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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 2022

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 2022. This announcement, containing the full text of the 2022 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
KONG Fanxing
*Chairman, Chief Executive
Officer and Executive Director*

Hong Kong, 15 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. KONG Fanxing (Chairman), Mr. WANG Mingzhe and Mr. CAO Jian, the non-executive directors of the Company are Mr. CHEN Shumin, Ms. WEI Mengmeng, Mr. LIU Haifeng David, Mr. KUO Ming Jian and Mr. John LAW, and the independent non-executive directors of the Company are Mr. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming.

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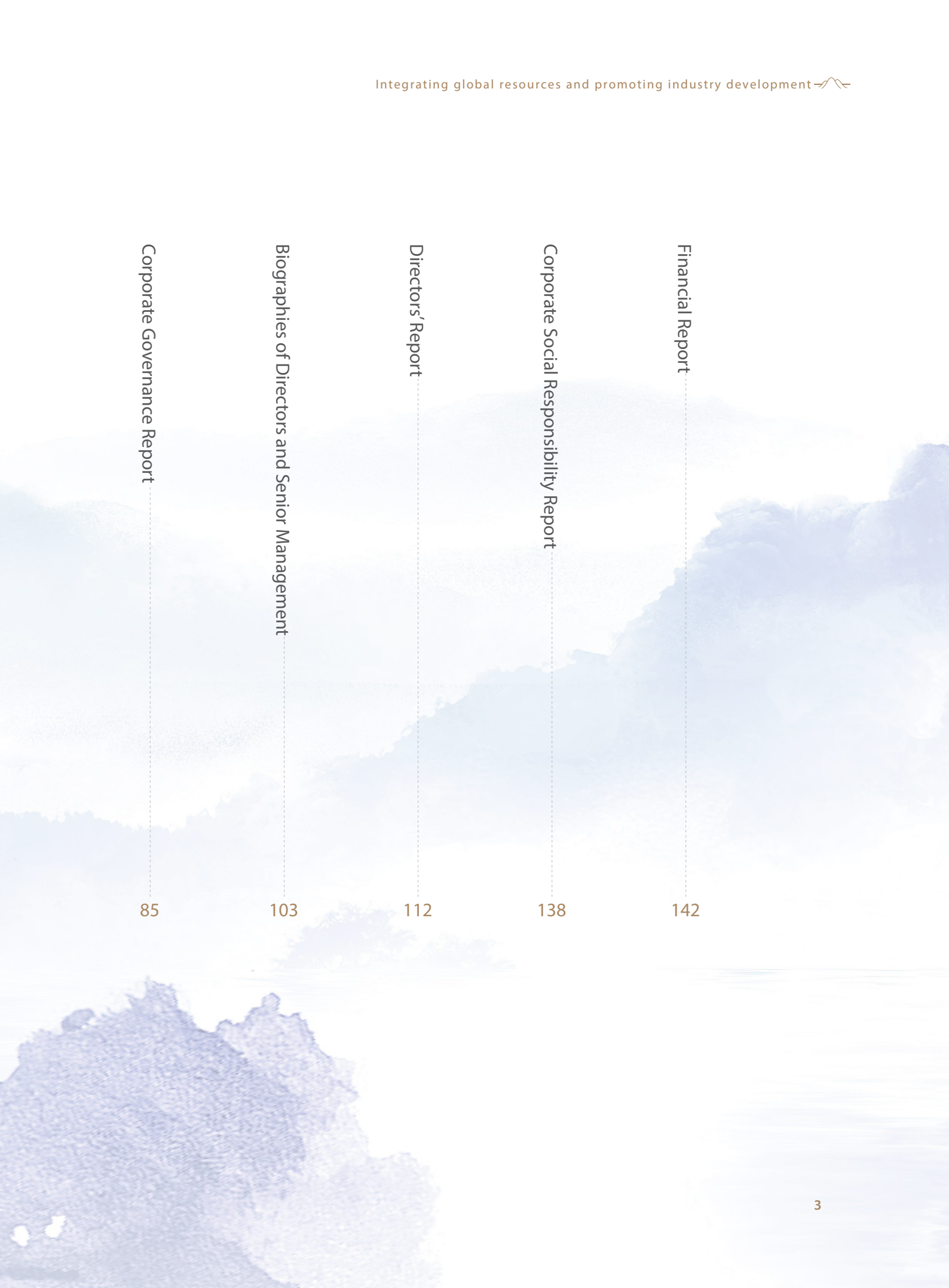
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Executive Director

Mr. KONG Fanxing
(Chairman, Chief Executive Officer)
(appointed as Chairman on
14 December 2022)

Executive Directors

Mr. WANG Mingzhe
(Chief Financial Officer)

Mr. CAO Jian
(Senior Vice President)
(appointed on 24 February 2023)

Non-Executive Directors

Mr. NING Gaoning
(former non-executive Director
and Chairman, resigned as Chairman
on 14 December 2022 and resigned
as non-executive Director on
24 February 2023)

Mr. YANG Lin
(former non-executive Director,
resigned on 24 February 2023)

Mr. CHEN Shumin
(Vice Chairman)
(appointed on 24 February 2023)

Ms. WEI Mengmeng
(appointed on 24 February 2023)

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

Environmental, Social and Governance Committee

Mr. CAI Cunqiang *(Chairman)*

Mr. HAN Xiaojing

Mr. John LAW

COMPANY SECRETARY

Ms. MAK Sze Man
(resigned on 11 August 2022)

Ms. Yuen Wing Yan Winnie
(appointed on 11 August 2022)

AUTHORISED REPRESENTATIVES

Mr. KONG Fanxing

Ms. MAK Sze Man
(resigned on 11 August 2022)

Ms. Yuen Wing Yan Winnie
(appointed on 11 August 2022)

REGISTERED OFFICE

Unit 6608, 66/F,
International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Far East Horizon Plaza,
9 Yaojiang Road,
Pudong New Area,
Shanghai,
the People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 6608, 66/F,
International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited

Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Development Bank
Bank of China

AUDITORS

Ernst & Young

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

LEGAL ADVISER

Baker & McKenzie

COMPANY'S WEBSITE

www.fehorizon.com

STOCK CODE

The Company's shares are listed on the
Main Board of The Stock Exchange of
Hong Kong Limited

Stock Code: 3360

COMPANY PROFILE

Far East Horizon Limited (the “Company” or “Far East Horizon”) and its subsidiaries (the “Group”) is one of China’s leading innovative financial companies focusing on the Chinese fundamental industries and leveraging the business model of integrating finance and industry to serve enterprises of greatest vitality with the support of the fast-growing and enormous economy in China. Based on its operational philosophy of “finance + industry”, Far East Horizon endeavours to realize its vision of “Integrating global resources and promoting industry development” 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 backed by the mainland and headquartered in Hong Kong with influence extended to reach Southeast Asia 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 (the “Stock Exchange”) on 30 March 2011.

OFFICE LAYOUT NATIONWIDE



CHAIRMAN'S STATEMENT



Far East Horizon Limited
Chairman of the Board and CEO

KONG Fanxing

Dear Shareholders,

Looking back on 2022, under the complex and everchanging external environment such as the rapidly changing global landscape, the continuously escalating geopolitical conflicts and high global inflation, the Chinese economy has demonstrated strong resilience with the annual GDP growing by 3% in the face of the repeated impact of the domestic pandemic and the triple pressure and challenges of “demand contraction, supply shock and weakening expectations”.

In 2022, under the strategic framework of “finance + industry”, the Group has always adhered to the essence of business operation, took root in the real economy, and served corporate customers. Facing the complex internal and external environment, the Group proactively resonated with the environment, continuously deepened its strategic development strategy, clarified the development positioning of “relying on the Mainland China, based in Hong Kong, and radiating to Southeast Asia”, and gave full play to the capability advantages of “marketization, internationalization and specialization”, achieving further growth in revenue scale and profitability to continuously create value for Shareholders. All of this would not have been possible without the strong support of all Shareholders in the past year. On behalf of the Board of Directors, the management and all staffs of the Group, I would like to hereby express my heartfelt thanks to all Shareholders.

In 2022, traditional businesses carried out operations centering on “serving the city upgrading and industry upgrading”, with steady growth in business scale, continuous improvement in operating efficiency and constant strengthening of risk management and control capabilities; Organically combined with traditional businesses, new businesses were operating in an orderly manner to build interactive and innovative business structure; The equipment volume of Horizon Construction Development continued to rise and it has achieved breakthroughs in platform business, thus further consolidating its leading position in the industry; Horizon Healthcare further expanded its medical service operation, with the number of its holding hospitals reaching 30. Meanwhile, 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 continued to refine the industry and customer base coverage of traditional businesses, strengthened regional cultivation and enhanced synergies, moving forward to the direction of becoming a comprehensive “industry private bank (產業私行)”. In respect of new businesses, leveraging the resources and systems of traditional business in various aspects such as customer base and channels, the scope of services in inclusive finance, commercial factoring, PPP investment, overseas business, asset business and other aspects has been expanding continuously, thus strengthening operations and improving management effectiveness. As at the end of 2022, the interest-earning assets of the Group amounted to approximately RMB270.601 billion, representing an increase of 4.73% as compared to the beginning of the year. Attributable to our effective and comprehensive risk management system as well as continuous optimization of risk management methods, the asset quality of the Group has further enhanced steadily. The non-performing asset ratio declined to 1.05%. New businesses contributed interest income of RMB2.43 billion, representing a year-on-year increase of 30.91%.

CHAIRMAN'S STATEMENT

In respect of industrial operation, revenue maintained rapid growth and constantly increasing contribution, which totaled RMB13.233 billion, representing an increase of 15.73% as compared to the last year and 36.02% of total revenue. As a leading equipment operation service provider in China, Horizon Construction Development has further strengthened its leading market position. As at the end of 2022, Horizon Construction Development owned more than 130,000 sets of aerial work platforms, and approximately 2.2 million tons of neo-excavation support system and neo-formwork system with industry-leading scale. Horizon Construction Development had four major bases and 349 service outlets in 187 cities, covering Eastern China, Southern China, Northern China, Southwest China and Northeast China, and providing high quality and convenient services for its corporate customers. In 2022, the total revenue of Horizon Construction Development amounted to RMB7.878 billion, representing an increase of 28.28% as compared to the corresponding period of the last year. The adjusted net profit amounted RMB904 million, representing an increase of 20.10% as compared to the last year. As for Horizon Healthcare, in 2022, the scale of the member hospitals has reached a new level, with the number of holding hospitals increased to 30 and the medical service operation continued to expand. At the same time, it continued to adhere to the strategic direction of "100 Counties Plan (百縣計劃)" and the "One System, One Network and One Hospital (一套體系、一張網絡、一家醫院)" operating mode. Centering on discipline development and construction, Horizon Healthcare continued to strengthen the core competitiveness of its member hospitals. In 2022, under the impacts of the pandemic, Horizon Healthcare managed to achieve total revenue of RMB4.216 billion, representing a year-on-year increase of 5.32% in operating performance.

In conclusion, the Group has been adhering to the development strategy of "finance + industry" during last year. It has continuously improved its financial structure, thus achieving continuous growth in performance. As at the end of 2022, the total assets of the Group amounted to RMB346.994 billion, representing an increase of approximately 3.31% as compared to the end of last year. The total operating revenue for the year amounted to approximately RMB36.586 billion, representing an increase of approximately 8.74% as compared to the corresponding period of last year. Net profit attributable to ordinary shareholders for the year amounted to approximately RMB6.131 billion, representing a year-on-year increase of approximately 11.23%. Return on average equity was 14.13%, maintaining a steady return. The Group proposes to distribute dividend of HK\$0.49 per share, thus realizing our promise to Shareholders as usual and continuously creating value for Shareholders.

Looking back on 2022, the Board of Directors of the Group took the entrustment of Shareholders 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 2022 to review and approve various matters, including the 2021 annual results, the 2022 interim results, the annual operating budget, the labor cost budget, the granting under the equity incentive plans, and the carbon target setting, upon comprehensive discussion. All decisions made were 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 and improving the level of internal risk control, thus effectively protected the interests of all Shareholders. In 2022, the Board continued to carry out environmental, social and governance works, formulate and announce the carbon targets of the Group, namely "carbon peaking by 2025 and carbon neutrality by 2050", and facilitate the Company's pursuit in long-term sustainable development through the committees under the Board.

Looking forward to 2023, the Chinese economic development will enter a new era with full of challenges and opportunities against the complicated and severe internal and external environment. The Group will always adhere to the mission of "integrating global resources and promoting industry development", uphold the strategic framework of "finance + industry", center on the development positioning of "relying on the Mainland China, based in Hong Kong, and radiating to Southeast Asia", continuously giving full play to the advantages of marketization, internationalization and specialization, deepening the model innovation, enriching the business connotation, building an excellent enterprise, and continuously increasing value creation.

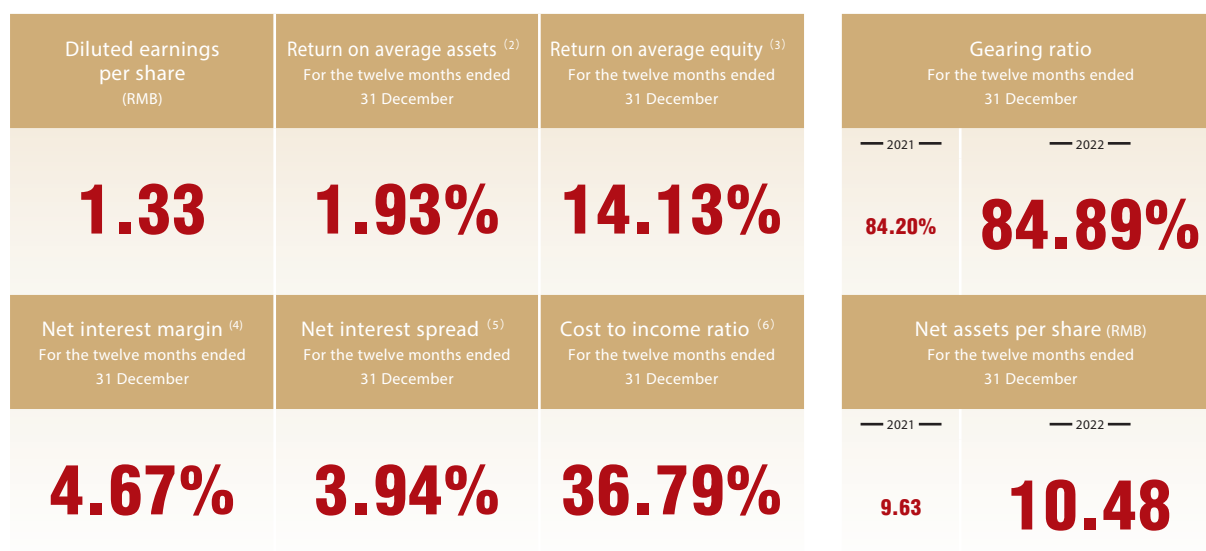
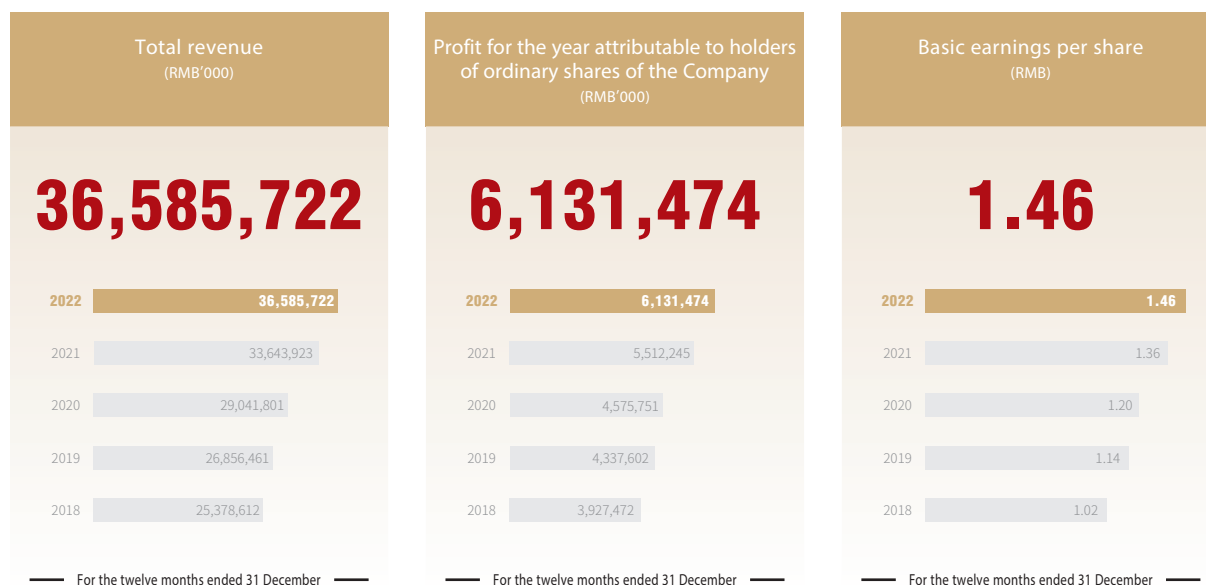
KONG Fanxing
Chairman of the Board, executive Director and CEO
Far East Horizon Limited



BUSINESS OVERVIEW

For the year ended 31 December

2022



BUSINESS OVERVIEW

2022

	For the year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Total revenue	36,585,722	33,643,923	29,041,801	26,856,461	25,378,612
Financial services (interest income)	21,677,501	19,168,370	16,521,643	15,841,562	16,137,698
Advisory services (fee income)	1,822,575	3,178,894	3,836,492	4,573,954	4,889,048
Revenue from industrial operation	13,232,942	11,434,721	8,811,129	6,521,280	4,515,625
Tax and surcharges	(147,296)	(138,062)	(127,463)	(80,335)	(163,759)
Cost of sales	(18,127,725)	(16,431,419)	(14,076,166)	(12,525,041)	(11,484,055)
Borrowing costs	(9,007,594)	(8,937,086)	(8,069,641)	(8,038,630)	(8,527,275)
Costs for industrial operation	(9,120,131)	(7,494,333)	(6,006,525)	(4,486,411)	(2,956,780)
Pre-provision operation profit ⁽¹⁾	12,438,003	13,143,618	11,248,938	9,917,400	9,152,801
Profit before tax	10,318,605	10,013,298	7,507,546	7,144,830	6,492,567
Profit for the year attributable to holders of ordinary shares of the Company	6,131,474	5,512,245	4,575,751	4,337,602	3,927,472
Basic earnings per share (RMB)	1.46	1.36	1.20	1.14	1.02
Diluted earnings per share (RMB)	1.33	1.25	1.16	1.14	1.02
Profitability indicators					
Return on average assets ⁽²⁾	1.93%	1.96%	1.80%	1.83%	1.78%
Return on average equity ⁽³⁾	14.13%	14.57%	14.24%	14.99%	14.80%
Net interest margin ⁽⁴⁾	4.67%	4.06%	3.83%	3.66%	3.51%
Net interest spread ⁽⁵⁾	3.94%	3.21%	2.85%	2.48%	2.28%
Cost to income ratio ⁽⁶⁾	36.79%	35.29%	33.88%	33.53%	35.36%

BUSINESS OVERVIEW

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	346,993,588	335,880,288	299,926,788	260,570,588	265,969,794
Net interest-earning assets	270,600,890	258,378,834	235,414,093	203,149,075	223,989,078
Total liabilities	294,554,075	282,826,178	254,659,655	219,035,813	226,877,290
Interest-bearing bank and other borrowings	251,327,480	230,200,742	205,216,155	162,396,266	172,514,982
Gearing ratio ⁽¹¹⁾	84.89%	84.20%	84.91%	84.06%	85.30%
Total equity	52,439,513	53,054,110	45,267,133	41,534,775	39,092,504
Equity attributable to holders of ordinary shares of the Company	45,246,966	41,522,550	34,119,452	30,128,436	27,729,743
Net assets per share (RMB)	10.48	9.63	8.58	7.61	7.01
Duration matching of assets and liabilities					
Financial assets	300,812,935	288,725,308	259,849,382	224,024,699	238,575,428
Financial liabilities	285,798,663	272,024,528	241,556,177	206,139,112	216,469,936
Quality of interest-earning assets					
Non-performing asset ratio ⁽⁷⁾	1.05%	1.06%	1.10%	1.11%	0.96%
Provision coverage ratio ⁽⁸⁾	239.97%	241.75%	252.20%	246.11%	236.73%
Write-off of non-performing assets ratio ⁽⁹⁾	50.14%	40.32%	52.92%	40.30%	34.41%
Overdue interest-earning assets (over 30 days) ratio ⁽¹⁰⁾	0.91%	0.94%	0.99%	1.29%	0.94%

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.
- (11) The Group proposes to spin off and separately list the shares of Horizon Construction Development, a subsidiary of the Group, on the Main Board of the Stock Exchange. In April 2021, certain investors entered into an equity purchase agreement with Horizon Construction Development to subscribe for a total of 6,651 shares at a total consideration of approximately US\$205 million. As these investors were granted redemption rights and other special rights, the aforementioned total consideration was presented as "liabilities" in the consolidated statement of financial position of the Group. Since these rights will no longer exist after the listing of Horizon Construction Development, the Group will re-evaluate the accounting classification of the aforementioned agreement at that time, and it is expected that the aforementioned total consideration will be presented as "equity". Assuming that the total consideration of the aforementioned agreement is listed as "equity" as at 31 December 2022, the debt-to-asset ratio of the Group will drop to 84.42%.



MANAGEMENT DISCUSSION AND ANALYSIS

1. ECONOMY ENVIRONMENT

1.1 Macro-economy

In 2022, as hit by various factors, the global economy experienced a cycle of “pandemic hit – macroeconomic stimulation – high inflation – monetary squeeze – expected downturn”. China’s economy has been facing a more complex domestic and external environment, with increasing uncertainties. Based on preliminary estimation, the gross domestic product (GDP) in 2022 was RMB121.0 trillion on a constant price basis, representing a year-on-year increase of 3.0%, which was lower than the target. On a quarterly basis, GDP recorded year-on-year growth of 4.8%, 0.4%, 3.9% and 2.9% in the first quarter, second quarter, third quarter and fourth quarter, respectively.

On the supply side, the industrial production declined. The growth in service sector slowed down, while the agricultural sector remained relatively steady. The added value of the secondary industry amounted to RMB48.3 trillion, up by 3.8%. In particular, the added value of the industrial sector increased by merely 3.4%, which was the second lowest growth in recent years and just slightly higher than that in 2020 when the pandemic outbreak occurred. The added value of the tertiary sector amounted to RMB63.9 trillion, up by 2.3%, which was significantly lower than the growth of 8.5% in 2021. The added value of the primary industry amounted to RMB8.8 trillion, up by 4.1%. Total food production reached 686.55 billion kg, maintaining a stable level in general.

On the demand side, negative growth was seen in domestic demands. With sluggish overseas demand momentum, domestic demand could only be boosted by investments. The total sales of social consumer goods amounted to RMB44.0 trillion, down by 0.2% year on year, which was hugely different from the increase of 12.5% recorded last year. Throughout the year, the contribution of net export of goods and services to economic growth was 17.1%, driving GDP growth by 0.5 percentage point. However, affected by the shrink in overseas demand, disruptions caused by the pandemic and other factors, net export of goods and services dragged GDP down by 1.2 percentage point in the fourth quarter. The investment in fixed assets (excluding rural households) amounted to RMB57.2 trillion, up by 5.1% compared to last year. Among which, infrastructure investment grew by 9.4%, while investment in manufacture sector grew by 9.1%.

The fiscal policy continued to exert its strength, with economic growth supported by investments. In 2022, China allocated a budget of RMB26.7 trillion for general public expenses, increased by more than RMB2 trillion as compared to last year, showing a significant increase in scale. China arranged an additional quota for special bonds of RMB3.65 trillion, of which credit line of RMB3.45 trillion reserved for project construction. In addition to the above quota, China arranged a settlement quota for special bonds of over RMB500 billion, with issuance of which completed by late October across China. Under the mission and policy guidance of maintaining stable growth, China obviously prioritized the issuance of new special bonds, which secured investment growth to a certain extent.

MANAGEMENT DISCUSSION AND ANALYSIS

Efforts have been stepped up for monetary policy in order to ensure capital needs of enterprises can be fulfilled. Financial support for the real economy, including manufacturing sector, small and medium enterprises, green finance and others, continued to increase. As of the end of 2022, the balance of the broad measure of money supply (M2) increased by 11.8% year on year, while the outstanding social financing increased by 9.6% year on year. To fulfil the capital needs of enterprises, different structural financing instruments were continuously used, including refinancing for rural households, refinancing for small enterprises, supportive instrument for inclusive loans for small and micro enterprises, and additional pledge loans, etc.

Source: National Bureau of Statistics of China, Ministry of Commerce, Ministry of Finance, People's Bank of China

1.2 Industry Environment

The external environment has become more complicated and severe, as the overseas inflation remains at a high level, and the global economy is facing increasing downward pressure, while the recovery and development of the domestic economy still has no solid foundation. Nevertheless, China still has sufficient factors and conditions for building a new development pattern, with the increasingly obvious momentum for effective demand recovery, as well as the economy with strong resilience, great potential and extensive leeway. The fundamentals of long-term positive growth have not changed. In 2022, the added value of the industrial industry above a designated size increased by 3.6% over the previous year. In terms of three industrial categories, the added value of the mining industry increased by 7.3%, the added value of the manufacturing industry increased by 3.0%, and the added value of the electricity, heat, gas and water production and supply industries increased by 5.0%. The added value of the high-tech manufacturing and equipment manufacturing industries increased by 7.4% and 5.6%, respectively. The real estate industry underwent deep adjustment, and the annual sales fell by 26.7% year-on-year, which dragged down the annual growth rate of the construction industry. The added value of the service industry increased by 2.3% year-on-year, among which the added value of information transmission, software and information technology services, and financial industry increased by 9.1% and 5.6%, respectively.

From the perspective of various industry sectors served by the Group, the major projects planned by the State in the 14th Five-Year Plan have been continuously advanced. The demand for digital transformation has been released, and the data infrastructure construction such as data centers has grown significantly. Thanks to the wide application of new energy vehicles, the automobile manufacturing industry has developed rapidly. The annual passenger car export exceeded 3 million, reaching 3.11 million, and China became the second largest passenger car exporter in the world for the first time. The energy electronics industry has developed speedily with continuous improvement in industrial clusters and ecosystems. Continuous breakthroughs have been seen in solar photovoltaic, new energy storage batteries, key terminal applications, key information technologies and products. While there is a strong restocking demand overseas, the supply capacity recovery is limited, which facilitates the export performance of products such as automobiles and parts, rare earths, refined oil, aluminium and steel, luggage and shoes, and medical drugs. Advanced production and lifestyle have gradually accelerated, resulting in rapid development of industrial automation and intelligent manufacturing equipment, and accelerated research and development of new technologies such as unmanned driving and 6G communication. The construction of county-level hospitals was accelerated for fast strengthening of weaknesses in the public health and primary healthcare systems.

Source: National Bureau of Statistics of China, General Administration of Customs

MANAGEMENT DISCUSSION AND ANALYSIS

1.3 Leasing Industry

Affected by macro-environmental fluctuations, economic growth slowdown and other factors, the leasing industry has experienced decline in business scale. According to the 2022 China Financial Leasing Industry Development Report (《2022年中國融資租賃業發展報告》), as at the end of 2022, there were approximately 9,840 financial leasing enterprises in China, representing a decrease of 2,077 from the end of last year. The balance of financial leasing contracts in China amounted to approximately RMB5.85 trillion, representing a decrease of approximately RMB360.0 billion or 5.8% as compared to the end of the previous year.

The financial leasing industry continued standardization and clean-up, and the regulatory situation kept tightening. In 2022, CBIRC issued the Off-site Supervision Regulation of Financial Leasing Companies (《融資租賃公司非現場監管規程》), which clarified the division of responsibilities on financial leasing company off-site supervision and standardized the off-site supervision procedures, contents and methods. In addition, the financial supervision bureaus of various provinces and cities in China, such as Guangdong, Hunan, Hubei, Anhui and Fujian, issued the Detailed Supervision and Management Rules for Financial Leasing Companies (《融資租賃公司監督管理實施細則》) in 2022, which further strengthened the supervision of financial leasing companies. With the gradual refinement of regulations, the operating environment of the industry will become more standardized, transparent and compliant. Industry-focused and leading financial leasing enterprises will secure a good and stable space for development and continue to contribute to the high-quality and sustainable development of the real economy.

Source: China Leasing Union (中國租賃聯盟)

1.4 Company's Solutions

In 2022, the complex and volatile external environment brought certain impacts to all business segments of the Group. The regional lockdowns in the first half of the year, the strict management in all localities in the second half of the year, and the full lifting of restrictions at the end of the year posed great challenges to normal business operation. In the face of difficulties, the Company strived to overcome all kinds of difficulties with unified efforts, so as to maintain steady growth amid the turbulent external environment and fierce market competition. Especially during the period of regional lockdowns, the management took the lead and stayed at the Shanghai operation headquarters for more than 80 days with many employees with the slogan of "overcoming all difficulties and taking the company as our home", which greatly boosted the team morale and effectively guaranteed the business operation. At the same time, the Group has always maintained its strategic determination, taking "integrating global resources and promoting industry development" as its fundamental mission, closely combining the direction of economic and industrial transformation and upgrading, and constantly innovating service methods, enriching service means and enhancing service capabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of financial business, the Company specified the two-line operational policy of “ensuring growth and ensuring safety” under extreme circumstances, and finally sustained the steady growth trend. In traditional finance, the Group continued to strengthen its operational implementation ability and increase customer coverage, and expanded the number of business departments to 27 from 21, further refining customer coverage. By increasing the number of offices to 31 from 27, the Group further strengthened regional support, and made full use of the vast and decentralized business network to ensure business flow. In terms of products, the Group relied on its resource endowments and system advantages, continuously explored four major scenarios, namely, major infrastructure projects, supply chain, stock-bond linkage, and domestic and overseas businesses, with a business size of more than RMB25.5 billion, to meet the diversified and deep-seated business needs of customers. In terms of technology, the Group empowered business development by building technological infrastructure such as targeted marketing engine, big data risk management engine and intelligent asset early warning engine. The Group increased the proportion of technology applications such as video due diligence, video face-to-face signature, electronic signature, financial report OCR, automatic invoice identification and verification, and automatic analysis of bank account statements, which improved operational efficiency. Meanwhile, the asset management team entered the wartime state in an all-round way, continuously improved the asset management network consisting of “10 major regions, 20 branches and 200 professional team members”, and accurately tracked asset status through special investigations such as “pandemic impact, Russia-Ukraine conflict and automobile industry chain” to ensure the safety and effectiveness of the assets. In terms of new business directions, the inclusive finance operating system has been gradually developed and its efficiency has been significantly improved, according to the development requirements of respective companies. Horizon Construction Development Investment have been scaled in project reserves, forming a sustainable profit growth point. The asset business department has improved its ability to integrate resources, and grown steadily in business opportunities. The overseas business has strengthened cooperation and formed a combination with domestic resources. The business logic of each business segment has become clearer, the management system and team building have been continuously consolidated, and the Group has formed a new strategic development pattern.

In terms of industrial operations, Horizon Construction Development and Horizon Healthcare gave full play to their own advantages, strived to overcome difficulties and achieved steady operation in the face of external influences. Meanwhile, in line with the national vision of coordinated regional development and the building of a healthy China, they have been developing steadily with their respective focuses, and their operating contribution has been rising, forming a leading industrial group of national scale with social influence.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, a number of business outlets of Horizon Construction Development were affected by the lockdowns due to the pandemic, and the equipment and personnel flow encountered obstacles. Horizon Construction Development actively coordinated with local competent authorities to collect the equipment demand of various projects, gave full play to the advantages of its nationwide network, and ensured the orderly advancement of local operations through off-site support and asset allocation. Horizon Construction Development also actively participated in the on-site support of various national key projects and major events, and devoted itself to flood fighting, emergency rescue and pandemic prevention in various places. Its efficient and professional service capability continued to be highly recognized by the market, and its brand awareness was further enhanced. As the largest equipment operation service provider in China (in terms of revenue in 2021), Horizon Construction Development was ranked the third in the Top 50 Aerial Work Platform Leasing Companies In the World by ACCESS 50 and the 14th in IRN World's Top 100 Rental Companies in 2022. Facing the long-term development needs, Horizon Construction Development still actively expanded its operation scale and continued to consolidate its competitive advantages. Its three major businesses of aerial work platforms, neo-excavation systems and neo-formwork systems maintained a leading position in the market, while the network layout was continuously refined. By the end of 2022, the number of service outlets reached 349, covering 187 cities, and the business layout in Southeast Asia has been launched.

In 2022, the normal medical order of many of the Group's hospitals was affected. The member hospitals under Horizon Healthcare reduced the pandemic impact by actively participating in nucleic acid detection, opening fever clinics and using Internet medical treatment. In the fourth quarter, the relaxation of pandemic prevention and control measures led to a sharp increase in the number of patients in outpatient and emergency departments. Horizon Healthcare ensured the smooth operation of its hospitals by strengthening expert rotation and opening more emergency windows at night, and maintained double growth in the number of patients and inpatients throughout the year. Facing the future, Horizon Healthcare will continue to focus on areas with weak medical resources and base itself on the county market. With the mission of "good medical care not far away", it will continue to improve the service level of special disciplines such as orthopedics, kidney disease, rehabilitation and cancer in the basic medical field, while accelerating the layout of consumer medical services such as dentistry and medical beauty. Horizon Healthcare will continue to strengthen its patient-centered approach, take quality management as its core, and comprehensively strengthen its medical quality management and medical insurance compliance management. It will expand the online medical service space by means of digital empowerment. Relying on its advantageous medical resources and professional capabilities, Horizon Healthcare actively promotes strategic exploration and implementation in the fields of rehabilitation and elderly care, medical management and consultation, as well as medical technology. As at the end of 2022, the number of hospitals in which Horizon Healthcare had controlling interests was 30 and its number of available beds was approximately 11,000.

In terms of resource guarantee, while continuously increasing institutional cooperation and expanding financing channels, the Group actively responded to the call of national policies, constantly devoted its superior resources to the agricultural and rural modernization fields to empower rural revitalization and agricultural and rural modernization, and successfully issued a special asset support plan for agricultural and rural modernization. The Group continued to practice the concept of green and low-carbon development, and successfully issued sustainable-development-linked syndicated loans. Overseas, the Group successfully issued a green syndicated loan in Hong Kong, a green samurai syndicated loan in Japan and a club loan in Macau, which were highly recognized by the market and investors.

Source: IRN

MANAGEMENT DISCUSSION AND ANALYSIS

2. ANALYSIS OF PROFIT AND LOSS

2.1 Analysis of Profit and Loss (Overview)

In 2022, 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 and ever changing macro environment. The profit attributable to holders of ordinary shares of the Company during the year was RMB6,131,474,000, representing an increase of 11.23% as compared to the previous year. The following table sets forth the comparative figures with 2021.

	For the year ended 31 December		
	2022	2021	Change %
	RMB'000	RMB'000	
Revenue	36,585,722	33,643,923	8.74%
Cost of sales	(18,127,725)	(16,431,419)	10.32%
Gross profit	18,457,997	17,212,504	7.24%
Other income/gains ⁽¹⁾	1,987,952	2,423,979	-17.99%
Selling and administrative expenses	(6,791,348)	(6,074,317)	11.80%
Other expenses and losses ⁽¹⁾	(405,850)	(164,601)	146.57%
Finance costs	(1,054,775)	(915,665)	15.19%
Gains and loss on investment in joint ventures/associates	244,027	661,718	-63.12%
Pre-provision operating profit	12,438,003	13,143,618	-5.37%
Provision for assets	(2,119,398)	(3,130,320)	-32.29%
Profit before tax	10,318,605	10,013,298	3.05%
Income tax expense	(3,716,164)	(3,785,040)	-1.82%
Profit for the year	6,602,441	6,228,258	6.01%
Attributable to:			
Holders of ordinary shares of the Company	6,131,474	5,512,245	11.23%
Holders of perpetual securities	249,759	384,082	-34.97%
Non-controlling interests	221,208	331,931	-33.36%

Note:

- (1) There is a difference in terms of calibre between the amount of other income/gains as well as other expenses and losses and the consolidated statement of profit or loss in the financial report. The gain or loss on change in fair value of interest-earning financial assets here is included in provision for asset, the gain or loss on change in fair value of non-interest earning financial assets here is included in "other income/gains" (net gain) or in "other expenses and losses" (net loss) on a net basis. In the consolidated statement of profit or loss, the gain on change in fair value of financial assets and financial liabilities is included in "other income and gains", and the loss on changes in fair value is included in "other expenses".

MANAGEMENT DISCUSSION AND ANALYSIS

2.2 Revenue

In 2022, the Group realized revenue of RMB36,585,722,000, representing an increase of 8.74% from RMB33,643,923,000 of the previous year. In 2022, income (before taxes and surcharges) of the financial and advisory segment was RMB23,500,076,000, accounting for 63.98% of the total income (before taxes and surcharges) and representing an increase of 5.16% as compared to the previous year. The Group also continued to develop the industrial operation business with income derived from industrial operation growing by 15.73% as compared to the previous year.

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

	For the year ended 31 December				
	2022		2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Financial and advisory segment	23,500,076	63.98%	22,347,264	66.15%	5.16%
Financial services (interest income)	21,677,501	59.01%	19,168,370	56.74%	13.09%
Advisory services (fee income)	1,822,575	4.97%	3,178,894	9.41%	-42.67%
Industrial operation segment	13,232,942	36.02%	11,434,721	33.85%	15.73%
Total	36,733,018	100.00%	33,781,985	100.00%	8.74%
Taxes and surcharges	(147,296)		(138,062)		6.69%
Income (after taxes and surcharges)	36,585,722		33,643,923		8.74%

In 2022, the Group realized revenue of RMB36,585,722,000, representing an increase of 8.74% from RMB33,643,923,000 of the previous year. The financial and advisory segment remained stable overall with a slight increase. Structurally, financial services maintained growth, while advisory services recorded decline. The industrial operation segment continued to record rapid growth.

Income (before taxes and surcharges) of the financial and advisory segment was RMB23,500,076,000, accounting for 63.98% of the total income (before taxes and surcharges). In particular, interest income contribution from inclusive finance, commercial factoring, PPP investment, overseas business, asset business and other new business directions amounted to RMB2,430 million, representing a year-on-year increase of 30.91%. Income derived from advisory services decreased by 42.67% 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.

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The income of the industrial operation segment sustained continuous growth. The industrial operation segment, which comprises of Horizon Construction Development, Horizon Healthcare and others, realized a total income of RMB13,233 million, representing an increase of 15.73% over the previous year. Of which, Horizon Construction Development realized an income of RMB7,878 million, representing an increase of 28.28% over the previous year; Horizon Healthcare realized an income of RMB4,216 million, representing an increase of 5.32% over the previous year.

In 2022, the Group's income of non-leasing business accounting for 47.60% of the total income (before taxes and surcharges), which remained stable as compared with 48.75% of 2021. In particular, interest income contribution from inclusive finance, commercial factoring, PPP investment, overseas business, asset business and other new business directions accounted for 6.61% (2021: 5.49%) of the total income; income of the industrial operation segment accounted for 36.02% (2021: 33.85%) 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 13.09% from RMB19,168,370,000 for 2021 to RMB21,677,501,000 for 2022, accounting for 59.01% 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 during the indicated periods.

	For the year ended 31 December					
	2022			2021		
	Average balance ⁽¹⁾	Interest income ⁽²⁾	Average yield ⁽³⁾	Average balance ⁽¹⁾	Interest income ⁽²⁾	Average yield ⁽³⁾
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Interest-earning assets	271,018,828	21,677,501	8.00%	251,706,614	19,168,370	7.62%

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 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 2022, the average balance and interest income of the Group's interest-earning assets of inclusive finance, commercial factoring, PPP investment, overseas business, asset business and other new business directions amounted to RMB29,000,805,000 and RMB2,429,698,000, respectively, representing an increase of 23% and 31% as compared with the average balance of RMB23,585,137,000 and interest income of RMB1,856,042,000 of the interest-earning assets in 2021, respectively. The average yield maintained stable growth.

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Analysis according to average balance of interest-earning assets

The average balance of interest-earning assets of the Group increased by 7.67% from RMB251,706,614,000 for 2021 to RMB271,018,828,000 for 2022. The Group has been committed to serving high-calibre customers in the real industry with a long-term and stable development direction, continued to increase customer coverage in various related industries, and provided service products that met personalized needs of customers, maintaining the steady growth in the average balance of the asset scale of the Company's financial services business.

Analysis according to average yield

In 2022, the average yield of the Group was 8.00%, representing 0.38 percentage point higher than 7.62% in the last year, which was mainly due to the combination of the following: (i) in 2022, 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 comprehensive financial services such as inclusive finance, commercial factoring, PPP investment, overseas business 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			
	2022		2021	
	RMB'000	% of total	RMB'000	% of total
Northeast China	997,197	4.60%	1,052,797	5.49%
Northern China	2,135,010	9.85%	1,952,864	10.19%
Eastern China	7,663,563	35.35%	6,566,856	34.26%
Southern China	1,760,993	8.12%	1,501,496	7.83%
Central China	3,740,280	17.25%	3,063,777	15.98%
Northwest China	1,508,792	6.96%	1,261,439	6.58%
Southwest China	3,871,666	17.87%	3,769,141	19.67%
Total	21,677,501	100.00%	19,168,370	100.00%

2.2.2 Advisory Services (Fee Income)

In 2022, fee income (before taxes and surcharges) from financial and advisory segment decreased by 42.67% from RMB3,178,894,000 for 2021 to RMB1,822,575,000 for 2022, accounting for 4.97% of the total revenue (before taxes and surcharges) of the Group. In recent years, due to changes in the external environment, the industries and target customer groups subject to expansion by the Company have basically stabilized, so the demand for advisory services as a source of income has declined. At the same time, the Company also actively expanded and provided additional products and services other than advisory services based on its understanding of the needs of the target industries and customer groups, so as to maintain the stable growth of the Company's overall revenue.

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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				
	2022		2021	
	RMB'000	% of total	RMB'000	% of total
Northeast China	46,088	2.53%	142,281	4.48%
Northern China	139,199	7.64%	319,244	10.04%
Eastern China	805,165	44.18%	1,397,652	43.97%
Southern China	155,397	8.53%	261,691	8.23%
Central China	287,660	15.78%	406,512	12.79%
Northwest China	85,695	4.70%	232,424	7.31%
Southwest China	303,371	16.64%	419,090	13.18%
Total	1,822,575	100.00%	3,178,894	100.00%

2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group, before taxes and surcharges, increased by RMB1,798,221,000 from RMB11,434,721,000 for 2021 to RMB13,232,942,000 for 2022, accounting for 36.02% 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					
	2022		2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Revenue from industrial operation segment	13,232,942	100.00%	11,434,721	100.00%	15.73%
Including:					
Revenue from equipment operation ⁽¹⁾	7,877,640	59.53%	6,141,170	53.71%	28.28%
Revenue from hospital operation ⁽²⁾	4,215,950	31.86%	4,003,100	35.01%	5.32%

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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 hospital operation and equipment operation, the Group steadily promoted the layout of high-end high school 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 schools within the Group, so as to cultivate outstanding students with social contribution, scientific innovation and international competitiveness.

