 2020, the Group disposed of 100% of the voting shares of Chongqing Montessori Academy Co., Ltd. ("Chongqing Montessori") and its subsidiary, Montessori Academy Chongqing Yubei Campus ("Chongqing Campus"), and 100% of the voting shares of Changzhou Hongyue Obstetrics&Gynecology Hospital Co., Ltd. ("Changzhou Hongyue"). The Group cancelled the registration of Shanghai Minhang Yuanhong Montessori Campus and Shanghai Minhang Hongxin Montessori Campus.

In September 2020, the Group disposed of 100% of the voting shares of Huangshi Hongyue maternity hospital Co., Ltd. ("Huangshi Hongyue").

In November 2020, the Group cancelled the registration of Panzhihua Hongyue Women&Children's Hospital Co., Ltd. ("Panzhihua Hongyue").

In December 2020, the Group disposed of 52% of the voting shares of Changxing Zhizhou Hospital Co., Ltd. ("Changxing Zhizhou").

NOTES TO FINANCIAL STATEMENTS

40. DISPOSAL OF SUBSIDIARIES (Continued)

Disposal of Hangzhou Mengshi, Chongqing Montessori, Chongqing Campus, Hangzhou Montessori and Qingdao Campus, and cancellation of the registration of Shanghai JingAn, Shanghai Minhang Yuanhong Montessori Campus and Shanghai Minhang Hongxin Montessori Campus ("Education Industry related companies")

Net assets of Education Industry related companies as at the date of disposal and cancellation were as follows:

	2020
	RMB'000
Net assets disposed of:	
Cash and cash equivalents	196
Prepayments, other receivables and other assets	27,667
Property, plant and equipment	8,542
Right-of-use assets	143,121
Trade and bills payables	(241)
Other payables and accruals	(17,343)
Lease liabilities	(157,813)
	4,129
Gain on disposal of subsidiaries	3,346
	7,475
Satisfied by:	
Cash	7,475
Analysis of cash flows on disposal:	
Cash consideration	7,475
Cash and cash equivalents disposed of	(196)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	7,279

NOTES TO FINANCIAL STATEMENTS

40. DISPOSAL OF SUBSIDIARIES (Continued)

Disposal of Changzhou Hongyue, Huangshi Hongyue, Shanghai Baishan and Changxing Zhizhou, and cancellation of the registration of Panzhihua Hongyue ("Hospital Industry related companies")

Net assets of Hospital Industry related companies as at the date of disposal and cancellation were as follows:

	2020
	RMB'000
Net assets disposed of:	
Cash and cash equivalents	15,870
Loans and accounts receivables	45,680
Prepayments, other receivables and other assets	32,893
Inventories	2,509
Property, plant and equipment	4,229
Other intangible assets	1,008
Right-of-use assets	268,037
Goodwill	44,023
Trade and bills payables	(44,269)
Other payables and accruals	(23,931)
Lease liabilities	(96,678)
Non-controlling interests	(20,798)
	228,573
Gain on disposal of subsidiaries	32,789
	261,362
Satisfied by:	
Cash	261,362
Analysis of cash flows on disposal:	
Cash consideration	261,362
Cash and cash equivalents disposed of	(15,870)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	245,492

NOTES TO FINANCIAL STATEMENTS

41. 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 RMB155,427,000 (2019: RMB1,084,652,000) and RMB155,427,000 (2019: RMB1,084,652,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

2020

	Bank and other loans	Bonds	Lease liabilities	Convertible Bonds	Payables to non-controlling interests of consolidated structured entities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	95,853,376	68,248,110	1,873,077	–	–
Changes from financing cash flows	16,904,277	25,539,954	(962,182)	3,382,700	179,564
Equity component of convertible bonds	–	–	–	(338,050)	–
New leases	–	–	155,427	–	–
Foreign exchange movement	(2,255,961)	(424,290)	–	(163,569)	–
Interest expense	8,398,887	123,096	56,610	42,993	–
Interest paid classified as operating cash flows	(7,933,826)	(126,602)	–	–	–
Fair value gains	–	–	–	–	42,449
Reassessment and revision of lease terms	–	–	(80,830)	–	–
Increase arising from acquisition of subsidiaries	73,538	–	32,981	–	–
Decrease arising from disposal of subsidiaries	–	–	(254,491)	–	–
At 31 December 2020	111,040,291	93,360,268	820,592	2,924,074	222,013

