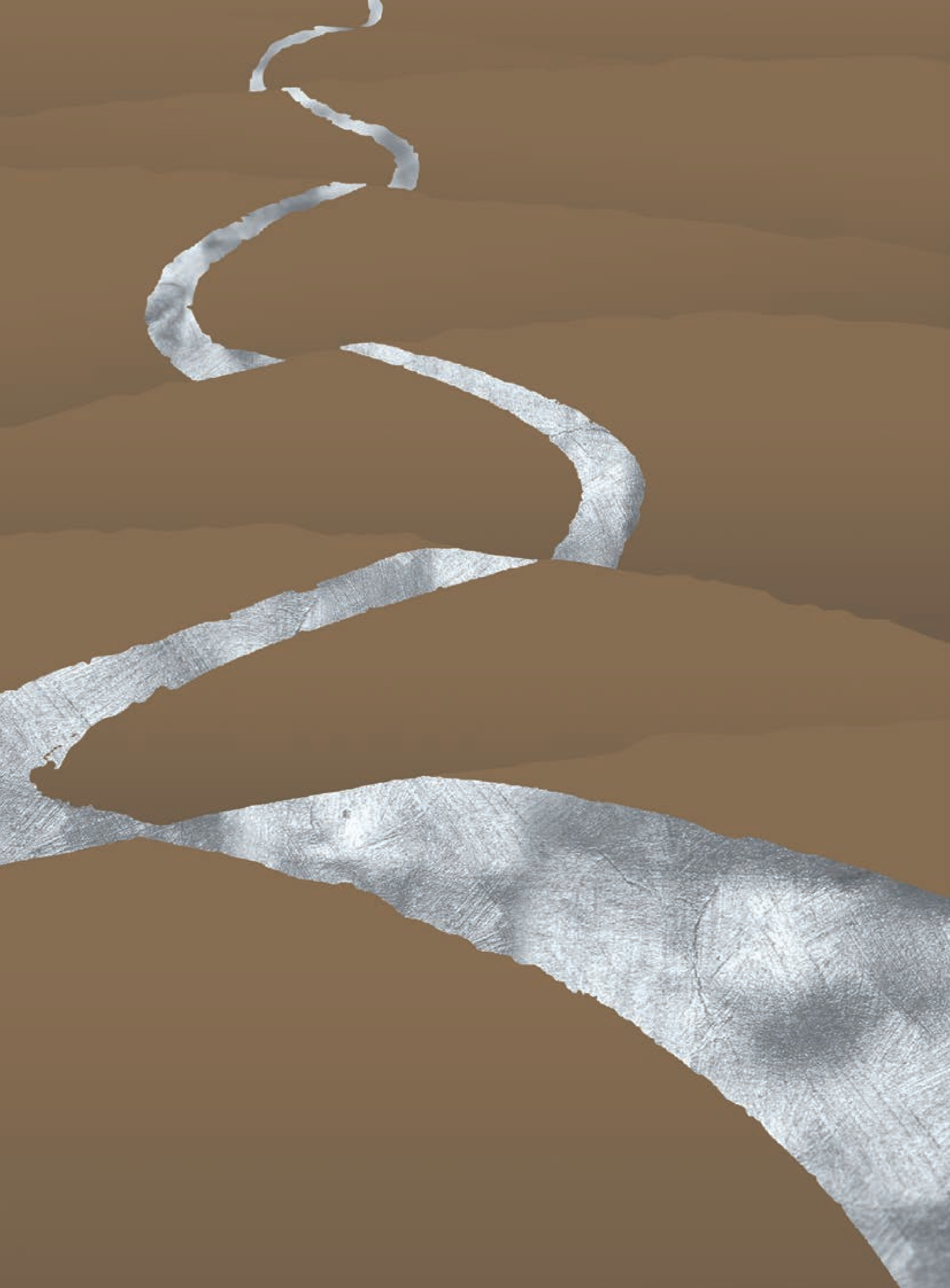
遠東宏信
FAR EAST HORIZON

2018 ANNUAL REPORT

Incorporated in Hong Kong with limited liability

Stock Code: 3360

However rough and rugged the path ahead, we strive to go forward.



2018 ANNUAL REPORT

Contents

Corporate Information

Board of Directors

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

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

Non-Executive Directors
Mr. YANG Lin
Dr. CHEN Guogang
(resigned on 20 July 2018)
Mr. LIU Haifeng David
Mr. KUO Ming-Jian
Mr. John LAW

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

Composition of Committees

Audit and Risk Management Committee
Mr. YIP Wai Ming *(Chairman)*
Mr. HAN Xiaojing
Mr. John LAW

Remuneration and Nomination Committee
Mr. LIU Jialin *(Chairman)*
Mr. HAN Xiaojing
Mr. KUO Ming-Jian

Strategy and Investment Committee
Mr. LIU Haifeng David *(Chairman)*
Mr. KONG Fanxing
Mr. CAI Cunqiang

Company Secretary

Ms. MAK Sze Man

Authorised Representatives

Mr. KONG Fanxing
Ms. MAK Sze Man

Registered Office

Suite 6305, 63/F,
Central Plaza,
18 Harbour Road,
Wanchai, Hong Kong

Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

Suite 6305, 63/F,
Central Plaza,
18 Harbour Road,
Wanchai, Hong Kong

Share Registrar

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

Principal Bankers

China Development Bank
Bank of China

Auditors

Ernst & Young

Legal Adviser

Baker & McKenzie

Company's Website

www.fehorizon.com

Stock Code

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 3360

Company Profile

Far East Horizon Limited (the "Company" or "Far East Horizon") and its subsidiaries (the "Group") is one of China's leading innovative financial companies focusing on the Chinese fundamental industries and leveraging the business model of integrating finance and industry to serve enterprises of greatest vitality with the support of the fast-growing and enormous economy in China. Based on its operational philosophy of "finance + industry", Far East Horizon endeavours to realize its vision of "Integrating global resources and promoting China's industries" by making innovations in products and services to provide our customers with tailor-made integrated operations services. Over the past more than 10 years, the Group has been leading the development of the industry, and has been listed among the Fortune China 500 and Forbes Global 2000.