2.3 Cost of Sales

In 2022, cost of sales of the Group increased by 10.32% from RMB16,431,419,000 in the previous year to RMB18,127,725,000, of which the cost of the financial and advisory segment was RMB9,007,594,000, accounting for 49.69% of the total cost and representing an increase of 0.79% from RMB8,937,086,000 in the previous year, mainly due to the fact that while the size of the Group’s interest-earning assets grew, which caused the size of debt financing to increase, however, the cost of new financing decreased, and thus the interest expenditure of the financial and advisory segment remained stable. The cost of the industrial operation segment was RMB9,120,131,000, accounting for 50.31% of the total costs and representing an increase of 21.69% from RMB7,494,333,000 in the previous year. In particular, Horizon Construction Development continued to achieve large-scale output by expanding its nationwide operating network and improving its professional operating capabilities, resulting in faster growth in cost of sales of operation with operating costs amounting to RMB4,744,640,000, representing an increase of 43.98% over the previous year. Some of the hospitals of Horizon Healthcare were still at their preliminary stage and their economies of scale were not large enough. In addition, some hospitals incurred additional operating expenses in response to the pandemic prevention and control with operating costs amounting to RMB3,551,200,000, representing an increase of 11.18% over the previous year. 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					
	2022			2021		
	RMB'000	% of total	RMB'000	% of total	Change %	
Cost of the finance and advisory segment	9,007,594	49.69%	8,937,086	54.39%	0.79%	
Cost of the industrial operation segment	9,120,131	50.31%	7,494,333	45.61%	21.69%	
Cost of sales	18,127,725	100.00%	16,431,419	100.00%	10.32%	

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					
	2022			2021		
	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	221,672,148	9,007,594	4.06%	202,740,146	8,937,086	4.41%

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 RMB70,508,000 from RMB8,937,086,000 for 2021 to RMB9,007,594,000 for 2022. The average cost rate of the Group decreased to 4.06% for 2022 as compared to that for 2021, mainly due to:

(i) affected by the loose monetary policy in 2022, domestic financing costs dropped, and new domestic financing withdrawals caused an average cost rate to decrease by 0.04 percentage point as compared to 2021; (ii) the Group made full use of its diversified financing advantages and appropriately used its overseas low-cost funds, and the average cost rate decreased by 0.08 percentage point as compared to 2021 due to new overseas bank withdrawals; (iii) the Group completed the issuance of various products such as corporate bonds, medium-term notes, super-short financial bonds and asset securitization in 2022. Due to the overall decline in bond market yields in 2022, the average cost rate decreased by 0.07 percentage point as compared to 2021; and (iv) the decrease in stock cost. The average cost rate of existing bank financing for 2022 decreased by 0.16 percentage point as compared to 2021, which was due to the expiry of existing high-cost loans borrowed from 2019 to 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

2.3.2 Cost of the Industrial Operation Segment

The cost of sales of the industrial operation segment of the Group is primarily derived from the cost of equipment operation and cost of hospital operation, etc. The following table sets forth the cost of the industrial operation segment of the Group by business type during the periods indicated.

	For the year ended 31 December				
	2022		2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Cost of the industrial operation segment	9,120,131	100.00%	7,494,333	100.00%	21.69%
Of which:					
Cost of equipment operation ⁽¹⁾	4,744,640	52.02%	3,295,240	43.97%	43.98%
Cost of hospital operation ⁽²⁾	3,551,200	38.94%	3,194,190	42.62%	11.18%

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.

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2.4 Gross Profit

The gross profit of the Group for 2022 increased by RMB1,245,493,000 or 7.24% to RMB18,457,997,000 from RMB17,212,504,000 in the previous year. In 2022 and 2021, the gross profit margin of the Group was 50.45% and 51.16%, respectively.

2.4.1 Gross Profit of the Financial and Advisory Segment

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		
	2022	2021	Change %
	RMB'000	RMB'000	
Interest income ⁽¹⁾	21,677,501	19,168,370	13.09%
Interest expense ⁽²⁾	9,007,594	8,937,086	0.79%
Net interest income	12,669,907	10,231,284	23.83%
Net interest spread ⁽³⁾	3.94%	3.21%	0.73%
Net interest margin ⁽⁴⁾	4.67%	4.06%	0.61%

Notes:

- (1) Interest income refers to the interest income of the financial segment of the Group.
- (2) Interest expense refers to the borrowing cost of the financial segment of the Group.
- (3) Calculated as the difference between the average yield and the average cost rate. The average yield is calculated by dividing interest income by the average balance of interest-earning assets. The average cost rate is calculated by dividing interest expense by the average balance of the interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the average balance of interest-earning assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Net interest spread of the Group for 2022 increased by 0.73 percentage point to 3.94% as compared with 3.21% for the previous year. The increase in net interest spread was primarily due to the decrease of 35 basis points in respect of the average cost rate on interest-bearing liabilities of the Group and the increase of 38 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. In 2022, the net interest income of the Group increased by 23.83% as compared with 2021. At the same time, the average balance of interest-earning assets of the Group increased by 7.67% year-on-year, such that the net interest margin of the Group increased by 0.61 percentage point to 4.67% for 2022 as compared with 4.06% for 2021.

2.4.2 Gross Profit of the Industrial Operation Segment

	For the year ended 31 December				
	2022		2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Gross profit of industrial operation segment	4,112,811	100.00%	3,940,388	100.00%	4.38%
Of which:					
Gross profit of equipment operation ⁽¹⁾	3,133,000	76.18%	2,845,930	72.22%	10.09%
Gross profit of hospital operation ⁽²⁾	664,750	16.16%	808,910	20.53%	-17.82%

Notes:

- (1) For details of gross profit of equipment operation, please refer to the discussion and analysis in paragraph 12.1 of this section.
- (2) For details of gross profit of hospital operation, please refer to the discussion and analysis in paragraph 13.1 of this section.

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		
	2022	2021	Change %
	RMB'000	RMB'000	
Income from the holdings of off-balance-sheet assets ⁽¹⁾	856,580	1,187,357	-27.86%
Bank interest income	201,248	189,873	5.99%
Gains from structured financial products	91,584	90,218	1.51%
Government grants ⁽²⁾	161,018	280,558	-42.61%
Equity and debt investment income ⁽³⁾	192,419	411,177	-53.20%
Gains from the transfer of financial assets ⁽⁴⁾	1,486	7,349	-79.78%
Other income ⁽⁵⁾	483,617	257,447	87.85%
Total	1,987,952	2,423,979	-17.99%

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 government grants for the year mainly consisted of gains on additional VAT tax credit, corporate development subsidies, and high and new technology enterprise subsidies of Horizon Construction Development of RMB110 million.
- (3) The Group's equity and debt investment income was mainly gains on changes in the fair value and transfer of equity and debt investment.
- (4) 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.
- (5) The Group's other income for the year mainly consisted of gains from disposal of investment in subsidiaries of RMB100 million, and gains from disposal of fixed assets of RMB310 million.

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group in 2022 were RMB6,791,348,000, representing an increase of RMB717,031,000 or 11.80% from the previous year. The increase in selling and administrative expenses was mainly due to the proactive market expansion strategy adopted by the Group to promote business growth.

Cost to income ratio of the Group in 2022 was 36.79%, which increased slightly as compared to 35.29% in the previous year.

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2.7 Other Expenses and Losses

Other expenses and losses of the Group in 2022 amounted to RMB405,850,000, representing an increase of 146.57% as compared to RMB164,601,000 in the previous year. Among which, foreign exchange loss amounted to RMB265,042,000, representing an increase of RMB256,832,000 as compared to RMB8,210,000 in the previous year.

2.8 Finance Costs

Finance costs of the Group in 2022 amounted to RMB1,054,775,000, representing an increase of 15.19% as compared to RMB915,665,000 of the previous year. The finance costs are mainly financing-related costs for the Group's industrial operation segment. For details, please refer to the discussion and analysis in paragraph 12.1 of this section.

2.9 Pre-provision Operating Profit

Pre-provision operation profit of the Group in 2022 amounted to RMB12,438,003,000, representing a decrease of RMB705,615,000 or 5.37% from the previous year. Facing the objective changes in the external environment, the Group proactively adopted prudent and stable development strategies. Financial and advisory segment maintained stable overall growth. At the same time, industrial operation was in a rapid expansion and investment period, and hence the increase in costs and selling and administrative expenses accelerated, resulting in a lower growth rate of the pre-provision operating profit than the growth rate of income and gross profit. It is expected that with the gradual stabilization of the external market environment in the future, the gradual expansion of the industrial operating scale and the improvement in internal operating efficiency, the pre-provision operation profit of the Group will show a steady growing trend.

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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				
	2022		2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Provision for interest-earning assets	1,390,095	65.59%	933,602	29.83%	48.90%
Provision for accounts receivable ⁽¹⁾	179,908	8.49%	337,519	10.78%	-46.70%
Provision for other receivables ⁽¹⁾	38,124	1.80%	32,729	1.05%	16.48%
Provision for inventories	19,063	0.90%	29	0.00%	65,634.48%
Provision for fixed assets ⁽²⁾	271,498	12.81%	12,834	0.41%	2,015.46%
Provision for right-of-use assets ⁽³⁾	–	0.00%	42,641	1.36%	-100.00%
Provision for investment in joint ventures/associates	–	0.00%	90,270	2.88%	-100.00%
Provision for goodwill ⁽⁴⁾	187,295	8.84%	1,658,164	52.97%	-88.70%
Provision for credit commitments ⁽⁵⁾	33,415	1.57%	22,532	0.72%	48.30%
Total	2,119,398	100.00%	3,130,320	100.00%	-32.29%

Notes:

- (1) Provision for accounts receivable and other receivables is mainly the expected credit loss of the relevant receivables made by the Group for equipment operation and hospital operation.
- (2) Provision for fixed assets is mainly the impairment provisions made by the Group for the vessel assets and fixed assets 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 of RMB183 million for certain subsidiaries with lower-than-expected profits in the hospital operation segment.
- (5) 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.

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2.11 Income Tax Expense

Income tax expense of the Group in 2022 was RMB3,716,164,000, which decreased by RMB68,876,000 or 1.82% from the previous year. The decrease was primarily due to a decrease in the operating profit of the Group during the relevant period.

Effective income tax rate of the Group in 2022 was 36.0%, which decreased slightly as compared to the previous year. The following table sets forth a breakdown of particulars of the income tax rate of the Group for the periods indicated:

	2022	2021	Change %
Domestic statutory tax rate	25.0%	25.0%	–
Cross-border business withholding income tax ⁽¹⁾	6.1%	1.1%	5.0%
Fees not deductible for tax ⁽²⁾	4.9%	7.0%	-2.1%
Others	0.0%	4.7%	-4.7%
Total	36.0%	37.8%	-1.8%

Notes:

- (1) The increase in cross-border business withholding income tax was due to the increase of the withholding tax on the cross-border distributable profits of the Group.
- (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.

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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 RMB6,131,474,000, which increased by RMB619,229,000 or 11.23% from the previous year.

2.13 Basic Earnings per Share

Basic earnings per share for the year amounted to RMB1.46, representing an increase of RMB0.1 or 7.35% from the previous year.

	2022	2021	Change %
Profit for the year attributable to holders of ordinary shares of the Company (RMB'000)	6,131,474	5,512,245	11.23%
Weighted average number of ordinary shares outstanding during the year (share)	4,185,832,025	4,051,798,363	3.31%
Basic earnings per share (RMB)	1.46	1.36	7.35%

As a result of the increase in the number of ordinary shares of the Company, the increase in the Group's basic earnings per share for 2022 as compared to that of the previous year was slightly lower than the increase in profit for the year. The Group's return on average equity also decreased.

It is expected that the Group will maintain stable growth of the traditional financial businesses through continuous efforts on deepening its foothold in nine major industries and achieve rapid growth in the industrial operation and innovative financial business by following national development and enriching its services, which will lead to a steady increase in the Group's return on average equity.

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3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets (Overview)

As at 31 December 2022, the total assets of the Group increased by RMB11,113,300,000 or 3.31% from the end of the previous year to RMB346,993,588,000. Net interest-earning assets increased by RMB12,222,056,000 or 4.73% from the end of the previous year to RMB270,600,890,000.

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Loans and accounts receivable	267,138,233	76.99%	252,218,007	75.09%	5.92%
Of which: interest-earning assets	259,842,608	74.88%	246,076,955	73.26%	5.59%
Cash and cash equivalents	15,903,843	4.58%	15,659,036	4.66%	1.56%
Restricted deposits	3,227,451	0.93%	4,239,760	1.26%	-23.88%
Holding of asset-backed securities/notes	890,572	0.26%	2,858,774	0.85%	-68.85%
Assets with continuing involvement	890,572	0.26%	2,858,774	0.85%	-68.85%
Prepayment and other accounts receivable	3,773,769	1.09%	3,671,376	1.09%	2.79%
Deferred tax assets	6,116,381	1.76%	5,394,566	1.61%	13.38%
Property, plant and equipment	24,965,863	7.19%	24,530,838	7.30%	1.77%
Investment in joint ventures/associates	8,576,718	2.47%	7,820,282	2.33%	9.67%
Financial assets at fair value through profit or loss	9,358,106	2.70%	12,760,358	3.80%	-26.66%
Of which: interest-earning assets	3,963,870	1.14%	5,650,356	1.68%	-29.85%
Financial assets at fair value through other comprehensive income	1,182,401	0.34%	699,039	0.21%	69.15%
Derivative financial instruments	1,853,302	0.53%	22,331	0.01%	8,199.23%
Inventories	466,282	0.13%	559,020	0.17%	-16.59%
Contract assets	304,295	0.09%	276,859	0.08%	9.91%
Goodwill	270,512	0.08%	373,982	0.11%	-27.67%
Right-of-use assets	1,873,637	0.54%	1,865,058	0.56%	0.46%
Investment property	115,682	0.03%	–	–	N/A
Other assets	85,969	0.03%	72,228	0.02%	19.02%
Total assets	346,993,588	100.00%	335,880,288	100.00%	3.31%

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3.2 Interest-Earning Assets

The main component of the Group's assets was interest-earning assets, which accounted for 76.02% of the Group's total assets as at 31 December 2022. In 2022, 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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Net interest-earning assets					
Included in loans and accounts receivable	266,528,182	98.49%	252,620,628	97.77%	5.51%
Included in financial assets at fair value through profit or loss	4,072,708	1.51%	5,758,206	2.23%	-29.27%
Total net interest-earning assets	270,600,890	100.00%	258,378,834	100.00%	4.73%
Provision for loans and accounts receivables	(6,685,574)		(6,543,673)		2.17%
Provision for financial assets at fair value through profit or loss	(108,838)		(107,850)		0.92%
Less: total provision for interest-earning assets	(6,794,412)		(6,651,523)		2.15%
Net interest-earning assets	263,806,478		251,727,311		4.80%

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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Net interest-earning assets included in loans and accounts receivable	259,842,608	97.27%	246,076,955	97.57%	5.59%
Others ⁽¹⁾	7,295,625	2.73%	6,141,052	2.43%	18.80%
Net loans and accounts receivable	267,138,233	100.00%	252,218,007	100.00%	5.92%

Note:

(1) Others included notes receivables and accounts receivables related to industrial operation.

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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Healthcare	24,624,357	9.10%	26,852,242	10.39%	-8.30%
Culture & tourism	21,768,589	8.04%	25,447,285	9.85%	-14.46%
Engineering construction	24,124,626	8.91%	27,017,305	10.46%	-10.71%
Machinery	14,401,112	5.32%	15,050,567	5.82%	-4.32%
Chemical & medicine	8,458,224	3.13%	7,304,262	2.83%	15.80%
Electronic information	8,026,987	2.97%	9,418,387	3.65%	-14.77%
Public consuming	16,606,146	6.14%	14,988,468	5.80%	10.79%
Transportation & logistics	14,677,124	5.42%	14,560,301	5.64%	0.80%
Urban public utility	137,913,725	50.97%	117,740,017	45.56%	17.13%
Total	270,600,890	100.00%	258,378,834	100.00%	4.73%

Notes:

- (1) Interest-earning assets for chemical & medicine, public consuming, transportation & logistics and urban public utility among the target industries of the Group maintained growth in 2022, 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 2022, the interest-earning assets of urban public utility were further divided into sub-sectors, including public transportation infrastructure, water, electricity, gas and other operational services, urban environmental governance, energy-saving and carbon-reduction projects, smart city upgrading and transformation, emerging industry facilities and operation services, and other industries.
- (3) As at 31 December 2022, the net interest-earning assets of the Group's new business directions, including inclusive finance, commercial factoring, PPP investment, overseas business and asset business, amounted to RMB29,021 million, representing an increase of RMB940 million or 3.35% from RMB28,081 million as at 31 December 2021.

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3.2.3 Net Interest-earning Assets by Region

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Northeast China	10,114,849	3.74%	12,743,031	4.93%
Northern China	27,618,435	10.21%	27,874,070	10.79%
Eastern China	102,488,841	37.87%	90,249,456	34.93%
Southern China	20,818,372	7.69%	23,193,533	8.98%
Central China	42,885,880	15.85%	38,837,614	15.03%
Northwest China	19,423,066	7.18%	18,085,546	7.00%
Southwest China	47,251,447	17.46%	47,395,584	18.34%
Total	270,600,890	100.00%	258,378,834	100.00%

The table below sets forth net interest-earning assets of the urban public utility industry by region as of the dates indicated.

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Northeast China	2,681,229	1.94%	4,474,362	3.80%
Northern China	12,141,846	8.80%	11,816,745	10.04%
Eastern China	53,874,515	39.06%	41,251,575	35.04%
Southern China	8,660,499	6.28%	9,656,377	8.20%
Central China	23,547,040	17.07%	17,949,959	15.25%
Northwest China	9,308,669	6.75%	7,614,044	6.47%
Southwest China	27,699,927	20.10%	24,976,955	21.20%
Total	137,913,725	100.00%	117,740,017	100.00%

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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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Net interest-earning assets					
Within 1 year	154,412,882	57.06%	147,943,495	57.26%	4.37%
1 to 2 years	73,686,819	27.23%	62,788,047	24.30%	17.36%
2 to 3 years	26,925,616	9.95%	15,887,437	6.15%	69.48%
3 years and beyond	15,575,573	5.76%	31,759,855	12.29%	-50.96%
Total	270,600,890	100.00%	258,378,834	100.00%	4.73%

Net interests-earning assets within one year represented net interest-earning assets that become effective within one year from the reporting date indicated, and were still valid as at the end of the year or the end of the period. As at 31 December 2022, net interest-earning assets within one year as set out in the table above represented 57.06% of net interest-earning assets of the Group, which remained stable as compared to the end of the previous year, indicating that the Group still maintained steady growth capacity of interest-earning assets.

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3.2.5 Maturity Profile of Net Interest-earning Assets

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Maturity date					
Within 1 year	147,195,388	54.40%	133,352,545	51.61%	10.38%
1 to 2 years	73,614,882	27.20%	72,416,924	28.03%	1.65%
2 to 3 years	32,881,314	12.15%	31,010,907	12.00%	6.03%
3 years and beyond	16,909,306	6.25%	21,598,458	8.36%	-21.71%
Total	270,600,890	100.00%	258,378,834	100.00%	4.73%

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 2022, net interest-earning assets due within one year as set forth in the table above represented 54.40% of the Group's net interest-earning assets as of each of the respective dates, which remained stable 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 the interest-earning assets portfolio, the Group applies a series of criteria that is derived from the own internal regulations regarding the management of lease assets. These criteria are designed to assess the possibility of repayment by the borrower and the collectability of principal and interest on our interest-earning assets. The interest-earning assets classification criteria focus on a number of factors, if applicable. The asset classifications of the Group include:

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

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Special mention. Even though the debtor has been able to pay its 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 effects of changes in the value of core assets on the debtor's ability to repay; while taking into consideration the effects 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 2022, as the domestic environment faced the triple pressure of "shrinking demand, supply shock and weakening expectation", the economy entered a downward cycle, while the external and international environment remained complicated and tense, with no signs of improvement. The Group once again withstood the severe test of the internal and external environment through various measures such as effective asset management means and iterative management system upgrading. During the reporting period, the Group's asset security was not significantly impacted by the complexity and uncertainty of the internal and external environment. A steady and positive trend was seen in the overall asset quality of the Group, and the security of assets remained stable and reliable.

MANAGEMENT DISCUSSION AND ANALYSIS

Upgrade system management to safeguard asset disposal

In 2022, the COVID-19 outbreak experienced ups and downs, and the pandemic prevention and control measures in cities all over the country were constantly upgraded, which posed a great challenge to the on-site disposal of risky assets. In such difficult environment, the Group's localized asset team played an important mobility role, and managed to ensure that staff from all provinces and cities can quickly reach customers' sites during the pandemic prevention period. The localized asset disposal team provided an important guarantee for the rapid judgment, decision-making and response made in respect of project risk.

In the big data system construction, the Group upgraded the risk early warning system, optimized the classification model and push frequency of risk information, and built a customer risk profile, which made the risk classification more scientific, the risk status more timely and explicit, and further improved the timeliness and accuracy of risk information. Also, the Group has established an industry-leading litigation information management system, covering the whole process of registration-filing-trial-execution-bankruptcy, and visualizing the progress of litigation and disposal and the whole stage of case trial, standardizing litigation and disposal actions and effectively improving litigation efficiency.

Through the organic combination of the abovementioned risk early warning system, litigation management system and localized asset team, the Group has established a comprehensive risk disposal system for tight encirclement based on a manual and machine management model, which has laid a solid foundation for early discovery, early decision-making and early disposal of risky assets.

Fully cover industry chain and upgrade disposal capacity

By taking advantage of its "finance + industry" model, the Group can give full play to its cross-regional, cross-industry and inter-departmental resource coordination ability in the disposal of distressed assets. Through continuous resource expansion and construction, the Group is committed to building a localized resource sharing network covering the upstream and downstream of the industrial supply chain.

In addition, the Group's strong vertical management and control model has broken through the regional restrictions of the traditional financial industry. By establishing a decision-making balance mechanism of front-office monitoring and disposal, middle-office process management and control, and back-office supervision and support, the Group can formulate an accurate risk disposal plan in an all-round and multi-angle way, break through the traditional disposal methods, explore innovative solutions to distressed assets, and realize the rapid disposal and recovery of risk assets.

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

	31 December 2022		31 December 2021		31 December 2020		31 December 2019	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	248,827,143	91.95%	234,737,048	90.85%	210,311,324	89.34%	178,912,873	88.07%
Special mention	18,942,410	7.00%	20,890,374	8.09%	22,512,881	9.56%	21,987,115	10.82%
Substandard	1,410,969	0.52%	1,541,604	0.60%	1,940,917	0.82%	1,689,815	0.83%
Doubtful	1,420,368	0.53%	1,209,808	0.46%	648,971	0.28%	559,272	0.28%
Loss	-	-	-	-	-	-	-	-
Net interest-earning assets	270,600,890	100.00%	258,378,834	100.00%	235,414,093	100.00%	203,149,075	100.00%
Non-performing assets	2,831,337		2,751,412		2,589,888		2,249,087	
Non-performing asset ratio	1.05%		1.06%		1.10%		1.11%	

The Group has established prudent asset quality control policy and adhered to a stringent and conservative asset classification policy. As at the end of 2022, the Group's assets under special mention accounted for 7.00% of its net interest-earning assets, representing a decrease of 1.09 percentage point from 8.09% at the end of 2021. During the reporting period, the quality of assets continued to be further optimized.

The assets under special mention in the urban public utility industry accounted for 47.67% of the total assets under special mention. This was mainly due to the large number of individual customers in the urban public utility sector. Therefore, the proportion is relatively large, but the proportion of assets under special mention in the segment was lower than that in the overall assets under special mention of the Company, and the overall performance was good. Most of the customers in the segment were public utility customers with sound performance in operation stability but relatively modest profitability. As to certain customers who had normal repayment but experienced capital constraints at times, 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 14.44% of the total assets under special mention. During the year, hospitals were affected by regional lockdowns, and thus the number of outpatients and inpatients fluctuated, which affected the stability of cash flows, resulting in a slower pace of repayment. The Group prudently adjusted more of the assets of the segment to assets under special mention.

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The assets under special mention in the cultural & tourism industry accounted for 12.07% of the total assets under special mention. As the pandemic caused fluctuations on the revenue stability of the customers in the tourism industry, certain customers experienced phases of tight repayment capacity. Although the segment showed significant signs of recovery at the end of the year, the Group continuously monitored the subsequent repayment performance of customers in the segment and prudently maintained the size of assets under special mention in the segment.

The assets under special mention in the engineering construction industry accounted for 9.04% of the total assets under special mention. Considering the uncertainties of the overall macro environment which led to the lengthening of the collection cycle of certain customers' accounts receivable, in order to cope with the potential risks arising from the above situation, 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 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Healthcare	2,735,765	14.44%	3,364,715	16.11%
Culture & tourism	2,287,101	12.07%	4,533,263	21.70%
Engineering construction	1,712,231	9.04%	1,776,551	8.50%
Machinery	583,837	3.08%	521,922	2.50%
Chemical & medicine	365,250	1.93%	117,083	0.56%
Electronic information	504,386	2.66%	433,270	2.07%
Public consuming	411,021	2.18%	663,184	3.17%
Transportation & logistics	1,312,134	6.93%	1,397,187	6.69%
Urban public utility	9,030,685	47.67%	8,083,199	38.70%
Total	18,942,410	100.00%	20,890,374	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.

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

	31 December 2022	31 December 2021	31 December 2020	31 December 2019
	% of total	% of total	% of total	% of total
Pass	0.07%	0.27%	8.91%	22.76%
Special mention	51.64%	52.99%	51.24%	35.69%
Substandard	4.98%	2.42%	4.74%	3.15%
Doubtful	2.35%	0.96%	0.40%	0.05%
Loss	3.69%	2.71%	1.96%	0.67%
Recovery	37.27%	40.65%	32.75%	37.68%
Total	100.00%	100.00%	100.00%	100.00%

The Group's non-performing asset ratio slightly declined, and the overall asset quality remained safe and under control. As at the end of 2022, the non-performing asset ratio was 1.05%, which decreased by 0.01 percentage point as compared with 1.06% as at the end of last year.

The non-performing assets of the culture & tourism industry accounted for 30.18% of the total non-performing assets. Certain customers in the segment have been affected by the persistence of the pandemic in recent years, and their business conditions have declined significantly compared with those before the pandemic. They encountered financing difficulties, tight cash flows, and long overdue periods. With the easing off of the pandemic at the end of 2022, it is expected that there will be significant recovery in the industry. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the urban public utility industry accounted for 22.79% of the total non-performing assets. Due to the large scale of individual projects, the overall non-performing assets of urban public utility were quite significant, but the actual number of customers with risk was relatively small. The moderately loose monetary policy this year resulted in stable financing for the customers in the segment and a greater compression in the size of non-performing assets than last year. The non-performing asset ratio of the segment was 0.47%, representing a decrease of 0.47 percentage point as compared with the end of last year, and the overall performance has been improving. The overall risk of the industry was under control, loss prediction was low, and no systemic risk appeared. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

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The non-performing assets of the engineering construction industry accounted for 16.01% of the total non-performing assets. Certain customers in the construction sector were more affected by the downward pressure of the industry, resulting in a decrease in the number of their business orders, which posed a certain risk to the stability of their operations. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the healthcare industry accounted for 12.51% of the total non-performing assets. Certain hospital customers were affected by the phased closure of operations due to the medical insurance policy and the pandemic, which continued to strain their cash flows and led to difficulties in repayment. With the relaxation of pandemic control at the end of the year, the number of outpatients and inpatients recovered and the cash flow situation eased, but the Group adopted more prudent control measures for such customers. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Healthcare	354,178	12.51%	172,276	6.26%
Culture & tourism	854,461	30.18%	621,141	22.58%
Engineering construction	453,283	16.01%	218,173	7.93%
Machinery	134,529	4.75%	306,581	11.14%
Chemical & medicine	5,300	0.19%	20,404	0.74%
Electronic information	296	0.01%	64,537	2.35%
Public consuming	132,097	4.67%	96,389	3.50%
Transportation & logistics	251,827	8.89%	146,968	5.34%
Urban public utility	645,366	22.79%	1,104,943	40.16%
Total	2,831,337	100.00%	2,751,412	100.00%

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Healthcare	9,041	0.64%	43,554	2.83%
Cultural & tourism	462,773	32.80%	334,088	21.66%
Engineering construction	105,987	7.51%	128,768	8.35%
Machinery	107,045	7.59%	136,707	8.87%
Chemical & medicine	4,806	0.34%	1,792	0.12%
Electronic information	–	0.00%	25,421	1.65%
Public consuming	87,575	6.21%	44,553	2.89%
Transportation & logistics	49,761	3.53%	4,920	0.32%
Urban public utility	583,981	41.38%	821,801	53.31%
Total	1,410,969	100.00%	1,541,604	100.00%

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Healthcare	345,137	24.30%	128,722	10.64%
Cultural & tourism	391,688	27.58%	287,053	23.73%
Engineering construction	347,296	24.45%	89,405	7.39%
Machinery	27,484	1.93%	169,874	14.04%
Chemical & medicine	494	0.03%	18,612	1.54%
Electronic information	296	0.02%	39,116	3.23%
Public consuming	44,522	3.13%	51,836	4.28%
Transportation & logistics	202,066	14.23%	142,048	11.74%
Urban public utility	61,385	4.33%	283,142	23.41%
Total	1,420,368	100.00%	1,209,808	100.00%

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Healthcare	-	-	-	-
Cultural & 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 2022	31 December 2021	31 December 2020
	RMB'000	RMB'000	RMB'000
At the beginning of the year	2,751,412	2,589,888	2,249,087
Downgrades ⁽¹⁾	3,103,634	2,865,433	2,698,228
Upgrades	(950,021)	(609,118)	(466,234)
Recoveries	(694,035)	(1,050,475)	(701,056)
Write-off/disposal	(1,379,653)	(1,044,316)	(1,190,137)
At the end of the year	2,831,337	2,751,412	2,589,888
Non-performing assets ratio	1.05%	1.06%	1.10%
Non-performing loan formation ratio ⁽²⁾	0.57%	0.52%	0.76%

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).

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3.2.6.2 Interest-earning Assets Provisions

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

	31 December 2022		31 December 2021		31 December 2020		31 December 2019	
	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	1,460,084	21.49%	1,154,549	17.36%	1,070,237	16.39%	469,357	8.48%
Provision for pass and special mention assets	5,334,328	78.51%	5,496,974	82.64%	5,461,350	83.61%	5,065,937	91.52%
Total	6,794,412	100.00%	6,651,523	100.00%	6,531,587	100.00%	5,535,294	100.00%
Non-performing assets	2,831,337		2,751,412		2,589,888		2,249,087	
Provision coverage ratio	239.97%		241.75%		252.20%		246.11%	
Credit cost ratio ⁽¹⁾	0.51%		0.37%		0.98%		0.90%	

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 2022	31 December 2021	31 December 2020	31 December 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Write-off/disposal of non-performing assets	1,379,653	1,044,316	1,190,137	867,150
Non-performing assets as at the end of last year	2,751,412	2,589,888	2,249,087	2,151,747
Write-off ratio ⁽¹⁾	50.14%	40.32%	52.92%	40.30%

Note:

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

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At the end of 2022, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB1,379,653,000, which were mainly distributed in the cultural & tourism, engineering construction, urban public utility and machinery industries, accounting for RMB579,591,000, RMB280,793,000, RMB203,500,000 and RMB136,739,000, 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 at the moment 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 terminate 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 2022, the written-off bad debts amounted to RMB5,897,720,000 and RMB1,079,254,000 had been recovered.

3.2.6.4 Status of Interest-earning Assets (Overdue for More than 30 Days)

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

	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Overdue ratio (over 30 days)	0.91%	0.94%	0.99%	1.29%

The Group adhered to the prudent strategies of risk control and asset management. The Group's overdue ratio (over 30 days) was 0.91% as at 31 December 2022, representing a decrease of 0.03 percentage point from 0.94% as at the end of 2021, reflecting a stable and improving trend in asset quality.

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Healthcare	382,301	15.59%	397,561	16.43%
Cultural & tourism	565,142	23.04%	577,627	23.86%
Engineering construction	657,216	26.80%	267,354	11.04%
Machinery	77,804	3.17%	176,951	7.31%
Chemical & medicine	7,841	0.32%	20,404	0.84%
Electronic information	296	0.01%	39,711	1.64%
Public consuming	152,533	6.22%	102,706	4.24%
Transportation & logistics	181,916	7.42%	315,852	13.05%
Urban public utility	427,546	17.43%	522,786	21.59%
Total	2,452,595	100.00%	2,420,952	100.00%

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

	31 December 2022		31 December 2021	
	RMB'000	% of total	RMB'000	% of total
Pass	-	-	-	-
Special mention	401,567	16.37%	797,733	32.95%
Substandard	821,646	33.50%	413,412	17.08%
Doubtful	1,229,382	50.13%	1,209,807	49.97%
Loss	-	-	-	-
Total	2,452,595	100.00%	2,420,952	100.00%

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

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

	2022		2021		Change %
	RMB million	% of total	RMB million	% of total	
Healthcare	71	1.04%	363	4.06%	-80.44%
Cultural & tourism	458	6.69%	926	10.36%	-50.54%
Engineering construction	176	2.57%	598	6.69%	-70.57%
Machinery	263	3.84%	269	3.01%	-2.23%
Chemical & medicine	119	1.74%	401	4.49%	-70.32%
Electronic information	644	9.41%	480	5.37%	34.17%
Public consuming	424	6.20%	164	1.84%	158.54%
Transportation & logistics	454	6.63%	600	6.71%	-24.33%
Urban public utility	4,235	61.88%	5,135	57.47%	-17.53%
Total	6,844	100.00%	8,936	100.00%	-23.41%

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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 2022		31 December 2021		Change %
	RMB million	% of total	RMB million	% of total	
Healthcare	101	1.73%	703	8.56%	-85.63%
Cultural & tourism	530	9.06%	983	11.97%	-46.08%
Engineering construction	210	3.59%	651	7.93%	-67.74%
Machinery	174	2.97%	295	3.59%	-41.02%
Chemical & medicine	231	3.95%	786	9.57%	-70.61%
Electronic information	309	5.28%	279	3.40%	10.75%
Public consuming	287	4.90%	161	1.96%	78.26%
Transportation & logistics	492	8.41%	629	7.66%	-21.78%
Urban public utility	3,519	60.11%	3,724	45.36%	-5.50%
Total	5,853	100.00%	8,211	100.00%	-28.72%

As at 31 December 2022, the balance of the holding of asset-backed securities/notes-related assets items amounted to RMB890,572,000, representing a decrease of 68.85% as compared to RMB2,858,774,000 as at 31 December 2021, mainly due to the fact that the off-balance sheet assets in previous years became mature one after another in 2022. 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 as at the end of 2022 with no significant anomalies of asset quality.

The balance of assets with continuing involvement of the Group amounted to RMB890,572,000, representing a decrease of 68.85% as compared to RMB2,858,774,000 as at the 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.

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3.4 Other Assets

As at the end of 2022, the cash and cash equivalents of the Group amounted to RMB15,903,843,000. 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 RMB3,227,451,000.

The balance of prepayments and other receivables of the Group amounted to RMB3,773,769,000, 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 RMB6,116,381,000, 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 RMB24,965,863,000, comprised mainly of equipment, tools and plant for equipment operation business amounting to RMB19,100,000,000, the buildings and medical equipment of its affiliated hospitals amounting to RMB3,700,000,000, and the main office building of the Group.

The balance of investments in joint ventures/associates of the Group amounted to RMB8,576,718,000, mainly including the equity investments of the Group in provincial asset management companies amounting to RMB5,129,905,000 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., PPP investment and the invested hospitals.

The balance of financial assets at fair value through profit or loss of the Group was RMB9,358,106,000, mainly due to the interest-earning assets and financial equity investment invested by the Group, among which the balance of interest-earning assets and other debt investments as at the end of 2022 was RMB3,960,000,000 and RMB2,720,000,000, respectively.

The balances of assets and liabilities corresponding to the Group's derivative financial instruments amounted to RMB1,853,302,000 and RMB271,565,000, 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 RMB270,512,000, which was mainly the goodwill recognized by the Group for the acquisition of medical institutions. In 2022, the Group made goodwill impairment provision of RMB183 million for certain subsidiaries with lower-than-expected profits in the hospital operation segment.

The balances of the Group's right-of-use assets amounted to RMB1,873,637,000, 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 in accordance with the accounting standard for leases.

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3.5 Liabilities (Overview)

As at 31 December 2022, total liabilities of the Group amounted to RMB294,554,075,000, representing an increase of RMB11,727,897,000 or 4.15% 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 85.33% of the total, which increased by 3.94 percentage points as compared to 81.39% as at the end of last year.

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Interest-bearing bank and other borrowings	251,327,480	85.33%	230,200,742	81.39%	9.18%
Other payables and accruals	24,217,011	8.22%	28,876,352	10.21%	-16.14%
Liabilities for continuing involvement	890,572	0.30%	2,858,774	1.01%	-68.85%
Trade and bills payables	13,975,210	4.74%	13,890,322	4.91%	0.61%
Tax payables	1,858,302	0.63%	2,172,065	0.77%	-14.45%
Derivative financial instruments	271,565	0.09%	2,368,864	0.84%	-88.54%
Deferred tax liabilities	902,566	0.31%	386,850	0.14%	133.31%
Deferred revenue	604,987	0.21%	1,465,194	0.52%	-58.71%
Lease liabilities	506,382	0.17%	607,015	0.21%	-16.58%
Total liabilities	294,554,075	100.00%	282,826,178	100.00%	4.15%

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3.6 Interest-bearing Bank and Other Borrowings

Being faced with the complicated financial environment domestically and overseas, the Group continued to optimize its debt structure. It consolidated its credit resource base by significantly increasing the size of bank credit and the proportion of indirect financing, and it also adjusted the pace of issuance with reference to the market conditions to improve product attractiveness and promote direct financing increment, supporting the effective advancement of the Company's overall strategy.

With respect to direct financing market, the Group fully utilized the advantages of its leasing business segments being in line with the industrial policies issued by the government, and continued to expand its bond portfolios and optimize conditions for bond issuance. In 2022, the Group issued asset securitization products including three green and one rural agricultural modernization products to support the sustainable development of the society. Inclusive finance products for small and micro enterprises and factoring assets were launched into the ABS open market for the first time. By exploring asset highlights, the Company had gathered a stable group of high-quality investors, continued to carry out product innovation, and received high recognition from the regulatory authorities and the market investors.

With respect to indirect financing market, the Group consolidated its headquarter/headquarters-level strategic partnerships with core banking partners through trade financing, inclusive finance, sharing of regional customers and other means on the basis of the current financing channel, and achieved a significant increase in credit lines. In addition, the sustainable development strategy and high ESG rating (MSCI A) of the Group have been recognized by many international financial institutions. In 2022, the Group received the "Rural Anti-pandemic Contribution Award" from the Asian Development Bank, and obtained its first sustainability-linked syndicated loan, which was used to support the supplement of public medical and health resources in remote areas of China.

In conclusion, the Group had diverse financing methods with a continuously improving liability structure, and was able to ensure stable supply of resources through flexible deployment of resources in multiple products, venues and channels. 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 2022, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB251,327,480,000, representing an increase of 9.18% as compared with RMB230,200,742,000 as at the end of last year. The Group's borrowings were mainly denominated in RMB and US\$.

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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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Current	123,454,985	49.12%	122,694,483	53.30%	0.62%
Non-current	127,872,495	50.88%	107,506,259	46.70%	18.94%
Total	251,327,480	100.00%	230,200,742	100.00%	9.18%

In 2022, 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 49.12%, which decreased as compared to the end of the previous year, mainly because the Group further optimized the maturity structure while controlling the cost of capital, adhered to a sound financing strategy and moderately increased long-term debt.

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Secured	37,825,439	15.05%	35,026,522	15.22%	7.99%
Unsecured	213,502,041	84.95%	195,174,220	84.78%	9.39%
Total	251,327,480	100.00%	230,200,742	100.00%	9.18%

The Group carefully managed its funding risk in 2022. As at 31 December 2022, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 84.95% of the Group's total interest-bearing bank and other borrowings, which slightly increased as compared to the end of the previous year, mainly because the Group continuously optimized financing conditions and obtained high-quality financing resources.

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Bank loans	134,240,087	53.41%	110,640,201	48.06%	21.33%
Other loans	117,087,393	46.59%	119,560,541	51.94%	-2.07%
Total	251,327,480	100.00%	230,200,742	100.00%	9.18%

As at 31 December 2022, the Group's bank loans as a percentage to the Group's total bank and other borrowings increased as compared to the end of last year, mainly because the Group continuously deepened its cooperation with banking channels, reflecting its stable and diverse financing sources.

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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Domestic	208,453,759	82.94%	182,720,857	79.37%	14.08%
Overseas	42,873,721	17.06%	47,479,885	20.63%	-9.70%
Total	251,327,480	100.00%	230,200,742	100.00%	9.18%

As at 31 December 2022, the proportion of the Group's domestic borrowings and other borrowings as a percentage to the Group's total borrowings was 82.94%, which slightly increased as compared with that at the end of last year as the Group moderately expanded domestic financing channels to satisfy the funding needs in view of the US dollar interest rate hikes and the instability of the overseas market.

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
RMB	198,893,635	79.14%	180,916,831	78.59%	9.94%
US\$	27,272,900	10.85%	39,276,524	17.06%	-30.56%
Borrowings in other currencies	25,160,945	10.01%	10,007,387	4.35%	151.42%
Total	251,327,480	100.00%	230,200,742	100.00%	9.18%

As at 31 December 2022, the Group's activities in RMB accounted for 79.14% of its total interest-bearing bank and other borrowings, representing an increase from the end of last year as the Group actively promoted domestic RMB financing, and vigorously expanded and strengthened RMB financing.

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 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Direct financing	97,425,426	38.76%	103,410,935	44.92%	-5.79%
Indirect financing	153,902,054	61.24%	126,789,807	55.08%	21.38%
Total	251,327,480	100.00%	230,200,742	100.00%	9.18%

As at 31 December 2022, the Group's direct borrowings accounted for 38.76% of the total, which decreased as compared to the end of last year because of the Group's in-depth development of the indirect financing market while maintaining a sound financing strategy structure.