NOTES TO FINANCIAL STATEMENTS

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

2019

	Bank and other loans	Bonds	Lease liabilities
	RMB'000	RMB'000	RMB'000
At 1 January 2019	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

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020
	RMB'000
Within financing activities	**(962,182)**

NOTES TO FINANCIAL STATEMENTS

42. CONTINGENT LIABILITIES

At 31 December 2020, contingent liabilities that are not provided for in the financial statements were as follows:

	2020	2019
	RMB'000	RMB'000
Claimed amounts	6,310	15,417

43. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings are included in Notes 13, 14, 23, 27 and 31, respectively, to the financial statements.

44. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2020	2019
	RMB'000	RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	324,921	248,141
Purchase of a shareholding	–	10,000
	324,921	258,141

NOTES TO FINANCIAL STATEMENTS

44. COMMITMENTS (continued)

(b) Credit commitments

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

	2020	2019
	RMB'000	RMB'000
Irrevocable credit commitments	8,101,274	9,713,667

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.

45. 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")

NOTES TO FINANCIAL STATEMENTS

45. RELATED PARTY TRANSACTIONS (continued)

Relationship between the Group and its related parties: (continued)

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 Qianmen Hospital Co., Ltd.
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.**
Grand Flight Investment Management Co., Ltd.
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.
Shanghai Shengjiang Investment Management 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

** Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd. is the subsidiary of Grand Flight Investment Management Co., Ltd.

NOTES TO FINANCIAL STATEMENTS

45. RELATED PARTY TRANSACTIONS (continued)

In addition to the transactions and balances disclosed in Notes 23, 24, 27, 29, 30 and 31 to the financial statements, the Group had the following material transactions with related parties during the year.

(i) Interest income from cash at banks

	2020	2019
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	3,667	3,944

The interest income was earned at rates ranging from 0.35% to 1.495% (2019: 0.35%-1.15%) per annum.

(ii) Service fee income

	2020	2019
	RMB'000	RMB'000
Guangzhou Kangda Industrial Technology Co., Ltd.	31	1,132
Kunming Broadhealthcare Investment Co., Ltd.	–	3,044
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	2,067	–
Fengyang Qianmen Hospital Co., Ltd.	86	–
	2,184	4,176

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

NOTES TO FINANCIAL STATEMENTS

45. RELATED PARTY TRANSACTIONS (continued)

(iii) Interest expense on borrowings

	2020	2019
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	30,744	47,342

The interest expenses were charged at a rate from 3.6% to 4.185% (2019: 5.6%) per annum.

(iv) Interest expenses

	2020	2019
	RMB'000	RMB'000
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	29	28
Grand Flight Investment Management Co., Ltd.	426	335
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	58	33
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.	1,300	2,357
Tianjin FIS Asset Management Co., Ltd.	–	391
Beijing Chemsunny Property Co., Ltd.	–	615
	1,813	3,759

The interest expenses were charged at a rate of 1.485% (2019: 1.485% to 4.9%) per annum.

(v) Consultancy service fee and other financial service fee

	2020	2019
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	10,433	22,095

NOTES TO FINANCIAL STATEMENTS

45. RELATED PARTY TRANSACTIONS (continued)

(vi) Rentals paid as a lessee (rental expenses)

	2020	2019
	RMB'000	RMB'000
China Jin Mao Group Co., Ltd.	–	37
Beijing Chemsunny Property Co., Ltd.	8,140	8,140
Jin Mao (Shanghai) Property Management Services Co., Ltd.	–	34
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	562	563
	8,702	8,774