Over the past two decades, the Group has evolved from a single financial service company into an integrated service provider with a global vision centered on China so as to facilitate national economic and sustainable social development. With the creative integration of industrial services and financial capital and with unique advantages in the organization of resources and value added services, we provide integrated finance, investment, trade, advisory and engineering services in healthcare, education, infrastructure construction, industrial machinery, public consuming, transportation and logistics, urban public utility as well as other fundamental sectors.

The Group, headquartered in Hong Kong, has business operations centers in Shanghai and Tianjin, and has offices in major cities throughout China such as Beijing, Shenyang, Ji'nan, Zhengzhou, Wuhan, Chengdu, Chongqing, Changsha, Shenzhen, Xi'an, Harbin, Xiamen, Kunming, Hefei, Nanning and Urumqi, forming a client service network that covers the national market. The Group has been successfully operating its multiple specialized business platforms in China and abroad in financial services, industrial investment, hospital investment and operations, equipment operation services, exquisite education, trade brokerage, management consulting, engineering services, etc.

The Company was officially listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 30 March 2011.

Chairman's Statement

Far East Horizon Limited
Chairman of the Board

NING Gaoning

Dear shareholders,

The year 2018 under review was really a haunting year. Despite the general growth in the global economy, the development of major economies diverged. They faced various challenges arising from external unfavorable factors such as trade disputes and geopolitics. As one of the major players in the global economy, the Chinese economy faced dual pressure from both external challenges and internal contradictions in the development. However, the Chinese economy showed greater resilience and potential for development in general. By continuously facilitating the implementation of various measures on comprehensive and in-depth reform, the Chinese economy has gradually clarified its future development direction. We believe that the comprehensive promotion of systematic and market-oriented reform is the only way to stimulate long-term economic growth drivers, effectively balance the industrial structure, and benefit all stakeholders in the economy. As a party involved in the reform and opening up of the Chinese economy, we firmly believe that the Central Government is determined, confident and capable of promoting the successful transformation and upgrade of the Chinese economy, thus building up a solid foundation for the long-term healthy economic development, and ultimately realizing the great rejuvenation of the Chinese nation.

In 2018, the Group continued to adhere to its development vision of "integrating global resources and promoting China's industries" and the development strategy of "finance + industry with organic and efficient synergy". By integrating finance with various related industry chain resources, the Group innovated its bundled services, and offered all-rounded support for the long-term development of China's basic industry customers. The Group achieved remarkable results, thereby successfully meeting all annual targets set by the board of directors (the "Board") and creating good financial value for shareholders. All of these were attributable to the valuable support from shareholders throughout the whole year. On behalf of the Board and all staff of the Group, I would like to hereby express our sincere gratitude.

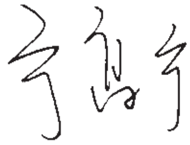
Chairman's Statement

As of the end of 2018, the Group timely adjusted its operating strategies in line with the market trend, thus achieving faster growth and efficiency improvement. Total assets exceeded RMB265.9 billion, representing an increase of approximately 16.9% from the beginning of the year. Throughout the year, profit attributable to ordinary shareholders amounted to approximately RMB3.93 billion, representing a year-on-year increase of approximately 21.6%. At the same time, the asset quality of the Group remained safe and steady, with the rate of non-performing assets of 0.96% and provision coverage rate of over 230%. The general trend remained steady as compared with prior years, with further improvement in the asset return rate.

During the year 2018 under review, the Board of the Group, which did not let its shareholders down, duly abided by its responsibilities and constantly improved its internal governance standards. In accordance with the requirements of the Corporate Governance Code of the Stock Exchange, the Company convened four regular board meetings in 2018 to review and approve various issues, including the 2017 annual results, the 2018 interim results, the strategic planning report for the next three years, the annual operating budget, the labor cost budget, continuing connected transactions, financing plans, and the granting under the equity incentive plans, upon comprehensive discussion. All decisions made were generally in line with the development needs of the Group and in the interests of all shareholders. At the same time, the professional committees under the Board fully performed their respective rights and responsibilities granted by the Board in various aspects such as the improvement of compensation incentive system of the Company and the facilitation of the implementation of the Company's development strategy, thus maximizing the protection over interests of all shareholders.

Looking forward in 2019, there are still uncertainties in the global economy, with different internal and external challenges ahead in different countries. Under the leadership of the Central Government, the Chinese economy will continue to "centering on economic construction", and strive to maintain a balance between "steady growth" and "structural adjustment". Traditional industries that are facing overcapacity will face challenges from various aspects, such as regulatory policies, resources allocation and scope for sustainable operations. For those industries, we will adopt prudent avoidance strategy. For basic industries that are closely related to people's livelihood and urbanization development, they shall have plenty scope for development if they are in line with the overall economic growth and the public expectation of quality life. We will highly focus on those industries and actively participate in relevant investments. Facing both opportunities and challenges ahead, the Group will adhere to its preliminary corporate vision, stay in line with the economic trend in China, focus on basic industries and offer all-rounded services for industry customers, thereby achieving win-win situation. The Group will strive to achieve various annual operating goals set by the Board, and create greater value for all shareholders and all parties of the society.

NING Gaoning
Chairman of the Board
Far East Horizon Limited



CEO's Statement

Far East Horizon Limited
Vice Chairman of the Broad and CEO

KONG Fanxing

Dear Shareholders,

2018 marked the 40th anniversary of the opening up and reform of the Chinese economy. Last year, the Chinese economy was still able to maintain steady growth despite numerous challenges. The Chinese economy remained the second largest economy across the world in terms of aggregate economic value, with contribution to global economic growth of nearly 30%. This reflected the comprehensive achievements made by different industries in the economy since the opening up and reform of the Chinese economy 40 years ago. 2018 also marked the opening year of the adherence to the "19th National Congress" spirit. Under his report for the 19th National Congress, President Xi Jinping pointed out that the Chinese economy had shifted to high-quality development stage from rapid growth stage. To realize the new development layout, China had been further deepening its economic reform, and striving to promote the transformation from a factor-driven economy to an innovation-driven economy. In respect of the real economy, China had been preparing for the industry structural adjustment and upgrade, and orderly handled and managed financial risk exposures. In addition, amid the weakened momentum of the global economic growth, the slower global trade growth, and the increasing uncertainties and challenges in the global market, the cooperation and interaction between China and other major economies across the world would be exposed to a more complex environment. The above unprecedented environment imposed stricter requirements on and posed challenges to how we served and participated in the Chinese economy and industries.