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3.7 Shareholders' Equity

As at 31 December 2022, the total equity of the Group was RMB52,439,513,000, representing a decrease of RMB614,597,000 or 1.16% from the end of last year. During the year, the Company maintained stable development, and the profit for the year continued to grow, ensuring the steady increase in the equity attributable to ordinary shareholders of the Company. The decrease in shareholders' equity was mainly due to the Company's redemption of perpetual bonds on schedule pursuant to relevant agreements, and the Group may issue additional equity securities such as perpetual securities in the future based on market conditions and the Group's financing needs.

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

	31 December 2022		31 December 2021		Change %
	RMB'000	% of total	RMB'000	% of total	
Share capital ⁽¹⁾	13,052,344	24.89%	13,042,863	24.58%	0.07%
Equity component of convertible bonds	233,750	0.45%	233,750	0.44%	0.00%
Reserve	31,960,872	60.95%	28,245,937	53.25%	13.15%
Equity attributable to ordinary shareholders of the Company ⁽²⁾	45,246,966	86.29%	41,522,550	78.27%	8.97%
Perpetual securities ⁽³⁾	3,080,425	5.87%	7,514,376	14.16%	-59.01%
Non-controlling interests	4,112,122	7.84%	4,017,184	7.57%	2.36%
Total equity	52,439,513	100.00%	53,054,110	100.00%	-1.16%

Notes:

- (1) The following table sets forth the change in the equity attributable to the ordinary shareholders of the Company in 2022.

	Equity attributable to the ordinary shareholders of the Company
31 December 2021	41,522,550
Profit for the year	6,131,474
Other comprehensive income	(656,143)
Dividend distribution	(1,505,444)
Other changes in equity	(245,471)
31 December 2022	45,246,966

The final dividend of HK\$0.42 per share for the year ended 31 December 2021 was approved at the annual general meeting on 8 June 2022 and paid on 30 June 2022. As at 31 December 2022, the equity attributable to the ordinary shareholders of the Company was RMB45,246,966,000.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) The following table sets forth the issuance of perpetual securities.

Type of perpetual securities	Date of issuance	Currency of issuance	Amount of issuance ('000)	Initial annual distribution rate	Basic term ^(vi)	Date of redemption
Perpetual capital securities ^(vii)	14 June 2017	US\$	300,000	4.35%	No fixed maturity date	14 June 2022
Perpetual capital securities ^(vii)	4 December 2017	US\$	400,000	5.60%	No fixed maturity date	4 December 2022
Perpetual trusted loans ⁽ⁱ⁾	24 July 2019	RMB	49,850	6.0%	5 years	N/A
Perpetual medium-term notes ⁽ⁱⁱⁱ⁾	6 July 2022	RMB	1,000,000	4.2%	2 years	N/A
Renewable corporate bonds ^(v)	2 September 2022	RMB	500,000	4.2%	2 years	N/A
Renewable corporate bonds ^(v)	28 October 2022	RMB	1,000,000	4.09%	1 year	N/A
Perpetual trust securities (Pandemic Prevention and Control Securities) (phase one) ^(vii)	18 February 2020	RMB	1,500,000	3.87%	2 years	18 February 2022
Perpetual trust securities (Pandemic Prevention and Control Securities) (phase one) ⁽ⁱⁱⁱ⁾	18 February 2020	RMB	500,000	4.13%	3 years	N/A
Perpetual trust securities (Pandemic Prevention and Control Securities) (phase two) ^(vii)	18 June 2020	RMB	700,000	3.98%	2 years	20 June 2022

Notes:

- (i) The interest rate of the perpetual trusted loans will be reset every 5 years from the date of issuance for 5 years (the starting date of resetting interest rate). From the starting date of resetting interest rate (inclusive), the interest rate is the prevailing benchmark interest rate plus the initial spread, and the reset interest rate from the date of issuance of 20 years (inclusive) is determined by the prevailing benchmark interest rate plus the initial spread plus 300 basis points. The initial spread is the difference between the initial interest rate and the initial benchmark interest rate. The prevailing benchmark interest rate is the one- to five-year loan interest rate announced and implemented by the People's Bank of China 5 working days before the date of resetting interest rate.
- (ii) The perpetual trust securities take the basic term as a cycle, and is reset once every cycle. The coupon rate of the first cycle is the initial benchmark interest rate plus the initial spread, and the coupon rate of subsequent cycles is adjusted to the prevailing benchmark interest rate plus the initial spread plus 300 basis points. The initial spread is the coupon rate for the first cycle minus the initial benchmark rate. The benchmark interest rate is the arithmetic mean of the yields of treasury bonds of the same term in the 250 working days before the date of resetting coupon rate.
- (iii) The basic term of the perpetual medium-term notes is 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 initial spread is the difference between the coupon rate and the initial benchmark interest rate. The prevailing benchmark interest rate is the arithmetic mean of the yields of treasury bonds with a maturity of 2 years in the 5 working days before the reset date of the coupon rate. Thereafter, the coupon rate will be reset every two years based on the prevailing benchmark interest rate plus the initial spread plus 300 basis points.
- (iv) The basic term of the renewable corporate bonds is 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 of the first cycle is the initial benchmark interest rate plus the initial spread, and the coupon rate of subsequent cycles is adjusted to the prevailing benchmark interest rate plus the initial spread plus 300 basis points. The initial spread is the difference between the coupon rate for the first cycle and the initial benchmark interest rate. The benchmark interest rate is the arithmetic mean of the yields of treasury bonds of the same term in the 250 working days before the date of resetting coupon rate.
- (v) The basic term of the renewable corporate bonds is 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. The coupon rate of the first cycle is the initial benchmark interest rate plus the initial spread, and the coupon rate of subsequent cycles is adjusted to the prevailing benchmark interest rate plus the initial spread plus 300 basis points. The initial spread is the difference between the coupon rate for the first cycle and the initial benchmark interest rate. The benchmark interest rate is the arithmetic mean of the yields of treasury bonds of the same term in the 250 working days before the date of resetting coupon rate.
- (vi) For the perpetual securities with a basic term, 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.
- (vii) The Group redeemed these perpetual securities in 2022. The Group may issue additional perpetual securities in the future based on market conditions and the Group's financing needs.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 December 2022, 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 conversion price was further adjusted to HK\$7.58 per conversion share due to the payment of dividend on 30 June 2021; the conversion price was further adjusted to HK\$7.11 per conversion share due to the payment of dividend on 30 June 2022. As at the end of 2021, the Company had used all net proceeds for working capital and general corporate purposes. Approximately US\$169.5 million was used for domestic business operations and approximately US\$127.1 million was used for working capital and other general corporate purposes.

2. The bonds in the principal amount of US\$250,000,000 due 2026 issued by Universe Trek Limited, a wholly-owned subsidiary of the Company, on 15 June 2021 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\$246 million, the net price of each conversion share of such convertible bonds amounted to approximately HK\$10.01 (at the predetermined exchange rate of US\$1.00 to HK\$7.7614). 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\$10.20 per conversion share; the conversion price was adjusted to HK\$9.76 per conversion share due to the payment of dividend on 30 June 2021; the conversion price was adjusted to HK\$9.16 per conversion share due to the payment of dividend on 30 June 2022. As at the end of 2021, the Company had used all net proceeds for working capital and general corporate purposes, approximately US\$95 million was used for repayment of bank loans and approximately US\$151 million was used for repayment of the US\$ floating rate notes issued in 2018.

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 US\$200,000 each and integral multiples of US\$1,000 in excess thereof. 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, 28 May, 15 June, 16 June, 24 June, 20 July, 5 August, 6 August and 29 October 2021 and 24 June and 28 October 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Adjustment of Conversion Price of the Convertible Bonds

	Effective date of conversion price adjustment	Original conversion price	Adjusted conversion price	Disclosure date	Explanation of conversion price adjustment
Convertible bonds issued in June 2021	30 June 2022	HK\$9.76	HK\$9.16	24 June 2022	Adjust the conversion price based on the 2021 final dividend payment
Convertible bonds issued in July 2020	30 June 2022	HK\$7.58	HK\$7.11	24 June 2022	Adjust the conversion price based on the 2021 final dividend payment

Impact of the Convertible Bonds on Earnings per Share and Share Dilution

As at the end of 2022, 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 538,845,479 shares, representing approximately 12.49% of the issued share capital of the Company at the end of 2022 and approximately 11.10% of the issued share capital of the Company as enlarged by the issue of such conversion shares.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2022 and assuming no further shares would be issued by the Company):

Name of shareholder	As of 31 December 2022		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	21.31%	919,914,440	18.95%
KONG Fanxing ⁽ⁱ⁾	898,449,086	20.82%	898,449,086	18.51%
The holders of the Convertible Bonds issued on 8 July 2020	—	—	327,016,877	6.74%
The holders of the Convertible Bonds issued on 15 June 2021	—	—	211,828,602	4.36%
Other shareholders	2,497,146,075	57.86%	2,497,146,075	51.44%
Total⁽ⁱⁱ⁾	4,315,509,601	100.00%	4,854,355,080	100.00%

Notes:

(i) As at 31 December 2022, these interests include (i) 1,670,000 shares held by Mr. KONG Fanxing; (ii) 27,831,189 vested restricted shares; and (iii) 868,947,897 shares whose voting rights Idea Prosperous Limited were entrusted to exercise, and Idea Prosperous Limited is a wholly-owned company of Mr. KONG Fanxing.

(ii) There may be a difference between the total and the sum of the sub-items due to rounding down to two decimal places.

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 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

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

In 2022, 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.

(III) Analysis of the Implied Internal Rate of Returns

As at 31 December 2022, no conversion into shares had occurred for the convertible bonds issued on 8 July 2020 and the convertible bonds issued on 15 June 2021. Based on the implied internal rate of returns of the abovementioned convertible bonds and other related parameters, the share price at which it would be equally financially advantageous for the bondholders to convert or redeem the revised conversion shares for the end of year 2022 to 2025 were as below:

	As of 31 December			
	2022	2023	2024	2025
Share price of the convertible bonds issued on 8 July 2020 (HK\$)	7.11	7.11	7.11	N/A
Share price of the convertible bonds issued on 15 June 2021 (HK\$)	9.45	9.64	9.83	10.03

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 2022, 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 2022	31 December 2021
	RMB'000	RMB'000
Total assets (A)	346,993,588	335,880,288
Total liabilities (B)	294,554,075	282,826,178
Total equity	52,439,513	53,054,110
Gearing ratio (C=B/A)	84.89%	84.20%

In 2022, 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 2022, the Group's gearing ratio was 84.89%.

4.2 Ratio of Assets at Risk to Equity

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 June 2020, the total risky assets of a financial leasing company must not exceed 8 times of the net assets.

As at 31 December 2022, the ratios of total assets at risk to net assets of International Far Eastern Leasing Co., Ltd., Far Eastern Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd. were 5.21, 4.45 and 1.09, respectively, which were in compliance with the ratio of risk assets to equity requirements of the measures. The Group will ensure that all domestic finance leasing operations entities will continue to meet the above regulatory requirements through allocation of internal resources.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Total assets	216,258,683	223,702,065
Less: Cash	7,833,798	11,581,180
Total assets at risk	208,424,885	212,120,885
Equity	39,983,172	36,503,070
Ratio of assets at risk to equity	5.21	5.81

Far Eastern Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信(天津)融資租賃有限公司)

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Total assets	98,181,851	86,434,733
Less: Cash	2,912,148	3,855,840
Total assets at risk	95,269,703	82,578,893
Equity	21,388,353	18,633,566
Ratio of assets at risk to equity	4.45	4.43

Far Eastern Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司)

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Total assets	6,538,144	11,050,377
Less: Cash	1,169,793	588,093
Total assets at risk	5,368,351	10,462,284
Equity	4,946,327	4,198,400
Ratio of assets at risk to equity	1.09	2.49

MANAGEMENT DISCUSSION AND ANALYSIS

5. CAPITAL EXPENDITURES

The Group's capital expenditure was RMB4,588,126,000 in 2022, 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 2022, the international environment became more severe and complex. The conflict between Russia and Ukraine broke out and continued to escalate with intensifying bloc confrontation. Commodity prices remained high, and serious inflation was seen in European and American countries, leading to multiple sharp interest rate hikes of US dollars. Global supply chain problems became prominent. Affected by the deterioration of the external environment and the sporadic outbreaks of the pandemic, the "triple pressure" on China continued to exist. The "dual circulation" development pattern was constructed at a faster pace. The high-quality development with innovation as its core made steady progress. The physical manufacturing industry demonstrated strong resilience, while the investment in high-tech manufacturing continued to grow. The digital, intelligent and low carbon development in the manufacturing industry was further upgraded. At the end of the year, expanding domestic demand became a national strategy, showing clear signs of boosting confidence in economic development and development expectations. Investment still played a key role in economic growth. With the optimized pandemic control measures in China, the basic role of consumption in economic growth has been gradually strengthening.

We optimized the regional and industry structures and expanded the customer base for concentration control and reasonable asset allocation. We continuously evaluated external changes and selected and refined sub-sectors based on merit to adjust strategies as needed. We deepened industry research and application and continued to improve the credit granting process for professional and accurate reviews. We strengthened the awareness about strict duty performance and improved the processes to build a solid line of defense to optimize and improve operations. We scattered operations with flexibility to make flexible and orderly responses to the pandemic. We continued to upgrade the system and iterate the tools to empower and enhance the efficiency of technology.

In 2022, with safe and well controlled assets, the Company maintained flexibility and order as to its operations, and sustained robust growth in its operation results.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Reasonable asset allocation with adjustment to strategies as needed

(1) Optimized the regional and industry structures and expanded the customer base for concentration control and reasonable asset allocation

Adhering to the principle of reasonable risk diversification, the Company strived to optimize asset allocation and consolidate business foundation in multiple directions including industries, regions and customers.

At the industry level, the Company will continue to adhere to differentiated allocation among the industries under the encouraged, maintained, restricted and reduced categories, so as to achieve a combination of interception and guidance. The Company encouraged the deployment in industries related to “new infrastructure and new urbanization initiatives and major projects”, including new urbanization, new infrastructure construction and major infrastructure construction, and industries related to “safeguarding people’s livelihood”. It encouraged the deployment in industries related to manufacturing and upgrading with the vision of “leading innovation, technology empowerment, high-end, intelligentization, and low-carbon upgrade and transformation”, and encouraged the deployment in industries related to basic consumption and consumption upgrading. As the security of various sectors has become more prominent, the Company allocated more resources to industries related to national defense security, food security, and energy security.

At the regional level, the Company closely followed the national and regional development strategies, focused on the key national and regional development strategies, and provided service to the three strategic core areas of the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, as well as emerging key areas such as the Yangtze River Economic Belt and the Chengdu-Chongqing Economic Circle. Seizing development opportunities arising from areas such as imbalanced regional development, new urbanization construction and rural revitalization, the Company selected quality regions and customers for cooperation to further optimize asset allocation. Its proportion of investment in economically developed regions increased by more than 5% throughout the year.

At the customer level, the Company continued to adhere to the development strategy which covers the entire industry chain and customer bases across large, medium and small levels. The Company took the industrial chain as its starting point for horizontal expansion, and regarded regions as its base for vertical development. Through hierarchical development of high-end, large, medium and small customers, the Company expanded its customer base. The Company encouraged the development of new customers, continued to consolidate its business foundation, and achieved an increase of more than 17% in the number of transactions with new customers in the chemical sector with better understanding of the industry. The Company strictly controlled the concentration of credit granted to a single customer to further diversify risks.

In 2022, the Company further optimized its asset structure with an increasing proportion of investment in specific industries. The proportion of asset allocation in key core areas further increased, and the total number of customers continued to grow. The number of customers in the public consuming sector increased by more than 26% compared with the same period last year. The operating foundation was effectively consolidated and the scope of credit granting was expanded, such that risk concentration was reasonably and effectively controlled.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Continuously evaluated external changes and selected and refined sub-sectors based on merit to adjust strategies as needed

The Company maintained continuous review and analysis to respond to rapid changes in the external environment in a timely and effective manner. By strengthening the analysis of macroeconomic trends, medium-level industrial structure, and micro-level business operations, the Company actively sought business opportunities, and avoided fluctuation risks.

In 2022, the Company continued to increase its investment in industries which secure people's livelihood, and maintained targeted development in industries enjoying high prosperity and sound stability and being less affected by the pandemic. The Company made dynamic adjustments and selected and refined sub-sectors based on merit. In view of the general upward market prices of raw materials, the Company increased investment in upstream sub-sectors such as energy, chemicals, and new materials. Certain sub-sectors, such as new energy, batteries and other fields, have obvious advantages in domestic production, and domestic substitution of electronic components, semiconductors and auto parts is accelerating. The Company has been actively looking for enterprises in related industries with economies of scale, obvious technological advantages and leading cost control to commence business cooperation. At the same time, the Company strengthened the industry-specific expertise, continued to make breakthroughs in sub-sectors such as pesticides and chemical fertilizers, and tapped the potential of basic consumption such as food and beverages. Specialized and sophisticated enterprises that produce new and unique products enjoyed sound development momentum. The Company researched strategies and actively looked for these enterprises to strengthen market development. Meanwhile, for certain industries such as tourism, hotel and catering which were impacted by the pandemic, the Company adopted a prudent strategy in stages by offering to control the overall transaction size and the project deadline, as well as selecting prime customers.

In view of the increasing uncertainty in the external environment, the Company adjusted its industry management strategies as needed to ensure that its operation and management are in line with the external environment.

II. Accurate and professional reviews with optimization and improvement in operations

(I) Deepened industry research and application and continued to improve the credit granting process for professional and accurate reviews

The Company insisted on industry-specific risk management approach, deepened industry research and application, adhered to the "all-round, full-process, multi-angle, and uninterrupted" quality control approach, and carried out comprehensive, professional and accurate reviews of projects to accurately identify core risks for effective hedging.

The Company deepened the application of industry research. The Company integrated industry research and review practice, prepared industry mapping of various industries, and summarized the characteristics and risk perception of various industries. The Company conducted special research and case analysis for customers in specific industries, clarified target customer portraits, and strengthened calibration of customer data to rating models to improve quantitative recognition and accurate positioning of customers.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company further improved the review process. As to the introduction stage, the Company put greater efforts in sorting out and applying the list of negative traits of cyclical industries and companies with prohibited or prudent operations. For customers with negative traits, the Company would impose stricter review requirements, such as mandatory on-site reviews and mandatory reviews by senior and professional personnel. As to the due diligence stage, the Company strengthened third-party verification by hierarchical classification, applied various resources to mitigate the asymmetry of customer information, and maintained sound management of the whole process. As to the review stage, the Company respected the differences between different industries and the professionalism of reviewers, and promoted joint reviews by experts who have experience in various industries.

The Company strived to acquire comprehensive and precise information about the sources of customers' credit risks, ensure no omission of major risks, and accurately focus on core risks for effective prevention and control.

(II) Strengthened the awareness about strict duty performance and improved the processes to build a solid line of defense to optimize and improve operations

The Company strengthened the awareness of responsibility and emphasized strict duty performance. Through the reanalysis and publicity of risk cases, the Company continued to strengthen the bottom line awareness, red line awareness and risk awareness of all employees. The Company continuously strengthened the awareness among management personnel in performing their duties and responsibilities, and strictly implemented the supervisory and management responsibilities of the management.

The Company improved the processes to build a solid line of defense. The Company continued to streamline and refine job responsibilities and operational requirements at both staff and management levels, focusing rectifying operational issues and loopholes. It further enhanced all aspects of credit granting, especially the standard operation procedures for operating personnel in key processes and key positions. The Company improved the three mechanisms, namely self-inspection by the business department, supervision and inspection by the vertical job function, and internal control inspection, continued to strengthen the three lines of defense, and improved the closed-loop mechanism of supervision and management.

The Company reinforced pre-event prevention, timely rectification of deviation when an event took place, and post-event close linkage. By strengthening the pre-event prevention mechanism and capacity building for key processes and major risks, and rectifying operational issues once discovered to limit losses, the number of issues timely detected and rectified before an event took place has gradually increased, and the rejection rate increased by 5% compared with the same period last year. At the same time, the Company strengthened the close linkage between the pre-event process and the in-event process to ensure an effective closed loop throughout management, timely sharing of risk information, and continuously improve operational quality and efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

III. Flexible and orderly operations with technological empowerment and efficiency enhancement

(I) Scattered operations with flexibility to make flexible and orderly responses to the pandemic

In 2022, sporadic outbreaks of the pandemic occurred across the country, which posed a great challenge to on-site operations. Localized and distributed business premises of the Company facilitated rapid, multi-point and scattered operations nationwide. The Company made different responses according to different scenarios. For the sites that were accessible physically, local personnel worked alternately to actively carry out on-site project review and industry research. For those sites hard to reach in person, on the premise of ensuring safety and being under control, the Company flexibly arranged remote due diligence or review via videos and online review to ensure that business can be carried out in a timely and orderly manner. In response to the difficulties in delivering documents due to disrupted logistics in certain cities, the headquarters arranged for unaffected regions nearby to undertake the delivery of documents, and scanned and converted the documents on the spot to generate electronic documents for quality control and credit review, which effectively improved the efficiency of collaboration. After the pandemic eased off, the tasks put on hold due to the pandemic was quickly addressed, with their quantity, quality and pace resuming to pre-pandemic level in a short period of time, forming a flexible operation capacity in different environment during and after the pandemic.

During the pandemic, the overall risk management and control system maintained flexible operation, which ensured orderly credit granting process as scheduled and guaranteed asset security. At the same time, as the impact of the pandemic was minimized, the Company achieved commendable positive year-on-year growth in its annual results.

(II) Continued to upgrade the system and iterate the tools to empower and enhance the efficiency of technology

In 2022, the Company continuously pushed forward the system upgrade and application of core business, and further accelerated the transformation and iteration of information, digital and intelligent systems and tools.

In key areas such as industry research resources, target customer introduction, risk identification and monitoring for early warning, the Company further improved the application scenarios of financial technology, and expanded the range of scenarios of big data application, automatic recognition and comparison of graphics and text, intelligent data classification and analysis and intelligent Q&A robots. OCR financial reporting, electronic signature, automatic seal verification, credit RPA, intelligent “small R” navigation and other applications have been more widely used.

The Company continued to explore for the improvement in the intelligent level of reviews and the digital level of asset resource management in order to further empower its business development, strengthen risk prevention and control, and improve operational efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

6.2 Interest Rate Risk

Interest rate risk is the risk that the 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 2022	As of 31 December 2021
	RMB'000	RMB'000
Variable interest bearing assets	1,727,588	9,225,941
Variable interest bearing liabilities	(92,206,276)	(79,247,713)
Monetary funds and others	19,148,926	20,104,613
Derivative financial instruments	50,526,561	44,084,956
Net exposure	(20,803,201)	(5,832,203)

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 (such as the RMB loan market quoted 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 2022	As of 31 December 2021
	RMB'000	RMB'000
Change in basis points		
+100 basis points	(66,264)	24,974
-100 basis points	68,147	(20,221)

MANAGEMENT DISCUSSION AND ANALYSIS

6.3 Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the operating activities of the Group (when receipt or payment is settled using a currency that is different from the functional currency).

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US\$, and to a lesser extent, other currencies. The Group's treasury operations exposure mainly arises from its transactions in currencies other than RMB. The Group adopted prudent foreign exchange 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 at 31 December 2022, the Group's actual exposure to foreign exchange risk approximately amounted to approximately US\$7,109 million, hedges against foreign exchange exposure amounted to approximately US\$6,865 million with the hedge ratio (percentage of the aforesaid two items) of approximately 96.57% (approximately 99.13% as at 31 December 2021). The Group's actual exposure to foreign exchange risk is limited.

The table below demonstrates the effect of reasonable potential changes in exchanges rates of 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 exchange rate	As of 31 December 2022	As of 31 December 2021
		RMB'000	RMB'000
Effect on the profit before tax	+1%	16,970	3,583
Direct effect of perpetual securities on the equity in the event of future redemption	+1%	N/A	44,630
		16,970	48,213

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. As of 31 December 2022, the Group had no outstanding perpetual securities denominated in foreign currency (31 December 2021: US\$700 million).

MANAGEMENT DISCUSSION AND ANALYSIS

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. The following table sets forth the Group's liquidity-related indicators as of the dates indicated.

	31 December 2022	31 December 2021
Liquidity coverage ratio ⁽¹⁾	194.23%	191.47%
Proportion of short-term liabilities ⁽²⁾	51.10%	55.42%
Liabilities/total credit lines ⁽³⁾	53.81%	53.87%

Notes:

- (1) Liquidity coverage ratio = (position + collection of lease payments within one month)/rigid payment outflows within one month.
- (2) Proportion of short-term liabilities = (interest-bearing liabilities due within one year + bills payable due within one year)/(interest-bearing liabilities + bills payable + convertible bonds).
- (3) Total liabilities/credit lines = (interest-bearing liabilities + bills payable + convertible bonds)/total credit lines.

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 at 31 December 2022							
Total financial assets	17,872,115	52,509,123	122,452,907	136,371,209	1,723,235	2,698,900	333,627,489
Total financial liabilities	1,362,917	54,632,009	97,967,745	142,773,334	3,815,533	–	300,551,538
Net liquidity gap	16,509,198	(2,122,886)	24,485,162	(6,402,125)	(2,092,298)	2,698,900	33,075,951
As at 31 December 2021							
Total financial assets	18,930,706	53,576,942	104,476,075	134,252,056	4,747,205	2,817,672	318,800,656
Total financial liabilities	755,679	50,513,131	106,136,759	123,572,907	4,035,022	–	285,013,498
Net liquidity gap	18,175,027	3,063,811	(1,660,684)	10,679,149	712,183	2,817,672	33,787,158

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 RMB21,788,356,000, long-term receivables of RMB6,549,860,000, cash of RMB493,766,000, property, plant and equipment of RMB7,823,189,000, investment property of RMB82,000,000 and right-of-use assets (the original prepaid land lease payments) of RMB820,679,000 as at 31 December 2022 in order to secure or pay the bank borrowings, cash of RMB1,578,440,000 was pledged for bank acceptances, letter of credit and etc.

MANAGEMENT DISCUSSION AND ANALYSIS

8. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

In 2022, the number of hospitals controlled by the Group was 30, with a new hospital project of Lichuan Hongxin Harmony Hospital. The actual number of beds available amounted to approximately 11,000, forming a nationwide hospital operation network covering East China, South China, North China, Southwest China, and Northeast China. 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 into a unified operation and management model, focusing on the development of disciplines, increasing the core competitiveness and achieving income growth.

In 2022, the Group operates two non-compulsory schools. The Company insists on a high-quality positioning of school operations, and takes the responsibility of cultivating elites for the society. Its high schools have formed a good brand in the local area and are widely recognized by parents. Two of its high schools attained excellent results regarding further studies, with an admission rate of over 90% for the top 100 universities in the world, and have helped outstanding students to enter top schools such as Oxford, Cambridge and Ivy League for successive years.

In 2022, 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 2022, the Group had 21,886 full-time employees, a decrease of 1,371 full-time employees as compared to 23,257 in 2021.

The Group believes it has a high quality work force with specialized industry expertise. As at 31 December 2022, approximately 46.3% of the Group’s employees had bachelor’s degrees or above, and approximately 7.7% had master’s degrees or 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 2022, 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 2022	As of 31 December 2021
	RMB'000	RMB'000
Legal proceedings:		
Claimed amounts	38,838	83,686

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 2022	As of 31 December 2021
	RMB'000	RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and equipment	161,423	224,729
Irrevocable credit Commitment ⁽¹⁾	23,035,482	14,124,845

Note:

(1) 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

In 2023, the Central Economic Work Conference emphasized the need to “better coordinate pandemic prevention and control and economic and social development, better coordinate development and security, comprehensively deepen reform and opening up, and vigorously boost market confidence”, which means that China would make full efforts in the economic construction field and provide a positive internal environment for enterprise development. In the future, the Group will continue to pay close attention to domestic and international economic trends and maintain a prudent attitude, and adhere to the vision to “vigorously build excellent enterprises” and strive to create value sustainably, effectively and continuously. The Group will dynamically adjust its strategic deployment according to environmental changes, with a view to strengthening its engagement and resonance with the external environment, adhere to the “finance + industry” two-wheel drive, constantly iterate and innovate the business model, enrich the service means and enhance the service ability, so that the Company can reach a higher level in the new era and new environment.

In terms of financial business, the Group will continue to implement the “stability-focused” business strategy. The Group will deepen development of industries, further dig the segmented industries, tap the effective demand, and seize every business opportunity. The Group will make further efforts in different regions, improve customer coverage and marketing accuracy, and cover each and every high-quality enterprise. The Group will strengthen cooperation, further enrich multi-scenario financial services, enhance customers’ comprehensive service capabilities and promote new profit growth points. Meanwhile, the Group will pay close attention to the external regulatory environment changes, firmly ensure the bottom line of operational safety and risk management, and make sure the adaptability of the Company’s operation and management to the environment.

In terms of industrial operation, Horizon Construction Development will conform to the national and regional plans regarding Yangtze River Delta and Greater Bay Area, continue to dig deep in the domestic market, and work together with upstream equipment suppliers and downstream service partners to promote the new urbanization construction in China. It will follow “the Belt and Road” initiative”, actively expand overseas business, and deepen cooperation with upstream and downstream partners in Southeast Asia and other places. Horizon Construction Development will continue to expand its business scale, further optimize its service network, speed up digital transformation and upgrading, improve operational efficiency, consolidate its competitive advantage, and keep up with market demand changes to continuously create value for customers. Horizon Healthcare will actively respond to the national strategies of “Healthy China” and “Actively Responding to Aging Population”, and continue to focus on its layout in third-, fourth-, and fifth-tier cities and counties with relatively weak medical resources, and is dedicated to providing high-quality medical services available to everyone. At the same time, it will actively explore major healthcare services such as consumer medical care, combination of medical care and rehabilitation and healthcare shopping malls to serve people’s broader healthcare needs. Focusing on its unique operation model of “one system, one network, one hospital”, Horizon Healthcare will continue to upgrade its standardized, intensive and integrated operation management system to achieve long-term and sustainable development and step towards its vision of “building a long-living Horizon Healthcare brand that the government is pleased to see, the industry recognizes and in which people have confidence”.

MANAGEMENT DISCUSSION AND ANALYSIS

12. EQUIPMENT OPERATION SEGMENT REPORT

12.1 Profit Statement Analysis of Equipment Operation Segment

	For the year ended 31 December		
	2022	2021	Change %
	RMB million	RMB million	
Total revenue	7,877.64	6,141.17	28.28%
Revenue from operating lease ⁽¹⁾	5,189.95	4,463.35	16.28%
Revenue from engineering and technical services ⁽²⁾	2,136.62	1,519.29	40.63%
Revenue from platforms and others	551.07	158.53	247.61%
Total cost	(4,744.64)	(3,295.24)	43.98%
Cost of operating lease ⁽¹⁾	(2,870.72)	(2,091.08)	37.28%
Cost of engineering and technical services ⁽²⁾	(1,496.27)	(1,076.65)	38.97%
Cost of platforms and others	(377.65)	(127.51)	196.17%
Gross profit	3,133.00	2,845.93	10.09%
Gross profit of operating lease ⁽¹⁾	2,319.23	2,372.27	-2.24%
Gross profit of engineering and technical services ⁽²⁾	640.35	442.64	44.67%
Gross profit of platforms and others	173.42	31.02	459.05%
Administrative and selling expenses	(1,204.58)	(1,197.31)	0.61%
Provision for assets	(110.11)	(304.29)	-63.81%
Other profit	130.11	187.96	-30.78%
Earnings before interest and tax	1,948.42	1,532.29	27.16%
Finance costs	(816.76)	(586.35)	39.30%
Profit before tax	1,131.66	945.94	19.63%
Income tax expense	(227.24)	(192.86)	17.83%
Profit for the year	904.42	753.08	20.10%

MANAGEMENT DISCUSSION AND ANALYSIS

12.2 Asset Analysis of Equipment Operation Segment

	31 December 2022	31 December 2021	Change %
	RMB million	RMB million	
Monetary fund	2,159.32	506.99	325.91%
Bill receivables, bill and contract assets	5,827.64	4,955.26	17.61%
Prepayments and other receivables	2,278.80	2,176.17	4.72%
Inventories	186.22	291.37	-36.09%
Fixed assets and other intangible assets	19,106.19	18,282.67	4.50%
Right-of-use assets	335.22	321.21	4.36%
Deferred income tax assets	333.08	263.86	26.23%
Other assets	65.32	163.08	-59.95%
Total assets	30,291.79	26,960.61	12.36%

Notes:

Horizon Construction Development is a leading equipment operation service provider in China established by the Group, with diversified equipment and strong service capabilities. Building on its rich equipment categories and scientific management system, Horizon Construction Development 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 national network layout, which forms nation-wide operation network and comprehensive operation capabilities with synergetic nature. At present, the main business scope of Horizon Construction Development 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, maintenance and professional service to meet the customers' needs for one-stop service.

In 2022, Horizon Construction Development jumped to the 14th place in IRN World's Top 100 Rental Companies (24th place in the same period last year), which is awarded by KHL Group, one of the world's largest international building information providers, and ranked third in Aerial Work Platform Leasing Companies in the World in ACCESS 50. In April 2021, each of (i) Xuzhou XCMG Huijin M&A Industry Fund (L.P.), (ii) Zoomlion International Trading (H.K.) Co., Limited, (iii) GSPR Holdings Limited, (iv) Zhejiang Dingli Machinery Co., Ltd., (v) LGMG International Limited, (vi) Terex International Holdings 2 Limited and (vii) Thrive Accomplish Limited entered into a share purchase agreement with Horizon Construction Development, respectively, to subscribe for shares of Horizon Construction Development with a total consideration of US\$204,910,326.45. Upon signing of the agreement, the above-mentioned institutions have become strategic investors of Horizon Construction Development. In 2022, the total amount of these strategic investments (including the impact of accrued interest and exchange gains and losses) was RMB240 million, an increase of RMB200 million over the same period last year. Such expenses resulted in a direct reduction in equity in the Group's financial statements. After including relevant expenses in the income statement, profit before tax for the year of Horizon Construction Development in 2022 would amount to approximately RMB890 million, a decrease of approximately RMB10 million over the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2022, Horizon Construction Development, a leader in the equipment operation service market for aerial work platforms, new support systems, new formwork systems and other equipment, owned over 130,000 aerial work platforms and about 2,200,000 tons of neo-excavation systems and neo-formwork systems, with the total original value of its operating assets ranking No.1 in the equipment service market. Specifically, the Group's aerial work platform equipment mainly consists of scissor-type and boom-type aerial work platforms, which are extensively used in construction, installation and subsequent maintenance of industrial buildings, municipal venues, commercial sites, energy chemical, transportation logistics and other fields. The new support systems consist of temporary steel structures for construction purpose such as steel support, Larsen pile and structural steel, which are widely used in fields such as civil construction, municipal pipelines, subways and bridge infrastructures. The new formwork systems mainly consist of socket type scaffolding, mainly used in fields such as industrial construction, municipal construction, housing construction and traffic construction. The pavement equipment consists of paving machines, road rollers and milling machines, which are used in the construction and maintenance of asphalt concrete pavements such as high-grade roads, airport runways, test-drive tracks and municipal roads. The electric power equipment consists of generators and load boxes, which are mainly used in temporary power supply for engineering construction, large-scale exhibitions, advertising campaigns, marine engineering, urban construction, field engineering, and mining.

As at 31 December 2022, Horizon Construction Development had 4 major bases and 349 service outlets in 187 cities, covering East China, South China, North China, Southwest China and Northeast China, and providing high quality and convenient services for its corporate customers, the accumulative amount of which has reached around 158,000 at present. In recent years, Horizon Construction Development has steadily expanded its overseas business layout, continuously improved its international development and enhanced its global competitiveness along with the promotion of the "Belt and Road" initiative and other national overseas strategies for enterprises. 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.

As at 31 December 2022, the total income of Horizon Construction Development was approximately RMB7,878 million, representing an increase of 28.28% over the previous year, and the gross profit and total profit before interest and taxes rose steadily. The main reasons were:

- (1) Leveraging its years of in-depth development in the industry, Horizon Construction Development has established a diverse, stable and high-quality customer base. Despite the impact of the sudden pandemic in the first half of the year, Horizon Construction Development managed to maintain an asset utilization efficiency of more than 70% throughout the year and achieved total revenue from operating lease of approximately RMB5,190 million, representing an increase of 16.28% over the previous year. The gross profit margin of the operating lease business decreased slightly during the period under review due to the impact of the pandemic on downstream industries.
- (2) Horizon Construction Development owns numerous independent intellectual property rights, integrates design and service, and provides professional integrated solutions for key, large-scale and high-end projects through the collaboration of the entire product line. In 2022, it gradually made efforts in the field of road engineering technology to provide customers with full-cycle engineering solutions in synergy with neo-excavation systems and neo-formwork systems. In 2022, Horizon Construction Development recorded engineering technical service revenue of approximately RMB2.14 billion, a year-on-year increase of 40.63%. Since the construction field has gradually entered a new stage of transformation and upgrading, the gross profit margin of Horizon Construction Development's overall engineering technical services tended to be stable attributable to the higher technological added value of the construction process.
- (3) Horizon Construction Development meets more business needs by integrating external operating assets, and manages external equipment and materials by exporting its asset custody capabilities, continuously expanding the scale of platform service revenue, superimposing the sales of operating lease equipment, materials and spare parts to diversify the sources of income. In 2022, the total revenue of platform and other business reached approximately RMB550 million, with a year-on-year growth rate of 247.61%. Since the gross profit margin of the platform service business is higher than that of second-hand equipment sales and other businesses, the overall gross profit margin of the platform and other services has also increased as the scale of the platform business has rapidly expanded and its proportion has increased.

MANAGEMENT DISCUSSION AND ANALYSIS

13. HOSPITAL OPERATION SEGMENT REPORT

13.1 Profit Statement Analysis of Hospital Operation Segment

	For the year ended 31 December		
	2022	2021	Change %
	RMB million	RMB million	
Total revenue	4,215.95	4,003.10	5.32%
Revenue from hospital operation	4,199.30	3,928.72	6.89%
Other relevant revenue from hospital operation	16.65	74.38	-77.61%
Total cost	(3,560.15)	(3,202.78)	11.16%
Cost from hospital operation ⁽³⁾⁽⁵⁾	(3,551.20)	(3,194.19)	11.18%
Other cost	(8.95)	(8.59)	4.19%
Gross profit	655.80	800.32	-18.06%
Gross profit from hospital operation ⁽⁴⁾	664.75	808.91	-17.82%
Other cost	(8.95)	(8.59)	4.19%
Labor cost ⁽⁵⁾	(130.24)	(129.04)	0.93%
Other administrative and selling expenses ⁽⁵⁾	(264.37)	(340.35)	-22.32%
Provision for assets	(114.31)	(87.97)	29.94%
Other profit	22.49	(4.39)	-612.30%
Profit before tax	169.37	238.57	-29.01%
Income tax expense	(80.81)	(95.10)	-15.02%
Profit for the year	88.56	143.47	-38.28%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

In 2022, the number of hospitals controlled by the Group was 30, with a new hospital project of Lichuan Hongxin Harmony Hospital. With the addition of this hospital, the scale of the Group's member hospitals has reached a new level, and the medical service operation has continued to expand. The actual number of beds available amounting to approximately 11,000, forming a nationwide hospital operation network covering East China, South China, North China, Southwest China, and Northeast China. The Group will adhere to the differentiated layout, and fully promote the "Hundred Counties Plan" to "take root" in various regions in China with a positive and steady momentum, continue to implement the operating strategy of "one network, one system and one hospital", and incorporate the member hospitals into a unified operation and management model, focusing on the development of disciplines, enhancing the core competitiveness of its member hospitals and implementing the healthy China strategy.

At present, the pandemic prevention and control has entered a new stage, and the focus of prevention and control work has changed from infection prevention and control to medical treatment. In the face of the surge in the number of patients contracting respiratory diseases, our member hospitals have stood up to take on the heavy responsibility, with more than 10,000 hospital employees continuously fighting on the anti-pandemic front line. The medical staff worked tirelessly and insisted on being at the forefront of the fight against the pandemic, manifesting the commitment of the medical practitioners. The personnel of various functional departments performed well to provide numerous protections and became a strong backing for front-line staff. At the early state of the pandemic, the medical staff was equipped with pure white protection clothing and offered medical services against adversity, and they are still overcoming difficulties and guarding health until now. Currently, our perseverant and dedicated medical personnel are overcoming pressure and hardships to protect every family at another critical moment in the battle against the pandemic.

- (1) The revenue from hospital operation of the Group mainly comprises revenues from outpatient, inpatient and medical checkups and other revenues. In 2022, sporadic resurgence of the pandemic was frequent and became increasingly common. The regions where certain members hospitals were located were affected and were unable to admit patients and provide daily medical services. With the adjustment of pandemic control measures at the end of the year, many member hospitals spared no effort in receiving the surging number of patients with respiratory diseases to support the local medical security work. Throughout the year, the member hospitals made full use of their county locations to play an effective role in supplementing the local medical market, maintained stable operations on the whole, and continued to demonstrate a growth trend in revenue over the same period. In response to changes in the environment and needs, the Group will continue to iterate its model, explore a business model based on the existing traffic and a long-tail effect, transform from disease-centered to health-centered, and meet the diversified and all-round medical and healthcare needs of the people in the county.
- (2) The costs of hospital operation shown in the Group's consolidated financial statements in 2022 increased from approximately RMB3,194 million in 2021 to RMB3,551 million. Cost of hospital operation of the Group, which primarily includes labor costs, pharmaceutical supplies, inspection costs and other costs, increased comparing to the same period last year as the volume and size grew.

In 2022, member hospitals actively invested resources to support the anti-pandemic work in various provinces and cities in cooperation with the governmental actions to protect the lives of patients and medical personnel, and the cost increased. The Group focused on process management and control, empowering the improvement of discipline connotation. Through measures such as enhancing professional technology, introducing expert resources and building flagship hospitals, the Group set benchmarks and led development. The Group also promoted centralized procurement empowerment, dug deep into digital work effects, established a quality management system, constructed a patient safety management model, optimized the quality management operation mechanism, adhered to the bottom line of legal compliance, and continued to consolidate the baseline of hospital compliance and healthy development, constructing a medical quality management system with the Group's characteristics to advance the high-quality development of hospitals.

- (3) The Group continued to strengthen the construction of medical teams, improve the professional quality of medical staff, enhance the integrated management level, optimize management structure and support development of clinical business, resulting in a certain level of decrease in the labor expenses. The overall performance remained the same as in 2021 due to the increase in the number of member hospitals of the Group. Meanwhile, the Group leveraged its group advantages, participated in centralized bidding, and promoted the control of various expenses to reduce costs and increase efficiency, achieving remarkable results in reducing other administrative and selling expenses.
- (4) This analysis of hospital operation sector profit statement has not taken into account the impact of shareholders' borrowings, goodwill and impairment of fixed assets.