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

(vii) Interest income from loans and accounts receivables

	2020	2019
	RMB'000	RMB'000
Weihai Haida Hospital Co., Ltd.	–	893
Guangzhou Kangda Industrial Technology Co., Ltd.	7,053	6,531
Kunming Broadhealthcare Investment Co., Ltd.	3,417	5,512
Tianjin FIS Asset Management Co., Ltd.	44,524	19,836
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	3,886	2,286
Shanghai Shengjiang Investment Management Co., Ltd.	1,396	–
	60,276	35,058

NOTES TO FINANCIAL STATEMENTS

45. RELATED PARTY TRANSACTIONS (continued)

(viii) Tendering service fee

	2020	2019
	RMB'000	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

	2020	2019
	RMB'000	RMB'000
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	4,558	8,992

(x) Decoration fee

	2020	2019
	RMB'000	RMB'000
Shanghai Yijia Construction Development Co., Ltd.	7,951	–

(xi) Compensation of key management personnel of the Group

	2020	2019
	RMB'000	RMB'000
Short term employee benefits	96,462	133,511

During 2020, certain members of 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 35 and Note 36 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.

NOTES TO FINANCIAL STATEMENTS

46. 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:

2020
Financial assets

	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Hedging instruments designated in cash flow hedges	Debt investment at fair value through other comprehensive income	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and accounts receivables	229,397,307	–	–	–	229,397,307
Financial assets included in prepayments, other receivables and other assets	5,360,263	–	–	–	5,360,263
Restricted deposits	3,474,869	–	–	–	3,474,869
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	288,818	–	288,818
Derivative financial instruments designated as hedging instruments in fair value hedges	–	149	–	–	149
Financial assets at fair value through profit or loss	–	9,342,565	–	–	9,342,565
Debt investment at fair value through other comprehensive income	–	–	–	108,176	108,176
Cash and cash equivalents	11,877,235	–	–	–	11,877,235
	250,109,674	9,342,714	288,818	108,176	259,849,382

NOTES TO FINANCIAL STATEMENTS

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2020 (continued)

Financial liabilities

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Hedging instruments designated in cash flow hedges	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	7,880,410	–	–	7,880,410
Financial liabilities included in other payables and accruals	27,561,842	–	–	27,561,842
Interest-bearing bank and other borrowings*	200,292,081	–	–	200,292,081
Convertible bonds-host debts	2,924,074	–	–	2,924,074
Lease liabilities	820,592	–	–	820,592
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	1,855,165	1,855,165
Other non-current liabilities	–	222,013	–	222,013
	239,478,999	222,013	1,855,165	241,556,177

* Including the effect of fair value gains/losses on the hedged item attributable to the hedged risk in the fair value hedge as further detailed in Note 22 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2019

Financial assets

	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Hedging instruments designated in cash flow hedges	Total
	RMB'000	RMB'000	RMB'000	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

NOTES TO FINANCIAL STATEMENTS

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2019 (continued)

Financial liabilities

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Hedging instruments designated in cash flow hedges	Total
	RMB'000	RMB'000	RMB'000	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

47. 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 in 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, the current portion of financial assets included in deposits and other receivables, trade and bills payables, short term borrowings and the 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.

NOTES TO FINANCIAL STATEMENTS

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

Financial instruments not measured at fair value (continued)

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 and convertible bonds-host debts

The fair values of the bonds and convertible bonds-host debts 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	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	**92,190,752**	67,077,413	**92,107,786**	67,832,131
Convertible bonds-host debts	**2,924,074**	–	**3,026,531**	–

Non-current portion of financial assets included in prepayments deposits and other receivables and the 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 the 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.

NOTES TO FINANCIAL STATEMENTS

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

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.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020:

Description	Fair value at 31 December 2020	Valuation technique	Unobservable input	Relationship of unobservable inputs to fair value
Financial investments at fair value profit or loss	1,770,807	Market comparable model/Adjusted recent transaction price	Discount for lack of marketability ("DLOM")/Volatility	The higher the DLOM, the lower the fair value/ The higher the volatility, the higher the fair value

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1:	fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3:	fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