During the year 2018 under review, under the leadership and support of the Board and the guidance of the strategic framework of "Finance + Industry", Far East Horizon Limited (the "Group" or "Far East Horizon") continued to implement the principle of healthy operation, strengthen its strategic guidance, focus on reducing operational risks and improve asset security. Hence, the Group delivered outstanding results once again last year. As at the end of 2018, the Group's total assets reached approximately RMB265.9 billion, representing a year-on-year increase of approximately 16.9%. The operating revenue for the year amounted to approximately RMB25.4 billion, representing a year-on-year increase of approximately 35.1%. Net profit attributable to ordinary shareholders for the year amounted to approximately RMB3.93 billion, representing a year-on-year increase of approximately 21.6%. The Group had been duly fulfilling its commitment to shareholders in more than a decade. Thanks to its brilliant results consistently delivered over the years, Far East Horizon became one of the China Fortune 500 and Forbes Global 2000 once again, reflecting the Group's efforts made to become a financial institution that creates sustainable, effective and ever-increasing value, which had been recognized in the global market.

CEO's Statement

As a party benefiting from the reform and opening up of the Chinese economy, as well as a participant in economic development, the Group had increased its services offered and participation in major industries that were related to public livelihood last year. In 2018, amid the severe market volatility and the increasing risk exposures, the operating system of the Group was under greater pressure with more challenges. However, by consolidating competitive resources in respect of industries, the market and customers, and fully exploiting the organic coordination and promotion between finance and industries, leveraging the dedicated works of all staff to overcome difficulties, the Group successfully achieved major business objectives, provided that assets remained secured and steady. As at the end of 2018, the Group's interest-earning assets exceeded RMB223.9 billion, with the rate of non-performing assets for the year was maintained at an optimal level of 0.96%. The provision coverage rate for non-performing assets rose to 236.73%. Liquidity and interest rate risk management remained stable and controllable. The aforementioned performance reflected the resilience, fineness and synergy of the strong systematic capability of the Group established over the years in response to market changes.

CEO's Statement

In respect of industrial operations, the Group continued to put forward industry layout during the period with great progress. In respect of healthcare segment, as at the end of 2018, the Group invested in 54 medical institutions, with approximately 20,000 available beds under institutions operated by the Company, making it become a unique outstanding performer and supplementary power for medical institutions in China. In response to the state strategy of "healthy China" and "curing serious diseases within the county", and centering on the operating mode of "one set of system and one network for one hospital", we fully facilitated the establishment of academic business unit and the building up of standardized, centralized operating network, thus offering the public across China with quality medical, rehabilitation and elderly care services. In respect of infrastructure construction segment, the equipment operation service entities of the Group realized joint promotion of top five product lines, and offered comprehensive, one-stop equipment operation services for customers in infrastructure construction sector. Leveraging their nationwide operating network and multiple operation capability, those equipment operation service entities of the Group had effectively improved users' operating efficiency and continuously created value for users, thus successfully developing themselves into the pioneer in the construction equipment operation sector in China. In respect of education segment, we timely adjusted development strategy and product positioning based on the changes in policies. We also explored exquisite K12 education and integrated resources in education industry chain, aiming to provide quality domestic and overseas education for Chinese students. Under the principle of "cultivating talents through people-orientated fusion of Chinese and Western education", our academic system and brand image had gradually formed.

What's past is prologue. Looking forward, the Group will continue to adhere to the innovative development mode of "organic and effective combination of finance and industry", optimize the layout in traditional financial business and asset industry, create innovative services and strengthen risk management. At the same time, on the basis of gradual expansion in industry operation business scale, the Group will strive to enhance internal operating efficiency and increase financial value of industry operation business, thereby realizing the organic coordination and cross-promotion between financial business and industry operation business, actively establishing business pattern and model that share greater value within the industry chain, and creating greater value for shareholders.

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

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

Business Overview

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Total revenue	**25,378,612**	18,782,314	13,928,369	11,795,983	10,060,717
Financial services (interest income)	**16,137,698**	10,972,384	8,139,285	6,849,330	6,457,748
Advisory services (fee income)	**4,889,048**	4,661,303	3,820,487	3,850,659	2,709,366
Revenue from industrial operation	**4,515,625**	3,254,433	2,113,804	1,206,807	1,009,959
Tax and surcharges	**(163,759)**	(105,806)	(145,207)	(110,813)	(116,356)
Cost of sales	**(11,484,055)**	(8,106,962)	(5,735,538)	(4,771,610)	(4,106,547)
Borrowing costs	**(8,527,275)**	(5,801,693)	(4,131,599)	(3,963,282)	(3,422,599)
Costs for industrial operation	**(2,956,780)**	(2,305,269)	(1,603,939)	(808,328)	(683,948)
Pre-provision operation profit(1)	**9,152,801**	6,739,557	5,333,732	4,426,148	3,961,209
Profit before tax	**6,492,567**	4,787,188	4,072,470	3,579,725	3,211,200
Profit for the year attributable to holders of ordinary shares of the Company	**3,927,472**	3,229,057	2,882,208	2,503,109	2,295,954
Basic earnings per share (RMB)	**1.02**	0.84	0.74	0.70	0.70
Diluted earnings per share (RMB)	**1.02**	0.84	0.74	0.70	0.70
Profitability indicators					
Return on average assets(2)	**1.78%**	1.73%	1.92%	2.06%	2.37%
Return on average equity(3)	**14.80%**	13.37%	13.00%	13.35%	15.19%
Net interest margin(4)	**3.51%**	3.09%	3.04%	2.62%	3.30%
Net interest spread(5)	**2.28%**	1.96%	1.79%	1.22%	2.01%
Cost to income ratio(6)	**35.36%**	36.64%	35.07%	36.04%	38.06%