MANAGEMENT DISCUSSION AND ANALYSIS

13.2 Asset Analysis of Hospital Operation Segment

	31 December 2022		31 December 2021		Change %
	RMB million	% of total	RMB million	% of total	
Monetary fund	218.31	3.26%	125.90	1.76%	73.40%
Amount of the Group's cash pool	690.05	10.29%	523.34	7.33%	31.86%
Accounts receivables	520.72	7.77%	509.34	7.13%	2.23%
Prepayments ⁽¹⁾	96.65	1.44%	58.06	0.81%	66.47%
Other receivables	117.60	1.75%	678.74	9.50%	-82.67%
Entrusted loans	111.98	1.67%	159.22	2.23%	-29.67%
Inventories	268.22	4.00%	182.53	2.56%	46.95%
Fixed assets and intangible assets ⁽²⁾	3,736.87	55.75%	3,877.80	54.29%	-3.63%
Goodwill ⁽³⁾	270.51	4.04%	369.46	5.17%	-26.78%
Investments in joint ventures/associates ⁽⁴⁾	37.75	0.56%	45.01	0.63%	-16.13%
Deferred income tax assets	67.88	1.01%	66.26	0.93%	2.44%
Right-of-use assets ⁽⁵⁾	561.17	8.37%	538.78	7.54%	4.16%
Other assets	5.79	0.09%	8.80	0.12%	-34.20%
Total assets	6,703.50	100.00%	7,143.24	100.00%	-6.16%

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 and buildings of each hospital;
- (3) Mainly comprised of goodwill generated from acquisition of medical institutions. The Group made goodwill impairment provision of RMB183 million for certain subsidiaries with lower-than-expected profits in the hospital operation segment in 2022;
- (4) Investments in joint ventures/associates mainly comprised of the investments in Hangzhou Dental Group;
- (5) Right-of-use assets mainly comprised of the rent for hospital sites.

CORPORATE GOVERNANCE REPORT

The board of directors (the “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 2022.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good corporate governance to the Group’s success and sustainability. We are committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, to enhance corporate value, to formulate its business strategies and policies and to enhance its transparency and accountability.

The Company’s corporate governance practices are based on the Principles as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules.

During the accounting period for the year ended 31 December 2022, the Company has complied with all the code provisions set out in the CG Code, except for code provisions C.2.1 and F.2.2 as explained in the paragraphs headed “Chairman and Chief Executive Officer” and “Communication with Shareholders and Investors/Investor Relations” respectively below.

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

CORPORATE CULTURE

The corporate culture of the Company comprises four components: corporate mission, corporate vision, Far East spirit, and Far East talent concept. Our corporate mission: Integrating global resources, promoting industry development. Our corporate vision: Make every effort to shape excellent enterprises. Far East spirit: Determination to pursue the truth, rigorous and pragmatic work style, Idea of promoting innovation, courage to face hardships, indomitable will, responsibilities to the world, resolution to be a pioneer. Far East talent concept: Far East Horizon’s core idea of manpower is to create a fair, impartial and open competitive growth platform so that honest, hardworking and dedicated employees can get due rewards and recognition in a clear, pure and clean working environment. The Company adheres to the “Four-Regardless” Talent Concept – Regardless of Age, Regardless of Length of Service, Regardless of Seniority, and Regardless of Educational Background, All Only About Contribution.

CORPORATE GOVERNANCE REPORT

The Company believes that a healthy corporate culture is the core of good corporate governance, and all Directors must act with integrity, lead by example, and promote the desired culture. The Company pays attention to the communication and promotion of corporate culture, and abides by accountability and review, enabling all management and employees to understand the core value of corporate culture and proper behavior, as well as continually reinforcing across the organisation values of acting lawfully, ethically and responsibly. The Company has incorporated the publicity of corporate culture into various employee training materials, work reporting procedures, topic discussions and other aspects, formulated and strengthened the employee code of conduct and talent management system, strengthened and improved the communication mechanism between management and employees, and found out the employees' recognition to the corporate culture or issues identified through various channels.

The Company has formulated an anti-corruption and whistle-blowing policy to regulate conduct and ensure compliance with anti-corruption policies and regulations. Employees are encouraged to report corruption, bribery, fraud and unethical behavior. The Company will also include publicity on anti-corruption and whistle-blowing policies in daily employee training.

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 2022.

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 2022.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises 12 members, consisting of three executive Directors, five non-executive Directors and four 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 during the year ended 31 December 2022 and up to the date of this report comprises the following Directors:

Executive Directors:

Mr. KONG Fanxing (*Chairman, Chief Executive Officer*) (appointed as Chairman on 14 December 2022)

Mr. WANG Mingzhe (*Chief Financial Officer*)

Mr. CAO Jian (*Senior Vice President*) (appointed on 24 February 2023)

Non-executive Directors:

Mr. NING Gaoning (*former non-executive Director and Chairman, resigned as Chairman on 14 December 2022 and resigned as non-executive Director on 24 February 2023*)

Mr. YANG Lin (*former non-executive Director, resigned on 24 February 2023*)

Mr. CHEN Shumin (*Vice Chairman*) (appointed on 24 February 2023)

Ms. WEI Mengmeng (*appointed on 24 February 2023*)

Mr. LIU Haifeng David

Mr. John LAW

Mr. KUO Ming-Jian

Independent non-executive Directors:

Mr. CAI Cunqiang

Mr. HAN Xiaojing

Mr. LIU Jialin

Mr. YIP Wai Ming

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

In 2022, from 1 January 2022 to 14 December 2022, the positions of the chairman of the Board (the “Chairman”) and the chief executive officer of the Company (the “Chief Executive Officer”) are held by Mr. NING Gaoning and Mr. KONG Fanxing respectively. On 14 December 2022, Mr. KONG Fanxing was appointed as the Chairman in place of Mr. NING Gaoning. Since then, the Company has deviated from code provision C.2.1 with the positions of Chairman and Chief Executive Officer being held by Mr. KONG Fanxing.

The Board however believes that it is in the interests of the Company to vest the roles of both the Chairman and the Chief Executive Officer in the same person, so as to provide consistent leadership within the Group and facilitate the prompt execution of the Group’s business strategies and boost operation effectiveness. The Board also believes that the balance of power and authority under this arrangement will not be impaired, as all major decisions must be made in consultation with the Board as a whole, together with relevant Board committees, which comprise experienced and high caliber individuals, with four independent non-executive Directors who are in the position to provide independent insights to the Board and monitor the management and operation of the Company. The Board will periodically review and consider the effectiveness of this arrangement by taking into account the circumstances of the Group as a whole.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2022, 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.

BOARD INDEPENDENCE EVALUATION

The Company has established a Board Independence Evaluation Mechanism which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders’ interests.

CORPORATE GOVERNANCE REPORT

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence.

During the year ended 31 December 2022, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

NON-EXECUTIVE DIRECTORS AND DIRECTORS RE-ELECTION

Code provision B.2.2 states 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 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.

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term. All Directors are subject to retirement by rotation and re-election at the annual general meetings.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

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.

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.

CORPORATE GOVERNANCE REPORT

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/her 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 management's legal liabilities that may arise out of corporate activities.

The Company has established internal policies (including but not limited to the Articles of Association, Policy for the Nomination of Directors, and Terms of Reference of the Remuneration and Nomination Committee) to ensure that the Board has access to independent views and opinions. These policies cover the Company's procedures and selection criteria for the election and appointment of directors (including independent non-executive directors), the mechanism for Directors to abstain from voting on relevant proposals considered by the Board, and the authority of the independent board committee to engage independent financial advisors or other professional consultants. The Company has reviewed the implementation and effectiveness of the aforesaid mechanisms and believes that the aforesaid mechanisms can ensure the independent views and opinions of the Board.

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 2022, 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, the 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 (<i>resigned on 24 February 2023</i>)	✓	✓
Mr. YANG Lin (<i>resigned on 24 February 2023</i>)	✓	✓
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 AND GENDER DIVERSITY

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 (the "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.

At present, the Board has one female Director among the 12 Board members. The Remuneration and Nomination Committee has reviewed the Board Diversity Policy and considered that the Board has in place a diverse mix of gender, skills, knowledge and experience.

The Company will strive to achieve and maintain gender balance in the Board through the following measures implemented by the Remuneration and Nomination Committee in accordance with the Board Diversity Policy. The Company will take the initiative to identify female employees who are suitably qualified to serve as a Board member. In the long run, in order to further ensure the gender diversity of the Board, the Company will seize the opportunity to increase the proportion of female members in the Board, identify and select a number of female employees with different skills, experience and knowledge in different fields from time to time, and will include those who have the qualities to be a Board member in a list which will be regularly reviewed by the Remuneration and Nomination Committee in order to develop a pipeline of potential successors for the Board and to promote gender diversity of the Board.

In addition, as of 31 December 2022, the proportion of female members among all employees (including senior management) of the Company was 45.9%. The Company will take steps to maintain gender diversity among all employees (including senior management). The Company plans to provide comprehensive training for female employees who we believe have the appropriate experience, skills and knowledge in operations and business, including but not limited to business operations, management, accounting and finance, legal compliance, and research and development.

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 2022.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Board has established four committees, namely, Audit and Risk Management Committee, Remuneration and Nomination Committee, Strategy and Investment Committee and Environmental, Social and Governance 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 Audit and Risk Management Committee and Remuneration and Nomination Committee and the working rules of Environmental, Social and Governance Committee 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 three members, including two independent non-executive Directors, namely, Mr. YIP Wai Ming (chairman of the Committee) and Mr. HAN Xiaojing, and one 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

The Audit and Risk Management Committee is also responsible for performing the corporate governance duties which are set out under "Corporate Governance" on page 99.

The Audit and Risk Management Committee held four meetings during the year ended 31 December 2022 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 96.

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

CORPORATE GOVERNANCE REPORT

The Company's annual results for the year ended 31 December 2022 have been reviewed by the Audit and Risk Management Committee.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee comprises three members including two independent non-executive Directors, namely, Mr. LIU Jialin (chairman of the Committee), Mr. HAN Xiaojing and one non-executive Director, namely, Mr. KUO Ming-Jian. The majority of the members are independent non-executive Directors.

The principal duties of the Remuneration and Nomination Committee include but are not limited to 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
- 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
- To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules

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 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.

CORPORATE GOVERNANCE REPORT

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 two times during the year ended 31 December 2022 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, the remuneration packages of the executive Directors and senior management, the change in the Chairman 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 96.

During the year ended 31 December 2022, the Remuneration and Nomination Committee approved the matters in relation to the grant of share options and restricted shares under the fourth of the second session of the share incentive schemes (include the 2019 Share Option Scheme and the 2014 Restricted Share Award Scheme) in May 2022 and then submitted it to the Board for approval in June 2022. The administration committee authorised by the Board to operate, manage and administer the share incentive schemes reviewed and approved the list of grantees under the 2019 Share Option Scheme and the 2014 Restricted Share Award Scheme, and reviewed and approved the announcement in relation to the grant of share options of the 2019 Share Option Scheme in July 2022.

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.

During the year ended 31 December 2022, the Strategy and Investment Committee did not hold any meeting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The Environmental, Social and Governance ("ESG") Committee consists of three members, namely, Mr. CAI Cunqiang (an independent non-executive Director and chairman of the Committee), Mr. HAN Xiaojing (an independent non-executive Director) and Mr. John LAW (a non-executive Director).

The primary function of the Environmental, Social and Governance Committee is to review and monitor the environmental, social and governance policies and practices of the Company to improve the governance structure of the Company and strengthen the decision-making function of the Board.

The Environmental, Social and Governance Committee did not hold any meeting during the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2022, four Board meetings were held and among which, four 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 2022 is set out in the table below:

Name of Director	Attendance/Number of Meetings					
	Board	Audit and Risk Management Committee	Remuneration and Nomination Committee	Strategy and Investment Committee	Environmental, Social and Governance Committee	Annual General Meeting
Executive Directors						
Mr. KONG Fanxing	4/4	Not applicable	Not applicable	0/0	Not applicable	1/1
Mr. WANG Mingzhe	4/4	Not applicable	Not applicable	Not applicable	Not applicable	1/1
Non-Executive Directors						
Mr. NING Gaoning <i>(resigned on 24 February 2023)</i>	3/4	Not applicable	Not applicable	Not applicable	Not applicable	0/1
Mr. YANG Lin <i>(resigned on 24 February 2023)</i>	4/4	Not applicable	Not applicable	Not applicable	Not applicable	0/1
Mr. LIU Haifeng David	4/4	Not applicable	Not applicable	0/0	Not applicable	0/1
Mr. John LAW	4/4	4/4	Not applicable	Not applicable	0/0	0/1
Mr. KUO Ming-Jian	4/4	Not applicable	2/2	Not applicable	Not applicable	0/1
Independent Non-Executive Directors						
Mr. CAI Cunqiang	4/4	Not applicable	Not applicable	0/0	0/0	0/1
Mr. HAN Xiaojing	4/4	4/4	2/2	Not applicable	0/0	0/1
Mr. LIU Jialin	4/4	Not applicable	2/2	Not applicable	Not applicable	0/1
Mr. YIP Wai Ming	4/4	4/4	Not applicable	Not applicable	Not applicable	0/1

Apart from the Board meetings stated above, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors on 29 August 2022.

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 Company established the Environmental, Social and Governance Committee on 31 August 2021, which is responsible for identifying ESG risks and opportunities related to the Company, assessing the effect of such risks or opportunities on the Group, providing suggestions to the Board regarding the response to risks or opportunities, as well as fully implementing the Company's ESG activities. 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 2022.

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 2022, 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 2022.

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 142 to 146.

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 2022 is set out below:

Type of services provided by the external auditors	Amount of fees RMB'000
Audit services	8,689
Non-audit service	7,537
Total	16,226

The Group's non-audit service fees mainly comprise of: (i) interim review service fee amounted to RMB1,000,000; (ii) asset securitization business related service fee amounted to RMB2,510,000; (iii) bond issue related service fee amounted to RMB2,340,000; and (iv) tax service fee amounted to RMB187,000.

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 (“Ms. Mak”) had been the company secretary of the Company during the period from 1 January 2022 and has resigned on 11 August 2022. Ms. Yuen Wing Yan Winnie (“Ms. Yuen”) was appointed as the company secretary of the Company in place of Ms. Mak since 11 August 2022.

Each of Ms. Mak and Ms. Yuen was nominated by Tricor Services Limited, an external service provider, and engaged by the Company as its company secretary. Its primary contact person at the Company is Mr. KONG Fanxing, currently an executive director, the Chairman and Chief Executive Officer of the Company.

Each of Ms. Mak and Ms. Yuen 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 2.50% 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.

CORPORATE GOVERNANCE REPORT

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

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

CONTACT DETAILS

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

Address: 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 has in place a Shareholders' Communication Policy. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings.

CORPORATE GOVERNANCE REPORT

Code provision F.2.2 of the CG Code stipulates that, among others, the chairman of the board should attend the annual general meeting and invite 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 attend and be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on 8 June 2022 (the “2022 AGM”), Mr. NING Gaoning (the then Chairman), Mr. YIP Wai Ming (the chairman of the Audit and Risk Management Committee), Mr. LIU Jialin (the chairman of the Remuneration and Nomination Committee) and Mr. LIU Haifeng, David (the 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 2022 AGM, Mr. KONG Fanxing chaired and attended the 2022 AGM to answer questions where necessary.

During the year, the Company also strengthened communication with Shareholders and investors through various channels, such as online and offline shareholder-investor exchange activities, results conferences, non-deal roadshows, participation in various investor forums, which allows investors to have a more comprehensive interpretation and analysis of the Group’s business philosophy and operating conditions. The Company’s corporate website has three languages: English, traditional Chinese and simplified Chinese, and has a section on investor relations, which converges all regulatory announcements, reports and circulars published on the website of the Stock Exchange for Shareholders and investors’ reference, while the other sections of the corporate website provide the latest information on all aspects of the Group’s operations. Through the above communication measures and procedures with investors and Shareholders, the Company has examined and reviewed the effectiveness of the relevant policies on communication with investors and Shareholders during the reporting period and considers that the above policies and measures can safeguard the effective communication between the Company and investors and Shareholders.

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 F.1.1 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. KONG FANXING (孔繁星) – EXECUTIVE DIRECTOR, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. KONG Fanxing (孔繁星), aged 59, is an executive director, the 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), etc., respectively. In April 2001, he joined International Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司) ("Far Eastern") and has become an executive director and the general manager since then. Mr. Kong has been the President and Chief Executive Officer of the Company since September 2009, and has been the Chairman of the Company since December 2022. Currently, Mr. Kong is also an executive director and the general manager of International Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司), a director and the chairman of the board of directors of Horizon Construction Development Limited (宏信建設發展有限公司), 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 and general manager 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), 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), an executive director of Far East Horizon Healthcare Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司) and Far East Horizon Industrial Investment (Tianjin) Co., Ltd. (遠東宏信實業投資(天津)有限公司) and a director of Far East Horizon Shipping Holdings Co., Ltd. (遠東宏信航運控股有限公司), etc.

Mr. Kong has over 28 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 52, is an executive director and the Chief Financial Officer of the Company. Mr. Wang obtained a bachelor's degree in Economics from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in China in July 1993 and an MBA degree from Northeastern University (東北大學) in China in March 2003. Mr. Wang joined Far Eastern in October 1995 and has worked there since then. In Far Eastern, Mr. Wang served as the manager of the business development department, the deputy general manager of the first business division, the deputy general manager, the general manager and assistant general manager of quality control department and the chief financial officer, etc. 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, a director and chief financial officer of Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信(天津)融資租賃有限公司) and Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司), a director and the chief financial officer 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), the chief financial officer of East Horizon Factoring (Tianjin) Co., Limited (遠宏商業保理(天津)有限公司), the executive director and general manager of Tianjin Horizon Asset Management Co. Ltd. (天津宏信資產管理有限公司), the chief financial officer of Shanghai Donghong 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), the executive director and general manager of Shanghai Depeng Industrial Co., Ltd. (上海德朋實業有限公司) and a director of Far East Horizon Shipping Holdings Co., Ltd. (遠東宏信航運控股有限公司), etc.

Mr. Wang has over 27 years of experience in finance management

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MR. CAO JIAN (曹健) – EXECUTIVE DIRECTOR AND SENIOR VICE PRESIDENT

Mr. CAO Jian (曹健), aged 48, is an executive director and the senior vice president of the Company. Mr. Cao graduated from Nankai University (南開大學) with a bachelor's degree in finance in June 1997, and obtained a master's degree in finance from the 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 started his career in 1997, and joined International Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司) in September 2002 and gained extensive experience in corporate management, serving multiple managerial roles, among others, the deputy general manager, the standing deputy general manager and the general manager of the healthcare business division, the assistant president and the vice president of the Company. Mr. Cao was appointed as the senior vice president of the Company in January 2013, and has concurrently served as the general manager of the factoring business division since December 2021, and currently serves as the executive director and the general manager of East Horizon Factoring (Tianjin) Co., Limited (遠宏商業保理(天津)有限公司).

Mr. Cao has over 20 years of experience in the financial leasing industry.

MR. CHEN SHUMIN (陳樹民) – NON-EXECUTIVE DIRECTOR

Mr. CHEN Shumin (陳樹民), aged 56, is a non-executive director of the Company. Mr. Chen is currently the deputy chief accountant and chief financial officer of Sinochem Holdings Corporation Limited (中國中化控股有限責任公司, "Sinochem"). He is also a member of the Second Accounting Standards Advisory Committee for Business Enterprises of the Ministry of Finance of the People's Republic of China. Mr. Chen received a bachelor's degree in financial accounting from Beijing Business College (北京商學院) and a master's degree in business administration from Xiamen University (廈門大學). Mr. Chen holds the qualifications of senior accountant and financial manager.

After graduation, Mr. Chen worked in China International Book Trading Corporation (中國國際圖書貿易總公司) and joined Sinochem in April 1989. He served as the head of the finance section in the company's finance and accounting department, the manager of the finance department of Sinochem Asia Group (中化亞洲集團公司), deputy chief accountant, general manager of the accounting management department, director of finance department, member of the party committee and vice president of the financial business division of Sinochem Group. Mr. Chen has served as the deputy chief accountant and chief financial officer of Sinochem since June 2021.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MS. WEI MENG MENG (衛濛濛) – NON-EXECUTIVE DIRECTOR

Ms. WEI Mengmeng (衛濛濛女士), aged 41, is a non-executive director of the Company. Ms. Wei is the deputy secretary to the party committee and the general manager of China Foreign Economy and Trade and Trust Co., Ltd. (中國對外經濟貿易信託有限公司, "FOTIC"), a subsidiary of Sinochem. She is also the vice president of China Trustee Association and a member of the China Trustee Association's Professional Committee of Industrial Development Research. Ms. Wei obtained a bachelor's degree in international economics and trade and a master's degree in finance from the University of International Business and Economics.

Ms. Wei joined FOTIC after graduation, and had successively served as the general manager of securities products department, the general manager of securities trust business department, the general manager of wealth management centre, the assistant to the general manager and deputy general manager of FOTIC. Ms. Wei has served as the general manager of FOTIC since July 2022.

MR. LIU HAIFENG DAVID (劉海峰) – NON-EXECUTIVE DIRECTOR

Mr. LIU Haifeng David (劉海峰), aged 53, 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: Ping An Group, Mengniu Dairy, Haier Electronics, China International Capital Corp, Far East Horizon, Oriental Yuhong, Dongbao Pharmaceutical, Venus Medtech, Xingsheng Preference, Simple Love Yogurt, Nanfu Battery, COFCO Joycome, Sunner Poultry, Hotwon Network, Hengan Intl., Belle Intl., Modern Dairy, United Envirotech, and Yuehai Feed. 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 was a non-executive director for Sunpower Group (a company listed on the Singapore Exchange, stock code: 5GD) from November 2017 to February 2022.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MR. KUO MING-JIAN (郭明鑑) – NON-EXECUTIVE DIRECTOR

Mr. KUO Ming-Jian (郭明鑑), aged 61, was appointed as a non-executive director of the Company in March 2013. Mr. Kuo is currently the Chairman of Cathay United Bank and a director of Cathay Financial Holding Co., Ltd. (a company listed in Taiwan, stock code: 2882). He took the roles as Vice Chairman, Senior Managing Director and Senior Advisor of Blackstone Group L.P. (a company listed on the New York Stock Exchange, NYSE: BX), Great China during 2007 to 2018. Before joining Blackstone Group L.P., Mr. Kuo was a Partner and Co-Vice Chairman and Managing Director, Head of Greater China in H&Q Asia Pacific. Before that, Mr. Kuo was also the Head and Country Head of Investment Banking for JPMorgan Chase & Co (a company listed on the New York Stock Exchange, NYSE: JPM) in Hong Kong and the Vice Chairman of JPMorgan Chase & Co's Greater China Operating Committee. Mr. Kuo was an independent non-executive director of Cathay Financial Holdings Co., Ltd. and Cathay Life Insurance Co., Ltd.

Mr. Kuo is also an independent non-executive director of Samson Holding Limited (a company listed on the Stock Exchange, stock code: 0531), a director of Long Chen Paper & Packing Co., Ltd. (a company listed in Taiwan, stock code: 1909) and an independent director of Huali Industrial Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300979).

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

MR. JOHN LAW (羅強) – NON-EXECUTIVE DIRECTOR

Mr. John LAW (羅強), aged 72, 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 33 years' experience in finance.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

Mr. CAI Cunqiang (蔡存強), aged 73, 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 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 45 years of experience in the shipping industry.

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

Mr. HAN Xiaojing (韓小京), aged 68, 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 36 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 a 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 60, 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. Currently, Mr. Liu is the managing director of Cinda International Asset Management Limited (信達國際資產管理有限公司) and an independent non-executive director of Horizon Construction Development Limited (宏信建設發展有限公司). Mr. Liu has 34 years of experience in finance and securities industry.

Mr. Liu also serves as an independent non-executive director of Changyou Alliance Group Limited (a company listed on the Stock Exchange, stock code: 1039).

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 58, 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), etc., 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), 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 32 years of experience in accounting and finance.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MR. WANG RUI SHENG (王瑞生) – VICE PRESIDENT

Mr. WANG Ruisheng (王瑞生), aged 69, 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 31 years of experience in enterprise management.

MR. LI JIAN CHENG (李建成) – VICE PRESIDENT

Mr. LI Jiancheng (李建成), aged 51, 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 an 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 Healthcare Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司).

Mr. Li has over 21 years of experience in the financial leasing industry.

MR. ZHAN JING (詹靜) – ASSISTANT PRESIDENT

Mr. ZHAN Jing (詹靜), aged 48, 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 an 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 18 years of financial leasing industry experience and 5 years of banking experience.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MR. XU HUIBIN (徐會斌) – ASSISTANT PRESIDENT

Mr. XU Huibin (徐會斌), aged 52, is the Assistant President of the Company. Mr. Xu graduated from the University of Science and Technology Beijing with a bachelor's degree in industrial electric automation in July 1995, and obtained an MBA degree from Fudan University in July 2005. Mr. Xu previously worked for China Construction Bank and Tianyi Securities. After joining Far East in December 2004, he worked as various positions including the assistant general manager and deputy general manager of construction system business division, deputy general manager and general manager of quality control department, general manager of business operation center, general manager of strategic development and management department, general manager of strategic center. Mr. Xu has been appointed as the Assistant President of the Company since December 2021.

Mr. Xu has more than 18 years of financial leasing industry experience and 8 years of banking experience.

MR. MA HONG (馬宏) – ASSISTANT PRESIDENT

Mr. MA Hong (馬宏), aged 45, is the Assistant President of the Company. Mr. Ma graduated from the Huazhong University of Science and Technology with a bachelor's degree in international trade and economic law in July 2000. He previously worked at Amoi Electronics and US E-TOOR. After joining Far East in December 2003, he worked as various positions including the assistant general manager of medical system business division, assistant general manager of electronic information business division, assistant general manager of people's livelihood and consumer business division, deputy general manager of urban public utilities division II (in charge of the routine work), general manager of urban public utilities division II, and the vice president of the company. Mr. Ma has been appointed as the Assistant President of the Company since December 2021.

Mr. Ma has more than 19 years of financial leasing industry experience.

DIRECTORS' REPORT

The Board is pleased to present the Directors' Report of the year 2022 together with the audited financial statements of the Group for the year ended 31 December 2022.

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, 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 2021, and an indication of likely future development in the Group's business, are set out in the "Chairman'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 2022 are set out in the Consolidated Statement of Profit or Loss on page 147 of this annual report.

The Board recommends the payment of a final dividend of HK\$0.49 (2021: HK\$0.42) per share in respect of the year ended 31 December 2022 to shareholders whose names appear on the register of members of the Company on Friday, 16 June 2023. The proposed final dividend will be paid on Friday, 30 June 2023 after approval at the Annual General Meeting (the "2023 AGM") to be held on Wednesday, 7 June 2023.

CLOSURE OF SHARE REGISTER

The AGM of the Company is scheduled to be held on Wednesday, 7 June 2023. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 2 June 2023 to Wednesday, 7 June 2023, 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, 1 June 2023, being the last registration date.

The final dividend is subject to the approval of the shareholders of the Company at the AGM, and the date of payment of the final dividend is expected to be 30 June 2023. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 14 June 2023 to Friday, 16 June 2023, both days inclusive, during which period no transfer of shares will be registered. The record date on which the shareholders of the Company are qualified to receive the proposed final dividend is Friday, 16 June 2023. 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 Tuesday, 13 June 2023, 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 11 to 13 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. In 2022, 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 35 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 2022.

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 151 to 152 of this annual report and Note 38 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 RMB13,546,000 (2021: RMB1,092,000).

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in directors' biographical details as at the disclosure date of this report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Name of director	Details of changes
KONG Fanxing	Appointed as the Chairman of the Company with effect from 14 December 2022
CAO Jian	Appointed as an executive Director of the Company with effect from 24 February 2023
CHEN Shumin	Appointed as a non-executive Director of the Company with effect from 24 February 2023
WEI Mengmeng	Appointed as a non-executive Director of the Company with effect from 24 February 2023
NING Gaoning	Resigned as the Chairman of the Company with effect from 14 December 2022; resigned as a non-executive Director of the Company with effect from 24 February 2023
YANG Lin	Resigned as a non-executive Director of the Company with effect from 24 February 2023

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

(Chairman, Chief Executive Officer)

(appointed as Chairman on 14 December 2022)

Mr. WANG Mingzhe

(Chief Financial Officer)

Mr. CAO Jian

(Senior Vice President)(appointed on 24 February 2023)

Non-Executive Directors

Mr. NING Gaoning

(former non-executive Director and Chairman,

resigned as Chairman on 14 December 2022

and resigned as non-executive Director on 24 February 2023)

Mr. YANG Lin

(former non-executive Director, resigned on 24 February 2023)

Mr. CHEN Shumin

(appointed on 24 February 2023)

Ms. WEI Mengmeng

(appointed on 24 February 2023)

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. CAO Jian, Mr. CHEN Shumin and Ms. WEI Mengmeng will retire at the 2023 Annual General Meeting. All of the retiring directors above are eligible for re-election at the 2023 Annual General Meeting.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management are set out on pages 103 to 111 of this annual report.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2022, none of the Directors 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. Either party has the right to give not less than three months' written notice to terminate the service contract.

Each of the appointments of Mr. KONG Fanxing and Mr. WANG Mingzhe is for a term of three years commencing from 11 March 2020. Each of Mr. KONG Fanxing and Mr. WANG Mingzhe 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 Mr. KONG Fanxing and Mr. WANG Mingzhe is RMB7,233,000 and RMB4,597,000 respectively.

As disclosed in the announcement dated 24 February 2023, the Company has entered into a service contract with Mr. CAO Jian in respect of his appointment as an executive Director for a term of three years commencing from 24 February 2023, under which Mr. CAO Jian will not receive any remuneration as an executive Director. For holding other positions with the Company and other members of the Group, Mr. CAO Jian will receive from the Group an annual emolument of RMB2,674,018 as salaries, allowances and benefits in kind and RMB62,594 as pension scheme contributions. Mr. CAO Jian is also entitled to a bonus payment at the discretion of the Board, which will be determined with reference to the Group's remuneration policy, market rate and the Group's indicators for performance appraisal.

Non-Executive Directors

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

Each of the appointments of Mr. LIU Haifeng David, Mr. KUO Ming-Jian and Mr. John LAW is for a term of three years commencing from 11 March 2020.

Each of the appointments of Mr. CHEN Shumin and Ms. WEI Mengmeng is for a term of three years commencing from 24 February 2023.

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 Director's fee shall be made by the Company to Mr. CHEN Shumin and Ms. WEI Mengmeng under the relevant appointment letters.

DIRECTORS' REPORT

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.

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 2022 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 2022, 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

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, details of which are set out in Note 2.4 (Summary of Significant Accounting Policies – Employee benefits) to the financial statements.

DIRECTORS' REPORT

INCENTIVE SCHEMES

The Company adopted a share option scheme (the “**2014 Share Option Scheme**”) on 7 July 2014. Since the total share options under the 2014 Share Option Scheme had been fully granted, on 5 June 2019, the Company adopted a new share option scheme (the “**2019 Share Option Scheme**”) to incentivize and reward the selected participants thereunder. The Company also adopted a restricted share award scheme (the “**2014 Restricted Share Award Scheme**”) on 11 June 2014 and made certain amendments to such scheme on 2 June 2016 and 20 March 2019. For details of the 2014 Share Option Scheme and the 2019 Share Option Scheme, please refer to the 2019 annual report of the Company. For details of the 2014 Restricted Share Award Scheme, please refer to the announcements of the Company dated 11 June 2014, 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 4.00% 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 3.05% 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 year is as follows:

Grantee	Date of grant	Vesting period (Note 1)	Exercise period (Note 2)	Exercise price per share HK\$ (Notes 3-7)	Outstanding as at 1 January 2022	Number of share options				Outstanding as at 31 December 2022
						Granted (Note 9)	Exercised (Note 8)	Lapsed	Cancelled	
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	2,478,747	–	86,544	–	–	2,392,203
Employees	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	5,527,694	–	28,055	–	316,353	5,183,286
Employees	15 June 2016	15 June 2018 – 15 June 2020	15 June 2018 – 15 June 2026	5.714	8,453,053	–	1,137,223	–	32,936	7,282,894

DIRECTORS' REPORT

Grantee	Date of grant	Vesting period (Note 1)	Exercise period (Note 2)	Exercise price per share HK\$ (Notes 3-7)	Outstanding as at 1 January 2022	Number of share options				Outstanding as at 31 December 2022
						Granted (Note 9)	Exercised (Note 8)	Lapsed	Cancelled	
Employees	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	10,278,490	-	110,653	-	426,734	9,741,103
Employees	18 July 2018	18 July 2020 – 18 July 2022	18 July 2020 – 18 July 2028	7.36	12,466,815	-	7,959	-	1,930,256	10,528,600
TOTAL					56,594,662	-	1,370,434	-	2,706,279	52,517,949

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\$6.9407.

Note 9: No option is available for grant under the 2014 Share Option Scheme at the beginning and the end of the financial year.

Please refer to note 36 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 4.00% 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 3.67% 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 1.00% 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 6,573,826 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 27,274,106 Shares were granted to 93 grantees under the 2019 Share Option Scheme. A summary of the movements of the outstanding share options under the 2019 Share Option Scheme during the year is as follows:

Grantee	Date of grant	Vesting period (Note 1)	Exercise period (Note 2)	Exercise price per share HK\$ (Notes 3-6)	Number of share options					Outstanding as at 31 December 2022
					Outstanding as at 1 January 2022	Granted (Note 8)	Exercised (Note 7)	Lapsed	Cancelled	
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
KONG Fanxing, CEO and executive Director	26 July 2021	26 July 2022 – 26 July 2024	26 July 2022 – 26 July 2031	8.40	4,164,656	-	-	-	-	4,164,656
KONG Fanxing, CEO and executive Director	27 July 2022	27 July 2023 – 27 July 2025	27 July 2023 – 27 July 2032	6.38	-	4,315,460	-	-	-	4,315,460
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
Mr. WANG Mingzhe, CFO and executive Director	26 July 2021	26 July 2022 – 26 July 2024	26 July 2022 – 26 July 2031	8.40	2,357,201	-	-	-	-	2,357,201
Mr. WANG Mingzhe, CFO and executive Director	27 July 2022	27 July 2023 – 27 July 2025	27 July 2023 – 27 July 2032	6.38	-	2,258,366	-	-	-	2,258,366
SUBTOTAL FOR DIRECTORS					16,044,640	6,573,826	-	-	-	22,618,466
Employees	19 July 2019	19 July 2020 – 19 July 2022	19 July 2020 – 19 July 2029	7.618	12,361,899	-	7,381	-	2,082,848	10,271,670
Employees	23 July 2020	23 July 2021 – 23 July 2023	23 July 2021 – 23 July 2030	6.700	15,508,176	-	144,000	-	653,198	14,710,978
Employees	26 July 2021	26 July 2022 – 26 July 2024	26 July 2022 – 26 July 2031	8.40	26,557,802	-	-	-	1,955,605	24,602,197
Employees	27 July 2022	27 July 2023 – 27 July 2025	27 July 2023 – 27 July 2032	6.38	-	27,274,106	-	-	277,952	26,996,154
TOTAL					70,472,517	33,847,932	151,381	-	4,969,603	99,199,465

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.

DIRECTORS' REPORT

- 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 exercise price is not less than the higher of (i) the closing price of HK\$8.202 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 26 July 2021 (i.e. the grant date) and (ii) the average closing price of HK\$8.40 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 26 July 2021. 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\$6.340 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 27 July 2022 (i.e. the grant date) and (ii) the average closing price of HK\$6.378 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 27 July 2022. The Share does not carry nominal value.
- Note 7: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK\$6.9407.
- Note 8: The number of options available for grant under the 2019 Share Option Scheme at the beginning and the end of the financial year is 67,695,862 and 33,847,930, respectively.

During the year ended 31 December 2022, the aggregated fair value of the share options granted on 27 July 2022 under the 2019 Share Option Scheme was RMB35,730,000. The estimated value of the share options granted on that date to Mr. KONG Fanxing, Mr. WANG Mingzhe and other eligible employees was RMB4,555,000, RMB2,384,000 and RMB28,791,000, respectively.

Grantee	Date of grant	Total number granted	Fair value of share options granted
			RMB'000
KONG Fanxing	27 July 2022	4,315,460	4,555
WANG Mingzhe	27 July 2022	2,258,366	2,384
Employees	27 July 2022	27,274,106	28,791
Total		33,847,932	35,730

Please refer to note 36 to the financial statements for details of accounting treatment for share options and the remaining life of the 2019 Share Option Scheme.

2014 Restricted Share Award Scheme

The 2014 Restricted Share Award Scheme (revised twice by the Board on 2 June 2016 and 20 March 2019) (the "Award Scheme") aims to incentivize and reward the selected participants (i.e. senior and middle management personnel, as well as other key employees of the Company or any of subsidiaries of the Company) for their contribution to the Group and align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The eligibility for selected participants will be decided by the Board or the administration committee of the Award Scheme, at its respective absolute discretion, as to his/her contribution to the Company or any of its subsidiaries. According to the rules of the Award Scheme, the restricted shares will be shares purchased by the trustee (an independent third party of the Company) with cash paid by the Company to the trustee from its own funds, and will be held on trust on behalf of the relevant selected grantees until such restricted shares are vested with the relevant selected grantees in accordance with the rules of the Award Scheme and the award conditions (if any) of such restricted shares.

DIRECTORS' REPORT

The maximum number of shares that may be granted under the Award Scheme shall not exceed the sum of the following: (i) 6.00% of the total number of issued shares when the Board approved the adoption of the Award Scheme on 11 June 2014, that is, 197,544,000 shares (accounting for approximately 4.57% of the issued share capital of the Company as at the disclosure date of this report); and (ii) 6.00% of the total number of issued shares when the Board approved the adoption of the revised Award Scheme on 20 March 2019, i.e. 237,251,856 shares (accounting for approximately 5.50% of the issued share capital of the Company as at the disclosure date of this report). There is no agreed limit on the upper limit of shares that may be granted for each grantee under the Award Scheme, and the grantee is not required to pay any amount for accepting the restricted share award granted.

An offer shall be open for acceptance for such period within 28 days inclusive of, and from, the offer date by the selected participant. An offer not accepted within this period shall lapse.

According to the rules of the Award Scheme, unless the Award Scheme is terminated early according to the resolution of the Board or the resolution of the Company's general meeting, the Award Scheme will remain valid.

The changes in the unvested restricted shares under the Award Scheme in 2022 are summarized as follows:

Grantee	Date of grant	Vesting period (Note 1)	Changes in the number of restricted shares in 2022					Not yet vested as at 31 December 2022
			Not yet vested as at 1 January 2022	Granted (Note 2)	Vested (Note 3)	Lapsed	Cancelled	
KONG Fanxing, CEO and executive Director	19 July 2019	19 July 2020 – 19 July 2022	1,581,679	-	1,472,250	-	109,429	-
KONG Fanxing, CEO and executive Director	23 July 2020	23 July 2021 – 23 July 2023	3,748,579	-	1,753,249	-	121,041	1,874,289
KONG Fanxing, CEO and executive Director	26 July 2021	26 July 2022 – 26 July 2024	7,831,573	-	2,416,844	-	193,680	5,221,049
KONG Fanxing, CEO and executive Director	27 July 2022	27 July 2023 – 27 July 2025	-	7,954,415	-	-	-	7,954,415
Mr. WANG Mingzhe, CFO and executive Director	19 July 2019	19 July 2020 – 19 July 2022	498,228	-	466,645	-	31,583	-
Mr. WANG Mingzhe, CFO and executive Director	23 July 2020	23 July 2021 – 23 July 2023	1,614,388	-	759,432	-	47,762	807,194
Mr. WANG Mingzhe, CFO and executive Director	26 July 2021	26 July 2022 – 26 July 2024	3,409,967	-	1,059,389	-	77,267	2,273,311
Mr. WANG Mingzhe, CFO and executive Director	27 July 2022	27 July 2023 – 27 July 2025	-	3,274,278	-	-	-	3,274,278
SUBTOTAL FOR DIRECTORS			18,684,414	11,228,693	7,927,809	-	580,762	21,404,536

DIRECTORS' REPORT

Changes in the number of restricted shares in 2022								
Grantee	Date of grant	Vesting period (Note 1)	Not yet vested as at 1 January 2022	Granted (Note 2)	Vested (Note 3)	Lapsed	Cancelled	Not yet vested as at 31 December 2022
Employees	19 July 2019	19 July 2020 – 19 July 2022	8,041,289	-	4,862,430	-	3,178,859	-
Employees	23 July 2020	23 July 2021 – 23 July 2023	16,083,909	-	6,657,709	-	1,687,869	7,738,331
Employees	26 July 2021	26 July 2022 – 26 July 2024	38,418,958	-	11,089,689	-	3,602,647	23,726,622
Employees	27 July 2022	27 July 2023 – 27 July 2025	-	39,543,204	-	-	402,988	39,140,216
SUBTOTAL FOR EMPLOYEES			62,544,156	39,543,204	22,609,828	-	8,872,363	70,605,169
TOTAL			81,228,570	50,771,897	30,537,637	-	9,453,125	92,009,705
Five highest paid employees	19 July 2019	19 July 2020 – 19 July 2022	3,035,241	-	2,836,910	-	198,331	-
Five highest paid employees	23 July 2020	23 July 2021 – 23 July 2023	9,129,040	-	4,291,145	-	273,375	4,564,520
Five highest paid employees	26 July 2021	26 July 2022 – 26 July 2024	18,945,540	-	5,880,303	-	434,877	12,630,360
Five highest paid employees	27 July 2022	27 July 2023 – 27 July 2025	-	18,683,971	-	-	-	18,683,971
TOTAL (Five highest paid employees)			31,109,821	18,683,971	13,008,358	-	906,583	35,878,851

Note 1: Subject to the rules of the Award Scheme, the restricted shares will be vested to the grantees at the first, second and third anniversary of the date of grant at an average amount. The rules of the Award Scheme do not stipulate the exercise period of the restricted shares granted.

Note 2: The restricted shares granted under the Award Scheme were listed in the daily quotation table of the Stock Exchange immediately before the date of grant (i.e. 27 July 2022). The closing price on the Stock Exchange was HK\$6.42 per share. According to the rules of the Award Scheme, the Board shall consider certain matters when determining the grant of such restricted shares to the grantees, including but not limited to: i. the current and expected contribution of the grantees to the Group's profits; ii. the general financial status of the Group; iii. the overall business objectives and future development plans of the Group; and iv. any other matters deemed relevant by the Board or the administration committee.

Note 3: The weighted average closing price of shares immediately before the date on which the restricted shares were vested by Directors and employees under the Award Scheme (i.e. 18 July 2022, 22 July 2022, 15 July 2022) is HK\$6.34.

During the year ended 31 December 2022, the aggregated fair value of the restricted shares granted on 27 July 2022 under the Award Scheme was RMB243,589,000. The estimated value of the restricted shares granted on that date to Mr. KONG Fanxing, Mr. WANG Mingzhe, other eligible employees and the five highest paid employees was RMB38,163,000, RMB15,709,000, RMB189,717,000 and RMB89,640,000, respectively.