NOTES TO FINANCIAL STATEMENTS

47. 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 2020

	Level 1 Quoted prices in active markets	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cross-currency interest rate swaps – assets	–	269,809	–	269,809
Interest rate swaps – assets	–	19,158	–	19,158
Cross-currency interest rate swaps – liabilities	–	(1,756,842)	–	(1,756,842)
Forward currency contracts – liabilities	–	(72,485)	–	(72,485)
Interest rate swaps – liabilities	–	(25,838)	–	(25,838)
Financial assets at fair value through profit or loss	233,100	7,338,658	1,770,807	9,342,565
Debt investments at fair value through other comprehensive income	–	108,176	–	108,176
Other non-current liabilities	–	(222,013)	–	(222,013)

As at 31 December 2019

	Level 1 Quoted prices in active markets	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
	RMB'000	RMB'000	RMB'000	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

During the year ended 31 December 2020, there were transfers at fair value measurements from Level 2 to Level 1 and from Level 2 to Level 3 (year ended 31 December 2019: Nil).

NOTES TO FINANCIAL STATEMENTS

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

Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2020	2019
	RMB'000	RMB'000
Financial assets at fair value through profit or loss		
Carrying amount at 1 January 2020	–	–
Changes in fair value recognised in profit or loss	44,320	–
Additions/(Disposals), net	1,726,487	–
Carrying amount at 31 December 2020	1,770,807	–

Liabilities for which fair values are disclosed

As at 31 December 2020

	Level 1 Quoted prices in active markets	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Bonds issued	–	92,190,752	–	92,190,752
Convertible bonds-host debts	–	2,924,074	–	2,924,074

As at 31 December 2019

	Level 1 Quoted prices in active markets	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Bonds issued	–	67,832,131	–	67,832,131

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise lease receivables, entrusted loans, trade receivables, trade payables, bank loans, other interest-bearing loans, cash and short term deposits and derivative financial instruments. The main purpose of bank loans and other interest-bearing loans is to finance the Group's operations while other financial assets and liabilities such as lease receivables, entrusted loans, trade receivables and trade payables are directly related to the Group's operating activities.

The Group also enters into derivative transactions, including principally cross-currency interest rate swaps, forward currency contracts and RMB-denominated interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings, lease receivables and other loans. The Group aims to mitigate such risks by reducing future variability in cash flows or fair value, while balancing the cost of such risk mitigation measure. For example, the Group enters into cash flow and fair value hedges (See Note 22).

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.

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/(decrease) in profit before tax As at 31 December	
	2020	2019
	RMB'000	RMB'000
Change in basis points		
+100 basis points	**30,639**	30,798
– 100 basis points	**(30,639)**	(30,798)

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 change 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 the RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. For example, the Group enters into cross currency interest rate swaps and forward currency contracts to mitigate the currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 22).

The exchange rate of RMB to the 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$.

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

The table below is a sensitivity analysis of the change in the exchange rate 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, has 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	
		2020	2019
Currency	Change in currency rate	RMB'000	RMB'000
US$	+/-1%	**(9,475)/9,475**	13,434/(13,434)
HK$	+/-1%	**(9,192)/9,192**	(8,080)/8,080

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, and 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.

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging

The tables below show 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. The amounts presented are gross carrying amounts for financial assets.

at 31 December 2020

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL – impaired)	Simplified Approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Contract assets	–	–	–	110,132	110,132
Accounts receivable	–	–	–	3,280,753	3,280,753
Notes receivable*	547,837	–	–	–	547,837
Interest-earning assets	206,267,538	17,889,704	1,519,651	–	225,676,893
Financial assets included in prepayments, other receivables and other assets	5,360,263	–	–	–	5,360,263
Pledged deposits	3,474,869	–	–	–	3,474,869
Cash and cash equivalents	11,877,235	–	–	–	11,877,235
	227,527,742	17,889,704	1,519,651	3,390,885	250,327,982

* includes notes receivable classified as debt investment at fair value through other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

at 31 December 2019

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL – impaired)	Simplified Approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

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 RMB2,655,605,000 (2019: RMB2,762,878,000) 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.

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.