Business Overview

	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
Assets and liabilities					
Total assets	**265,969,794**	227,454,273	166,560,921	139,312,889	110,726,124
Net interest-earning assets	**223,989,078**	193,977,583	139,798,341	121,970,478	100,828,572
Total liabilities	**226,877,290**	191,046,481	141,714,820	116,351,469	93,276,231
Interest-bearing bank and other borrowings	**172,514,982**	144,899,680	106,937,588	83,428,801	71,777,837
Gearing ratio	**85.30%**	83.99%	85.08%	83.52%	84.24%
Total equity	**39,092,504**	36,407,792	24,846,101	22,961,420	17,449,893
Equity attributable to holders of ordinary shares of the Company	**27,729,743**	25,340,869	22,959,230	21,391,037	16,112,952
Net assets per share (RMB)	**7.01**	6.41	5.81	5.41	4.89
Duration matching of assets and liabilities					
Financial assets	**238,575,428**	208,240,849	152,479,868	128,291,002	104,545,229
Financial liabilities	**216,469,936**	183,911,170	136,157,626	112,966,022	90,313,636
Quality of interest-earning assets					
Non-performing asset ratio(7)	**0.96%**	0.91%	0.99%	0.97%	0.91%
Provision coverage ratio(8)	**236.73%**	219.71%	212.13%	201.24%	218.66%
Write-off of non-performing assets ratio(9)	**34.41%**	5.21%	29.82%	27.39%	19.02%
Overdue interest-earning assets (over 30 days) ratio(10)	**0.94%**	0.72%	0.98%	1.08%	0.91%

Business Overview

Notes:

(1) Pre-provision operating profit = profit before tax + provision for assets;

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

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

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

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

(6) Cost to income ratio = selling and administrative expense/gross profit;

(7) Non-performing asset ratio = net non-performing assets/net interest-earning assets;

(8) Provision coverage ratio = provision for interest-earning assets/net non-performing assets;

(9) Write-off of non-performing assets ratio = interest-earning bad debt written-off/non-performing assets at the end of the previous year;

(10) Overdue interest-earning assets (over 30 days) ratio = overdue interest-earning assets (over 30 days)/net interest-earning assets.

Management Discussion and Analysis

1. Economic Environment

1.1 Macro-economy Environment

During 2018, the global economy continued to recover in general, but the external environment changed significantly with increasing uncertainty. The Chinese economy maintained strong resilience. However, under the transition period for the conversion of kinetic energy from old ones to new ones, the long-term accumulated risk exposures have increased, and the economy is facing downward pressure. In 2018, China's gross domestic product (GDP) was RMB90 trillion, a year-on-year increase of 6.6%, representing a decrease of 0.2 percentage points as compared to 2017. In terms of top three demands, namely investment, consumption and export, all of which slowed down as compared to the previous year. In 2018, the national fixed asset investment was RMB64.6 trillion, a year-on-year increase of 5.9%, representing a decrease of 1.3 percentage points as compared to 2017. The total national sales of social consumer goods was RMB38.1 trillion, a year-on-year increase of 9.0%, representing a decrease of 1.2 percentage points as compared to 2017. The total imports and exports for the year was RMB30.5 trillion, a year-on-year increase of 9.7%, representing a decrease of 4.5 percentage points as compared to 2017.

For financial environment, the People's Bank of China continued to implement a stable monetary policy, and made targeted preliminary adjustment and fine-tuning in a timely and appropriate manner in view of the increasing external uncertainty and the downward pressure on the economy. On the whole, the growth rate of the stock of broad money and aggregate financing to the real economy basically matched with that of nominal GDP, while the macro-leverage ratio remained stable. In 2018, the growth of monetary supply remained above 8% for the whole year, with a balance of M2 of RMB183 trillion, representing a year-on-year increase of 8.1%; the annual aggregate financing to the real economy increased by RMB19 trillion, a year-on-year increase of 9.8%; the RMB loans increased by RMB16 trillion, representing an increase of RMB2.6 trillion as compared to 2017.

1.2 Industry Environment

With the further transformation and upgrading of the Chinese economy and deepening of industrial restructuring, the growth of the tertiary sector continued to outpace that of the secondary sector. In 2018, the added value of primary sector was RMB6.5 trillion, a year-on-year increase of 3.5%, representing a decrease of 0.4 percentage points as compared to 2017. The added value of secondary sector was RMB36.6 trillion, a year-on-year increase of 5.8%, representing a decrease of 0.3 percentage points as compared to 2017. The added value of tertiary sector was RMB46.9 trillion, a year-on-year increase of 7.6%, representing a decrease of 0.4 percentage points as compared to 2017. The added value of each of the primary sector, secondary sector and tertiary sector accounted for 7.2%, 40.7% and 52.2% of GDP, respectively.

Data Resource: National Bureau of Statistics

Management Discussion and Analysis

In respect of various industries sectors in which the Group operated, the industry environment has gradually shown a significant diversified trend. Sunrise industries with welfare demand and weak periodicity, including healthcare and education industry, maintained an upward development trend amid the continuous growth of demand. The overall growth in construction industry has slowed down. In 2018, the added value of the construction industry was RMB6.2 trillion throughout the year, representing a year-on-year increase of 4.5%. However, in view of the vast land area and huge population, the construction industry still has a relatively broad market. The establishment of "One Belt, One Road" has promoted the further development of the transportation industry; the implementation of new urbanization work has facilitate the continuous upgrading of urban public ancillary facilities, bringing a positive impact on the Group's transportation and logistics sector and urban public sector. With the continuous adjustment and upgrading of the industrial structure, the industry and equipment industry has been affected to a certain extent. According to the National Bureau of Statistics, the total national industrial added value was RMB30.5 trillion in 2018, a year-on-year increase of 6.1%, representing a decrease of 0.2 percentage points as compared to 2017. However, with the development of new technologies such as 5G, artificial intelligence and the Internet of Things, the high-end manufacturing equipment field has new development momentum. In addition, industries such as electronic communication and cultural media have achieved steady growth. Among which, the added value of above-scale electronic and electronic information manufacturing industry recorded a year-on-year increase of 13.1% in 2018. There is still room for growth in the welfare and consumer industry.

1.3 The Leasing Industry

In 2018, the financial leasing industry continued to develop throughout China. However, the growth of the number of industrial enterprises, registered capital and business scale has slowed down significantly. In general, the financial leasing industry was still under healthy and stable development.

According to the statistics of China Leasing Union, as of the end of 2018, the total financial leasing companies in China amounted to approximately 11,777, representing a year-on-year increase of 21.7% or increased by 2,101 from 9,676 at the end of last year. The overall registered capital of the industry amounted to approximately RMB3.3 trillion, representing a year-on-year increase of 1.33%. The balance of financial leasing contracts in China amounted to approximately RMB6.7 trillion, representing a year-on-year increase of 9.38%.