DIRECTORS' REPORT

Grantee	Date of grant	Total number granted	Fair value of restricted shares granted
			RMB'000
KONG Fanxing	27 July 2022	7,954,415	38,163
WANG Mingzhe	27 July 2022	3,274,278	15,709
Employees	27 July 2022	39,543,204	189,717
Total		50,771,897	243,589
Five highest paid employees	27 July 2022	18,683,971	89,640

Please refer to note 37 to the financial statements for details of accounting treatment for restricted shares of 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' REPORT

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

As at 31 December 2022, 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 director	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	74,304,976(L) ⁽²⁾	1.72%
		Interest in a controlled corporation	868,947,897(L) ⁽³⁾	20.13%
WANG Mingzhe	The Company	Beneficial owner	28,416,248(L) ⁽⁴⁾	0.65%
LIU Haifeng David	The Company	Interest in a controlled corporation	365,842,100(L) ⁽⁵⁾	8.47%
LIU Jialin	The Company	Beneficial owner	125,000(L)	0.00%
		Interest of spouse	125,000(L)	0.00%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) The interest includes 13,169,599 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme, 15,392,053 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 44,073,324 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 1,670,000 ordinary shares of the Company as at 31 December 2022. Please refer to the section headed "Incentive Schemes" for the details of those schemes and the grants of share options.
- (3) The interest includes 272,237,062 shares held directly by Idea Delicacy Limited, 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 held directly by Swallow Gird HK Limited, 197,945,000 held directly by Energon HK Limited and an aggregate of 90,866,835 held directly by certain employees of the Company. 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, 7,226,413 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 16,383,571 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 586,000 ordinary shares of the Company as at 31 December 2022. Please refer to the section headed "Incentive Schemes" for the details of those schemes and the grants of share options.

DIRECTORS' REPORT

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

Save as disclosed above, as at 31 December 2022, none of the directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES

Based on the information available to the directors of the Company, as at 31 December 2022 (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 2022, 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)	21.31%
Sinochem Capital Investment Management Limited ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	21.31%
Sinochem Corporation ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	21.31%
Sinochem Group Co., Ltd ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	21.31%
The State-owned Assets Supervision and Administration Commission of the State Council ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	21.31%
KONG Fanxing	Beneficial owner	74,304,976(L) ⁽³⁾	1.72%
	Interest in a controlled corporation	868,947,897(L) ⁽⁴⁾	20.13%
Idea Prosperous Limited ⁽⁴⁾	Entrusted to exercise voting rights	868,947,897(L)	20.13%
JPMorgan Chase & Co. ⁽⁵⁾	Interest in a controlled corporation	73,031,503(L)	1.69%
		56,239,280(S)	1.30%
	Investment manager	87,000(L)	0.00%

DIRECTORS' REPORT

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares ⁽¹⁾	Approximate percentage of interest
	Person having a security interest in shares	26,444,548(L)	0.61%
	Approved lending agent	332,868,035(P)	7.71%
Cathay Financial Holding Co., Ltd. ⁽⁶⁾	Beneficial owner	318,400,000(L)	7.37%
Aim Future Limited ⁽⁷⁾	Interest in a controlled corporation	505,844,000(L)	11.72%
Gold Stone Enterprise Limited ⁽⁷⁾	Interest in a controlled corporation	505,844,000(L)	11.72%
Cantrust (Far East) Limited ⁽⁷⁾	Trustee	505,844,000(L)	11.72%
UBS Group AG ⁽⁸⁾	Interest in a controlled corporation	490,825,535(L)	11.37%
		52,831,135(S)	1.22%
Sunshine Trust Company Limited ⁽⁹⁾	Trustee	272,237,062(L)	6.30%
LIU Haifeng David	Interest in a controlled corporation	365,842,100(L) ⁽¹⁰⁾	8.47%
Capital Rise Limited ⁽¹⁰⁾	Beneficial owner	314,775,100(L)	7.29%
Capital Bridge Limited ⁽¹⁰⁾	Interest in a controlled corporation	364,775,100(L)	8.45%
DCP Capital Partners L.P. ⁽¹⁰⁾	Interest in a controlled corporation	364,775,100(L)	8.45%
DCP General Partner, Ltd ⁽¹⁰⁾	Interest in a controlled corporation	364,775,100(L)	8.45%
DCP, Ltd. ⁽¹⁰⁾	Interest in a controlled corporation	364,775,100(L)	8.45%
Julian Juul WOLHARDT ⁽¹⁰⁾	Interest in a controlled corporation	364,775,100(L)	8.45%
HSBC Holdings plc ⁽¹¹⁾	Interest in a controlled corporation	6,842,204(L)	0.15%
	Trustee	505,546,637(L)	11.71%
	Custodian (other than an exempt custodian interest)	5,525,932(L)	0.12%

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.

DIRECTORS' REPORT

- (5) Please refer to Form 2 – Corporate Substantial Shareholder Notice for the relevant event on 21 December 2022 for further details of the shareholding structure.
- (6) Please refer to Form 2 – Corporate Substantial Shareholder Notice for the relevant event on 8 February 2021 for further details of the shareholding structure.
- (7) The interest is held directly by Will of Heaven HK Limited, Swallow Gird HK Limited, Powerful Force HK Limited and Energon HK Limited. Will of Heaven HK Limited, Swallow Gird HK Limited, Powerful Force HK Limited and Energon 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.
- (8) Please refer to Form 2 – Corporate Substantial Shareholder Notice for the relevant event on 13 December 2022 for further details of the shareholding structure.
- (9) The interest is held directly by Idea Delicacy Limited, which is 100% controlled by Sunshine Trust Company Limited.
- (10) 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.
- (11) Please refer to Form 2 – Corporate Substantial Shareholder Notice for the relevant event on 15 June 2022 for further details of the shareholding structure.

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

PUBLIC FLOAT

Based on the information publicly available to the Company and as far as the directors are aware as at the latest practicable date prior to the printing of this annual report, at least 25.00% of the total issued share capital of the Company is held by the public pursuant to the Listing Rules.

BOND ISSUE

In 2022, the Group further enriched the bond financing varieties in the direct financing market, thus forming a continuous issuance situation. The Group completed 35 issuances in the year, with an aggregate amount of RMB41.3 billion, including ultra-short financial bonds of RMB14.0 billion, corporate bonds of RMB16.3 billion and mid-term notes of RMB11.0 billion as follows:

- (1) In 2022, it completed the issuance of fourteen 270-day ultra-short financial bonds totaling RMB14.0 billion with an annual interest rate range of 1.93% to 3.59% in China.
- (2) In 2022, it completed the issuance of eleven 4-year corporate bonds totaling RMB16.3 billion with an annual interest rate range of 3.30% to 4.20% in China.
- (3) In 2022, it completed the issuance of ten 3-year mid-term notes totaling RMB11.0 billion with an annual interest rate range of 3.23% to 4.63% in China.

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 2022
	Percentage of the total income (before business taxes and surcharges) (%)
Top five customers	1.05%
The largest customer	0.24%

	Percentage of total costs (%)
Top five suppliers	13.01%
The largest supplier	3.23%

As far as the Directors are aware, none of the Directors, their close associates or shareholders holding more than 5.00% 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" of this annual report. 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 2022, 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

Sale-leaseback agreement with 廣西藍星大華化工有限責任公司("BlueStar Guangxi")

On 26 May 2020, International Far Eastern Leasing Co., Ltd. ("IFELC"), a subsidiary of the Company, entered into a sale-leaseback agreement (the "BlueStar Guangxi Sale-leaseback Agreement") with BlueStar Guangxi for a term of 30 months commencing from 29 May 2020, pursuant to which, IFELC (as the lessor) agreed to provide sale-leaseback services to BlueStar Guangxi (as the lessee) on a contractual basis. The sale-leaseback transactions contemplated under the BlueStar Guangxi Sale-leaseback Agreement are within the scope of the Group's principal business and the terms of the transactions are on fair market terms, which will increase the Group's operating income. In addition, the continuation of the sale-leaseback transactions is also beneficial to the stability of the Group's business development and avoids default by the Group under the relevant transactions.

Pursuant to the BlueStar Guangxi Sale-leaseback Agreement, the lessor shall, at the request of the lessee, purchase the equipment and facilities from the lessee and then lease back such equipment and facilities to the lessee, who shall, in return, pay rent to the lessor accordingly. Such equipment and facilities include but are not limited to low-voltage cabinets, vacuum pumps, switchgears and other equipment or facilities. The pricing was determined as follows: (i) the principal amount payable by the lessee shall be the amount for which the lessor has paid to obtain ownership of the relevant equipment and facilities, i.e. RMB18,000,000; and (ii) an applicable interest rate determined by both parties after arm's length negotiation by referencing the benchmark interest rate of People's Bank of China and the actual business condition. The lease payments shall be payable by the lessee to the lessor monthly according to the terms of the BlueStar Guangxi Sale-leaseback Agreement. As at 31 December 2022, the aggregated outstanding amount payable by the lessee to the lessor for the existing leaseback under the BlueStar Guangxi Sale-leaseback Agreement was nil. Please refer to the announcement of the Company dated 16 September 2021 relating to the BlueStar Guangxi Sale-leaseback Agreement.

On 16 September 2021, 中國中化集團有限公司 ("Sinochem Group") and 中國化工集團有限公司 ("ChemChina") completed the joint restructuring (the "Joint Restructuring"). Upon completion of the Joint Restructuring, both Sinochem Group and ChemChina became the wholly-owned subsidiaries of 中國中化控股有限責任公司 ("Sinochem Holdings"). BlueStar Guangxi, a subsidiary of ChemChina, became an associate of Sinochem Group (a substantial shareholder of the Company) upon completion of the Joint Restructuring, and accordingly, BlueStar Guangxi is a connected person of the Company. Prior to the Joint Restructuring, IFELC has entered into the BlueStar Guangxi Sale-leaseback Agreement, with BlueStar Guangxi, which is for fixed period with fixed terms. Therefore, following the completion of the Joint Restructuring, the continuing transactions under the BlueStar Guangxi Sale-leaseback Agreement constitute continuing connected transactions of the Company and are subject to reporting, annual review and disclosure requirements pursuant to Rule 14A.60 of the Listing Rules.

Sale-leaseback agreement I and Sale-leaseback agreement II with 瀋陽化工股份有限公司("Shenyang Chemical")

Sale-leaseback agreement I

On 25 February 2021, IFELC entered into a sale-leaseback agreement (the "Shenyang Chemical Sale-leaseback Agreement I") with Shenyang Chemical for a term of 34 months commencing from 30 March 2021, pursuant to which, IFELC (as the lessor) agreed to provide sale-leaseback services to Shenyang Chemical (as the lessee) on a contractual basis. The sale-leaseback transactions contemplated under the Shenyang Chemical Sale-leaseback Agreement I are within the scope of the Group's principal business and the terms of the transactions are on fair market terms, which will increase the Group's operating income. In addition, the continuation of the sale-leaseback transactions is also beneficial to the stability of the Group's business development and avoids default by the Group under the relevant transactions.

DIRECTORS' REPORT

Pursuant to the Shenyang Chemical Sale-leaseback Agreement I, the lessor shall, at the request of the lessee, purchase the equipment and facilities from the lessee and then lease back such equipment and facilities to the lessee, who shall, in return, pay rent to the lessor accordingly. Such equipment and facilities include but are not limited to ion-membrane electrolyzers, plate-and-frame type filter presses and other equipment or facilities. The pricing was determined as follows: (i) the principal amount payable by the lessee shall be the amount for which the lessor has paid to obtain ownership of the relevant equipment and facilities, i.e. RMB62,500,000; and (ii) an applicable interest rate determined by both parties after arm's length negotiation by referencing the benchmark interest rate of People's Bank of China and the actual business condition. The lease payments shall be payable by the lessee to the lessor quarterly according to the terms of the Shenyang Chemical Sale-leaseback Agreement I. As at 31 December 2022, the aggregated outstanding amount payable by the lessee to the lessor for the existing leaseback under the Shenyang Chemical Sale-leaseback Agreement I was approximately RMB25,859,997.23. Please refer to the announcement of the Company dated 16 September 2021 relating to the Shenyang Chemical Sale-leaseback Agreement I.

Sale-leaseback agreement II

On 25 February 2021, IFELC entered into a sale-leaseback agreement (the "Shenyang Chemical Sale-leaseback Agreement II") with Shenyang Chemical for a term of 34 months commencing from 5 March 2021, pursuant to which, IFELC (as the lessor) agreed to provide sale-leaseback services to Shenyang Chemical (as the lessee) on a contractual basis. The sale-leaseback transactions contemplated under the Shenyang Chemical Sale-leaseback Agreement II are within the scope of the Group's principal business and the terms of the transactions are on fair market terms, which will increase the Group's operating income. In addition, the continuation of the sale-leaseback transactions is also beneficial to the stability of the Group's business development and avoids default by the Group under the relevant transactions.

Pursuant to the Shenyang Chemical Sale-leaseback Agreement II, the lessor shall, at the request of the lessee, purchase the equipment and facilities from the lessee and then lease back such equipment and facilities to the lessee, who shall, in return, pay rent to the lessor accordingly. Such equipment and facilities include but are not limited to ion-membrane electrolyzers, air dryers, atomizers and other equipment or facilities. The pricing was determined as follows: (i) the principal amount payable by the lessee shall be the amount for which the lessor has paid to obtain ownership of the relevant equipment and facilities, i.e. RMB77,500,000; and (ii) an applicable interest rate determined by both parties after arm's length negotiation by referencing the benchmark interest rate of People's Bank of China and the actual business condition. The lease payments shall be payable by the lessee to the lessor quarterly according to the terms of the Shenyang Chemical Sale-leaseback Agreement II. As at 31 December 2022, the aggregated outstanding amount payable by the lessee to the lessor for the existing leaseback under the Shenyang Chemical Sale-leaseback Agreement II was approximately RMB32,256,084.51. Please refer to the announcement of the Company dated 16 September 2021 relating to the Shenyang Chemical Sale-leaseback Agreement II.

Shenyang Chemical, a subsidiary of ChemChina, became an associate of Sinochem Group (a substantial shareholder of the Company) upon completion of the Joint Restructuring, and accordingly, Shenyang Chemical is a connected person of the Company. Prior to the Joint Restructuring, IFELC and Shenyang Chemical have entered into the Shenyang Chemical Sale-leaseback Agreement I and the Shenyang Chemical Sale-leaseback Agreement II, which are for fixed period with fixed terms. Therefore, following the completion of the Joint Restructuring, the continuing transactions under the Shenyang Chemical Sale-leaseback Agreement I and the Shenyang Chemical Sale-leaseback Agreement II constitute continuing connected transactions of the Company and are subject to reporting, annual review and disclosure requirements pursuant to Rule 14A.60 of the Listing Rules.

DIRECTORS' REPORT

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

On 17 June 2011, the Company entered into a framework agreement with Sinochem Finance with a term of three years, whereby the Group agreed to utilise various financial services from Sinochem Finance (the "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 (the "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 (the "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. On 6 June 2018, the Company entered into a new framework agreement with Sinochem Finance (the "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 (the "2021 Sinochem Finance Framework Agreement") to renew 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 2021 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 2021 Sinochem Finance Framework Agreement. This annual cap is based on several factors including (i) the historical maximum daily outstanding balance of deposits; (ii) 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; (iii) the strategies of the treasury management of the Group; (iv) the development and financial needs of the Group during the term of the 2021 Sinochem Finance Framework Agreement; and (v) 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 2022.

The annual cap of other financial services is RMB50 million during the term of the 2021 Sinochem Finance Framework Agreement. This annual cap is based on several factors including (i) the historical transaction amounts; and (ii) the significant increase in the business development needs of the industry sectors. The applicable annual cap was not exceeded for the year ended 31 December 2022.

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 2021 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

DIRECTORS' REPORT

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. 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.

Details of related party transactions of the Company for the year ended 31 December 2022 are set out in note 46 to the consolidated financial statements. Save as the related party transactions as set out under items (ii), (iv), (v) (excluding those with Sinochem Finance Co., Ltd.), (vii) (excluding those with BlueStar Guangxi and Shenyang Chemical), (x) and (xi), and the related party transactions of payment of compensation to senior management (non-Directors) as set out under item (xiii), all the related party transactions as set out under note 46 constitute connected transactions of the Company under Chapter 14A of the Hong Kong 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.

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 2022.

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 possesses 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 2022.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2022 have been audited by Ernst & Young, the auditor of the Company.

AUDITOR

Pursuant to the resolution of the 2022 AGM of the Company, the Company reappointed Ernst & Young as the auditor of the Company in 2022. The Company has not changed its auditor in the past three years.

By order of the Board
KONG Fanxing
Chairman
15 March 2023

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, Far East Horizon 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 more 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, livelihood and consumption, 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 customers. Far East Horizon 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 who 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.

High-end resources platform is 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 Far East Horizon's own resources, it promotes 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 is respected and we carefully 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 employees' 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, Far East Horizon 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. Far East Horizon duly pays the five social insurances and one housing fund for employees on time and in full. Far East Horizon adopts 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, open and equal working environment, Far East Horizon made constant improvements to its 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 staffs 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 staffs to balance work and life. Far East Horizon 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”, Far East Horizon 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 are kind at heart and have 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 scholarships and student grants, rural revitalization and poverty alleviation, medical and emergency assistance and volunteer services. Public programs were organized across 52 cities in 28 provinces or autonomous regions, with donations of over RMB40 million and over 100,000 direct beneficiaries.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Scholarships and student grants

For eight years, the foundation has organized scholarship and student grant programs in 20 cities and 24 schools across China, subsidizing over 9,300 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.

Rural revitalization and poverty alleviation

Actively responding to the call of government of “consolidating the achievements of poverty alleviation and assisting comprehensive rural revitalization”, the foundation stepped up its efforts in supporting poverty alleviation by consistently carrying out rural revitalization and poverty alleviation projects in rural and border areas with over 50,000 direct beneficiaries and more than 100,000 people served. The foundation’s rural revitalization projects mainly focus on “green industry”, “quality education” and “health and well-being”, which are in line with the sustainable development goals of the United Nations. The projects launched include the “Tibet Shigatse Grassroots Animal Vaccine Cold Chain” (西藏日喀則市基層動物疫苗冷鏈) support project, the “Yunshang Jingmai” (雲上景邁) green industry support project in Yunnan, the “Horizon Warmth Action” (宏信暖心行動) love and care project, the “Hong Se Mi Yun, Dang Jian Wo Hang” (紅色密雲黨建我行) project for improving office conditions of grassroots party organizations, and the “Great Love & Beautiful Heart” (大美同行) campus mental health project. Meanwhile, based on the actual needs of rural areas, Horizon Charity Foundation paid attention to the cultural core of rural development and strove to support comprehensive rural revitalization from the cultural level. It has launched the “Wen Zhi Support Program” (文志幫扶計劃), aiming to gather cultural professionals for rural development, explore the cultural resources of villages, help improve the cultural environment of villages through multiple channels, and promote the upgrading of rural cultural industries. The foundation closely follows the national policy of poverty alleviation and rural revitalization with a cumulative public welfare expenditure exceeding RMB7 million in the past three years.

Medical and emergency assistance

With its focus on groups with hardship getting medical treatment, 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 over 2,100 beneficiaries in total. Meanwhile, in response to the development of COVID-19 and the related policy adjustments in 2022, the foundation carried out projects such as the “Protect Shanghai Action” (守“滬”行動) and the “Anti-pandemic Pioneer” medical institution support program, providing front-line doctors and hospitals with pandemic prevention supplies, contactless equipment, and necessary emergency food.

Volunteer services

The foundation set up a volunteer service platform for staffs 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 “Qian Li Cao Education-aid and Volunteering Program” (千里草助學志願服務項目) and “Care for Left-behind Children in Chongming Volunteer Activities” (關愛崇明留守兒童志願者活動), 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.

INDEPENDENT AUDITOR'S REPORT



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

OPINION

We have audited the consolidated financial statements of Far East Horizon Limited (the "Company") and its subsidiaries (the "Group") set out on pages 147 to 340, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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
<i>Impairment assessment of loans and accounts receivable</i>	
<p>As at 31 December 2022, the Group's loans and accounts receivable consisted of lease receivables, interest receivables, notes receivable, accounts receivable, factoring receivables, entrusted loans, long-term receivables and secured loans, and accounted for 77.0% 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.</p> <p>HKFRS 9 requires the use of the "expected credit loss" ("ECL") model for the measurement of impairment allowances of financial assets. In measuring the ECLs 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.</p> <p>The accounting policies, disclosures of the allowances for impairment of loans and receivables and the related credit risk are included in Note 2.4, Note 3, Note 24 and Note 49 to the consolidated financial statements.</p>	<p>We evaluated and tested the effectiveness of the design and implementation of key controls relating to approval, post approval monitoring, credit grading management, and loan impairment assessment.</p> <p>We adopted a risk-based sampling approach in our tests of the allowances for impairment of loans and receivables.</p> <p>We selected samples of loans considering size, risk factors, industry trends for our tests on the reasonableness of loan grading and measurement of impairment.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>We also assessed the appropriateness of the Group's disclosures of the allowances for impairment of loans and receivables and the related credit risk in Note 2.4, Note 3, Note 24 and Note 49 to the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of goodwill</i>	
<p>For the year ended 31 December 2022, the impairment of the Group's goodwill amounted to RMB187 million. The annual impairment assessment on such goodwill was complex and involved the use of various significant assumptions and estimates in respect of future profitability discount rates, and others.</p> <p>The accounting policies and disclosures of the impairment assessment of goodwill are included in Note 2.4, Note 3 and Note 16 to the consolidated financial statements.</p>	<p>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 management's forecasts.</p> <p>We also assessed the appropriateness of the Group's disclosures included in Note 2.4, Note 3 and Note 16 to the consolidated financial statements about the key assumptions.</p>

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 HKSA's 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 HKSA's, 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 Benny Bing Yin Cheung.

Ernst & Young
Certified Public Accountants
Hong Kong
15 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

		2022	2021
	Notes	RMB'000	RMB'000
Interest income	5	21,677,501	19,168,370
Revenue from operating leases	5	5,440,268	4,463,348
Revenue from contracts with customers	5	9,615,249	10,150,267
Tax and surcharges		(147,296)	(138,062)
Cost of sales	7	(18,127,725)	(16,431,419)
Other income and gains	5	2,880,940	3,302,992
Selling and distribution costs		(2,771,706)	(2,568,648)
Administrative expenses		(4,497,498)	(5,309,607)
Impairment losses on financial and contract assets, net		(1,639,319)	(1,218,533)
Gains on derecognition of financial assets			
measured at amortised cost		1,486	7,349
Other expenses		(1,302,547)	(1,158,812)
Finance costs	6	(1,054,775)	(915,665)
Share of net profits of:			
Associates		420,642	451,607
Share of net (losses)/profits of:			
Joint ventures		(176,615)	210,111
PROFIT BEFORE TAX	7	10,318,605	10,013,298
Income tax expense	10	(3,716,164)	(3,785,040)
PROFIT FOR THE YEAR		6,602,441	6,228,258
Attributable to:			
Ordinary shareholders of the parent		6,131,474	5,512,245
Holders of perpetual securities	39	249,759	384,082
Non-controlling interests		221,208	331,931
		6,602,441	6,228,258
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY EQUITY HOLDERS OF THE PARENT	12	RMB	RMB
Basic			
– Earnings per share		1.46	1.36
Diluted			
– Earnings per share		1.33	1.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

		2022	2021
	Note	RMB'000	RMB'000
PROFIT FOR THE YEAR		6,602,441	6,228,258
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	23	2,792,952	(871,716)
Reclassification to the consolidated statement of profit or loss		(3,270,351)	1,128,891
Income tax effect		16,629	(44,857)
		(460,770)	212,318
Exchange differences on translation of foreign operations		(195,373)	68,700
Reclassification adjustments for a foreign operation disposed of during the year		-	14,580
		(195,373)	83,280
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(656,143)	295,598
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(656,143)	295,598
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,946,298	6,523,856
Attributable to:			
Ordinary shareholders of the parent		5,475,331	5,807,843
Holders of perpetual securities		249,759	384,082
Non-controlling interests		221,208	331,931
		5,946,298	6,523,856

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

		31 December 2022	31 December 2021
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	24,965,863	24,530,838
Investment properties	14	115,682	–
Right-of-use assets	15(a)	1,873,637	1,865,058
Goodwill	16	270,512	373,982
Other intangible assets	17	85,969	72,228
Investments in joint ventures	19	2,977,525	2,604,136
Investments in associates	20	5,599,193	5,216,146
Financial assets at fair value through profit or loss	21	7,924,638	9,490,218
Derivative financial instruments	23	1,575,188	21,874
Loans and accounts receivables	24	118,171,325	118,618,025
Prepayments, other receivables and other assets	25	2,096,647	4,614,212
Deferred tax assets	27	6,116,381	5,394,566
Total non-current assets		171,772,560	172,801,283
CURRENT ASSETS			
Inventories	29	466,282	559,020
Loans and accounts receivables	24	148,966,908	133,599,982
Contract assets	26	304,295	276,859
Prepayments, other receivables and other assets	25	3,458,266	4,774,712
Debt investment at fair value through other comprehensive income	22	1,182,401	699,039
Financial assets at fair value through profit or loss	21	1,433,468	3,270,140
Derivative financial instruments	23	278,114	457
Restricted deposits	28	3,227,451	4,239,760
Cash and cash equivalents	28	15,903,843	15,659,036
Total current assets		175,221,028	163,079,005
CURRENT LIABILITIES			
Trade and bills payables	30	13,975,210	13,890,322
Other payables and accruals	31	12,991,463	16,795,266
Derivative financial instruments	23	28,093	1,077,111
Interest-bearing bank and other borrowings	32	123,454,985	122,694,483
Lease liabilities	15(b)	143,957	163,638
Income tax payable		1,858,302	2,172,065
Total current liabilities		152,452,010	156,792,885
NET CURRENT ASSETS		22,769,018	6,286,120
TOTAL ASSETS LESS CURRENT LIABILITIES		194,541,578	179,087,403

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

		31 December 2022	31 December 2021
	Notes	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		194,541,578	179,087,403
NON-CURRENT LIABILITIES			
Convertible bonds – host debts	33	3,717,829	3,321,086
Interest-bearing bank and other borrowings	32	124,154,666	104,185,173
Lease liabilities	15(b)	362,425	443,377
Derivative financial instruments	23	243,472	1,291,753
Deferred tax liabilities	27	902,566	386,850
Other payables and accruals	31	8,058,410	9,960,457
Deferred revenue	34	604,987	1,465,194
Other non-current liabilities	50	4,057,710	4,979,403
Total non-current liabilities		142,102,065	126,033,293
Net assets		52,439,513	53,054,110
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	35	13,052,344	13,042,863
Equity component of convertible bonds	33	233,750	233,750
Reserves	38	31,960,872	28,245,937
		45,246,966	41,522,550
Holders of perpetual securities	39	3,080,425	7,514,376
Non-controlling interests		4,112,122	4,017,184
Total equity		52,439,513	53,054,110

Kong Fanxing

Director

Wang Mingzhe

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	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
At 1 January 2021	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
Profit for the year	-	-	-	-	-	-	-	-	-	5,512,245	5,512,245	384,082	331,931	6,228,258
Other comprehensive income for the year:														
Cash flow hedges, net of tax	-	-	-	-	-	-	-	212,318	-	-	212,318	-	-	212,318
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	83,280	-	83,280	-	-	83,280
Total comprehensive income	-	-	-	-	-	-	-	212,318	83,280	5,512,245	5,807,843	384,082	331,931	6,523,856
Final 2020 dividend declared (net of dividends received from shares held for the share award scheme)	-	-	-	-	-	-	-	-	(1,205,585)	(1,205,585)	(1,205,585)	-	-	(1,205,585)
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	-	(377,769)	-	(377,769)
Shares vested under restricted share award scheme	-	-	-	135,391	(118,503)	-	-	-	-	(16,888)	-	-	-	-
Transfer of share option reserve upon exercise of share options	69,090	-	-	-	(14,314)	-	-	-	-	-	54,776	-	-	54,776
Recognition of equity-settled share-based payments	-	-	-	-	99,761	-	-	-	-	-	99,761	-	-	99,761
Special reserve – safety fund appropriation	-	-	-	-	-	21,259	-	-	-	(26,261)	(5,002)	-	5,002	-
Capital injection by non-controlling shareholders	-	-	488,434	-	-	-	-	-	-	-	488,434	-	1,978,050	2,466,484
Disposal of subsidiaries (Note 41)	-	-	84,262	-	-	-	-	-	(84,262)	-	-	-	63,247	63,247
Purchase of non-controlling interests	-	-	138,564	-	-	-	-	-	-	-	138,564	-	(25,445)	113,119
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(90,310)	(90,310)	(90,310)
Redemption of perpetual securities (Note 39)	-	-	-	-	-	-	-	-	-	-	-	(970,000)	-	(970,000)
Issue of convertible bonds (Note 33)	-	138,925	-	-	-	-	-	-	-	-	138,925	-	-	138,925
Issue of shares upon conversion of convertible bonds (Note 33)	2,576,669	(245,225)	-	-	-	-	-	-	-	-	2,333,444	-	-	2,333,444
Put option granted to non-controlling Shareholders (Note 50)	-	-	(448,062)	-	-	-	-	-	-	-	(448,062)	-	(914,909)	(1,362,971)
At 31 December 2021	13,042,863	233,750	1,586,318	(731,556)	346,167	46,173	121,913	(41,971)	837,099	26,101,794	41,522,550	7,514,376	4,017,184	53,054,110

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	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
At 1 January 2022	(Note 35)	(Note 33)	(Note 38)	(Note 37)	(Note 38)	(Note 38)	(Note 38)	(Note 38)	(Note 39)	(Note 39)	(Note 39)	(Note 39)	(Note 39)	(Note 39)
13,042,863	233,750	1,566,318	731,556	346,167	46,173	121,913	(41,971)	887,099	26,101,794	41,522,550	7,514,376	4,017,184	53,054,110	
Profit for the year	-	-	-	-	-	-	-	-	6,131,474	6,131,474	249,759	221,208	6,602,441	
Other comprehensive income for the year:														
Cash flow hedges, net of tax	-	-	-	-	-	-	(460,770)	-	-	(460,770)	-	-	(460,770)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(195,373)	-	(195,373)	-	-	(195,373)	
Total comprehensive income	-	-	-	-	-	-	(460,770)	(195,373)	6,131,474	5,475,331	249,759	221,208	5,946,298	
Final 2021 dividend declared (net of dividends received from shares held for the share award scheme)	-	-	-	-	-	-	-	-	(1,505,444)	(1,505,444)	-	-	(1,505,444)	
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	(303,951)	-	(303,951)	
Shares vested under restricted share award scheme	-	-	-	209,092	(185,243)	-	-	-	(17,849)	-	-	-	-	
Purchase of shares under restricted share award scheme	-	-	-	(253,524)	-	-	-	-	-	(253,524)	-	-	(253,524)	
Transfer of share option reserve upon exercise of share options	9,481	-	-	(1,950)	-	-	-	-	-	7,531	-	-	7,531	
Recognition of equity-settled share-based payments	-	-	-	246,367	-	-	-	-	-	246,367	-	-	246,367	
Special reserve – safety fund appropriation	-	-	-	-	30,093	-	-	-	(37,175)	(7,082)	-	7,082	-	
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	85,097	85,097	
Disposal of subsidiaries (Note 41)	-	-	54,291	-	-	-	-	-	-	54,291	-	(101,370)	(47,079)	
Purchase of non-controlling interests	-	-	54,537	-	-	-	-	-	-	54,537	-	66,432	120,969	
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(141,264)	(141,264)	
Share of other reserves of investments accounted for using the equity method	-	-	(26,375)	-	-	-	-	-	-	(26,375)	-	-	(26,375)	
Redemption of perpetual securities (Note 39)	-	-	(182,090)	-	-	-	-	-	-	(182,090)	(6,876,759)	-	(7,058,849)	
Issue of perpetual securities (Note 39)	-	-	-	-	-	-	-	-	-	-	2,497,000	-	2,497,000	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	63,932	63,932	
Put option granted to non-controlling shareholders (Note 50)	-	-	(139,126)	-	-	-	-	-	-	(139,126)	-	(106,179)	(245,305)	
At 31 December 2022	13,052,344	233,750	1,327,555*	(781,988)*	405,341*	76,266*	121,913*	(502,741)*	641,726*	30,672,800*	45,246,966	3,080,425	4,112,122	52,439,513

* These reserve accounts comprise the consolidated reserves of RMB31,960,872,000 (31 December 2021: RMB28,245,937,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

		2022	2021
	Notes	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,318,605	10,013,298
Adjustments for:			
Finance costs		10,041,520	9,815,523
Bank interest income	5	(201,248)	(189,873)
Share of net profits of associates		(420,642)	(451,607)
Share of net losses/(profits) of joint ventures		176,615	(210,111)
Gains on unlisted debt investments, at fair value	5	(91,584)	(90,218)
Gains on disposal of property, plant and equipment, net		(303,077)	(77,904)
Gains on disposal of subsidiaries	5	(95,880)	(128,649)
Losses/(Gains) on disposal of a joint venture	7	1,740	(41,341)
Gains on disposal of part of the equity of an associate	5	-	(117,138)
Depreciation of property, plant and equipment	13	2,853,073	2,126,751
Depreciation of right-of-use assets	15	196,724	150,520
Impairment of loans and accounts receivables	7	1,567,780	1,163,272
Impairment of property, plant and equipment	7	271,498	12,834
Impairment of inventories	7	19,063	29
Impairment of prepayments, other receivables and other assets	7	38,124	32,729
Impairment of right-of-use assets	7	-	42,641
Impairment of credit commitments	7	33,415	22,532
Impairment of investments in joint ventures	7	-	90,270
Impairment of goodwill	7	187,295	1,658,164
Interest expense on lease liabilities	15	20,849	37,229
Amortisation of intangible assets and other assets	7	27,466	24,988
Equity-settled share-based payment expense	7	246,367	99,761
Foreign exchange loss, net	7	265,042	8,210
Gains from acquisition of subsidiaries		(10,922)	-
Realised gains on derecognition of financial assets at fair value through profit or loss		(323,580)	(71,695)
Fair value (gains)/losses from financial liabilities at fair value through profit or loss		(316,500)	552,603
Fair value losses/(gains) from financial assets at fair value through profit or loss		545,008	(464,819)
Dividends from financial assets at fair value through profit or loss	5	(22,415)	(54,409)
		25,024,336	23,953,590

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

		2022	2021
	Notes	RMB'000	RMB'000
Increase in inventories		(10,930)	(162,346)
Increase in loans and accounts receivables		(15,786,045)	(27,038,449)
Increase in contract assets		(27,436)	(166,727)
Decrease in prepayments, other receivables and other assets		1,444,179	636,321
Decrease/(Increase) in restricted cash related to asset-backed securitisations, collective fund trusts and litigation		1,032,259	(83,689)
Increase in trade and bills payables		95,867	5,947,184
Decrease in other payables and accruals		(4,520,093)	(5,185,155)
(Decrease)/Increase in other liabilities		(860,178)	401,175
Net cash flows from/(used in) operating activities before tax and interest		6,391,959	(1,698,096)
Interest paid		(10,056,884)	(9,826,497)
Bank interest received		201,248	189,873
Income tax paid		(4,221,958)	(3,532,820)
Net cash flows used in operating activities		(7,685,635)	(14,867,540)
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on unlisted debt investments, at fair value	5	91,584	90,218
Proceeds from disposal of property, plant and equipment		909,075	463,079
Acquisition of subsidiaries		14,386	–
Purchase of items of property, plant and equipment, intangible assets and other long-term assets		(3,958,002)	(10,458,527)
Purchase of shareholdings for joint ventures		(560,103)	(339,192)
Purchase of shareholdings for associates		(70,021)	(153,239)
Dividend received from joint ventures		122,584	104,028
Dividend received from associates		135,134	198,955
Proceeds from disposal of a joint venture		(1,340)	118,814
Proceeds from disposal of part of the equity of an associate		12,502	271,341
Purchase of financial assets at fair value through profit or loss		(1,829,468)	(3,360,018)
Disposal of subsidiaries		114,289	(8,069)
Disposal of financial assets at fair value through profit or loss		3,231,131	3,227,490
Dividends of financial assets at fair value through profit or loss	5	22,415	–
Net cash flows used in investing activities		(1,765,834)	(9,845,120)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

		2022	2021
	Notes	RMB'000	RMB'000
Net cash flows used in investing activities		(1,765,834)	(9,845,120)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		7,531	54,776
Capital injection from non-controlling shareholders		505,918	3,145,745
Purchase of non-controlling interests		-	(41,736)
Cash received from borrowings		196,226,137	184,649,204
Repayments of borrowings		(179,140,191)	(158,592,043)
Principal portion of lease payments		(216,270)	(186,395)
Dividends paid		(1,505,444)	(1,205,585)
Increase in pledged deposits		(19,951)	(681,202)
Realised fair value losses from derivative financial instruments in hedges for borrowings		(1,126,963)	(113,017)
Distribution paid to holders of perpetual securities	39	(303,951)	(377,769)
Dividends paid to non-controlling shareholders		(182,121)	(74,846)
Issue of perpetual securities		2,497,000	-
Redemption of perpetual securities		(6,876,759)	(970,000)
Issue of convertible bonds		-	2,908,605
Purchase of shares under share award scheme		(253,524)	-
Net cash flows from financing activities		9,611,412	28,515,737
NET INCREASE IN			
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		15,659,036	11,877,235
Effect of exchange rate changes on cash and cash equivalents		84,864	(21,276)
CASH AND CASH EQUIVALENTS AT END OF YEAR		15,903,843	15,659,036

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 is Unit 6608, 66/F, International Commerce Centre, 1 Austin Road West, Kowloon.

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 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 2022

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 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* (the “Conceptual Framework”) 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 has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) 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 as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *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 amendment that is 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. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ⁶
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{2,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

- 1 Effective for annual periods beginning on or after 1 January 2023
- 2 Effective for annual periods beginning on or after 1 January 2024
- 3 No mandatory effective date yet determined but available for adoption
- 4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 to align the corresponding wording with no change in conclusion
- 5 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
- 6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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

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 resulting from a downstream transaction 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 HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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.

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*.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, investment properties 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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

Category	Annual depreciation rate
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Buildings	1.90-25.00%
Equipment, tools and moulds	5.00-50.00%
Office equipment and computers	9.00-50.00%
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 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of each item of investment properties.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(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 25 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.

(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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

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

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

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

Fair value hedges

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

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

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Treasury shares

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

Perpetual securities

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

Inventories

Inventories are goods valued at the lower of cost and net realisable value at the end of the reporting period. The cost of inventories issued is determined on the 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(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.

Contract assets

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

Contract liabilities

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract costs

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

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the 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 in exchange 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 36 and Note 37 to the financial statements.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

Employee benefits

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

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

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year's basic salaries to the Annuity Plan. The contribution is charged to the statement of profit or loss when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions even if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

Contributions to these plans are recognised in the statement of profit or loss as incurred. There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions. 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.

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;

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between finance leases and operating leases (continued)

- 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.

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 requires 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 2022 was RMB270,512,000 (31 December 2021: RMB373,982,000). Further details are given in Note 16.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of financial instruments (continued)

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

- (i) The Group's internal credit grading model, which assigns the probability of defaults (PDs) to the individual grades
- (ii) The Group's criteria for assessing whether 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.

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of financial instruments

For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Valuation techniques make use of observable market information to the greatest extent, however, when the observable market information cannot be obtained, management will have to make assumptions on the credit risk, market volatility and correlations of the Group and the counterparties, and any changes in these underlying assumptions will affect the fair value of financial instruments.

Share-based payments

Estimating 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 36 and Note 37.