NOTES TO FINANCIAL STATEMENTS

48. 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:

	As at 31 December 2020						
	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	2,858,332	39,601,266	96,973,341	116,717,226	1,567,495	–	257,717,660
Financial assets included in prepayments, other receivables and other assets	–	147,882	767,617	4,005,205	439,559	–	5,360,263
Restricted deposits	–	2,729,375	749,299	143	–	–	3,478,817
Derivative financial instruments	–	219,765	–	69,202	–	–	288,967
Financial assets at fair value through profit or loss	516,305	138,515	2,511,031	3,639,853	1,268,801	1,268,060	9,342,565
Debt investment at fair value through other comprehensive income	–	17,236	90,940	–	–	–	108,176
Cash and cash equivalents	11,877,235	–	–	–	–	–	11,877,235
Total financial assets	15,251,872	42,854,039	101,092,228	124,431,629	3,275,855	1,268,060	288,173,683
FINANCIAL LIABILITIES:							
Trade and bills payables	85,554	1,524,764	6,270,092	–	–	–	7,880,410
Financial liabilities included in other payables and accruals	53,169	5,616,117	5,940,980	15,887,762	63,814	–	27,561,842
Convertible bonds-host debts	–	–	–	2,924,074	–	–	2,924,074
Lease liabilities	–	71,526	166,018	452,002	131,046	–	820,592
Interest-bearing bank and other borrowings	–	35,494,692	70,421,107	100,103,326	921,456	–	206,940,581
Derivative financial instruments	–	19,079	278,362	1,557,724	–	–	1,855,165
Other non-current liabilities	–	–	–	–	222,013	–	222,013
Total financial liabilities	138,723	42,726,178	83,076,559	120,924,888	1,338,329	–	248,204,677
Net liquidity gap	15,113,149	127,861	18,015,669	3,506,741	1,937,526	1,268,060	39,969,006

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	As at 31 December 2019						
	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	2,078,411	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

NOTES TO FINANCIAL STATEMENTS

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is defined by management as net debt divided by total equity plus net debt. Net debt includes bank and other borrowings. The gearing ratios as at the reporting dates were as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Bank and other borrowings (Note 31)	**205,216,155**	162,396,266
Total equity	**45,267,133**	41,534,775
Total equity and net debt	**250,483,288**	203,931,041
Gearing ratio	**82%**	80%

NOTES TO FINANCIAL STATEMENTS

49. OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Continuing involvement in transferred assets	**4,064,204**	5,569,255
Payables to non-controlling interests of consolidated structured entities	**222,013**	–
Other	**500**	–
	4,286,717	5,569,255

50. 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.

During the year ended 31 December 2020, the Group did not transfer loans and accounts receivable to third parties, consequently, no such assets were qualified for full derecognition. (2019: RMB2,051,039,000 was fully derecognized. The Group did not provide liquidity support to these unconsolidated structured entities, thus there was no exposure to losses).

The Group also transferred loans and accounts receivables to unconsolidated structured entities, where the Group held some subordinated tranches, and hence, it retained continuing involvement in the transferred assets (i.e. loans and accounts receivables amounting to RMB94,602,291,000 as at 31 December 2020). As a result, as at 31 December 2020, the balance of subordinated tranches of asset-backed securities/notes held by the Group amounted to RMB4,499,118,000 (31 December 2019: RMB5,850,246,000). In addition, the balances of continuing involvement in transferred assets and associated liabilities both amounted to RMB4,499,118,000 (31 December 2019: both RMB5,850,246,000), 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 2020, as a result of the securitisation transactions, the Group recognised gains of RMB1,285,000 (2019: gains of RMB11,612,000 and losses of RMB1,840,000) from transfers of loans and accounts receivables.

NOTES TO FINANCIAL STATEMENTS

51. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2021, all the outstanding US$200,000,000 in aggregate principal amount of zero coupon guaranteed convertible bonds issued by Universe Trek Limited on 4 December 2020 with a due date on 4 December 2025 have been fully converted into ordinary shares of the Company in accordance with the terms and conditions of the zero coupon Bonds. Accordingly, there were no outstanding zero coupon Bonds in issue as at the date of 18 January 2021. Universe Trek Limited and the Company have withdrawn the listing of the zero coupon Bonds from The Stock Exchange of Hong Kong Limited.