In terms of industrial regulatory, regulatory responsibilities for financial leasing has been assigned to the China Banking and Insurance Regulatory Commission in 2018. In the long run, the transformation of the regulatory body will further improve the regulatory system of the financial leasing industry, which is favorable for the long-term development of finance leasing enterprises.

Management Discussion and Analysis

1.4 Company's Solutions

In response to the predictable and unpredictable challenges in external and internal environment, the Group adhered to the development strategy of "finance + industry", thus achieving stable growth in business result while safeguarding its operation.

In terms of financial business, the Group (i) optimized the layout of the business sector. The Group further focused on seven business sectors, namely healthcare, construction, education, public welfare and consuming, industry and machinery, transportation and logistics, as well as urban public utility, deepening the industrial chain, searching for quality customers within the industry, and continuously increasing customer coverage; (ii) continued to promote business innovation. Through comprehensive integration of resources, the Group continued to enrich its business innovation methods. While striving to promote financial leasing services, the Group will continue to strengthen its comprehensive service capabilities and expand its industrial funds, wealth management, AMC, financial advisory and other innovative products based on the actual operations of our customers in various industries to further satisfy customers' diversified and comprehensive needs, deepen customer loyalty and strengthen customer service synergy; (iii) strengthened asset security management. The Group has a professional asset management team comprised of over 160 people. The team members were stationed across China, close proximity to the region and area where assets are located, thus enabling the team to arrive the site within three hours after any abnormality has reported, achieving appropriate monitoring, rapid response and decisive handling. Meanwhile, the Group uses all possible resources and means to handle and effectively overcome the problem of non-performing assets left over from history. In 2018, the Group's non-performing asset ratio remained at a manageable level.

In terms of industry operations, the Group strived to take advantage of the window period of industry upgrading while promoting its industry policy to form an industrial layout that corresponds with its industrial development direction and makes use of Far East's merits, in order to further establish an operation system of organic collaboration of finance and industry.

In 2018, the Group continued to invest in and acquire quality hospitals across China, with a total of 54 invested medical institutions and 20,000 available beds under institutions operated by the Company. The hospital asset layout achieved an advantageous stage in gradually building a nationwide medical network to provide medical services for the public. Meanwhile, we will actively promote the innovative medical management model of "one system, one network, one hospital", and truly bring out the value of a hospital group platform and enhance the operation of subsidiary hospitals through integrated design of medical management, discipline development and functional management. In terms of rehabilitation and pension business direction, in 2018, the Group established three new rehabilitation hospitals in Suzhou (Jiangsu), Jinhua (Zhejiang) and Dongying (Shandong) while actively exploring high-end retirement services.

Management Discussion and Analysis

In terms of construction industry, the Group followed the trend of new industry development and implemented a series of measures, such as adjustment of asset structures, enhancement of customer structures, expansion of business sites and development of comprehensive businesses. In 2018, the construction industry further integrated its resources and the scale of assets of operational leasing ranked the first in the domestic industry. The operation scale of sub-sectors of high-altitude vehicles, turnover materials, pavement equipment and formworks also ranked first in China.

In terms of education, in 2018, the state focused on the prominent issues and weaknesses in education development, standardized the development of different education stages and further improved the education public service system. In response to the external development, the Group has actively adjusted its policy on education operation, such as establishing a new model for high quality K12 education operation and the idea of "fine and best" schools, and improving the operation quality of subsidiary schools. Meanwhile, we also actively explored other sectors in the education field such as vocational education and higher education.

In terms of fund-raising, the Group continued to expand its traditional financing channels and explore innovative financing methods. As for domestic financing, we strived to promote strategic cooperation with key large financial institutions, while digging deep into the resources of small and medium-sized banks, thus securing powerful access to resources. As for overseas financing, the international rating of Fitch and S&P's, two independent international rating companies, remained to be BBB- throughout the year; meanwhile, the issuance window of overseas bonds was accurately grasped, and three overseas bonds were successfully issued; moreover, we strengthened our cooperation with overseas syndicates to ensure effective protection of the Group's financial resources.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In 2018, the Group relied on China's real economy and continued to implement its operational philosophy of "finance + industry", which led to an overall healthy and steady growth in its results. The Group realized a profit before tax of RMB6,492,567,000, representing growth of 35.62% as compared to the corresponding period of the previous year. The profit attributable to holders of ordinary shares of the Company during the period was RMB3,927,472,000, representing a growth of 21.63% as compared to the corresponding period of the previous year. The following table sets forth the figures for 2018 and the comparative figures for 2017.

	For the year ended 31 December		
	2018	2017	
	RMB'000	RMB'000	Change %
Revenue	25,378,612	18,782,314	35.12%
Cost of sales	(11,484,055)	(8,106,962)	41.66%
Gross profit	13,894,557	10,675,352	30.16%
Other income and gains	739,058	637,738	15.89%
Selling and administrative expenses	(4,913,015)	(3,911,745)	25.60%
Other expenses	(395,474)	(422,743)	-6.45%
Finance costs	(459,849)	(225,372)	104.04%
Gains and loss on investment in joint ventures/associates	287,524	(13,673)	-2,202.86%
Pre-provision operating profit	9,152,801	6,739,557	35.81%
Provision for assets	(2,660,234)	(1,952,369)	36.26%
Profit before tax	6,492,567	4,787,188	35.62%
Income tax expense	(2,104,442)	(1,377,623)	52.76%
Profit for the year	4,388,125	3,409,565	28.70%
Attributable to:			
Holders of ordinary shares of the Company	3,927,472	3,229,057	21.63%
Holders of perpetual securities	502,735	231,264	117.39%
Non-controlling interests	(42,082)	(50,756)	-17.09%

Management Discussion and Analysis

2.2 Revenue

In 2018, the Group realized revenue of RMB25,378,612,000, representing a growth of 35.12% from RMB18,782,314,000 as compared to the corresponding period of the previous year. It also recorded steady growth of income in financial and advisory segment and industrial operation segment. In 2018, income (before taxes and surcharges) of the financial and advisory segment was RMB21,026,746,000, accounting for 82.32% of the total income (before taxes and surcharges) and representing a growth of 34.50% as compared to the corresponding period of the previous year. Income derived from advisory services grew by 4.89% mainly due to the upward shift of customer qualifications with stronger operational management capabilities, and the continuous improvement and adjustment in the Company's consulting service products in response to customers' needs. The Group also accelerated its pace in developing integrated industrial operation business with income derived from industrial operations grew by 38.75% as compared to the corresponding period of the previous year.