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 2022

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2022

	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	31,305,891	5,279,831	–	36,585,722
Intersegment sales	186,740	27,300	(214,040)	–
Cost of sales	(13,874,156)	(4,253,569)	–	(18,127,725)
Other income and gains	1,933,183	1,032,472	(84,715)	2,880,940
Selling and distribution costs and administrative expenses	(6,050,056)	(1,256,097)	36,949	(7,269,204)
Other expenses	(794,173)	(508,374)	–	(1,302,547)
Finance costs	(1,057,439)	(259,142)	261,806	(1,054,775)
Impairment losses on financial and contract assets	(1,507,350)	(131,969)	–	(1,639,319)
Gains on disposal of financial assets measured at amortised cost	1,486	–	–	1,486
Share of profits of associates	417,675	2,967	–	420,642
Share of losses of joint ventures	52,490	(229,105)	–	(176,615)
Profit before tax	10,614,291	(295,686)	–	10,318,605
Income tax expense	(3,619,669)	(96,495)	–	(3,716,164)
Profit after tax	6,994,622	(392,181)	–	6,602,441
Segment assets	344,662,215	16,058,307	(13,726,934)	346,993,588
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,529,453	587,722	–	2,117,175
Depreciation and amortisation	2,721,394	355,869	–	3,077,263
Capital expenditure	3,887,262	700,864	–	4,588,126

NOTES TO FINANCIAL STATEMENTS

31 December 2022

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2021

	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	28,426,363	5,217,560	–	33,643,923
Intersegment sales	212,696	45,075	(257,771)	–
Cost of sales	(12,161,826)	(4,269,593)	–	(16,431,419)
Other income and gains	2,672,815	648,503	(18,326)	3,302,992
Selling and distribution costs and administrative expenses	(5,517,023)	(2,419,512)	58,280	(7,878,255)
Other expenses	(1,068,301)	(90,511)	–	(1,158,812)
Finance costs	(862,568)	(270,914)	217,817	(915,665)
Impairment losses on financial and contract assets	(1,154,195)	(64,338)	–	(1,218,533)
Gains on disposal of financial assets measured at amortised cost	7,349	–	–	7,349
Share of profits of associates	449,355	2,252	–	451,607
Share of profits of joint ventures	28,934	181,177	–	210,111
Profit before tax	11,033,599	(1,020,301)	–	10,013,298
Income tax expense	(3,722,392)	(62,648)	–	(3,785,040)
Profit after tax	7,311,207	(1,082,949)	–	6,228,258
Segment assets	333,128,048	17,064,363	(14,312,123)	335,880,288
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,144,037	1,878,434	–	3,022,471
Depreciation and amortisation	1,856,502	445,756	–	2,302,258
Capital expenditure	10,162,266	788,692	–	10,950,958

NOTES TO FINANCIAL STATEMENTS

31 December 2022

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2022	2021
	RMB'000	RMB'000
Mainland China	36,164,441	33,240,927
Hong Kong	170,348	208,587
Other locations	250,933	194,409
	36,585,722	33,643,923

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

(b) Non-current assets

	2022	2021
	RMB'000	RMB'000
Mainland China	36,136,746	36,087,982
Hong Kong	740,065	809,833
	36,876,811	36,897,815

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

Information about major customers

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 2022

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

		2022	2021
	Note	RMB'000	RMB'000
Interest Income			
Interest income from finance leases, factoring and loans		21,323,744	18,826,817
Interest income from financial assets at fair value through profit or loss		353,757	341,553
Revenue from operating leases		5,440,268	4,463,348
Revenue from contracts with customers	(i)	9,615,249	10,150,267
Taxes and surcharges		(147,296)	(138,062)
		36,585,722	33,643,923

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Types of goods or services			
Sale of goods	300,748	444,094	744,842
Construction services	2,136,630	–	2,136,630
Service fee income	1,822,575	–	1,822,575
Healthcare service income	–	4,199,251	4,199,251
Education service income	–	146,330	146,330
Chartering and brokerage income	–	309,906	309,906
Other income	73,943	181,772	255,715
Total revenue from contracts with customers	4,333,896	5,281,353	9,615,249
Geographical markets			
Hong Kong	21,135	80,229	101,364
Mainland China	4,301,109	4,961,844	9,262,953
Other locations	11,652	239,280	250,932
Total revenue from contracts with customers	4,333,896	5,281,353	9,615,249
Timing of revenue recognition			
Goods or services transferred at a point in time	1,709,844	2,248,255	3,958,099
Services transferred over time	2,624,052	3,033,098	5,657,150
Total revenue from contracts with customers	4,333,896	5,281,353	9,615,249

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2021

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Types of goods or services			
Sale of goods	74,163	528,209	602,372
Construction services	1,519,288	–	1,519,288
Service fee income	3,178,894	–	3,178,894
Healthcare service income	–	3,928,718	3,928,718
Education service income	–	263,348	263,348
Chartering and brokerage income	–	273,491	273,491
Other income	156,986	227,170	384,156
Total revenue from contracts with customers	4,929,331	5,220,936	10,150,267
Geographical markets			
Hong Kong	29,168	92,989	122,157
Mainland China	4,897,695	4,936,006	9,833,701
Other locations	2,468	191,941	194,409
Total revenue from contracts with customers	4,929,331	5,220,936	10,150,267
Timing of revenue recognition			
Goods or services transferred at a point in time	2,495,877	2,198,639	4,694,516
Services transferred over time	2,433,454	3,022,297	5,455,751
Total revenue from contracts with customers	4,929,331	5,220,936	10,150,267

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	4,333,896	5,281,353	9,615,249
Intersegment sales	8,955	28,033	36,988
Intersegment adjustments and eliminations	(8,955)	(28,033)	(36,988)
Total revenue from contracts with customers	4,333,896	5,281,353	9,615,249

For the year ended 31 December 2021

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	4,929,331	5,220,936	10,150,267
Intersegment sales	12,361	45,075	57,436
Intersegment adjustments and eliminations	(12,361)	(45,075)	(57,436)
Total revenue from contracts with customers	4,929,331	5,220,936	10,150,267

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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:

	2022	2021
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Service fee income	391,798	510,644
Sale of goods	25,904	23,662
	417,702	534,306

(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 2022

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:

	2022	2021
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	141,473	417,702
After one year	827,540	664,917
	969,013	1,082,619

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 2 to 27 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 2022

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

		2022	2021
	Note	RMB'000	RMB'000
Other income and gains			
Bank interest income		201,248	189,873
Gains on unlisted debt investments, at fair value		91,584	90,218
Gains on disposal of property, plant, and equipment		306,714	81,844
Government grants	5a	161,018	280,558
Fair value gains from financial assets at fair value through profit or loss		351,689	906,426
Fair value gains from financial liabilities at fair value through profit or loss		316,500	–
Interest income from continuing involvement in transferred assets		856,580	1,187,357
Dividends of financial assets at fair value through profit or loss		22,415	54,409
Realised gains on financial assets at fair value through profit or loss		323,580	158,306
Gains on disposal of subsidiaries		95,880	128,649
Gains on disposal of a joint venture		–	41,341
Gains on disposal of part of the equity of an associate		–	117,138
Others		153,732	66,873
		2,880,940	3,302,992

5a. Government grants

	2022	2021
	RMB'000	RMB'000
Government special subsidies	161,018	280,558

NOTES TO FINANCIAL STATEMENTS

31 December 2022

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2022	2021
	RMB'000	RMB'000
Interest on bank loans, overdrafts and other loans for the industrial operation business	1,033,926	878,902
Interest on lease liabilities	20,849	37,229
Total interest expense on financial liabilities not at fair value through profit or loss	1,054,775	916,131
Less: Interest capitalised	-	(466)
	1,054,775	915,665

7. PROFIT BEFORE TAX

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

	2022	2021
	RMB'000	RMB'000
Cost of borrowings included in cost of sales	9,007,594	8,937,086
Cost of inventories sold	604,145	514,758
Cost of construction services	1,496,266	1,076,646
Cost of operating leases	2,873,739	2,091,079
Cost of chartering	165,022	164,865
Cost of healthcare services	3,551,200	3,194,195
Cost of education services	110,375	213,698
Cost of others	319,384	239,092
Depreciation of property, plant and equipment	308,938	272,897
Less: Government grants released*	(1,026)	(1,527)
	307,912	271,370

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT BEFORE TAX (continued)

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

	2022	2021
	RMB'000	RMB'000
Depreciation of right-of-use assets	175,919	107,548
Amortisation of intangible assets and other assets	27,466	24,988
Auditors' remuneration – audit services	8,689	11,700
– other services	7,537	6,710
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries*		
Current year expenditure	5,616,679	4,138,986
Less: Government grants released**	(1,704,406)	(464,152)
	3,912,273	3,674,834
– Equity-settled share-based payment expense	246,367	99,761
– Pension scheme contributions	372,181	151,843
– Other employee benefits	147,855	270,909
	4,678,676	4,197,347

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT BEFORE TAX (continued)

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

	2022	2021
	RMB'000	RMB'000
Impairment of investments in joint ventures	–	90,270
Impairment of goodwill (Note 16)	187,295	1,658,164
Impairment of loans and accounts receivables (Note 24)	1,567,780	1,163,272
Impairment of financial assets included in prepayments, other receivables and other assets	38,124	32,729
Impairment of credit commitments	33,415	22,532
Impairment of inventories	19,063	29
Impairment of property, plant and equipment (Note 13)	271,498	12,834
Impairment of right-of-use assets (Note 15(a))	–	42,641
Lease payments not included in the measurement of lease liabilities	26,181	4,218
Entertainment expenses	115,716	77,281
Business travelling expenses	210,044	266,804
Consultancy fees	217,273	184,670
Office expenses	58,918	90,309
Advertising and promotional expenses	35,408	24,694
Transportation expenses	143,436	84,435
Communication expenses	54,090	31,130
Litigation expenses	42,801	45,153
Other miscellaneous expenses:		
Current year expenditure	623,406	664,022
Less: Government grants released*	(6,687)	(18,062)
	616,719	645,960

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT BEFORE TAX (continued)

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

	2022	2021
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment	3,637	3,940
Donation	13,546	1,092
Bank commission expenses	86,149	91,500
Foreign exchange losses, net:		
Cash flow hedges (transfer from equity to offset foreign exchange)	(3,366,129)	1,018,891
Foreign exchange losses/(gains)	3,631,171	(1,010,681)
	265,042	8,210
Losses/(Gains) on disposal of a joint venture	1,740	(41,341)
Fair value losses from financial assets at fair value through profit or loss	896,697	434,700
Other expenditure	34,657	66,767
Gains on derecognition of loans and accounts receivables measured at amortised cost***	(1,486)	(7,349)
Fair value (gains)/losses from financial liabilities at fair value through profit or loss****	(316,500)	552,603
Bank interest income	(201,248)	(189,873)
Interest income from continuing involvement in transferred assets	(856,580)	(1,187,357)
Fair value gains from financial assets at fair value through profit or loss	(351,689)	(906,426)

* The Group has adopted collective economic-gain bonus schemes (the "Scheme", details of which are set out in note 9) since 2014. In 2022, new trust schemes ("2022 Trust Scheme") were established in Mainland China and Hong Kong, respectively. The beneficiaries of the 2022 Trust Schemes comprised certain employees of the Group (including senior management) and directors. During the year ended 31 December 2022, no distribution was made to the beneficiaries of the aforesaid Scheme. The Group paid bonuses of RMB1,080,000,000 to the 2022 Trust Schemes in Mainland China and bonuses of HK\$1,177,500,000 and US\$128,000,000 (equivalent to RMB1,861,054,000 in total) to the 2022 Trust Schemes in Hong Kong, respectively in 2022.

** 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 34).

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

**** The fair value losses from a financial liability at fair value through profit or loss are accounted for the fair value change linked to the investments by Limited Partners other than the Group in several Investment Limited Partnerships that are classified as financial liabilities in the consolidated financial statements of the Group.

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2022	2021
	RMB'000	RMB'000
Fees	2,513	2,439
Other emoluments:		
Salaries, allowances and benefits in kind	7,404	7,393
Performance related bonuses*	4,300	4,300
Pension scheme contributions	126	113
	11,830	11,806
	14,343	14,245

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

During 2022, 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 36 and Note 37 to the financial statements, respectively. Certain directors participated in the Group's collective economic-gain bonus schemes (the "Schemes"), details of which are set out in Note 9. During the year ended 31 December 2022, no distribution was made to the beneficiaries of the Schemes, the above information of directors' and chief executive's remuneration has not taken into consideration the employees' potential entitlement under the Schemes.

(a) Independent non-executive directors

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

	2022	2021
	RMB'000	RMB'000
Mr. Cai Cunqiang	359	348
Mr. Han Xiaojing	359	348
Mr. Liu Jialing	359	348
Mr. Yip Wai Ming	359	348
	1,436	1,392

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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:

	2022	2021
	RMB'000	RMB'000
Mr. Liu Haifeng	359	348
Mr. Luo Qiang	359	348
Mr. Kuo Mingjian	359	348
	1,077	1,044

(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 2022					
Executive directors:					
Mr. Kong Fanxing	–	4,670	2,500	63	7,233
Mr. Wang Mingzhe	–	2,734	1,800	63	4,597
	–	7,404	4,300	126	11,830

	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 2021					
Executive directors:					
Mr. Kong Fanxing	–	4,664	2,500	57	7,221
Mr. Wang Mingzhe	–	2,728	1,800	57	4,585
	–	7,392	4,300	114	11,806

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the year is as follows:

	Number of employees	
	2022	2021
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2021: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2021: three) non-director, highest paid employees for the year are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	7,523	7,342
Performance related bonuses	3,700	3,900
Pension scheme contributions	188	114
	11,411	11,356

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

	Number of employees	
	2022	2021
HK\$3,500,001 to HK\$4,000,000 (Equivalent to RMB2,994,023 to RMB3,421,740)	1	1
HK\$4,000,001 to HK\$4,500,000 (Equivalent to RMB3,421,741 to RMB3,849,458)	1	1
HK\$4,500,001 to HK\$5,000,000 (Equivalent to RMB3,849,459 to RMB4,277,175)	-	-
HK\$5,000,001 to HK\$5,500,000 (Equivalent to RMB4,277,176 to RMB4,704,893)	1	1
	3	3

During the year ended 31 December 2022, 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 36 and Note 37 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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. The members of the Committee exclude any of the directors or senior management of the Company. 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. In 2022, new trust schemes (“2022 Trust Schemes”) were established in Mainland China and Hong Kong, respectively. The beneficiaries of the 2022 Trust Schemes comprised certain employees of the Group (including senior management) and directors. During the year ended 31 December 2022, no distribution was made to the beneficiaries of the Schemes (including the aforesaid 2022 Trust Schemes), the above information of the five highest paid employees and directors’ and chief executive’s remuneration (Note 8) have not taken into consideration the employees’ potential entitlement under the Schemes. Upon the actual distribution or the amount of distribution being determined in the future, disclosures will be made in accordance with the relevant requirements of the Listing Rules.

10. INCOME TAX

	2022	2021
	RMB’000	RMB’000
Current – Hong Kong		
Charge for the year	129,619	102,697
Current – Mainland China		
Charge for the year	3,775,677	3,836,178
Deferred tax (Note 27)	(189,132)	(153,835)
Total tax charge for the year	3,716,164	3,785,040

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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% (2021: 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 2022

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 the PRC could use a preferential tax rate of 15% from 1 January 2011 to 31 December 2030. Deyang The Fifth Hospital Co., Ltd., Chongqing Yudong Hospital Co., Ltd., Nayong Xinli Hospital Co., Ltd. and Chengdu Jinsha Hospital Co., Ltd. were recognised to fulfil the aforesaid preferential taxation policy and thus have enjoyed a preferential tax rate of 15% since 2016. Zhaotong Renan Hospital Co., Ltd. and Qiaojia Renan Hospital Co., Ltd. were recognised to fulfil the aforesaid preferential taxation policy and thus have enjoyed a preferential tax rate of 15% since 2017. Qinghai Kangle Hospital Company Ltd. was recognised to fulfil the aforesaid preferential taxation policy and thus has 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 Hongtu Equipment & Engineering Co., Ltd. was recognised as a high-technology enterprise in 2020. Since then, Guangzhou Hongtu Equipment & Engineering Co., Ltd. has enjoyed a preferential tax rate of 15%.

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

	2022	2021
	RMB'000	RMB'000
Profit before tax	10,318,605	10,013,298
Tax at the statutory income tax rates	2,701,472	2,827,068
Expenses not deductible for tax	523,492	779,682
Income not subject to tax	(282,463)	(175,910)
Adjustment on current income tax in respect of prior years	26,587	36,382
Utilisation of previously unrecognised tax losses	(135,981)	(20,651)
Unrecognised tax losses and temporary differences	256,476	227,570
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	571,107	–
Effect of withholding tax on interest on intra-group balances	55,474	110,899
Income tax expense as reported in the consolidated statement of profit or loss	3,716,164	3,785,040

The share of tax attributable to associates and joint ventures amounting to approximately RMB140,214,000 (31 December 2021: RMB150,536,000) and a credit amount of RMB69,398,000 (31 December 2021: a credit amount of RMB22,564,000), 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

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11. DIVIDENDS

	2022	2021
	RMB'000	RMB'000
Proposed final dividend – HK\$0.49 (2021: HK\$0.42) per ordinary share	1,832,398	1,441,623

A final dividend for the year of 2022 of HK\$0.49 per share was proposed at the meeting of the board of directors (the “Board”) held on 15 March 2023. As at 31 December 2022, based on the total number of outstanding ordinary shares of 4,186,402,320 (2021: 4,198,183,868) (excluding the 129,107,281 (2021: 115,803,918) shares held for the share award scheme (Note 37), the proposed final dividend amounted to approximately HK\$2,051,337,000 (2021: HK\$1,763,237,000) (equivalent to RMB1,832,398,000 (2021: RMB1,441,623,000)). 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 4,185,832,025 (2021: 4,051,798,363) 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.

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31 December 2022

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

	2022	2021
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculations	6,131,474	5,512,245
Interest on the host debt component of convertible bonds	136,269	118,442
Profit attributable to ordinary equity holders of the parent, before the above impact arising from convertible bonds	6,267,743	5,630,687

Shares

	Number of shares	
	2022	2021
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	4,185,832,025	4,051,798,363
Effect of dilution – weighted average number of ordinary shares:		
Share options	1,440,059	10,464,222
Convertible bonds	538,845,479	460,026,172
Weighted average number of ordinary shares for diluted earnings per share	4,726,117,563	4,522,288,757

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31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2022

	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 2022:									
Cost	733,021	5,487,030	23,134,796	471,466	162,263	197,894	1,494,290	446,463	32,127,223
Accumulated depreciation and impairment	(570,975)	(894,434)	(4,725,468)	(312,192)	(87,498)	-	(684,460)	(321,358)	(7,596,385)
Net carrying amount	162,046	4,592,596	18,409,328	159,274	74,765	197,894	809,830	125,105	24,530,838
At 1 January 2022, net of accumulated depreciation and impairment	162,046	4,592,596	18,409,328	159,274	74,765	197,894	809,830	125,105	24,530,838
Acquisition of subsidiaries	-	188,952	15,336	284	553	-	134,392	-	339,517
Additions	418,336	16,490	3,135,740	33,684	20,655	231,869	-	724	3,857,498
Depreciation provided during the year	(400,665)	(173,550)	(2,132,256)	(61,534)	(22,918)	-	(62,141)	(9)	(2,853,073)
Disposal of subsidiaries (Note 41)	(15,604)	(1,271)	(117,189)	(3,429)	(1,417)	(19,233)	-	-	(158,143)
Transfers	-	2,604	18,863	-	-	(21,467)	-	-	-
Disposals	(3,828)	(600)	(189,062)	(6,306)	(18,194)	(75,086)	(312,922)	-	(605,998)
Exchange realignment	-	-	-	-	-	-	126,722	-	126,722
Impairment	-	(274,000)	-	-	-	-	2,502	-	(271,498)
At 31 December 2022, net of Accumulated depreciation and impairment	160,285	4,351,221	19,140,760	121,973	53,444	313,977	698,383	125,820	24,965,863
At 31 December 2022:									
Cost	826,300	5,693,687	25,706,853	459,086	153,782	313,977	1,239,611	447,187	34,840,483
Accumulated depreciation and impairment	(666,015)	(1,342,466)	(6,566,093)	(337,113)	(100,338)	-	(541,228)	(321,367)	(9,874,620)
Net carrying amount	160,285	4,351,221	19,140,760	121,973	53,444	313,977	698,383	125,820	24,965,863

NOTES TO FINANCIAL STATEMENTS

31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2021

	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 2021:									
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	(476,577)	(721,549)	(3,427,504)	(284,589)	(70,744)	–	(729,159)	(236,360)	(5,946,482)
Net carrying amount	174,275	4,112,417	10,682,687	181,078	72,465	509,415	950,681	188,583	16,871,601
At 1 January 2021, 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
Additions	171,883	33,042	9,629,137	75,635	31,682	448,269	–	21,519	10,411,167
Transfer from right-of-use assets (Note 15)	–	–	19,125	–	–	–	–	–	19,125
Depreciation provided during the year	(132,912)	(174,970)	(1,609,866)	(67,817)	(23,853)	–	(32,336)	(84,997)	(2,126,751)
Disposal of subsidiaries	(47,358)	(53,510)	(21,609)	(14,496)	(186)	(621)	–	–	(137,780)
Transfers	–	675,953	44,546	1,817	–	(722,316)	–	–	–
Disposals	(49)	(336)	(325,651)	(16,943)	(5,343)	(36,853)	–	–	(385,175)
Exchange realignment	–	–	–	–	–	–	(108,515)	–	(108,515)
Impairment	(3,793)	–	(9,041)	–	–	–	–	–	(12,834)
At 31 December 2021, net of Accumulated depreciation and impairment	162,046	4,592,596	18,409,328	159,274	74,765	197,894	809,830	125,105	24,530,838
At 31 December 2021:									
Cost	733,021	5,487,030	23,134,796	471,466	162,263	197,894	1,494,290	446,463	32,127,223
Accumulated depreciation and impairment	(570,975)	(894,434)	(4,725,468)	(312,192)	(87,498)	–	(684,460)	(321,358)	(7,596,385)
Net carrying amount	162,046	4,592,596	18,409,328	159,274	74,765	197,894	809,830	125,105	24,530,838

As at 31 December 2022, the Group has not obtained the property ownership certificates for five buildings (31 December 2021: six) with a net book value of RMB444,329,000 (31 December 2021: RMB737,197,000).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 31 December 2022.

As at 31 December 2022, property, plant and equipment with a net carrying amount of RMB7,823,189,000 (31 December 2021: RMB6,413,799,000) were pledged to secure general banking facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

14. INVESTMENT PROPERTIES

	For the year ended 31 December 2022
	RMB'000
At beginning of year:	
Cost	-
Accumulated depreciation and impairment	-
Net carrying amount	-
At beginning of year, net of accumulated depreciation and impairment	-
Additions	115,682
Depreciation	-
At end of year, net of accumulated depreciation and impairment	115,682
At end of year:	
Cost	115,682
Accumulated depreciation and impairment	-
Net carrying amount	115,682

The Group's investment properties consist of one commercial property and one industrial property in Mainland China (2021: nil).

Management has determined that the investment properties consist of two classes of asset, i.e., commercial and industrial properties, based on the nature, characteristics and risks of each property.

The investment properties are leased to third parties under operating leases.

As at 31 December 2022, the Group has not obtained the property ownership certificates for the commercial property (31 December 2021: nil) with a net book value of RMB33,682,000 (31 December 2021: nil). The Group was in the process of applying for the property ownership certificates for the above property as at 31 December 2022 and obtained the certificates on 3 January 2023.

As at 31 December 2022, the industrial property with a net carrying amount of RMB82,000,000 (31 December 2021: nil) was pledged to secure general banking facilities.

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31 December 2022

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

31 December 2022

Fair value measurement as at 31 December 2022 using				
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Commercial property	–	–	111,930	111,930
Industrial property	–	–	82,000	82,000
	–	–	193,930	193,930

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2021: Nil).

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Weighted average
			RMB
Commercial property	Market comparison method	Estimated value (per sq. m.)	11,807
Industrial property	Discounted cash flow method	Estimated rental value (per sq.m. per day)	0.40
		Rent growth rate	3.5%
		Long term vacancy rate	5.0%
		Discount rate	6.0%

NOTES TO FINANCIAL STATEMENTS

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15. 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 25 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 2021	1,469,572	570,545	19,125	2,059,242
Additions	–	146,211	–	146,211
Impairment	–	(42,641)	–	(42,641)
Depreciation charge	(33,347)	(117,173)	–	(150,520)
Disposal of subsidiaries	–	(127,401)	–	(127,401)
Transfer to property, plant and equipment	–	–	(19,125)	(19,125)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(708)	–	(708)
As at 31 December 2021 and 1 January 2022	1,436,225	428,833	–	1,865,058
Additions	29,927	194,621	–	224,548
Acquisition of subsidiaries(Note 40)	28,016	–	–	28,016
Depreciation charge	(38,330)	(158,394)	–	(196,724)
Disposal of subsidiaries (Note 41)	–	(15,495)	–	(15,495)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(31,766)	–	(31,766)
As at 31 December 2022	1,455,838	417,799	–	1,873,637

As at 31 December 2022, the Group's leasehold land of approximately RMB820,679,000 (31 December 2021: RMB842,213,000) was pledged to secure general banking facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. 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:

	2022	2021
	RMB'000	RMB'000
Carrying amount at 1 January	607,015	820,592
New leases	194,621	147,551
Accretion of interest recognised during the year (Note 6)	20,849	37,229
Payments	(216,269)	(186,395)
Disposal of subsidiaries (Note 41)	(71,384)	(210,130)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(28,450)	(1,832)
Carrying amount at 31 December	506,382	607,015
Analysed into:		
Current portion	143,957	163,638
Non-current portion	362,425	443,377

The maturity analysis of lease liabilities is disclosed in Note 49 to the financial statements.

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

	2022	2021
	RMB'000	RMB'000
Interest on lease liabilities	20,849	37,229
Depreciation charge for right-of-use assets	196,724	150,520
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2022 (included in administrative expenses)	26,163	4,062
Expense relating to leases of low-value assets (included in administrative expenses)	18	156
Total amount recognised in profit or loss	243,754	191,967

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. 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 42(c) and Note 45, respectively, to the financial statements.

The Group as a lessor – operating leases

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 RMB5,440,268,000 (2021: RMB4,463,348,000), details of which are included in Note 5 to the financial statements.

At 31 December 2022, undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2022	2021
	RMB'000	RMB'000
Within one year	4,361,282	4,035,657
After one year but within two years	535,532	634,465
After two years but within three years	17,292	18,771
	4,914,106	4,688,893

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. GOODWILL

	RMB'000
Cost at 1 January 2021, net of accumulated impairment	2,032,232
Disposal of subsidiaries	(86)
Impairment during the year	(1,658,164)
Cost and net carrying amount at 31 December 2021	373,982
At 31 December 2021:	
Cost	2,570,585
Accumulated impairment	(2,196,603)
Net carrying amount	373,982
Cost at 1 January 2022, net of accumulated impairment	373,982
Acquisition of subsidiaries (Note 40)	83,825
Impairment during the year	(187,295)
Cost and net carrying amount at 31 December 2022	270,512
At 31 December 2022:	
Cost	2,453,521
Accumulated impairment	(2,183,009)
Net carrying amount	270,512

Goodwill acquired through business combinations is allocated to each acquired subsidiary 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 2022

16. GOODWILL (continued)

For cash-generating units within the 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 and approved by senior management. The post-tax discount rate applied to the cash flow projections is 14.0% (2021: 14.0%). The implied pre-tax discount rates for the cash flow projections are 16.5% to 18.3% (2021: 15.4% to 18.6%).

As at 31 December 2022, the Group assessed the impairment of goodwill and determined that the carrying amount of goodwill of RMB182,773,000 arising from the acquisition of some hospitals was higher than its recoverable amount, which was 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 RMB182,773,000 (2021: RMB1,657,207,000) was recognised in the Group's consolidated financial statements for the year ended 31 December 2022.

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% (2021: 17.0%). The implied pre-tax discount rate for the cash flow projections is 25.1% (2021: 23.4%).

As at 31 December 2022, the Group assessed the impairment of goodwill and determined that the carrying amount of goodwill of RMB4,522,000 arising from the acquisition of schools were higher than its recoverable amount, which was 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 schools 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 RMB4,522,000 (2021: RMB957,000) was recognised in the Group's consolidated financial statements for the year ended 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. GOODWILL (continued)

The carrying amounts of goodwill are as follows:

	2022	2021
	RMB'000	RMB'000
Medical service industry	270,512	369,460
Educational service industry	-	4,522
Total	270,512	373,982

Assumptions were used in the value-in-use calculation of each CGU within the medical service industry and educational service industry for 31 December 2022 and 31 December 2021. The following describes each key assumption on which management has based its cash flow 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 2022

17. OTHER INTANGIBLE ASSETS

	2022	2021
	RMB'000	RMB'000
Software (Note 17a)	85,929	72,181
Others	40	47
	85,969	72,228

17a. SOFTWARE

	2022	2021
	RMB'000	RMB'000
Cost:		
At the beginning of the year	153,184	117,969
Additions	31,528	39,407
Disposals	(2,521)	(1,794)
Disposal of subsidiaries (Note 41)	(2,481)	(2,398)
At the end of the year	179,710	153,184
Accumulated amortisation:		
At the beginning of the year	(81,003)	(68,890)
Additions	(14,417)	(13,093)
Disposals	780	437
Disposal of subsidiaries (Note 41)	859	543
At the end of the year	(93,781)	(81,003)
Net carrying amount:		
At the end of the year	85,929	72,181
At the beginning of the year	72,181	49,079

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows:

Company name	Place and date of incorporation/ establishment and place of 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 lease
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 lease
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 lease
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	–	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\$50,000/ US\$0	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	RMB4,400,000,000/ RMB4,300,000,000	–	80.95	Construction

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	RMB4,912,984,400	–	80.95	Engineering
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	–	80.95	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	–	80.95	Operating lease
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
Kunming Hongqi Infrastructure Investment Co., Ltd. (昆明宏麒建設投資有限公司) (Note ii)	PRC/Mainland China 6 May 2022	RMB182,825,500/ RMB92,383,071	–	98	Construction

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	–	100	Construction
Yanan Yanan Expressway Link Line Infrastructure Construction & Investment Co., Ltd. (延安市延延連接線建設投資有限公司) (Note ii)	PRC/Mainland China 19 January 2017	RMB202,318,678	–	54	Construction
Yanan Yuhua Infrastructure Construction & Investment Co., Ltd. (延安昱華建設投資有限公司) (Note ii)	PRC/Mainland China 22 September 2017	RMB92,858,760	–	60	Construction
Zhongxiang Hongrui Infrastructure Construction & Investment Co., Ltd. (鐘祥宏瑞建設投資有限公司) (Note ii)	PRC/Mainland China 25 October 2017	RMB296,817,100	–	100	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	–	80.95	Operating lease
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\$50,000/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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	RMB1,098,640,000	–	100	Investment holding
Shanghai Team Joy Management Limited (上海周濟同悅資產管理有限公司) (Note ii)	PRC/Mainland China 23 October 2015	RMB397,751,217	–	100	Investment holding
Zhoushan Dinghai District Jintang Nursing Room (舟山市定海區金塘養老院) (Note ii)	PRC/Mainland China 10 June 2022	RMB50,000	–	42.20	Medical services
Lichuan Horizon Harmonious Hospital Co., Ltd (利川宏信和諧醫院有限責任公司) (Note ii)	PRC/Mainland China 3 December 2021	RMB100,680,000	–	70	Medical services
Hefei Xinqiao Logistics Co., Ltd. (合肥新橋物流有限公司) (Note ii)	PRC/Mainland China 21 August 2006	RMB15,000,000	–	92	Logistics and warehousing services
Shanghai FE Private Equity Fund Management Co., Ltd. (上海周濟同歷私募基金管理有限公司) (Note ii)	PRC/Mainland China 23 October 2015	RMB30,000,000 RMB10,000,000	–	100	Investment holding
Grand Worthy Limited (宏冠有限公司) (Note i)	British Virgin Islands 20 April 2021	USD0	–	100	Investment holding
Shanghai Jingduo Enterprise Management Co., Ltd (上海景鐸企業管理有限公司) (Note ii)	PRC/Mainland China 30 December 2016	RMB1,000,000	–	100	Management consulting

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Confucius International School Qingdao (青島市市南區宏文外語學校) (Note ii)	PRC/Mainland China 8 July 2009	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	–	100	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\$444,142,508	–	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	RMB3,000,000,000/ RMB2,826,890,000	–	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
Binhai Xinren 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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	RMB89,881,469	–	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 Yunbei Hospital Co., Ltd. (泗陽運北醫院有限公司) (Note ii)	PRC/Mainland China 8 July 2016	RMB3,833,333	–	35	Medical services
Chongqing Yudong Hospital Co., Ltd. (重慶渝東醫院有限責任公司) (Note ii)	PRC/Mainland China 7 December 2007	RMB29,154,515	–	51	Medical services

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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 22 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 20 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 26 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 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of 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	–	96	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
Grand Wise Limited (宏慧有限公司) (Note i)	British Virgin Islands 16 April 2021	US\$0	–	100	Investment holding
Grand Gain Limited (宏達有限公司) (Note i)	British Virgin Islands 16 April 2021	US\$0	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	–	89	Construction
Tianjin Hongsheng Leasing Co., Ltd. (天津宏聖租賃有限公司) (Note ii)	PRC/Mainland China 12 July 2019	RMB1,500,000,000/ RMB1,000,000,000	–	100	Operating lease
Xianning Matang Hospital Company Limited (咸寧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 (仁壽連長醫院有限公司) (Note ii)	PRC/Mainland China 20 October 2016	RMB40,000,000	–	60	Medical services
Yangjiang Senyi New Energy Technology Co., Ltd. (陽江森益新能源科技有限公司) (Note ii)	PRC/Mainland China 15 June 2021	RMB5,000,000/ RMB1,234,375	–	95.22	Ecotechnology
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	–	100	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	RMB22,727,273	–	51	Medical services
Sihui Wanlong Hospital Co., Ltd (四會萬隆醫院有限公司) (Note ii)	PRC/Mainland China 9 June 2003	RMB127,120,000/ RMB100,590,035	–	100	Medical services

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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
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	RMB63,219,500	–	100	Investment holding
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) (Note ii)	PRC/Mainland China 10 May 2018	RMB30,000,000	–	100	Investment management
Jinan Fuzuo New Energy Technology Co., Ltd. (濟南福祚新能源科技有限公) (Note ii)	PRC/Mainland China 12 August 2022	RMB500,000/ RMB1,300,000	–	95.22	Ecotechnology
Xinyang Hongye Infrastructure Investment Co., Ltd. (滎陽市宏冶建設投資有限公) (Note ii)	PRC/Mainland China 9 March 2022	RMB50,000,000/ RMB20,050,000	–	67.50	Construction

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31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of 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	–	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
Ruyang Junzuo New Energy Technology Co., Ltd. (汝陽浚祚新能源科技有限公司) (Note ii)	PRC/Mainland China 25 April 2018	RMB5,878,800	–	48.56	Ecotechnology
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/ RMB153,642,581	–	61	Ecotechnology
Tianjin Tongli Hongyang No.14 Enterprise Management and Advisory Centre (LP) (天津同歷宏陽十四號企業管理諮詢合夥企業(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 23 June 2021	RMB149/ RMB152,247	–	66	Investment management
Ningbo Qixu New Energy Co., Ltd. (寧波市啟煦新能源有限公司) (Note ii)	PRC/Mainland China 20 December 2016	RMB30,000,000/ RMB8,872,000	–	95.22	Ecotechnology
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

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31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of 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
Xinyang Hongkun Infrastructure Investment Co., Ltd (滎陽市宏坤建設投資有限公司) (Note ii)	PRC/Mainland China 9 March 2022	RMB50,000,000/ RMB31,350,000	–	67.50	Construction
Shanghai Jingyi Enterprise Management Co., Ltd (上海景屹企業管理有限公司) (Note ii)	PRC/Mainland China 30 December 2016	RMB242,000,000/ RMB240,000,000	–	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 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of 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 Huijie Enterprise Management and Advisory Centre (LP) (天津匯傑企業管理諮詢中心(有限合夥)) (Note ii)	PRC/Mainland China 15 September 2020	RMB54,010,000/ RMB54,000,000	–	74.08	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	RMB191,110,000/ RMB150,943,400	–	95.22	Ecotechnology
Wuhan Fuzuo New Energy Co., Ltd. (武漢福祚新能源有限公司) (Note ii)	PRC/Mainland China 30 January 2022	RMB500,000/ RMB4,630,000	–	95.22	Ecotechnology
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	–	100	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	RMB346,122,360/ RMB162,785,900	–	94.05	Investment management

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Linghai Dalinghe Hospital Co., Ltd (凌海大凌河醫院有限責任公司) (Note ii)	PRC/Mainland China 8 August 2016	RMB87,833,334	–	70	Medical services
Longpei (Shanghai) Enterprise Management Limited (龍佩(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	–	30.05	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	–	95	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) (天津同歷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) (天津同歷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

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18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of 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	–	95.22	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	RMB3,727,420	–	95.22	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	–	95.22	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	–	95.22	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	–	95.22	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/ RMB3,900,600	–	95.22	Ecotechnology
Yantai Junhui Urban Development Co., Ltd. (煙台駿匯城市發展有限公司) (Note ii)	PRC/Mainland China 28 December 2021	RMB50,000,000/ RMB0	–	100	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	RMB1,341,840,000/ RMB1,352,124,748	–	41.23	Investment management

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of 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)	United Kingdom 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 Municipal Development Limited (煙台宏明城市發展有限公司) (Note ii)	PRC/Mainland China 19 August 2020	US\$95,000,000/ US\$29,937,111	–	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
Horizon Construction Development Limited (宏信建設發展有限公司) (Note i)	Cayman Islands 28 September 2020	US\$50,000	80.95	–	Construction
Horizon Construction (Hong Kong) Limited (宏信建發(香港)有限公司) (Note i)	Hong Kong 19 December 2014	HK\$1	–	80.95	Investment holding
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\$938,767,508	–	80.95	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	–	80.95	Construction

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Horizon Engineering Technology Co., Ltd. (上海宏信工程技術有限公司) (Note ii)	PRC/Mainland China 11 September 2020	RMB200,000,000	–	80.95	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	RMB705,000,000	–	80.95	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	–	80.95	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	–	80.95	Construction
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	–	80.95	Construction
Horizon Commercial Factoring Co., Ltd. (遠宏商業保理(天津)有限公司) (Note ii)	PRC/Mainland China 8 November 2019	RMB3,000,000,000	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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	45	55	Finance lease
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	USD\$161,212,393/ USD\$147,580,889	–	100	Medical services
Beijing Hongxian Enterprise Management Consulting Co., Ltd. (北京宏賢企業管理諮詢有限公司) (Note ii)	PRC/Mainland China 4 December 2017	RMB2,000,000	–	100	Management consulting
Shanghai Yucui Enterprise Management Co., Ltd. (上海宇萃企業管理有限公司) (Note ii)	PRC/Mainland China 30 January 2019	RMB300,000,000	–	100	Management consulting
Far East Horizon Capital Limited (遠東宏信資本有限公司) (Note i)	Hong Kong 31 August 2015	HK\$2,000,000,000/ HK\$1,116,364,359	100	–	Investment management
Far East Horizon International Finance Co., Limited (遠東宏信國際金融有限公司) (Note i)	Hong Kong 4 September 2019	HK\$10,000,000	–	100	International finance

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2022, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Horizon Construction Overseas (Hong Kong) Limited (宏信建發海外(香港)有限公司) (Note i)	Hong Kong 29 April 2021	HK\$10,000,000	–	80.95	Investment holding
Horizon Construction Development (Singapore) PTE. LTD (宏信建發海外(新加坡)有限公司) (Note i)	Singapore 21 July 2021	SGD1,000,000	–	80.95	Trading
Horizon Construction Overseas (Malaysia) SDN. BHD (宏信建發海外(馬來西亞)有限公司) (Note i)	Malaysia 8 November 2021	MYR1,000,000	–	80.95	Import and export sale and leasing of new and used equipment
Hebei Hongjin Formwork Technology Co., Ltd (河北宏金模架科技有限公司) (Note ii)	PRC/Mainland China 30 July 2021	RMB10,000,000/ RMB0	–	80.95	Engineering and technical 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: Consolidated structured entities

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19. INVESTMENTS IN JOINT VENTURES

	2022	2021
	RMB'000	RMB'000
Share of net assets	3,230,367	2,856,978
Excess of consideration over share of net assets acquired	17,844	17,844
Provision for impairment	(270,686)	(270,686)
	2,977,525	2,604,136

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of		Principal activities
			Ownership interest	Profit sharing	
Kunming Broadhealthcare Co., Ltd. (昆明博健醫療(集團)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\$570,000,000	PRC/Mainland China	60*	60	Development and construction
Kunming Boyue Maternal and Infant Care Co., Ltd. (昆明博悅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
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

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31 December 2022

19. 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		Principal activities
			Ownership interest	Profit sharing	
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 RMB55,560,000	PRC/Mainland China	54.90*	54.90	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	78*	90	Investment holding
Tianjin Yuanyi Kaiyuan Asset Management Centre ("Yuanyi Kaiyuan") (Limited Partnership) (天津遠翼開元資產管理中心(有限合夥))	Registered capital of RMB1,505,420,000	PRC/Mainland China	39.856	39.856	Investment holding
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd. (廣州藝美天成裝飾工程有限公司)	Registered capital of RMB5,000,000	PRC/ Mainland China	60*	60	Decoration engineering
Wuhan Matang Hospital of Traditional Chinese Medicine Co., Ltd. (武漢麻塘中醫醫院有限公司)	Registered capital of RMB16,040,000	PRC/Mainland China	49	49	Medical services
Shanghai Xiangyun Enterprise Management Partnership (Limited Partnership) (上海襄雲企業管理合夥企業(有限合夥))	Registered capital of RMB350,010,000	PRC/Mainland China	51.9985*	51.9985	Management consulting
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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. 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		Principal activities
			Ownership interest	Profit sharing	
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. (貴溪市宏艱基礎設施投資有限公司)	Registered capital of RMB151,294,129	PRC/Mainland China	48	48	Infrastructure construction
Xi'an Chuxin Investment Construction Co., Ltd. (西安楚信投資建設有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	46	46	Municipal engineering
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
Qingdao Co-e-Wins Venture Capital Limited Partnership (青島同歷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
Yantai Zhongdaxinhong Education Investment Co., Ltd. (煙台中達信宏科教投資有限公司)	Registered capital of RMB520,000,000	PRC/Mainland China	47.5	47.5	Infrastructure construction
Yantai Yuanxin Zhongda Investment Co., Ltd. (煙台遠信中達投資有限公司)	Registered capital of RMB260,000,000	PRC/Mainland China	67*	67	Infrastructure construction
Nanchang Xintie City Construction Investment Co., Ltd. (南昌市新鐵城建設有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	45	45	Infrastructure construction
Deyang Hongbo Construction Investment Co., Ltd. (德陽宏博建設投資有限公司)	Registered capital of RMB371,825,488	PRC/Mainland China	87	87	Infrastructure construction

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. 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	Profit sharing	Principal activities
Ziyang Yuyi Construction Investment Co., Ltd. (資陽市昱奕建設投資有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	98.15	98.15	Infrastructure construction
Qingdao Huizhu Zhouji Equity Investment Limited Partnership (青島匯鑄周濟股權投資合夥企業(有限合夥))	Registered capital of RMB500,000,000	PRC/Mainland China	50	50	Investment management

* The decisions about the 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 receivable balances due from the joint ventures are disclosed in Note 24j to the financial statements. There was no recent history of default and past due amounts for loans to joint ventures. As at 31 December 2022 and 2021, 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 development, construction and investment holding in Mainland China. The aforementioned companies are accounted for using the equity method.

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19. 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:

	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents	83,896	562,665
Other current assets	2,870,516	2,196,049
Current assets	2,954,412	2,758,714
Non-current assets	129,541	72,627
Other payables and accruals	(498,551)	(825,169)
Current liabilities	(498,551)	(825,169)
Non-current liabilities	(422,116)	(220,000)
Net assets	2,163,286	1,786,172
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	1,297,972	1,071,703
Cumulative impairment	(120,000)	(120,000)
Carrying amount of the investment	1,177,972	951,703

	2022	2021
	RMB'000	RMB'000
Revenue	587,308	1,239,834
Cost of sales	(194,054)	(528,753)
Administrative expenses	(27,623)	(23,486)
Other expenses	(173,389)	(308,570)
Other income	40	32
Profit and other comprehensive income for the year	192,282	379,057

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19. 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:

	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents	9,272	18,887
Other current assets	691,484	1,257,818
Current assets	700,756	1,276,705
Net assets	700,756	1,276,705
Net assets attributable to limited partners	685,296	1,251,356
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	273,132	498,740
Carrying amount of the investment	273,132	498,740

	2022	2021
	RMB'000	RMB'000
Other expenses	(592,464)	(456,397)
Other income	1,055	180,344
Loss and total comprehensive income for the year	(591,409)	(276,053)
Dividend received	-	53,766

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19. INVESTMENTS IN JOINT VENTURES (continued)

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

	2022	2021
	RMB'000	RMB'000
Share of the joint venture's (loss)/gain for the year	(56,272)	92,700
Aggregate carrying amount of the Group's investments in the joint ventures	1,526,421	1,153,693

20. INVESTMENTS IN ASSOCIATES

	2022	2021
	RMB'000	RMB'000
Share of net assets	5,023,071	4,641,240
Excess of consideration over share of net assets acquired	576,122	574,906
	5,599,193	5,216,146

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20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the material associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of		Principal activities
			Ownership interest	Profit sharing	
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	15	15	Medical services

As at 31 December 2022, 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, RMB7,100,000,000, RMB5,717,805,000, RMB1,000,000,000 and RMB3,000,000,000, respectively. The percentages of ownership interest and profit sharing of the Group in these companies are 27.20%, 19.50%, 8.5011%, 11.47%, 10.00% and 17.00%, respectively. The aforementioned companies are accounted for using the equity method.