52. COMPARATIVE AMOUNTS

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

NOTES TO FINANCIAL STATEMENTS

53. 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 2020	31 December 2019
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	7	12
Investments in subsidiaries	54,714,295	41,366,811
Deferred tax assets	110,551	114,258
Loans and accounts receivables	18,839,980	16,927,498
Derivative financial instruments	50,193	819,369
Total non-current assets	73,715,026	59,227,948
CURRENT ASSETS		
Loans and accounts receivables	1,316,705	3,563,189
Prepayments, other receivables and other assets	9,920,864	10,441,893
Dividend receivable from subsidiaries	12,391	13,248
Derivative financial instruments	196,402	229,979
Restricted deposits	223,658	269,322
Cash and cash equivalents	684,832	406,811
Total current assets	12,354,852	14,924,442
CURRENT LIABILITIES		
Other payables and accruals	3,985,904	1,573,321
Derivative financial instruments	193,771	17,497
Income tax payable	(78)	(220)
Interest-bearing bank and other borrowings	18,625,023	14,484,357
Total current liabilities	22,804,620	16,074,955
NET CURRENT LIABILITIES	(10,449,768)	(1,150,513)
TOTAL ASSETS LESS CURRENT LIABILITIES	63,265,258	58,077,435

NOTES TO FINANCIAL STATEMENTS

53. 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 2020	31 December 2019
	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**63,265,258**	58,077,435
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**25,686,277**	25,930,863
Derivative financial instruments	**1,399,084**	129,792
Total non-current liabilities	**27,085,361**	26,060,655
Net assets	**36,179,897**	32,016,780
EQUITY		
Share capital	**10,397,104**	10,281,212
Reserves (Note 37)	**23,742,826**	19,693,208
	34,139,930	29,974,420
Holders of perpetual securities	**2,039,967**	2,042,360
Total equity	**36,179,897**	32,016,780

Kong Fanxing
Director

Wang Mingzhe
Director

NOTES TO FINANCIAL STATEMENTS

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve	Shares held for the share award scheme	Share-based compensation reserve[#]	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 the share award scheme	–	(774,973)	–	–	–	–	–	–	(774,973)
Final 2018 dividend declared (net of dividends received from shares held for the 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

NOTES TO FINANCIAL STATEMENTS

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: (continued)

A summary of the Company's reserves is as follows: (continued)

	Equity component of convertible bonds	Capital reserve	Shares held for the share award scheme	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	–	1,535,462	(1,070,078)	407,015	8,346	121,913	(311,956)	611,888	18,390,618	19,693,208
Profit for the year	–	–	–	–	–	–	–	–	4,750,245	4,750,245
Other comprehensive income for the year:										
Cash flow hedges, net of tax	–	–	–	–	–	–	57,667	–	–	57,667
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	141,931	–	141,931
Total comprehensive income	–	–	–	–	–	–	57,667	141,931	4,750,245	4,949,843
Final 2019 dividend declared (net of dividends received from shares held for the share award scheme)	–	–	–	–	–	–	–	–	(1,143,486)	(1,143,486)
Shares vested under the restricted share award scheme	–	–	203,131	(166,840)	–	–	–	–	(36,291)	–
Transfer of share option reserve upon exercise of share options	–	–	–	(23,798)	–	–	–	–	–	(23,798)
Recognition of equity-settled share-based payments	–	–	–	162,846	–	–	–	–	–	162,846
Special reserve – safety fund appropriation	–	–	–	–	16,568	–	–	–	(18,063)	(1,495)
Capital injection by non-controlling shareholders	–	4,182	–	–	–	–	–	–	–	4,182
Purchase of non-controlling interests	–	(236,524)	–	–	–	–	–	–	–	(236,524)
Issue of convertible bonds	338,050	–	–	–	–	–	–	–	–	338,050
At 31 December 2020	338,050	1,303,120	(866,947)	379,223	24,914	121,913	(254,289)	753,819	21,943,023	23,742,826

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 the share award scheme when the related Share Options are exercised or Restricted Shares are vested.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.