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

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Financial and advisory segment	21,026,746	82.32%	15,633,687	82.77%	34.50%
Financial services (interest income)	16,137,698	63.18%	10,972,384	58.09%	47.08%
Advisory services (fee income)	4,889,048	19.14%	4,661,303	24.68%	4.89%
Industrial operation segment	4,515,625	17.68%	3,254,433	17.23%	38.75%
Total	25,542,371	100.00%	18,888,120	100.00%	35.23%
Taxes and surcharges	(163,759)		(105,806)		54.77%
Income (after taxes and surcharges)	25,378,612		18,782,314		35.12%

The Group also categorized income by industry. In 2018, in order to adapt to the external environment, especially for the continuously changing industry, the Group has re-divided the industry layout, covering 9 industries: healthcare, education, infrastructure construction, industrial machinery (mainly includes segment sectors of the automobile industry, machinery industry, material industry, etc.), packaging (mainly includes segment sectors of the modern agriculture, food and beverage, consuming packaging, green ecology, etc.), transportation (mainly includes segment sectors of transportation facilities operation, transportation services, transportation extension service, etc.), electronic information (mainly includes segment sectors of the information media and electronics manufacturing, etc.), urban public utility (mainly includes segment sectors of the urban transportation, urban environmental protection and urban energy, etc.), and comprehensive development (mainly includes segment sectors of the textile, light industry, chemical industry, etc.).

Management Discussion and Analysis

After re-division, the current business is mainly concentrated in seven major industries: healthcare, education, infrastructure construction, industry and machinery (originally the industrial machinery, now mainly includes segment sectors of the automobile, machinery, material industry, etc.), public consuming (originally the electronic information, now mainly includes segment sectors of the electronic information manufacturing, culture, media, sports and entertainment, packaging, food, textile and light industry, information transportation and services, commercial and retail industries, etc.), transportation and logistics (originally the transportation, now mainly includes segment sectors of the transportation infrastructure, transportation services, transportation extension services, materials and trading, farming, forestry, animal husbandry and fishery, green ecology, etc.), urban public utility (now mainly includes segment sectors of urban infrastructure construction, urban municipal services, urban operation services, etc.). In 2018, with the promulgation of national macro-control policies and the further promotion of the industrial operation of the Group, all industries have recorded steady growth, with overall income of healthcare, education and construction industries increased by 34.51%, 23.88% and 12.50%, respectively as compared to the corresponding period of last year. With the expansion of the industries covered, income of urban public utility increased by 106.72% as compared to the corresponding period of last year.

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

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	6,307,027	24.69%	4,688,979	24.83%	34.51%
Education	3,469,783	13.58%	2,800,925	14.83%	23.88%
Infrastructure construction	4,046,983	15.87%	3,597,334	19.05%	12.50%
Industrial machinery	1,622,271	6.35%	1,565,175	8.29%	3.65%
Public consuming	1,730,032	6.77%	1,536,327	8.13%	12.61%
Transportation and logistics	1,804,526	7.06%	1,538,676	8.15%	17.28%
Urban public utility	6,527,314	25.55%	3,157,552	16.70%	106.72%
Others	34,435	0.13%	3,152	0.02%	992.48%
Total	25,542,371	100.00%	18,888,120	100.00%	35.23%

Management Discussion and Analysis

2.2.1 Financial Services (Interest Income)

The interest income (before taxes and surcharges) from the financial and advisory segment of the Group rose by 47.08% from RMB10,972,384,000 for 2017 to RMB16,137,698,000 for 2018, accounting for 63.18% of the Group's total revenue (before taxes and surcharges).

The table below sets forth the average balance of interest-earning assets, interest income and average yield by industry during the indicated periods.

	For the year ended 31 December					
	2018			2017		
	Average balance of interest-earning assets(1) RMB'000	Interest income(2) RMB'000	Average yield(3) %	Average balance of interest-earning assets(1) RMB'000	Interest income(2) RMB'000	Average yield(3) %
Healthcare	40,431,343	3,226,782	7.98%	36,193,704	2,619,066	7.24%
Education	35,088,263	2,614,050	7.45%	29,792,171	2,088,974	7.01%
Infrastructure construction	26,251,720	1,741,529	6.63%	23,033,318	1,442,854	6.26%
Industrial machinery	20,107,789	1,244,392	6.19%	18,435,115	1,032,918	5.60%
Public consuming	19,411,513	1,323,839	6.82%	19,160,276	1,237,020	6.46%
Transportation and logistics	20,015,386	1,312,186	6.56%	16,962,592	1,079,510	6.36%
Urban public utility	54,943,395	4,648,334	8.46%	23,946,746	1,472,042	6.15%
Others	498,612	26,586	5.33%	–	–	N/A
Total	216,748,021	16,137,698	7.45%	167,523,922	10,972,384	6.55%

Notes:

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

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

(3) Average yield represents the quotient of interest income as divided by average balance of interest-earning assets.

(4) Interest-earning assets include net financial leasing receivable, entrusted loans, mortgage loans, long-term receivables, factoring receivables and respective interest accrued but not received.

Management Discussion and Analysis

Analysis according to average balance of interest-earning assets

The average balance of interest-earning assets of the Group increased by 29.38% from RMB167,523,922,000 for 2017 to RMB216,748,021,000 for 2018. Besides the continuous progress in the three major segments, namely healthcare, education and infrastructure construction, there were substantial growth in urban public utility for the year, representing an increase of 129.44% as compared to last year. The increase in the average balance of interest-earning assets reflected the business expansion of the Group and its in-depth exploration into each of the industries, as well as the benefits from the Group's greater efforts in marketing and promotion.

Analysis according to average yield

In 2018, the average yield of the Group was 7.45%, representing 0.90 percentage point higher than 6.55% in the last year, which was mainly due to the fact that (i) since 2017, the Group actively adjusted its pricing strategy according to the change in market environment; (ii) in the balance of interest-earning assets in 2018, approximately 70% of the interest-earning assets were added from the second half of 2017 to the end of the year, and the pulling effect of the pricing of the additional interest-earning assets on average yield is enlarged in this year; (iii) the Group disposed some low-yield projects through asset-backed securities and other businesses in 2018; (iv) the Group re-divided the industry layout this year, through in-depth exploration to the industry and integrating the trend of the industrial environment, the Group further explored the business needs of customers in the healthcare, industrial machinery and urban utilities industries, the average yield of these industries in the year increased by 0.74%, 0.59% and 2.31% respectively over last year.