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20. 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 2022) adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	2022				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	14,318,143	580,121	41,683,184	4,572,601	1,633,299
Non-current assets	34,067,267	4,002,828	28,035,121	3,541,292	3,757,748
Current liabilities	(12,930,933)	(68,105)	(20,015,724)	(988,717)	(109,236)
Non-current liabilities	(22,397,794)	–	(33,483,856)	(3,300,688)	(1,909,013)
Net assets	13,056,683	4,514,844	16,218,725	3,824,488	3,372,798
Net assets attributable to the shareholders of the parent	7,770,244	4,514,844	13,921,256	3,667,162	3,372,798
Reconciliation to the Group's interests in the associates:					
Proportion of the Group's ownership	11.470%	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	891,247	880,395	1,183,460	997,468	573,376
Excess of consideration over share of net assets	243,128	23,717	134,134	132,022	–
Carrying amount of the investment	1,134,375	904,112	1,317,594	1,129,490	573,376
Revenue	1,049,621	529,767	5,519,770	380,096	400,979
Profit and total comprehensive income for the year after the Group's investments in the associates	1,661,948	375,546	1,971,394	118,401	198,740
Profit and total comprehensive income attributable to the parent after the Group's investments in the associates	1,262,168	375,546	1,866,398	115,133	198,740
Dividend received	13,116	16,184	39,021	–	50,555

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20. 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 2021) adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	2021				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	8,235,641	134,945	42,842,050	4,004,280	1,564,559
Non-current assets	33,750,777	5,348,774	22,489,848	4,750,887	4,653,554
Current liabilities	(4,734,864)	(79,236)	(17,473,788)	(648,857)	(96,316)
Non-current liabilities	(25,676,468)	(1,182,186)	(33,110,944)	(4,395,882)	(2,650,356)
Net assets	11,575,086	4,222,297	14,747,166	3,710,428	3,471,441
Net assets attributable to the shareholders of the parent	6,622,426	4,222,297	12,513,859	3,552,028	3,471,441
Reconciliation to the Group's interests in the associates:					
Proportion of the Group's ownership	11.470%	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	759,592	823,348	1,063,816	966,152	590,145
Excess of consideration over share of net assets	243,128	23,717	134,134	132,022	–
Carrying amount of the investment	1,002,720	847,065	1,197,950	1,098,174	590,145
Revenue	734,595	507,204	5,916,826	438,636	501,440
Profit and total comprehensive income for the year after the Group's investments in the associates	1,211,726	258,687	1,251,848	123,007	231,561
Profit and total comprehensive income attributable to the parent after the Group's investments in the associates	805,862	258,687	1,132,487	117,927	231,561
Dividend received	24,000	19,500	32,797	–	–

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20. INVESTMENTS IN ASSOCIATES (continued)

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

	2022	2021
	RMB'000	RMB'000
Share of the associates' profit for the year	(21,127)	126,202
Aggregate carrying amount of the Group's investments in the associates	540,246	480,092

The Group's loans and accounts receivable balances due from the associates are disclosed in Note 24j to the financial statements.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	RMB'000	RMB'000
Unlisted equity investments, at fair value	2,516,128	2,069,218
Listed equity investments, at fair value	157,771	228,965
Unlisted debt investments, at fair value	6,684,207	10,462,175
	9,358,106	12,760,358
Analysed into:		
Current portion	1,433,468	3,270,140
Non-current portion	7,924,638	9,490,218

The above equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The above debt investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

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22. DEBT INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	2021
	RMB'000	RMB'000
Measured at fair value:		
Notes receivable	1,182,401	699,039

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Cross-currency interest rate swaps	1,780,159	(203,786)	11,596	(2,267,431)
Forward currency contracts	28,081	(38,865)	–	(86,806)
Interest rate swaps	45,062	(28,914)	10,735	(14,627)
	1,853,302	(271,565)	22,331	(2,368,864)
Portion classified as non-current:				
Cross-currency interest rate swaps	1,530,126	(203,786)	11,596	(1,216,574)
Forward currency contracts	–	(15,082)	–	(60,842)
Interest rate swaps	45,062	(24,604)	10,278	(14,337)
	1,575,188	(243,472)	21,874	(1,291,753)
Current portion	278,114	(28,093)	457	(1,077,111)
	1,853,302	(271,565)	22,331	(2,368,864)

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23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9

At 31 December 2022, the Group designated 87 (2021: 83) cross-currency interest rate swap contracts, 13 (2021: 11) forward currency contracts and 43 (2021: 29) interest rate swap contracts as hedges of future cash flows arising from foreign currency borrowings, details of which are as follows:

At 31 December 2022, the Group had 39 (2021: 19) cross-currency interest rate swaps in place with notional amounts of HK\$22,402,400,000 (2021: HK\$10,795,760,000) 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 4.00% to 4.96% (2021: 3.15% to 4.38%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 39 floating rate long-term borrowings denominated in HK\$ with the total principal of HK\$22,402,400,000 (2021: HK\$10,795,760,000).

At 31 December 2022, the Group had 1 (2021: Nil) cross-currency interest rate swap in place with a notional amount of HK\$490,833,000 (2021: Nil) whereby the Group receives a fixed rate of interest on the HK\$ notional amount at 1.50% (2021: Nil) per annum and pays a fixed rate of interest on the RMB notional amount at 4.00% (2021: Nil) per annum. The swap is being used to hedge the foreign currency exposure of 1 fixed rate long-term borrowing denominated in HK\$ with the total principal of HK\$490,833,000 (2021: Nil).

At 31 December 2022, the Group had 29 (2021: 49) cross-currency interest rate swaps in place with notional amounts of US\$2,214,368,000 (2021: US\$3,475,666,000) whereby the Group receives a floating rate of interest on the US\$ notional amount at USD-LIBOR-BBA and pays a fixed rate of interest on the RMB notional amount at 3.89% to 4.36% (2021: 2.72% to 4.36%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 29 floating rate long-term borrowings denominated in US\$ with the total principal of US\$2,214,368,000 (2021: US\$3,475,666,000).

At 31 December 2022, the Group had 14 (2021: 14) cross-currency interest rate swaps in place with notional amounts of US\$1,137,178,000 (2021: US\$1,200,000,000) whereby the Group receives a fixed rate of interest on the US\$ notional amount at 2.63% to 4.38% (2021: 2.63% to 4.38%) per annum and pays a fixed rate of interest on the RMB notional amount at 4.50% to 5.99% (2021: 4.50% to 5.99%) per annum. The swaps are being used to hedge the foreign currency exposure of 14 fixed rate long-term borrowings denominated in US\$ with the total principal of US\$1,137,178,000 (2021: US\$1,200,000,000).

At 31 December 2022, the Group had 3 (2021: 1) cross-currency interest rate swaps in place with notional amounts of JPY22,000,000,000 (2021: JPY6,500,000,000) 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 4.67% (2021: 3.83%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 3 floating rate long-term borrowings denominated in JPY with the principal of JPY22,000,000,000 (2021: JPY6,500,000,000).

At 31 December 2022, the Group had 1 (2021: Nil) cross-currency interest rate swap in place with a notional amount of EUR49,000,000 (2021: Nil) whereby the Group receives a fixed rate of interest on the EUR notional amount at 3.30% (2021: Nil) per annum and pays a fixed rate of interest on the RMB notional amount at 4.00% (2021: Nil) per annum. The swap is being used to hedge the foreign currency exposure of 1 fixed rate long-term borrowing denominated in EUR with the total principal of EUR49,000,000 (2021: Nil).

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23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

At 31 December 2022, the Group had 12 (2021: 11) forward currency contracts with a total notional amount of US\$358,390,000 (2021: US\$245,490,000) as hedges of future cash flows arising from foreign currency borrowings with the total principal of US\$358,390,000 (2021: US\$245,490,000) which will be settled in US\$.

At 31 December 2022, the Group had 1 (2021: Nil) forward currency contract with a total notional amount of EUR1,000,000 (2021: Nil) as hedges of future cash flows arising from a foreign currency borrowing with the total principal of EUR1,000,000 (2021: Nil) which will be settled in EUR.

At 31 December 2022, the Group had 1 (2021: 1) interest rate swap in place with a notional amount of US\$100,000,000 (2021: US\$100,000,000) 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% (2021: 0.45%) per annum. The swap is being used to hedge interest rate exposure of 1 floating rate long-term borrowing denominated in US\$ with the principal of US\$100,000,000 (2021: US\$100,000,000).

At 31 December 2022, the Group had 42 (2021: 28) interest rate swaps in place with a total notional amount of RMB13,296,945,000 (2021: RMB11,557,550,000) whereby the Group receives interest at variable rates based on the Loan Prime Rate on the notional amount and pays a fixed rate of interest on the RMB notional amount at 3.65% to 4.20% (2021: 3.70% to 4.20%) per annum. The swaps are being used to hedge interest rate exposure of 42 floating rate long-term borrowings denominated in RMB with the principal of RMB13,296,945,000 (2021: RMB11,557,550,000).

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

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31 December 2022

23. 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						Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	
As at 31 December 2022							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	1,242,179	-	5,846,110	-	11,486,144	3,548,516	22,122,949
Average forward exchange rate (US\$/RMB)	6.3376	-	6.8294	-	6.4910	6.7201	
Notional amount (in RMB'000)	-	-	2,996,371	-	5,017,735	11,666,234	19,680,340
Average forward exchange rate (HK\$/RMB)	-	-	0.8832	-	0.8372	0.8639	
Notional amount (in RMB'000)	-	-	-	-	-	1,131,892	1,131,892
Average forward exchange rate (JPY/RMB)	-	-	-	-	-	0.0518	
Notional amount (in RMB'000)	-	-	-	-	-	365,344	365,344
Average forward exchange rate (EUR\$/RMB)	-	-	-	-	-	7.4560	
Forward currency contracts							
Notional amount (in RMB'000)	991,419	134,192	-	329,363	-	990,096	2,445,070
Average forward exchange rate (US\$/RMB)	6.6617	6.7197	-	6.7217	-	6.8283	
Notional amount (in RMB'000)	-	-	-	-	7,456	-	7,456
Average forward exchange rate (EUR\$/RMB)	-	-	-	-	7.4560	-	
Interest rate swaps							
Notional amount (in RMB'000)	591,231	635,240	183,700	1,202,640	5,993,232	5,387,362	13,993,405
Average forward exchange rate	N/A	N/A	N/A	N/A	N/A	N/A	
Hedge rate	1	1	1	1	1	1	

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23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

	Maturity						Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	
As at 31 December 2021							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	3,101,000	4,415,472	335,156	175,113	7,113,630	15,518,079	30,658,450
Average forward exchange rate (US\$/RMB)	7.0187	7.0187	7.0779	7.0045	6.7400	6.5411	
Notional amount (in RMB'000)	356,502	396,325	–	–	2,996,371	5,017,736	8,766,934
Average forward exchange rate (HK\$/RMB)	0.9130	0.9035	–	–	0.8832	0.8372	
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)	631,322	412,888	–	–	627,747	–	1,671,957
Average forward exchange rate (US\$/RMB)	6.7313	6.6066	–	–	6.9532	–	
Interest rate swaps							
Notional amount (in RMB'000)	10,000	1,000,000	–	1,010,983	7,802,971	2,371,166	12,195,120
Average forward exchange rate	N/A	N/A	–	N/A	N/A	N/A	
Hedge rate	1	1	1	1	1	1	

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23. 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 2022				
Forward currency contracts	909,179	28,081	Derivative financial instruments (assets)	28,081
Forward currency contracts	1,543,348	(38,865)	Derivative financial instruments (liabilities)	30,966
Cross-currency interest rate swaps	35,763,176	1,777,780	Derivative financial instruments (assets)	1,752,706
Cross-currency interest rate swaps	7,537,349	(203,786)	Derivative financial instruments (liabilities)	981,919
Interest rate swap	1,463,960	45,062	Derivative financial instruments (assets)	34,327
Interest rate swap	12,529,445	(28,915)	Derivative financial Instruments (liabilities)	(35,047)

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23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

	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 2021				
Forward currency contracts	1,671,957	(86,806)	Derivative financial instruments (liabilities)	(103,846)
Cross-currency interest rate swaps	1,267,520	11,596	Derivative financial instruments (assets)	(115,298)
Cross-currency interest rate swaps	38,586,214	(2,260,523)	Derivative financial instruments (liabilities)	(673,908)
Interest rate swap	4,503,675	10,735	Derivative financial instruments (assets)	(8,423)
Interest rate swap	7,691,445	(14,627)	Derivative financial Instruments (liabilities)	29,759

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23. 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 2022		
Foreign currency bank loans amounting to RMB equivalent 48,507,543,000	2,792,952	(502,741)

	Change in fair value used for measuring hedge ineffectiveness for the year	Cash flow hedge reserve
	RMB'000	RMB'000
As at 31 December 2021		
Foreign currency bank loans amounting to RMB equivalent 41,200,196,000	(871,716)	(41,971)

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31 December 2022

23. 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:

Year ended 31 December 2022	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
	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	59,047	(18,497)	40,550	-	N/A	(73,250)	24,346	(48,904)	Cost of sales/ other expenses
Cross-currency interest rate swaps	2,734,625	(3,390)	2,731,235	-	N/A	(3,216,017)	10,542	(3,205,475)	Cost of sales/ other expenses
Interest rate swap	(720)	8,357	7,637	-	N/A	18,916	(4,729)	14,187	Cost of sales/ other expenses
Total	2,792,952	(13,530)	2,779,422	-	N/A	(3,270,351)	30,159	(3,240,192)	

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31 December 2022

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

Year ended 31 December 2021	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
	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	(97,153)	24,474	(72,679)	-	N/A	85,980	(21,049)	64,931	Cost of sales/ other expenses
Cross-currency interest rate swaps	(795,899)	132,488	(663,411)	-	N/A	1,042,911	(178,414)	864,497	Cost of sales/ other expenses
Interest rate swap	21,336	(2,356)	18,980	-	N/A	-	-	-	Cost of sales/ other expenses
Total	(871,716)	154,606	(717,110)	-	N/A	1,128,891	(199,463)	929,428	

Derivative financial instruments – transactions not qualifying as hedges:

As at 31 December 2022, cross-currency interest rate swaps with a total nominal amount of USD26,625,000 were not designated for hedge purposes and were measured at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Loans and accounts receivables due within 1 year	148,966,908	133,599,982
Loans and accounts receivables due after 1 year	118,171,325	118,618,025
	267,138,233	252,218,007

24a. Loans and accounts receivables by nature

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Lease receivables (Note 24b)*	259,140,932	244,898,337
Less: Unearned finance income	(24,206,437)	(22,354,849)
Net lease receivables (Note 24b)	234,934,495	222,543,488
Interest receivables*	2,367,379	2,031,502
Factoring receivable (Note 24g)	9,224,694	8,779,387
Entrusted loans (Note 24h)*	1,946,788	1,801,306
Long-term receivables*	17,694,246	17,035,590
Secured loans	360,579	429,355
Subtotal of Interesting-earning assets (Note 24c)**	266,528,181	252,620,628
Less: Provision for lease receivables	(5,924,992)	(5,920,029)
Provision for factoring receivables	(141,376)	(172,191)
Provision for entrusted loans	(103,263)	(142,715)
Provision for long-term receivables	(507,453)	(302,650)
Provision for secured loans	(8,489)	(6,088)
Provision for interesting-earning assets (Note 24d)**	(6,685,573)	(6,543,673)
Notes receivable	2,050,916	1,111,631
Accounts receivable (Note 24e)*	6,453,769	6,175,030
Provision for accounts receivable (Note 24f)	(1,209,060)	(1,145,609)
Total of loans and accounts receivables	267,138,233	252,218,007

* These balances included balances with related parties which are disclosed in Note 24j.

** These balances are included in the interest-earning assets disclosed in Note 24c and Note 24d.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

- 24b** (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 2022	31 December 2021
	RMB'000	RMB'000
Lease receivables:		
Within 1 year	151,141,866	137,396,849
1 to 2 years	68,371,328	60,391,373
2 to 3 years	25,836,533	15,028,134
3 to 5 years	13,791,205	32,081,981
Total	259,140,932	244,898,337

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Net lease receivables:		
Within 1 year	136,068,055	123,989,595
1 to 2 years	62,678,316	55,407,716
2 to 3 years	23,903,891	13,880,505
3 to 5 years	12,284,233	29,265,672
Total	234,934,495	222,543,488

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24b (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 2022	31 December 2021
	RMB'000	RMB'000
Lease receivables:		
Due within 1 year	147,365,814	132,141,234
Due in 1 to 2 years	72,101,339	70,377,956
Due in 2 to 3 years	28,868,356	29,088,851
Due in 3 to 5 years	10,089,564	12,211,061
Due after 5 years	715,859	1,079,235
Total	259,140,932	244,898,337

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Net lease receivables:		
Due within 1 year	131,861,144	118,272,479
Due in 1 to 2 years	66,020,983	64,717,422
Due in 2 to 3 years	26,950,465	27,117,948
Due in 3 to 5 years	9,425,948	11,426,671
Due after 5 years	675,955	1,008,968
Total	234,934,495	222,543,488

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 2022, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB21,788,356,000 (31 December 2021: RMB22,510,700,000) (see Note 32(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24c. 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 2022				
Interest-earning assets	247,664,500	16,032,344	2,831,337	266,528,181
Allowance for impairment losses	(2,706,462)	(2,519,027)	(1,460,084)	(6,685,573)
Interest-earning assets, net	244,958,038	13,513,317	1,371,253	259,842,608

	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 2021				
Interest-earning assets	232,267,394	17,601,822	2,751,412	252,620,628
Allowance for impairment losses	(3,684,601)	(1,704,522)	(1,154,550)	(6,543,673)
Interest-earning assets, net	228,582,793	15,897,300	1,596,862	246,076,955

24d. Movements 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24d. Movements in provision for interest-earning assets (continued)

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 measures, 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 2022			
	Stage I	Stage II	Stage III**	Total
	(12-month ECL)	(Lifetime ECL)	(Lifetime ECL- impaired)	
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	3,684,601	1,704,522	1,154,550	6,543,673
Impairment losses for the year	(927,807)*	934,854	1,380,825	1,387,872
Disposal	(182,288)	–	–	(182,288)
Conversion to Stage I	199,997	(199,997)	–	–
Conversion to Stage II	(87,658)	392,099	(304,441)	–
Conversion to Stage III	–	(312,451)	312,451	–
Write-off	–	–	(1,379,653)	(1,379,653)
Recoveries of interest-earning assets previously written off	–	–	296,352	296,352
Exchange differences	19,617	–	–	19,617
At end of the year	2,706,462	2,519,027	1,460,084	6,685,573

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24d. Movements in provision for interest-earning assets (continued)

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III**	Total
	(12-month ECL)	(Lifetime ECL)	(Lifetime ECL -impaired)	
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	3,753,371	1,707,979	1,070,237	6,531,587
Impairment losses for the year	167,774*	25,385	632,594	825,753
Disposal	(235,123)	–	(218,440)	(453,563)
Conversion to Stage I	5,158	(5,158)	–	–
Conversion to Stage II	(5,966)	65,950	(59,984)	–
Conversion to Stage III	–	(89,634)	89,634	–
Write-off	–	–	(825,876)	(825,876)
Recoveries of interest-earning assets previously written off	–	–	466,385	466,385
Exchange differences	(613)	–	–	(613)
At end of the year	3,684,601	1,704,522	1,154,550	6,543,673

* This includes a loss allowance of RMB1,769,189,000 (2021: RMB2,915,402,000) provided for newly originated interest-earning assets, and RMB2,696,996,000 (2021: RMB2,747,628,000) 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 lending. Among these interest-earning assets, 79% (2021:85%) (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 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24e. 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 2022	31 December 2021
	RMB'000	RMB'000
Within 1 year	5,285,519	5,172,577
More than 1 year	1,168,250	1,002,453
Total	6,453,769	6,175,030

24f. Movement in provision for accounts receivable

	31 December 2022	31 December 2021
	RMB'000	RMB'000
At beginning of year	1,145,609	899,279
Charge for the year	179,908	337,519
Acquisition of a subsidiary	(1,391)	–
Write-off	(115,066)	(91,189)
At end of year	1,209,060	1,145,609

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 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24f. 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 2022

	Ageing				Total
	Within 1 year	1-2 years	2-3 years	3-5 years	
Gross carrying amount (RMB'000)	5,285,520	840,111	135,112	193,026	6,453,769
Expected credit loss (RMB'000)	768,170	275,401	53,411	112,078	1,209,060
Average expected credit loss rate	14.53%	32.78%	39.53%	58.06%	

As at 31 December 2021

	Ageing				Total
	Within 1 year	1-2 years	2-3 years	3-5 years	
Gross carrying amount (RMB'000)	5,172,577	564,114	256,324	182,015	6,175,030
Expected credit loss (RMB'000)	769,243	168,111	109,804	98,451	1,145,609
Average expected credit loss rate	14.87%	29.80%	42.84%	54.09%	

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24g. An aging analysis of factoring receivables as at the end of the reporting period is as follows:

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Within 1 year	6,454,837	6,158,935
More than 1 year	2,769,857	2,620,452
Total	9,224,694	8,779,387

24h (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 2022	31 December 2021
	RMB'000	RMB'000
Entrusted loans:		
Within 1 year	1,083,029	888,794
1 to 2 years	577,670	278,107
2 to 3 years	138,111	46,350
3 to 5 years	147,978	588,055
Total	1,946,788	1,801,306

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24h (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 2022	31 December 2021
	RMB'000	RMB'000
Entrusted loans:		
Due within 1 year	536,700	906,606
Due in 1 to 2 years	543,740	478,465
Due in 2 to 3 years	331,663	213,285
Due in 3 to 5 years	534,685	202,950
Total	1,946,788	1,801,306

24i. Long term receivables

As at 31 December 2022, the carrying value of long term receivables pledged or charged as collateral for the Group's borrowings amounted to RMB6,549,860,000 (31 December 2021: RMB6,478,340,000) (Note 32(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24j. Balances with related parties

		31 December 2022	31 December 2021
		RMB'000	RMB'000
Joint ventures:			
– Kunming Broadhealthcare (Group) Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Lease receivables	(iii)	32,992	32,456
Interest receivables		5,162	2,336
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Long-term receivables	(ii)	150,000	135,000
Interest receivables		275	575
– Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.			
Entrusted loan	(i)	76,963	76,963
Interest receivables		–	4
Accounts receivables		114	–
– Grand Flight Investment Management Co., Ltd.			
Accounts receivables		1,435	–
– Fengyang Qianmen Hospital Co., Ltd.			
Accounts receivables		4,372	4,372
Associates:			
– Guangzhou Wealth Healthy Electronics Co., Ltd.			
Lease receivables	(iii)	15,011	–
Interest receivables		90	–
– Hangzhou Guoya Stomatological Hospital Co., Ltd.			
Lease receivables	(iii)	10,206	12,289
Interest receivables		61	50
Subsidiaries of the ultimate holding company of the shareholder with significant influence:			
– Shanghai Jinmao Construction & Decoration Co., Ltd.			
Accounts receivables		28	–
– BlueStar New Chemical Materials Guangxi Branch			
Lease receivables	(iii)	–	6,904
Interest receivables		–	3
– Shenyang Chemical Co., Ltd.			
Lease receivables	(iii)	57,674	102,938
Interest receivables		442	796
Provision		(34,558)	(15,197)
		370,267	409,489

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. LOANS AND ACCOUNTS RECEIVABLES (continued)

24j. Balances with related parties (continued)

- (i) Balances of entrusted loans interest-earning at annual interest rates ranging from 4.05% to 9% (31 December 2021: from 6.18% to 9%).
- (ii) Balances of long-term receivables interest-earning at annual interest rate of 6% (31 December 2021: from 4.80% to 5.81%).
- (iii) Balances of lease receivables interest-earning at an annual interest rate of 3.73% to 9.35% (31 December 2021: 3.45% to 5.95%).

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

		2022	2021
	Note	RMB'000	RMB'000
Current assets:			
Prepayments		561,418	419,479
Leased assets*		25,165	38,203
Rental and project deposits		442,774	126,113
Other receivables		702,761	641,085
Input VAT		1,622,320	2,001,186
Amounts deductible against output VAT		222,353	195,069
Subordinated tranches of asset-backed securities/notes (Note 51)		–	696,880
Continuing involvement in transferred assets (Note 51)		–	696,880
Due from related parties	25a	1,930	42,752
Other current asset		9,295	8,691
Impairment allowance		(129,750)	(91,626)
		3,458,266	4,774,712
Non-current assets:			
Rental and project deposits due after 1 year		156,737	138,042
Subordinated tranches of asset-backed securities/notes (Note 51)		890,572	2,161,894
Continuing involvement in transferred assets (Note 51)		890,572	2,161,894
Long-term other receivables		59,808	76,240
Others		266,938	244,122
Impairment allowance		(167,980)	(167,980)
		2,096,647	4,614,212
		5,554,913	9,388,924

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

* 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 recognises the lease receivables due under the lease contract.

25a. BALANCES WITH RELATED PARTIES

		2022	2021
		RMB'000	RMB'000
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
Beijing Chemsunny Property Co., Ltd.	(i)	-	2,493
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	-	175
Joint ventures:			
Gold Chance Shipping Limited	(i)	-	17,782
Teamway Shipping Limited	(i)	-	20,461
Fengyang Qianmen Hospital Co., Ltd.	(i)	565	565
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	(i)	1,365	398
Associates:			
Shanghai Yijia Construction Development Co., Ltd.	(i)	-	878
		1,930	42,752

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

26. CONTRACT ASSETS

	31 December 2022	31 December 2021
	RMB'000	RMB'000
Contract assets arising from construction services	304,295	276,859

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.

The expected timing of recovery or settlement for contract assets as at 31 December 2022 is as follows:

	RMB'000
Within one year	263,583

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. 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 2022	394,256	1,045,233	92,182	2,418,823	1,382,534	51,610	9,274	34,395	5,428,307
(Charged)/credited to the statement of profit or loss during the year	220,563	38,651	10,551	317,003	(30,942)	16,196	-	114,169	686,191
Charged to reserve	-	-	-	-	-	-	16,629	-	16,629
Exchange differences	-	-	-	297	-	41	-	-	338
Gross deferred tax assets at 31 December 2022	614,819	1,083,884	102,733	2,736,123	1,351,592	67,847	25,903	148,564	6,131,465

	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 2021	238,006	955,044	142,012	2,299,224	1,366,140	172,697	54,131	15,375	5,242,629
(Charged)/credited to the statement of profit or loss during the year	156,250	90,189	(49,830)	119,674	16,394	(121,077)	-	19,020	230,620
Charged to reserve	-	-	-	-	-	-	(44,857)	-	(44,857)
Exchange differences	-	-	-	(75)	-	(10)	-	-	(85)
Gross deferred tax assets at 31 December 2021	394,256	1,045,233	92,182	2,418,823	1,382,534	51,610	9,274	34,395	5,428,307

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. 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 2022	137,253	220,245	21,155	41,938	420,591
(Credited)/charged to the statement of profit or loss during the year	(2,979)	(52,139)	571,872	(19,695)	497,059
Gross deferred tax liabilities at 31 December 2022	134,274	168,106	593,027	22,243	917,650

	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 2021	142,516	83,046	9,385	108,859	343,806
(Credited)/charged to the statement of profit or loss during the year	(5,263)	137,199	11,770	(66,921)	76,785
Gross deferred tax liabilities at 31 December 2021	137,253	220,245	21,155	41,938	420,591

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. 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 2022	31 December 2021
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	6,116,381	5,394,566
Net deferred tax liabilities recognised in the consolidated statement of financial position	902,566	386,850

As at 31 December 2022, the Group had tax losses arising in Hong Kong of RMB87,195,000 (31 December 2021: RMB27,631,000) 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 RMB179,844,000 (31 December 2021: RMB154,208,000) 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 2022, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB2,812,035,000 (31 December 2021: RMB2,510,731,000) and RMB1,497,370,000 (31 December 2021: RMB1,283,506,000), 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. During the year ended 31 December 2022, the Group recognized withholding taxes of RMB571,107,000 (2021: nil). As at 31 December 2022, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB1,354,813,000 (31 December 2021: RMB1,487,911,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

28. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2022	2021
	RMB'000	RMB'000
Cash and bank balances	19,121,294	19,888,796
Time deposits	10,000	10,000
	19,131,294	19,898,796
Less:		
Pledged deposits	2,072,206	2,052,256
Restricted bank deposits related to asset securitisations	1,116,081	2,107,358
Restricted bank deposits related to collective fund trusts	-	68,192
Restricted bank deposits related to litigation	39,164	11,954
Cash and cash equivalents	15,903,843	15,659,036

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB17,991,846,000 (31 December 2021: RMB18,804,358,000). 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 2022, cash of RMB493,766,000 (31 December 2021: RMB271,782,000) was pledged for bank and other borrowings (Note 32).

As at 31 December 2022, cash of RMB1,578,440,000 (31 December 2021: RMB1,780,474,000) was pledged for bank acceptances, letters of credit and others.

As at 31 December 2022, cash of RMB2,320,000 (31 December 2021: RMB254,127,000) was deposited with Sinochem Finance Co., Ltd., a subsidiary of the ultimate holding company of a shareholder with significant influence.

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29. INVENTORIES

	2022	2021
	RMB'000	RMB'000
Finished goods	362,347	266,874
Work in process	19,348	114,597
Raw materials	84,587	177,549
	466,282	559,020

30. TRADE AND BILLS PAYABLES

		2022	2021
	Note	RMB'000	RMB'000
Current:			
Bills payable		10,144,414	10,946,041
Trade payables		3,826,663	2,942,356
Due to related parties	30a	4,133	1,925
		13,975,210	13,890,322

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30. TRADE AND BILLS PAYABLES (continued)

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

	2022	2021
	RMB'000	RMB'000
Within 1 year	13,569,433	13,767,048
1 to 2 years	293,697	51,180
2 to 3 years	41,258	14,036
3 years and beyond	70,822	58,058
	13,975,210	13,890,322

30a. BALANCES WITH RELATED PARTIES

	2022	2021
	RMB'000	RMB'000
Due to related parties:		
Associate:		
Shanghai Yijia Construction Development Co., Ltd.	4,133	1,925

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

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31. OTHER PAYABLES AND ACCRUALS

		2022	2021
	Note	RMB'000	RMB'000
Current:			
Lease deposits, entrusted loan deposits and factoring deposits due within one year		4,201,600	5,926,501
Salary payables		1,431,393	1,036,360
Welfare payables		160,220	425,691
Advances from customers		636,760	840,604
Due to related parties	31a	67,343	63,996
Contract liabilities	31b	141,473	417,702
Other taxes payable		751,065	1,007,362
Interest payable		2,204,729	2,267,157
Funds collected on behalf of special purpose entities in relation to asset-backed securitisations		1,113,797	2,107,358
Funds collected on behalf of collective fund trusts		–	68,192
Provision for credit commitments		86,383	52,968
Other payables		2,194,561	1,840,380
Dividend payables		2,139	44,115
Continuing involvement in transferred assets		–	696,880
		12,991,463	16,795,266
Non-current:			
Lease deposits, entrusted loan deposits and factoring deposits due after one year		7,217,022	9,234,345
Contract liabilities	31b	827,540	664,917
Other payables		13,848	59,862
Quality guarantee deposit		–	1,333
		8,058,410	9,960,457
		21,049,873	26,755,723

NOTES TO FINANCIAL STATEMENTS

31 December 2022

31. OTHER PAYABLES AND ACCRUALS (continued)

31a. BALANCES WITH RELATED PARTIES

	2022	2021
	RMB'000	RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Shenyang Chemical Co., Ltd.	10,000	10,000
Joint ventures:		
Fengyang Qianmen Hospital Co., Ltd.	268	268
Kunming Broadhealthcare (Group) Co., Ltd.	951	1
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	14,600	7,498
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	63	2,053
Grand Flight Investment Management Co., Ltd.	41,431	43,272
Yantai Yuanxin Zhongda Investment Co., Ltd.	-	154
Guangzhou Kangda Industrial Technology Co., Ltd.	30	-
	57,343	53,246
Associates:		
Hangzhou Guoya Stomatological Hospital Co., Ltd.	-	750
	-	750
	67,343	63,996

NOTES TO FINANCIAL STATEMENTS

31 December 2022

31. OTHER PAYABLES AND ACCRUALS (continued)

31a. BALANCES WITH RELATED PARTIES (continued)

Except for 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., Guangzhou Kangda Industrial Technology Co., Ltd. and Suzhou Gaoxin Rehabilitation Hospital 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.

31b. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2022	31 December 2021	1 January 2021
	RMB'000	RMB'000	RMB'000
Contract liabilities			
Short-term:			
– Sale of goods	25,069	25,904	23,662
– Service fee	116,404	391,798	510,644
Long-term:			
– Service fee	827,540	664,917	362,279
Total contract liabilities	969,013	1,082,619	896,585

Contract liabilities include short-term advances received to deliver goods and services. The increase in contract liabilities in 2022 and 2021 was mainly due to the increase in advances received from customers in relation to the provision of services at the end of the year.

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	4.30	2023	6,000	4.30~5.50	2022	26,000
Current portion of long term bank loans – secured	3.10~7.13	2023	3,366,318	2.65~6.41	2022	5,180,588
Bank loans – unsecured	1.18~4.50	2023	16,432,440	0.98~5.50	2022	17,073,622
Current portion of long term bank loans – unsecured	1.20~6.17	2023	40,655,787	0.82~5.35	2022	33,382,941
Other loans – secured	2.97~5.75	2023	4,063,895	2.97~5.75	2022	3,332,088
Other loans – unsecured	5.63	2023	3,687,471	5.90	2022	4,043,613
Bonds – secured	3.02~5.37	2023	13,126,646	3.15~5.37	2022	11,136,443
Bonds – unsecured	1.93~4.50	2023	42,116,428	2.87~5.19	2022	48,519,188
			123,454,985			122,694,483
Non-current						
Bank loans – secured	3.10~5.39	2024~2045	6,806,678	2.65~5.50	2023~2041	6,781,403
Bank loans – unsecured	0.80~6.71	2024~2031	66,972,864	1.00~5.35	2023~2031	48,195,647
Other loans – secured	2.97~5.68	2024~2029	7,411,800	2.97~5.75	2023~2025	4,130,118
Other loans – unsecured	5.09~5.55	2024~2027	4,498,801	5.55~5.63	2023~2024	1,322,701
Bonds – secured	3.20~5.15	2024~2026	3,044,102	3.15~5.37	2023~2024	4,439,882
Bonds – unsecured	2.63~4.70	2024~2026	35,420,421	2.63~5.19	2023~2026	39,315,422
			124,154,666			104,185,173
Convertible bonds – host debts (Note 33)	3.21~4.45	2025~2026	3,717,829	3.21~4.45	2025~2026	3,321,086
			251,327,480			230,200,742

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

	2022	2021
	RMB'000	RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	60,460,543	55,663,151
In the second year	40,659,039	29,884,530
In the third to fifth years, inclusive	31,542,368	23,522,319
Beyond five years	1,578,137	1,570,201
	134,240,087	110,640,201
Other borrowings repayable:		
Within one year or on demand	62,994,442	67,031,332
In the second year	28,830,195	37,388,274
In the third to fifth years, inclusive	25,079,802	15,140,935
Beyond five years	182,954	–
	117,087,393	119,560,541
	251,327,480	230,200,742

- (a) As at 31 December 2022, 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 RMB26,052,330,000 (31 December 2021: RMB24,124,737,000) and RMB4,584,902,000 (31 December 2021: RMB5,029,352,000), respectively.
- (b) As at 31 December 2022, the Group's bank borrowings amounting to RMB492,441,000 (31 December 2021: RMB108,836,000) were secured by the pledge of cash.
- (c) As at 31 December 2022, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB7,010,553,000 (31 December 2021: RMB5,872,434,000).

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31 December 2022

33. CONVERTIBLE BONDS

On 8 July 2020, Universe Trek Limited, a wholly-owned subsidiary of the Company issued 2.5 per cent guaranteed convertible bonds with a nominal value of USD\$300,000,000 (the “300 million 2.5 percent Bonds”). The 300 million 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 300 million 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 number of shares issuable upon conversion of any bond shall be determined by dividing the principal amount of the Bond to be converted translated into Hong Kong dollars at the fixed rate of HK\$7.7503 = US\$1.00 by the conversion price in effect on the relevant conversion date. The conversion price of the 300 million 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, and was further adjusted from HK\$7.92 per share to HK\$7.58 per share and then to HK\$7.11 per share with effect from 30 June 2021 and 30 June 2022 respectively as a result of the declaration of the final dividend for the year ended 31 December 2020 and 31 December 2021. The 300 million 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 convertible notes of the 300 million 2.5 percent Bonds not converted will be redeemed on 8 July 2025 at 100.00 percent of its principal amount. The 300 million 2.5 per cent Bonds carry interest at a rate of 2.5 percent per annum, which is payable semi-annually in arrears on 8 July and 8 January each year.

On 15 June 2021, Universe Trek Limited issued zero coupon guaranteed convertible bonds with a nominal value of USD\$250,000,000 (the “250 million Zero Coupon Bonds”). The 250 million zero coupon 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 250 million Zero Coupon Bonds are convertible at the option of the bondholders into ordinary shares of the Company with the initial conversion price of HK\$10.20 per share at any time on or after 26 July 2021 and up to the close of business on the date falling ten days prior to 15 June 2026. The number of shares issuable upon conversion of any bond shall be determined by dividing the principal amount of the Bond to be converted translated into Hong Kong dollars at the fixed rate of HK\$7.7614 = US\$1.00 by the conversion price in effect on the relevant conversion date. The conversion price of the 250 million Zero Coupon Bonds was adjusted from HK\$10.20 per share to HK\$9.76 per share with effect from 30 June 2021 as a result of the declaration of the final dividend for the year ended 31 December 2020, and was further adjusted from HK\$9.76 per share to HK\$9.16 per share with effect from 30 June 2022 as a result of the declaration of the final dividend for the year ended 31 December 2021. The 250 million Zero Coupon Bonds are redeemable at the option of the bondholders at 106.15 per cent of its principal amount on 15 June 2024. Any convertible notes of the 250 million Zero Coupon Bonds not converted will be redeemed on 15 June 2026 at 110.46 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

33. CONVERTIBLE BONDS (continued)

The changes in liability of convertible bonds during the year are as follows:

	2022	2021
	RMB'000	RMB'000
Liability component at 1 January	3,321,086	3,231,311
Interest expense	136,269	118,442
Interest paid	(49,037)	(48,758)
Exchange realignment	309,511	20,091
Liability component at 31 December (Note 32)	3,717,829	3,321,086

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34. DEFERRED REVENUE

	Government special subsidies	
	2022	2021
	RMB'000	RMB'000
At the beginning of year	1,465,194	1,064,019
Additions during the year	851,912	884,917
Amortised to the statement of profit or loss	(1,712,119)	(483,742)
At the end of year	604,987	1,465,194

(i) Government special subsidies

For the year ended 31 December 2022, the Group received a government special subsidy of RMB172,099,000 (2021: RMB209,862,000), 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 RMB606,480,000 (2021: RMB610,270,000) 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 RMB48,670,000 (2021: RMB62,250,000) due to policies of Putuo District to upgrade and develop the industry 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.

35. SHARE CAPITAL

	Number of shares	Amounts
		HK\$
Issued and fully paid ordinary shares:		
At 31 December 2021 (Note (i))	4,313,987,786	16,404,418,000
At 31 December 2022 (Note (i))	4,315,509,601	16,415,750,000

Note:

- (i) The Company purchased its own shares through a trust under a share award scheme (Note 37), which were presented as shares held for the share award scheme.

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31 December 2022

35. SHARE CAPITAL (continued)

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

	Number of shares in issue	Share capital HK\$'000	Equivalent share capital RMB'000
At 1 January 2022 and 31 December 2021	4,313,987,786	16,404,418	13,042,863
Share options exercised (Note (ii))	1,521,815	11,332	9,481
As at 31 December 2022	4,315,509,601	16,415,750	13,052,344

Note:

- (ii) The subscription rights attaching to 86,544, 28,055, 1,137,223, 110,653, 7,959, 7,381 and 144,000 share options were exercised at the subscription prices of HK\$5.86, HK\$7.17, HK\$5.714, HK\$6.82, HK\$7.36, HK\$7.618 and HK\$6.7 per share, respectively (Note 36), resulting in the issue of 1,521,815 shares for a total cash consideration, after expenses, of HK\$9,041,000. An amount of HK\$2,291,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

36. 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.

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36. 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; and(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 Shares do not carry nominal value.

On 27 July 2022, the Board announced that, the Company has resolved the ninth offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 33,847,932 ordinary shares in the capital of the Company.

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

Expiry date	Exercise price*		Number of share options	
	per share option		2022	2021
	HK\$			
11 July 2024	5.86	4,170,099	4,256,643	
3 July 2025	7.17	7,634,411	7,978,819	
15 June 2026	5.714	11,628,862	12,799,021	
20 June 2027	6.82	14,070,609	14,607,996	
18 July 2028	7.36	15,013,968	16,952,183	
19 July 2029	7.618	14,431,486	16,521,715	
23 July 2030	6.7	20,073,945	20,871,143	
26 July 2031	8.4	31,124,054	33,079,659	
27 July 2032	6.378	33,569,980	–	
		151,717,414	127,067,179	

* 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:

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36. SHARE OPTION SCHEME (continued)

Exercise price per share option (HK\$)	Date of grant	Outstanding as at 1 January 2021	Granted during the year ended 31 December 2021	Forfeited during the year ended 31 December 2022	Exercised during the year ended 31 December 2021	Outstanding as at 31 December 2021	Granted during the year ended 31 December 2022	Forfeited during the year ended 31 December 2022	Exercised during the year ended 31 December 2022	Outstanding as at 31 December 2022
5.86	11 July 2014	5,044,475	-	(1,357)	(786,475)	4,256,643	-	-	(86,544)	4,170,099
7.17	3 July 2015	8,948,403	-	(39,301)	(930,283)	7,978,819	-	(316,353)	(28,055)	7,634,411
5.714	15 June 2016	16,109,896	-	(204,760)	(3,106,115)	12,799,021	-	(32,936)	(1,137,223)	11,628,862
6.82	20 June 2017	19,404,581	-	(2,757,983)	(2,038,602)	14,607,996	-	(426,734)	(110,653)	14,070,609
7.36	18 July 2018	22,641,629	-	(4,332,067)	(1,357,379)	16,952,183	-	(1,930,256)	(7,959)	15,013,968
7.618	19 July 2019	21,962,154	-	(4,259,683)	(1,180,756)	16,521,715	-	(2,082,848)	(7,381)	14,431,486
6.70	23 July 2020	23,066,258	-	(1,641,667)	(553,448)	20,871,143	-	(653,198)	(144,000)	20,073,945
8.40	26 July 2021	-	33,847,932	(768,273)	-	33,079,659	-	(1,955,605)	-	31,124,054
6.378	27 July 2022	-	-	-	-	-	33,847,932	(277,952)	-	33,569,980
Total number at the end of the year		117,177,396	33,847,932	(14,005,091)	(9,953,058)	127,067,179	33,847,932	(7,675,882)	(1,521,815)	151,717,414
Weighted average exercise price (HK\$)		6.88	8.40	7.29	6.59	7.27	6.38	7.56	5.94	7.26

4,170,099 (2021: 4,256,643), 7,634,411 (2021: 7,978,819), 11,628,862 (2021: 12,799,021), 14,070,609 (2021: 14,607,996), 15,013,968 (2021: 10,087,171), 14,431,486 (2021: 9,774,236), 13,127,405 (2021: 6,573,226) and 10,374,696 (2021: nil) share options which were granted on 11 July 2014, 3 July 2015, 15 June 2016, 20 June 2017, 18 July 2018, 19 July 2019, 23 July 2020 and 26 July 2021, 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 2022 was RMB210,385,000 (31 December 2021: RMB188,561,000). The weighted average fair values were RMB1.27, RMB1.38, RMB1.41 and RMB1.57 per option for each of the four tranches with one-year, two-year, three-year and four-year (31 December 2021: The weighted average fair values were RMB1.40, RMB1.47, RMB1.50 and RMB1.57 per option for each of the four tranches with one-year, two-year, three-year and four-year) vesting periods, respectively. The Group recognised a share option expense of RMB35,438,000 (2021: RMB28,567,000) during the year ended 31 December 2022 in employee benefit expense.