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			
	2018		2017	
	RMB'000	% of total	RMB'000	% of total
Northeast China	1,847,308	11.45%	1,388,307	12.65%
Northern China	1,705,295	10.57%	1,153,690	10.51%
Eastern China	3,849,155	23.85%	2,830,077	25.79%
Southern China	1,669,440	10.34%	2,098,402	19.12%
Central China	2,843,890	17.62%	1,298,695	11.84%
Northwest China	1,130,609	7.01%	1,152,670	10.51%
Southwest China	3,092,001	19.16%	1,050,543	9.58%
Total	16,137,698	100.00%	10,972,384	100.00%

Management Discussion and Analysis

2.2.2 Advisory Services (Fee Income)

In 2018, fee income (before taxes and surcharges) from financial and advisory segment grew by 4.89% from RMB4,661,303,000 for 2017 to RMB4,889,048,000 for 2018, accounting for 19.14% of the total revenue (before taxes and surcharges) of the Group.

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

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	770,463	15.76%	622,098	13.35%	23.85%
Education	681,080	13.93%	564,677	12.11%	20.61%
Infrastructure construction	515,793	10.55%	653,258	14.01%	-21.04%
Industrial machinery	377,879	7.73%	532,257	11.42%	-29.00%
Public consuming	402,385	8.23%	275,527	5.91%	46.04%
Transportation and logistics	275,291	5.63%	327,976	7.04%	-16.06%
Urban public utility	1,858,308	38.01%	1,685,510	36.16%	10.25%
Others	7,849	0.16%	–	–	N/A
Total	4,889,048	100.00%	4,661,303	100.00%	4.89%

Management Discussion and Analysis

Healthcare, education, infrastructure construction and urban public utility accounted for the greatest contribution to the aggregate growth of the Group's service charge income (before taxes and surcharges). In order to adapt to the changes in the external environment, the Group actively organized professional teams to carry out professional services, continued to upgrade its advisory services, and increased the variety of advisory services being provided to customers in targeted industries, thus maintaining growth in service fee income from healthcare, education, public consuming and urban public utility sectors. At the same time, due to the continuing maturing and stabilization of environment in certain industries, the Group has adjusted the contents of advisory services, resulting in decline in service fee income from infrastructure construction, industrial machinery and transportation and logistics sectors. The Group will gradually enhance its service capabilities, enrich the scope and means of service based on the changes of customers' requirements, and strive to maintain steady and healthy growth of service income of the business.

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			
	2018		2017	
	RMB'000	% of total	RMB'000	% of total
Northeast China	465,182	9.51%	418,559	8.98%
Northern China	557,659	11.41%	544,778	11.69%
Eastern China	1,380,125	28.23%	1,213,921	26.04%
Southern China	290,397	5.94%	983,842	21.11%
Central China	603,765	12.35%	541,193	11.61%
Northwest China	339,310	6.94%	525,932	11.28%
Southwest China	1,252,610	25.62%	433,078	9.29%
Total	4,889,048	100.00%	4,661,303	100.00%

Management Discussion and Analysis

2.2.3 Revenue from Industrial Operation Segment

Revenue from industrial operation segment of the Group, before taxes and surcharges, increased by 38.75% from RMB3,254,433,000 for 2017 to RMB4,515,625,000 for 2018, accounting for 17.68% 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				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Revenue from industrial operation segment	4,515,625	100.00%	3,254,433	100.00%	38.75%
Including:					
Revenue from hospital operation[(1)]	2,194,490	48.60%	1,314,168	40.38%	66.99%
Revenue from operating lease	1,547,727	34.27%	1,259,195	38.69%	22.91%
Revenue from education institution operation	176,691	3.91%	146,631	4.51%	20.50%

Note:

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

In 2018, the Group's operating lease business had established a relatively optimized complete preliminary marketing system that focuses on high-end construction equipment operation, and the assets scale has joined the front ranks in sub-markets such as engineering equipment, formwork systems and turnover materials. Revenue (before taxes and surcharges) amounted to RMB1,547,727,000, accounting for 34.27% of the revenue from industrial operation segment for the year and representing an increase of 22.91% as compared to the same period of last year.

In 2018, the Group committed to further deepen and improve the curriculum system, operation flow management and culture integration of acquired kindergartens and schools within the Group. In 2018, the Group entered into agreements in respect of 3 kindergarten sites, there are also 6 newly opened kindergartens and 1 school sites, together with 7 kindergartens and 2 schools that have been operated in the previous years. As of the end of 2018, the Group operated 13 quality kindergartens (among which, 3 kindergartens had fulfilled their enrolment quota after optimization of curriculum and operation systems) and 3 schools (among which, 1 had fulfilled its enrolment quota) with nearly 1,800 students, representing an increase of 65.14% as compared to the end of 2017. Revenue from education institutions amounted to RMB176,691,000 in 2018, representing an increase of 20.50% as compared to 2017. The increase was significantly lower than that of the number of students in the school, mainly attributable to concentrated enrollment of newly enrolled students in the autumn of 2018. As of the end of 2018, the Group still had 1 kindergarten pending for acquisition. The Group will adjust its development strategy according to changes in external policies, refine the connotation of its services, improve the quality of teaching, thereby providing students with a good study environment based on the "school+ground" idea and striving to become a boutique private education system that is well known for its good reputation, strong service capabilities and distinguishing traits.

Management Discussion and Analysis

2.3 Cost of Sales

Cost of sales of the Group for 2018 was RMB11,484,055,000, representing an increase of 41.66% from RMB8,106,962,000 in the corresponding period of last year. Among them, the cost of the financial and advisory segment was RMB8,527,275,000, accounting for 74.25% of the total cost and representing an increase of 46.98% from RMB5,801,693,000 in the corresponding period of last year, mainly due to the rapid growth of the financial leasing business of the Group. During the period, the proportion of investment in interest-earning assets through debt financing increased while the additional financing cost in the surrounding financing market rapidly increased. Interest expenditure of the financial and advisory segment recorded a rapid growth due to the increases in financing size and additional financing cost. The cost of the industrial operation segment was RMB2,956,780,000, accounting for 25.75% of the total cost and representing an increase of 28.26% from RMB2,305,269,000 in the corresponding period of last year. This was mainly due to the fact that the Group's industrial operations in respect of healthcare and education were at their preliminary stage and their economies of scale were not sufficient. The rapid business expansion led to the significant growth in cost of sales for industrial operation. The Group will, through group management, gradually enhance operating efficiency of each industrial operation companies, to transform the cost of sales of industrial operation into its revenue in a highly-effective manner.