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36. 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:

	2022	2021
Expected dividend yield (%)	6.62	4.29
Expected volatility (%)	32.79	33.14
Risk-free interest rate (%)	2.58	1.07
Validity period of the share options (year)	10	10
Share price (HK\$ per share)	6.34	8.40
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 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 2022, the Company had 61,265,878 (31 December 2021: 60,990,067) non-vested share options (including 12,709,387 (31 December 2021: 12,978,897) non-vested share options granted to certain executive directors, 22,657,223 (31 December 2021: 21,597,515) non-vested share options granted to certain employees among five highest paid employees and 27,448,779 (31 December 2021: 28,680,555) 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 61,265,878 (31 December 2021: 60,990,067) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 151,717,414 (2021: 127,067,179) share options outstanding under the Share Option Scheme, which represented approximately 3.52% (2021: 3.03%) of the Company's shares in issue as at that date.

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37. 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 rules of the Share Award Scheme. 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 the 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 the 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 2021	70,763,646
Granted	50,771,897
Vested	(20,844,449)
Forfeited	(19,462,524)
At 31 December 2021 and 1 January 2022	81,228,570
Granted	50,771,897
Vested	(30,537,637)
Forfeited	(9,453,125)
At 31 December 2022	92,009,705

NOTES TO FINANCIAL STATEMENTS

31 December 2022

37. RESTRICTED SHARE AWARD SCHEME (continued)

30,537,637 (31 December 2021: 20,844,449) 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:

2022

Number of Restricted Shares	Vesting period
10,419,815	23 July 2020 to 23 July 2023
15,610,491	26 July 2021 to 26 July 2023
15,610,491	26 July 2021 to 26 July 2024
16,789,636	27 July 2022 to 27 July 2023
16,789,636	27 July 2022 to 27 July 2024
16,789,636	27 July 2022 to 27 July 2025
92,009,705	

2021

Number of Restricted Shares	Vesting period
10,121,196	19 July 2019 to 19 July 2022
10,723,438	23 July 2020 to 23 July 2022
10,723,438	23 July 2020 to 23 July 2023
16,553,499	26 July 2021 to 26 July 2022
16,553,499	26 July 2021 to 26 July 2023
16,553,500	26 July 2021 to 26 July 2024
81,228,570	

NOTES TO FINANCIAL STATEMENTS

31 December 2022

37. RESTRICTED SHARE AWARD SCHEME (continued)

At 31 December 2022, the Company had 92,009,705 (31 December 2021: 81,228,570) non-vested Restricted Shares (including 21,404,536 (31 December 2021: 18,684,414) non-vested Restricted Shares granted to certain executive directors, 35,878,851 (31 December 2021: 30,163,581) non-vested Restricted Shares granted to certain employees among five highest paid employees and 42,855,156 (31 December 2021: 39,849,053) 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 129,107,281 (31 December 2021: 115,803,918) in total amounting to RMB781,987,000 (31 December 2021: RMB731,556,000), i.e. at a weighted average price of RMB6.06 (2021: RMB6.32), held by the trust at 31 December 2022. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount
		RMB'000
At 1 January 2021	136,648,367	866,947
Purchase of shares under Share Award Scheme	–	–
Vested	(20,844,449)	(135,391)
At 31 December 2021 and 1 January 2022	115,803,918	731,556
Purchase of shares under Share Award Scheme	43,841,000	253,524
Vested	(30,537,637)	(203,092)
At 31 December 2022	129,107,281	781,988

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2022 was RMB490,360,000 (31 December 2021: RMB487,968,000). The weighted average fair values were RMB5.12, RMB5.58 and RMB5.23 per share (31 December 2021: RMB6.71, RMB5.97 and RMB5.72 per share) for each of the three tranches with one-year, two-year and three-year vesting periods (31 December 2021: for three tranches with one-year, two-year and three-year vesting periods), respectively. The Group recognised an amount of RMB210,929,000 (2021: RMB71,194,000) in employee benefit expense during the year ended 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

37. 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:

	2022	2021
Expected dividend yield (%)	6.62	4.29
Share price (HK\$ per share)	6.34	8.40

38. 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 the 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 dividends 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. and Shanghai Hongjin Equipment & Engineering 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 the Restricted Shares are vested.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

39. 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. The Perpetual Capital Securities have been fully redeemed on 14 June 2022.

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

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

The Guaranteed Perpetual Securities have no fixed maturity date, and 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%. The Guaranteed Perpetual Securities have been fully redeemed on 4 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

39. PERPETUAL SECURITIES (continued)

On 24 July 2019, Far Eastern Leasing completed the issuance of perpetual trusted loans (the “Perpetual Loans”) in an amount of RMB49,850,000 in the PRC. The basic term of the Perpetual Loans will be 5 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 6.0% per annum.

Distributions of the Perpetual Loans may be paid annually in arrears on 24 July of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

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) consist 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. The Variety One of the Renewable Corporate Bonds (Phase One) have been fully redeemed on 15 February 2022.

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. The Renewable Corporate Bonds (Phase Two) have been fully redeemed on 16 June 2022.

On 6 July 2022, Far Eastern Leasing completed the issuance of the Fifth Medium-term Notes (the “Medium-term Notes”) in an amount of RMB1,000,000,000 in the PRC. The basic term of the Medium-term notes will be 2 years (Under the terms of the issue, there is no maturity date for the Medium-term Notes until they are agreed to be redeemed, and the notes mature when redeemed by Far Eastern Leasing), with an initial distribution rate of 4.2% per annum.

Distributions of the Medium-term notes 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

39. PERPETUAL SECURITIES (continued)

On 2 September 2022, Far Eastern Leasing completed the issuance of renewable corporate bonds (the “Renewable Bonds”) (Phase One) in an amount of RMB500,000,000 in the PRC. The basic term of the Renewable Corporate Bonds (Phase One) 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 4.20% per annum.

Distributions of the Renewable Bonds (Phase One) may be paid annually in arrears on 2 September 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 28 October 2022, Far Eastern Leasing completed the issuance of renewable corporate bonds (the “Renewable Bonds”) (Phase Two) in an amount of RMB1,000,000,000 in the PRC. The basic term of the Renewable Corporate Bonds (Phase Two) 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 4.09% per annum.

Distributions of the Renewable Bonds (Phase Two) may be paid annually in arrears on 28 October of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of the Perpetual Loans, the Renewable Corporate Bonds, the Medium-term Notes and the Renewable Bonds other than an unforeseen liquidation of the Company.

The direct transaction costs attributable to the Perpetual Loans, the Renewable Corporate Bonds, the Medium-term Notes, and the Renewable Bonds amounted to RMB64,000, RMB6,000,000, RMB3,000,000 and RMB3,500,000 respectively.

For the year ended 31 December 2022, the profits attributable to holders of the Perpetual Capital Securities, the Guaranteed Perpetual Securities, the Perpetual Loans, the Renewable Corporate Bonds, the Medium-term Notes and the Renewable Bonds (collectively “Perpetual Securities”), based on the applicable distribution rates, were RMB40,988,000 (2021: RMB84,358,000), RMB138,365,000 (2021: RMB148,620,000), RMB2,783,000 (2021: RMB2,785,000), RMB22,861,000 (2021: RMB71,313,000), RMB11,347,000 (2021: RMB25,794,000), RMB19,888,000 (2021: Nil), RMB6,761,000 (2021: Nil), and RMB6,766,000 (2021: Nil), respectively, and the distribution made by the Group to the holders of the Perpetual Securities was RMB303,951,000 (2021: RMB377,769,000).

40. BUSINESS COMBINATIONS

In September 2022, the Group acquired 70% of the voting shares of Lichuan Hongxin Harmonious Hospital Co., Ltd. (“Lichuan Hospital”).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

40. BUSINESS COMBINATIONS (continued)

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

Acquisition of Lichuan Hospital

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

	Fair value recognised on acquisition
	RMB'000
Assets	
Cash	3,637
Inventories	8,067
Accounts receivables	19,431
Prepayments, other receivables and other assets	24,779
Property, plant and equipment	205,124
Right-of-use assets	28,016
	289,054
Liabilities	
Trade and bills payables	(28,870)
Other payables and accruals	(45,170)
Income tax payable	(1,908)
	(75,948)
Total identifiable net assets at fair value	213,106
Non-controlling interests	(63,931)
Goodwill arising on acquisition	83,825
Purchase consideration transferred	233,000
Including: Consideration paid upon acquisition	-
Consideration paid after acquisition	-
Consideration to be paid after acquisition	233,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3,637
Cash paid	-
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	3,637
Transaction costs of the acquisition (included in cash flows from operating activities)	(450)
	3,187

NOTES TO FINANCIAL STATEMENTS

31 December 2022

40. BUSINESS COMBINATIONS (continued)

Acquisition of Lichuan Hospital (continued)

Since the acquisition, Lichuan Hospital has contributed RMB45,095,000 to the Group's revenue and a net profit of RMB2,383,000 to the consolidated profit for the year ended 31 December 2022.

If the acquisition had taken place at the beginning of the period, revenue of the Group would have been RMB36,690,098,000 and net profit of the Group for the year would have been RMB6,593,930,000.

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 RMB450,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The assessments of the fair values of the identifiable assets and liabilities of Lichuan Hospital is still ongoing and the information of the fair values of the identifiable assets and liabilities is provisional.

41. DISPOSAL OF SUBSIDIARIES

In September 2022, the Group disposed of 100% of the voting shares of Chengdu Heqi Education Management Co., Ltd. ("Chengdu Heqi"), 100% of the voting shares of Chengdu Dayi Anren Hongwen Foreign Language Training School ("Dayi Training School"). The Group amended the articles of association and lost control over the Ziyang Yuyi Construction Investment Co., Ltd. ("Ziyang Yuyi").

In December 2022, the Group disposed of 13.91% of the voting shares and lost control over Guangzhou Wealth Healthy Electronics Co., Ltd. ("Guangzhou Wealth Healthy").

NOTES TO FINANCIAL STATEMENTS

31 December 2022

41. DISPOSAL OF SUBSIDIARIES (continued)

Disposal of Chengdu Heqi, Dayi Training School and other education industry related companies (“Education Industry Related Companies”)

Net assets of Education Industry Related Companies as at the date of disposal were as follows:

	2022
	RMB'000
Net assets disposed of:	
Cash and cash equivalents	10,390
Prepayments, other receivables and other assets	15,612
Inventory	980
Property, plant and equipment	38,204
Right-of-use assets	1,933
Trade and bills payables	(10,035)
Other payables and accruals	(63,393)
Lease liabilities	(9,507)
Aggregate net assets of other entities	(9,071)
Gain on disposal of subsidiaries	60,977
	36,090
Satisfied by:	
Cash	36,090
Analysis of cash flows on disposal:	
Cash consideration	36,090
Cash and cash equivalents disposed of	(10,390)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	25,700

NOTES TO FINANCIAL STATEMENTS

31 December 2022

41. DISPOSAL OF SUBSIDIARIES (continued)

Disposal of Ziyang Yuyi Construction Investment Co., Ltd. ("Financial Industry Related Company")

Net assets of Financial Industry Related Company as at the date of lose control was as follows:

	2022
	RMB'000
Net assets disposed of:	
Cash and cash equivalents	65,560
Loans and accounts receivables	376,782
Prepayments, other receivables and other assets	21,514
Deferred tax assets	1,154
Trade and bills payables	(2,467)
Other payables and accruals	(94,009)
Interest-bearing bank and other borrowings	(255,454)
Non-controlling interests	(2,148)
Gain on disposal of the subsidiary	-
	110,932
Satisfied by:	
Cash	-
Investment in a joint venture	110,932
Analysis of cash flows on disposal:	
Cash consideration	-
Cash and cash equivalents disposed of	(65,560)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(65,560)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

41. DISPOSAL OF SUBSIDIARIES (continued)

Disposal of Guangzhou Wealth Healthy and other industry related companies ("Industry Related Companies")

Net assets of Industry Related Companies as at the date of disposal and cancellation were as follows:

	2022
	RMB'000
Net assets disposed of:	
Cash and cash equivalents	38,855
Loans and accounts receivables	160,925
Prepayments, other receivables and other assets	16,881
Inventories	91,288
Property, plant and equipment	74,106
Right-of-use assets	13,562
Other intangible assets	1,469
Deferred tax assets	1,195
Trade and bills payables	(103,004)
Other payables and accruals	(23,134)
Interest-bearing bank and other borrowings	(73,507)
Lease liabilities	(14,585)
Non-controlling interests	(90,012)
Aggregate net assets of other entities	131,456
Gain on disposal of subsidiaries	34,903
	260,398
Satisfied by:	
Cash	193,004
Investment in an associate	67,394
Analysis of cash flows on disposal:	
Cash consideration	193,004
Cash and cash equivalents disposed of	(38,855)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	154,149

NOTES TO FINANCIAL STATEMENTS

31 December 2022

42. 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 RMB194,621,000 (2021: RMB147,551,000) and RMB194,621,000 (2021: RMB147,551,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

2022

	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 2022	124,569,451	104,577,362	607,015	3,321,086	1,453,931
Changes from financing cash flows	27,514,986	(10,429,040)	(216,270)	–	420,283
New leases	–	–	194,621	–	–
Foreign exchange movement	3,268,950	728,724	–	309,511	–
Interest expense	9,722,123	87,350	20,849	136,269	–
Interest paid classified as operating cash flows	(9,916,543)	(91,304)	–	(49,037)	–
Fair value losses	–	–	–	–	(316,499)
Reassessment and revision of lease terms	–	–	(28,450)	–	–
Increase arising from acquisition of subsidiaries	111,282	–	–	–	–
Decrease arising from disposal of subsidiaries	(328,961)	–	(71,384)	–	–
At 31 December 2022	154,941,288	94,873,092	506,381	3,717,829	1,557,715

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

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

2021

	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 2021	111,040,291	93,360,268	820,592	2,924,074	222,013
Issue of shares upon conversion of convertible bond	–	–	–	(2,578,353)	–
Changes from financing cash flows	14,886,281	11,170,880	(186,395)	2,908,605	1,784,521
Equity component of convertible bonds	–	–	–	(138,925)	–
New leases	–	–	147,551	–	–
Foreign exchange movement	(997,963)	53,750	–	20,091	–
Interest expense	9,470,568	116,513	37,229	234,352	–
Interest paid classified as operating cash flows	(9,702,448)	(124,049)	–	(48,758)	–
Fair value losses	–	–	–	–	(552,603)
Reassessment and revision of lease terms	–	–	(1,832)	–	–
Decrease arising from disposal of subsidiaries	(127,278)	–	(210,130)	–	–
At 31 December 2021	124,569,451	104,577,362	607,015	3,321,086	1,453,931

(c) Total cash outflow for leases

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

	2022	2021
	RMB'000	RMB'000
Within financing activities	(216,270)	(186,395)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

43. CONTINGENT LIABILITIES

At 31 December 2022, contingent liabilities that are not provided for in the financial statements were as follows:

	2022	2021
	RMB'000	RMB'000
Claimed amounts	38,838	83,686

On 20 June 2022, the subsidiary of the Company and a bank entered into a guarantee agreement, pursuant to which, the subsidiary of the Company will provide a guarantee of no more than RMB1,000,000,000 for the outstanding loans provided by the bank to borrowers which are third parties to the Group. As at 31 December 2022, the balance of guaranteed bank loans were RMB584,691,000. In the opinion of the directors of the Company, the amount of expected credit losses on the guaranteed bank loans is not expected to be significant.

44. 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, 15, 24, 28 and 32, respectively, to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

45. COMMITMENTS

(a) Capital commitments

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

	2022	2021
	RMB'000	RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	161,423	224,729

(b) Credit commitments

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

	2022	2021
	RMB'000	RMB'000
Irrevocable credit commitments	23,035,482	14,124,845

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

46. 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

BlueStar New Chemical Materials Guangxi Branch

Shenyang Chemical Co., Ltd.

Shanghai Jinmao Construction & Decoration Co., Ltd.

Sinochem Fuling Chongqing Chemical Industry Co., Ltd.

Bluestar Engineering Co., Ltd.

Joint ventures

Guangzhou Kangda Industrial Technology Co., Ltd.

Kunming Broadhealthcare (Group) 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.

Associates

Tianjin FIS Asset Management Co., Ltd.

Shanghai Yijia Construction Development Co., Ltd.

Hangzhou Guoya Stomatological Hospital Co., Ltd.

Guangzhou Wealth Healthy Electronics Co., Ltd.****

* Formerly known as Kunming Broadhealthcare Investment Co., Ltd.

** No longer jointly controlled by the Group since June 2022.

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

**** No longer a subsidiary of the Group since September 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

46. RELATED PARTY TRANSACTIONS (continued)

In addition to the transactions and balances disclosed in Notes 24, 25, 28, 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

	2022	2021
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	995	3,869

The interest income was earned at rates ranging from 0.35% to 1.495% (2021: 0.35% to 1.495%) per annum.

(ii) Service fee income

	2022	2021
	RMB'000	RMB'000
Kunming Broadhealthcare (Group) Co., Ltd.	–	189
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	912	1,528
Grand Flight Investment Management Co., Ltd.	1,354	–
Hangzhou Guoya Stomatological Hospital Co., Ltd.	462	448
	2,728	2,165

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

(iii) Interest expenses on borrowings

	2022	2021
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	10,320	10,914

The interest expenses were charged at rate of 3.60% per annum (2021: 3.8% to 4.185%) per annum.

NOTES TO FINANCIAL STATEMENTS

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46. RELATED PARTY TRANSACTIONS (continued)

(iv) Interest expenses

	2022	2021
	RMB'000	RMB'000
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	6	29
Grand Flight Investment Management Co., Ltd.	400	288
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	137	78
	543	395

The interest expenses were charged at a rate of 1.485% (2021: 1.485%) per annum.

(v) Consultancy service fee and other financial service fee

	2022	2021
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	-	580
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	5	-
	5	580

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

	2022	2021
	RMB'000	RMB'000
Beijing Chemsunny Property Co., Ltd.	8,547	8,563

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

46. RELATED PARTY TRANSACTIONS (continued)

(vii) Interest income from loans and accounts receivables

	2022	2021
	RMB'000	RMB'000
Guangzhou Kangda Industrial Technology Co., Ltd.	2,299	25,767
Kunming Broadhealthcare (Group) Co., Ltd.	3,391	4,287
Tianjin FIS Asset Management Co., Ltd.	–	20,866
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	5,889	5,123
Guangzhou Wealth Healthy Electronics Co., Ltd.	502	–
BlueStar New Chemical Materials Guangxi Branch	187	590
Shenyang Chemical Co., Ltd.	4,143	5,489
Hangzhou Guoya Stomatological Hospital Co., Ltd.	883	609
	17,294	62,731

(viii) Sales of goods

	2022	2021
	RMB'000	RMB'000
Sinochem Fuling Chongqing Chemical Industry Co., Ltd	248	–

(ix) Operating lease income

	2022	2021
	RMB'000	RMB'000
Bluestar Engineering Co., Ltd.	5	–
Shanghai Jinmao Construction & Decoration Co., Ltd.	83	–
	88	–

(x) Decoration fee

	2022	2021
	RMB'000	RMB'000
Shanghai Yijia Construction Development Co., Ltd.	5,668	7,596

NOTES TO FINANCIAL STATEMENTS

31 December 2022

46. RELATED PARTY TRANSACTIONS (continued)

(xi) Administrative fee

	2022	2021
	RMB'000	RMB'000
Grand Flight Investment Management Co., Ltd.	48,624	42,720

(xii) Property fee

	2022	2021
	RMB'000	RMB'000
Beijing Chemsunny Property Co., Ltd.	4	–
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	561	687
	565	687

(xiii) Compensation of key management personnel of the Group

	2022	2021
	RMB'000	RMB'000
Short term employee benefits	163,412	134,706

During 2022, 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 36 and Note 37 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), (vii), (viii), (ix) and (xii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The above short term employee benefits have not taken into consideration the employees' potential entitlement under the collective economic-gain bonus schemes during the year ended 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

47. 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:

2022

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	267,138,233	-	-	-	267,138,233
Financial assets included in prepayments, other receivables and other assets	2,149,599	-	-	-	2,149,599
Restricted deposits	3,227,451	-	-	-	3,227,451
Derivative financial instrument	-	2,379	-	-	2,379
Derivative financial instruments designated as hedging instruments in cash flow hedges	-	-	1,850,923	-	1,850,923
Financial assets at fair value through profit or loss	-	9,358,106	-	-	9,358,106
Debt investment at fair value through other comprehensive income	-	-	-	1,182,401	1,182,401
Cash and cash equivalents	15,903,843	-	-	-	15,903,843
	288,419,126	9,360,485	1,850,923	1,182,401	300,812,935

NOTES TO FINANCIAL STATEMENTS

31 December 2022

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2022 (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	13,975,210	–	–	13,975,210
Financial liabilities included in other payables and accruals	16,552,035	–	–	16,552,035
Interest-bearing bank and other borrowings	247,609,651	–	–	247,609,651
Convertible bonds – host debts	3,717,829	–	–	3,717,829
Lease liabilities	506,381	–	–	506,381
Hedging instruments designated as cash flow hedges	–	–	271,566	271,566
Other non-current liabilities	1,608,276	1,557,715	–	3,165,991
	283,969,382	1,557,715	271,566	285,798,663

NOTES TO FINANCIAL STATEMENTS

31 December 2022

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2021

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	252,218,007	–	–	–	252,218,007
Financial assets included in prepayments, other receivables and other assets	3,126,777	–	–	–	3,126,777
Restricted deposits	4,239,760	–	–	–	4,239,760
Derivative financial instruments designated as hedging instruments in cash flow hedges	–	–	22,331	–	22,331
Financial assets at fair value through profit or loss	–	12,760,358	–	–	12,760,358
Debt investment at fair value through other comprehensive income	–	–	–	699,039	699,039
Cash and cash equivalents	15,659,036	–	–	–	15,659,036
	275,243,580	12,760,358	22,331	699,039	288,725,308

NOTES TO FINANCIAL STATEMENTS

31 December 2022

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2021 (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	13,890,322	–	–	13,890,322
Financial liabilities included in other payables and accruals	22,140,683	–	–	22,140,683
Interest-bearing bank and other borrowings	226,879,656	–	–	226,879,656
Convertible bonds – host debts	3,321,086	–	–	3,321,086
Lease liabilities	607,015	–	–	607,015
Derivative financial instruments	–	6,908	–	6,908
Hedging instruments designated as cash flow hedges	–	–	2,361,956	2,361,956
Other non-current liabilities	1,362,971	1,453,931	–	2,816,902
	268,201,733	1,460,839	2,361,956	272,024,528

48. 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

31 December 2022

48. 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 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. For loans and accounts receivables with long-term remaining maturities, the applied interest rates approximate to prevailing market interest rates and their carrying values approximate to their fair value.

Bonds issued and convertible bonds-host debts

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

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds issued	93,707,597	103,410,935	94,247,778	104,632,682
Convertible bonds – host debts	3,717,829	3,321,086	3,862,848	3,499,704
Other non-current liabilities	1,608,276	1,362,971	1,527,380	1,357,130

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

31 December 2022

48. 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.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

Description	Fair value at 31 December 2022	Valuation technique	Unobservable input	Relationship of unobservable inputs to fair value
Financial investments at fair value through profit or loss	4,031,831	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

Description	Fair value at 31 December 2021	Valuation technique	Unobservable input	Relationship of unobservable inputs to fair value
Financial investments at fair value through profit or loss	2,694,057	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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

Fair value hierarchy

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

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

Assets and liabilities measured at fair value

As at 31 December 2022

	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	–	1,777,780	–	1,777,780
Forward currency contracts - assets	–	28,081	–	28,081
Interest rate swaps – assets	–	45,062	–	45,062
Cross-currency interest rate swaps – liabilities	–	(203,786)	–	(203,786)
Forward currency contracts – liabilities	–	(38,865)	–	(38,865)
Interest rate swaps – liabilities	–	(28,915)	–	(28,915)
Financial assets at fair value through profit or loss	490,471	4,835,804	4,031,831	9,358,106
Debt investments at fair value through other comprehensive income	–	1,182,401	–	1,182,401
Other non-current liabilities	–	(1,557,715)	–	(1,557,715)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

As at 31 December 2021

	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	–	11,596	–	11,596
Interest rate swaps – assets	–	10,735	–	10,735
Cross-currency interest rate swaps – liabilities	–	(2,260,523)	–	(2,260,523)
Forward currency contracts – liabilities	–	(86,806)	–	(86,806)
Interest rate swaps – liabilities	–	(14,627)	–	(14,627)
Financial assets at fair value through profit or loss	789,665	9,276,636	2,694,057	12,760,358
Debt investments at fair value through other comprehensive income	–	699,039	–	699,039
Other non-current liabilities	–	(1,453,931)	–	(1,453,931)

During the year ended 31 December 2022, there were transfers at fair value measurements from Level 2 to Level 1 and from Level 2 to Level 3 (year ended 31 December 2021: there were transfers at fair value measurements from Level 2 to Level 1 and from Level 2 to Level 3).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

48. 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:

	2022	2021
	RMB'000	RMB'000
Financial assets at fair value through profit or loss		
Carrying amount at 1 January 2022	2,694,057	1,770,807
Changes in fair value recognised in profit or loss	11,585	650,074
Additions, net	1,326,896	273,251
Exchange differences	(707)	(75)
Carrying amount at 31 December 2022	4,031,831	2,694,057

Liabilities for which fair values are disclosed

As at 31 December 2022

	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	–	94,247,778	–	94,247,778
Convertible bonds – host debts	–	3,862,848	–	3,862,848
Other non-current liabilities	–	1,557,715	–	1,557,715

As at 31 December 2021

	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	–	104,632,682	–	104,632,682
Convertible bonds – host debts	–	3,499,704	–	3,499,704
Other non-current liabilities	–	1,453,931	–	1,453,931

NOTES TO FINANCIAL STATEMENTS

31 December 2022

49. 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 23).

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

31 December 2022

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/(decrease) in profit before tax As at 31 December	
	2022	2021
	RMB'000	RMB'000
Change in basis points		
+100 basis points	(66,264)	24,974
- 100 basis points	68,147	(20,221)

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 23).

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

31 December 2022

49. 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, the analysis 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	
		2022	2021
Currency	Change in currency rate	RMB'000	RMB'000
US\$	+/-1%	14,137/(14,137)	4,203/(4,203)
HK\$	+/-1%	(31,129)/31,129	(7,794)/7,794

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.

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31 December 2022

49. 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 2022

	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	–	–	–	304,295	304,295
Accounts receivable	–	–	–	5,244,709	5,244,709
Notes receivable*	3,233,317	–	–	–	3,233,317
Interest-earning assets	244,958,038	13,513,317	1,371,253	–	259,842,608
Financial assets included in prepayments, other receivables and other assets	2,149,599	–	–	–	2,149,599
Pledged deposits	3,227,451	–	–	–	3,227,451
Cash and cash equivalents	15,903,843	–	–	–	15,903,843
	269,472,248	13,513,317	1,371,253	5,549,004	289,905,822

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

At 31 December 2021

	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	–	–	–	276,859	276,859
Accounts receivable	–	–	–	5,029,421	5,029,421
Notes receivable	1,810,670	–	–	–	1,810,670
Interest-earning assets	228,582,793	15,897,300	1,596,862	–	246,076,955
Financial assets included in prepayments, other receivables and other assets	3,126,777	–	–	–	3,126,777
Pledged deposits	4,239,760	–	–	–	4,239,760
Cash and cash equivalents	15,659,036	–	–	–	15,659,036
	253,419,036	15,897,300	1,596,862	5,306,280	276,219,478

Note:

The financial assets falling in stage 1 are mainly credit rated as Pass, except for an amount of interest-earning assets of RMB2,726,056,000 (2021: RMB3,288,552,000) which 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, and maintaining an efficient internal fund transfer mechanism.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

49. 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 2022						
	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	2,576,526	48,759,773	118,440,247	129,191,422	984,819	-	299,952,787
Financial assets included in prepayments, other receivables and other assets	28,684	124,801	886,669	1,109,355	90	-	2,149,599
Restricted deposits	-	2,183,448	1,044,003	-	-	-	3,227,451
Derivative financial instruments	-	135,798	142,316	1,575,188	-	-	1,853,302
Financial assets at fair value through profit or loss	-	391,828	1,041,640	4,487,412	738,326	2,698,900	9,358,106
Debt investment at fair value through other comprehensive income	-	276,537	898,032	7,832	-	-	1,182,401
Cash and cash equivalents	15,266,905	636,938	-	-	-	-	15,903,843
Total financial assets	17,872,115	52,509,123	122,452,907	136,371,209	1,723,235	2,698,900	333,627,489
FINANCIAL LIABILITIES:							
Trade and bills payables	133,853	4,170,771	9,670,586	-	-	-	13,975,210
Financial liabilities included in other payables and accruals	566,024	5,637,624	3,126,762	7,138,361	83,264	-	16,552,035
Convertible bonds – host debts	-	-	-	3,717,829	-	-	3,717,829
Lease liabilities	-	30,694	113,263	314,810	47,615	-	506,382
Interest-bearing bank and other borrowings	663,040	44,768,998	85,052,963	129,750,586	2,126,939	-	262,362,526
Derivative financial instruments	-	23,922	4,171	243,472	-	-	271,565
Other non-current liabilities	-	-	-	1,608,276	1,557,715	-	3,165,991
Total financial liabilities	1,362,917	54,632,009	97,967,745	142,773,334	3,815,533	-	300,551,538
Net liquidity gap	16,509,198	(2,122,886)	24,485,162	(6,402,125)	(2,092,298)	2,698,900	33,075,951

NOTES TO FINANCIAL STATEMENTS

31 December 2022

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The tables below summarise the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows: (continued)

	As at 31 December 2021						
	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	3,227,882	49,004,670	100,171,631	127,458,745	2,430,427	–	282,293,355
Financial assets included in prepayments, other receivables and other assets	43,783	200,994	467,215	1,961,294	453,491	–	3,126,777
Restricted deposits	–	3,185,202	1,054,558	–	–	–	4,239,760
Derivative financial instruments	–	1	456	21,874	–	–	22,331
Financial assets at fair value through profit or loss	5	956,720	2,313,415	4,809,259	1,863,287	2,817,672	12,760,358
Debt investment at fair value through other comprehensive income	–	229,355	468,800	884	–	–	699,039
Cash and cash equivalents	15,659,036	–	–	–	–	–	15,659,036
Total financial assets	18,930,706	53,576,942	104,476,075	134,252,056	4,747,205	2,817,672	318,800,656
FINANCIAL LIABILITIES:							
Trade and bills payables	151,861	6,421,388	7,317,073	–	–	–	13,890,322
Financial liabilities included in other payables and accruals	603,818	6,759,461	5,469,224	9,307,108	1,072	–	22,140,683
Convertible bonds – host debts	–	–	–	3,321,086	–	–	3,321,086
Lease liabilities	–	51,391	112,247	311,133	132,244	–	607,015
Interest-bearing bank and other borrowings	–	36,905,285	92,536,710	107,978,856	2,447,775	–	239,868,626
Derivative financial instruments	–	375,606	701,505	1,291,753	–	–	2,368,864
Other non-current liabilities	–	–	–	1,362,971	1,453,931	–	2,816,902
Total financial liabilities	755,679	50,513,131	106,136,759	123,572,907	4,035,022	–	285,013,498
Net liquidity gap	18,175,027	3,063,811	(1,660,684)	10,679,149	712,183	2,817,672	33,787,158

NOTES TO FINANCIAL STATEMENTS

31 December 2022

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate benchmark reform

As at 31 December 2022, the Group had certain interest-bearing bank and other borrowings and an interest rate swap denominated in United States dollars. The interest rates of these instruments are based on the LIBOR with a tenor of one month, three months or twelve months, which will cease to be published after 30 June 2023. Replacement of the benchmark rates of these instruments from LIBOR to an RFR has yet to commence but it is expected that there will be renegotiations of terms in the future. During the transition, the Group is exposed to the following risks:

- Parties to the contract may not reach agreement in a timely manner as any changes to the contractual terms require the agreement of all parties to the contract
- Additional time may be needed for the parties to the contract to reach agreement as they may renegotiate terms which are not part of the interest rate benchmark reform (e.g., changing the credit spread of the bank borrowings due to changes in credit risk of the Group)
- The existing fallback clause included in the instruments may not be adequate to facilitate a transition to a suitable RFR

The Group will continue to monitor the development of the reform and take proactive measures for a smooth transition.

The information about financial instruments based on an interbank offered rate that has yet to transition to an alternative benchmark rate is as follows:

As at 31 December 2022

	Non-derivative financial liabilities - carrying value	Derivatives - nominal amount
	RMB'000	RMB'000
Interest-bearing bank and other borrowings		
– United States dollar LIBOR	24,651,588	–
Interest rate swap		
– United States dollar LIBOR	–	696,460
Cross-currency interest rate swap		
– United States dollar LIBOR	–	15,422,190

NOTES TO FINANCIAL STATEMENTS

31 December 2022

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate benchmark reform (continued)

As at 31 December 2021

	Non-derivative financial liabilities - carrying value	Derivatives - nominal amount
	RMB'000	RMB'000
Interest-bearing bank and other borrowings		
– United States dollar LIBOR	25,091,105	–
Interest rate swap		
– United States dollar LIBOR	–	637,570
Cross-currency interest rate swap		
– United States dollar LIBOR	–	22,159,804

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	
	2022	2021
	RMB'000	RMB'000
Bank and other borrowings (Note 32)	251,327,480	230,200,742
Total equity	52,439,513	53,054,110
Total equity and net debt	303,766,993	283,254,852
Gearing ratio	83%	81%

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50. OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Continuing involvement in transferred assets	890,572	2,161,894
Payables to non-controlling interests of consolidated structured entities	1,557,715	1,453,931
Put option granted to non-controlling shareholders (Note (i))	1,608,276	1,362,971
Others	1,147	607
	4,057,710	4,979,403

Note (i): Pursuant to the Share Purchase Agreement signed by and among the investors of Horizon Construction Development Limited ("HCD"), one subsidiary of the Group on 16 April 2021, shares shall be redeemed by HCD upon the occurrence of certain contingent events which cannot be controlled by HCD including a public offering of HCD on the Stock Exchange or another recognized international securities exchange not being completed within 36 months. The price of investors' shares to be redeemed shall be an amount that would give holders a fixed rate of 8% per annum for its investment in HCD plus all accrued but unpaid dividends.

Presentation and classification:

The option granted to non-controlling shareholders gives rise to financial liabilities, which are measured at present value of the redemption amount. These investors subscribed for an aggregate of 6,651 shares of HCD at a total consideration of USD204,910,000, initially equivalent to RMB1,326,185,000, with certain conditional terms. As at 31 December 2022, the amount of put option granted to non-controlling shareholders was RMB1,608,276,000.

51. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. TRANSFERS OF FINANCIAL ASSETS AND INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (continued)

During the year ended 31 December 2022 and the year ended 31 December 2021, the Group did not transfer loans and accounts receivable to third parties, consequently, no such assets were qualified for full derecognition. The Group did not provide liquidity support to these unconsolidated structured entities, and 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 RMB5,759,564,000 as at 31 December 2022). As a result, as at 31 December 2022, the balance of subordinated tranches of asset-backed securities/notes held by the Group amounted to RMB890,572,000 (31 December 2021: RMB2,858,774,000). In addition, the balances of continuing involvement in transferred assets and associated liabilities both amounted to RMB890,572,000 (31 December 2021: both RMB2,858,774,000), 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 2022, as a result of the securitisation transactions, the Group recognised gains of RMB1,486,000 (2021: gains of RMB7,349,000) from transfers of loans and accounts receivables.

52. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after 31 December 2022.

53. COMPARATIVE AMOUNTS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

54. 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 2022	31 December 2021
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	2,333	3
Right-of-use assets	17,864	5,268
Investments in subsidiaries	72,870,935	65,456,191
Loans and accounts receivables	11,499,929	21,217,716
Derivative financial instruments	1,568,461	21,406
Total non-current assets	85,959,522	86,700,584
CURRENT ASSETS		
Loans and accounts receivables	2,034,823	988,839
Prepayments, other receivables and other assets	17,595,043	13,204,510
Dividend receivable from subsidiaries	13,226	12,108
Derivative financial instruments	250,033	–
Restricted deposits	492,441	169,210
Cash and cash equivalents	1,014,491	804,618
Total current assets	21,400,057	15,179,285
CURRENT LIABILITIES		
Other payables and accruals	2,072,686	2,109,279
Derivative financial instruments	–	883,217
Lease liabilities	10,226	–
Income tax payable	31,787	(16)
Interest-bearing bank and other borrowings	16,968,900	14,943,234
Total current liabilities	19,083,599	17,935,714
NET CURRENT ASSETS/(LIABILITIES)	2,316,458	(2,756,429)
TOTAL ASSETS LESS CURRENT LIABILITIES	88,275,980	83,944,155

NOTES TO FINANCIAL STATEMENTS

31 December 2022

54. 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 2022	31 December 2021
	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	88,275,980	83,944,155
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	42,876,307	38,996,530
Derivative financial instruments	208,254	1,209,665
Lease liabilities	11,144	5,293
Total non-current liabilities	43,095,705	40,211,488
Net assets	45,180,275	43,732,667
EQUITY		
Share capital	13,052,344	13,042,863
Reserves (Note 38)	32,127,931	28,648,786
	45,180,275	41,691,649
Holders of perpetual securities	-	2,041,018
Total equity	45,180,275	43,732,667

Kong Fanxing
Director

Wang Mingzhe
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2022

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Equity component of convertible bonds	Capital reserve	Shares held for the share award scheme	Share-based compensation reserve ¹	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 2021	338,050	1,303,120	(866,947)	379,223	24,914	121,913	(254,289)	753,819	21,943,023	23,742,826
Profit for the year	-	-	-	-	-	-	-	-	5,660,866	5,660,866
Other comprehensive income for the year:										
Cash flow hedges, net of tax	-	-	-	-	-	-	212,318	-	-	212,318
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	83,280	-	83,280
Total comprehensive income	-	-	-	-	-	-	212,318	83,280	5,660,866	5,956,464
Final 2020 dividend declared (net of dividends received from shares held for the share award scheme)	-	-	-	-	-	-	-	-	(1,205,585)	(1,205,585)
Shares vested under the restricted share award scheme	-	-	135,391	(118,503)	-	-	-	-	(16,888)	-
Transfer of share option reserve upon exercise of share options	-	-	-	(14,314)	-	-	-	-	-	(14,314)
Recognition of equity-settled share-based payments	-	-	-	99,761	-	-	-	-	-	99,761
Special reserve – safety fund appropriation	-	-	-	-	21,259	-	-	-	(26,261)	(5,002)
Capital injection by non-controlling shareholders	-	488,434	-	-	-	-	-	-	-	488,434
Disposal of subsidiaries	-	84,262	-	-	-	-	-	-	(84,262)	-
Purchase of non-controlling interests	-	138,564	-	-	-	-	-	-	-	138,564
Issue of convertible bonds	138,925	-	-	-	-	-	-	-	-	138,925
Issue of shares upon conversion of convertible bonds	(243,225)	-	-	-	-	-	-	-	-	(243,225)
Put option granted to non-controlling shareholders	-	(448,062)	-	-	-	-	-	-	-	(448,062)
At 31 December 2021	233,750	1,566,318	(731,556)	346,167	46,173	121,913	(41,971)	837,099	26,270,893	28,648,786

NOTES TO FINANCIAL STATEMENTS

31 December 2022

54. 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 2022	233,750	1,566,318	(731,556)	346,167	46,173	121,913	(41,971)	837,099	26,270,893	28,648,786
Profit for the year	-	-	-	-	-	-	-	-	5,895,684	5,895,684
Other comprehensive income for the year:										
Cash flow hedges, net of tax	-	-	-	-	-	-	(460,770)	-	-	(460,770)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(195,373)	-	(195,373)
Total comprehensive income	-	-	-	-	-	-	(460,770)	(195,373)	5,895,684	5,239,541
Final 2021 dividend declared (net of dividends received from shares held for the share award scheme)	-	-	-	-	-	-	-	-	(1,505,444)	(1,505,444)
Shares vested under the restricted share award scheme	-	-	203,092	(185,243)	-	-	-	-	(17,849)	-
Purchase of shares under restricted share award scheme	-	-	(253,524)	-	-	-	-	-	-	(253,524)
Transfer of share option reserve upon exercise of share options	-	-	-	(1,950)	-	-	-	-	-	(1,950)
Recognition of equity-settled share-based payments	-	-	-	246,367	-	-	-	-	-	246,367
Special reserve - safety fund appropriation	-	-	-	-	30,093	-	-	-	(37,175)	(7,082)
Disposal of subsidiaries	-	54,291	-	-	-	-	-	-	-	54,291
Purchase of non-controlling interests	-	54,537	-	-	-	-	-	-	-	54,537
Share of other reserves of investments accounted for using the equity method	-	(26,375)	-	-	-	-	-	-	-	(26,375)
Redemption of perpetual securities	-	(182,090)	-	-	-	-	-	-	-	(182,090)
Put option granted to non-controlling shareholders	-	(139,126)	-	-	-	-	-	-	-	(139,126)
At 31 December 2022	233,750	1,327,555	(781,988)	405,341	76,266	121,913	(502,741)	641,726	30,606,109	32,127,931

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.

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2023.