The table below sets forth the composition and the change of the Group's cost of sales by business segments during the indicated periods.

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the finance and advisory segment	**8,527,275**	**74.25%**	5,801,693	71.56%	46.98%
Cost of the industrial operation segment	**2,956,780**	**25.75%**	2,305,269	28.44%	28.26%
Cost of sales	**11,484,055**	**100.00%**	8,106,962	100.00%	41.66%

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2.3.1 Cost of the Financial and Advisory Segment

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

	For the year ended 31 December					
	2018			2017		
	Average balance(1) RMB'000	Interest expense RMB'000	Average cost rate(2)	Average balance (1) RMB'000	Interest expense RMB'000	Average cost rate (2)
Interest-bearing liabilities	164,932,937	8,527,275	5.17%	126,344,136	5,801,693	4.59%

Notes:

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

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

The cost of sales of financial and advisory segment increased from RMB5,801,693,000 for 2017 to RMB8,527,275,000 for 2018. The average cost rate of the Group was 5.17% for 2018, representing an increase as compared to 2017, mainly due to:

(i)In 2018, under the general "loose monetary policy and tight credit granting" financing environment in China, new domestic indirect withdrawals has resulted in an increase of 0.22% in the average cost rate; (ii) with the Group expanded overseas financing channels and increased the proportion of overseas withdrawals, the newly added overseas bank withdrawals has resulted in an increase of 0.04% in the average cost rate; (iii) in 2018, the Group completed the issuance of various products such as corporate bonds, targeted debt financing instruments and super-short financial bonds. In general, the overall yields of bond market continued to rise in the first half of the year and showed a downward trend in the second half of the year, resulting in the increase of 0.15% in the annual average cost rate; (iv) in respect of the outstanding interest-bearing liabilities at the beginning of 2018, due to the increase in overall financing cost in the market since 2017, the average cost rate increased by 0.17% as compared with 2017.

In 2019, under the strategy of "resources globalization", the Group will continue to optimize its liability structure and effectively control its finance costs. Our major measures are as follow: (i) the Group will deepen its cooperation with domestic major banks and non-bank institutions; (ii) the Group will actively focus on development in international market, enhance its communications with rating agencies and investors, as well as expand its cooperation with overseas financial markets; (iii) the Group will continue to explore new channels and products, thereby further enhancing and enriching its financing structure.

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2.3.2 Cost of the Industrial Operation Segment

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

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Cost of the industrial operation segment	2,956,780	100.00%	2,305,269	100.00%	28.26%
Of which:					
Cost of hospital operation [1]	1,584,290	53.58%	924,712	40.11%	71.33%
Cost of operating lease	764,977	25.87%	760,604	32.99%	0.57%
Cost of education institution operation	146,116	4.94%	109,898	4.77%	32.96%

Note:

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

Cost of operating lease of the Group increased by 0.57% to RMB764,977,000 for 2018 from RMB760,604,000 for 2017, which remained relatively stable as compared to last year.

In 2018, with 6 new kindergartens and 1 school commencing operation, the corresponding labor costs of Chinese and foreign teachers and the operational cost of housing leasing and decoration amortization were increased. The operating cost of educational institutions increased by RMB36,218,000 or 32.96% from 2017 to RMB146,116,000 for 2018, of which human resources, leasings and decoration sites for the new operation projects need to be reserved beforehand.

Management Discussion and Analysis

2.4 Gross Profit

The gross profit of the Group for 2018 increased by RMB3,219,205,000 or 30.16% to RMB13,894,557,000 from RMB10,675,352,000 in the corresponding period of the previous year. For 2018 and 2017, the gross profit margin of the Group was 54.75% and 56.84%, respectively.

2.4.1 Gross Profit of the Financial and Advisory Segment

The gross profit margin of the financial and advisory segment of the Group for 2018 was 59.45%, down from 62.89% in the same period last year. The gross profit margin of the financial and advisory segment was affected by the change of net interest income and net interest margin. For this year, the interest income growth rate was slightly higher than the interest expense growth rate. The following table sets forth the interest income, interest expense, net interest income, net interest spread and net interest margin during the periods indicated.

	For the year ended 31 December		
	2018	2017	
	RMB'000	RMB'000	Change %
Interest income[1]	16,137,698	10,972,384	47.08%
Interest expense[2]	8,527,275	5,801,693	46.98%
Net interest income	7,610,423	5,170,691	47.18%
Net interest spread[3]	2.28%	1.96%	0.32%
Net interest margin[4]	3.51%	3.09%	0.42%

Notes:

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

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

(3) Calculated as the difference between the average yield and the average cost. The average yield is calculated by dividing interest income by the average total balance of interest-earning assets. The average cost rate is calculated by dividing interest expense by the average total balance of the interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average total balance of interest-earning assets.

Net interest spread of the Group for 2018 increased by 0.32 percentage point to 2.28% as compared with 1.96% for the corresponding period of the previous year. The increase in net interest spread was primarily due to the increase of 90 basis points in the average yield on interest-earning assets of the Group and the increase of 58 basis points in respect of the average cost on interest-bearing liabilities of the Group. For the changes in respect of the average yield on interest-earning assets and average cost rate on interest bearing liabilities, please refer to the discussion and analysis in paragraphs 2.2.1 and 2.3.1 of this section. The net interest income of the Group increased by 47.18% to RMB7,610,423,000 for 2018 from RMB5,170,691,000 for 2017. The average balance on interest-earning assets increased by 29.38% as compared to the corresponding period of the previous year. Based on the above-mentioned reasons, the net interest margin of the Group increased by 0.42 percentage point to 3.51% as compared with 3.09% for the corresponding period of the previous year.

Management Discussion and Analysis

2.4.2 Gross Profit of the Industrial Operation Segment

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Gross profit of industrial operations segment	1,558,845	100.00%	949,164	100.00%	64.23%
Of which:					
Gross profit of hospital operation [(1)]	610,200	39.14%	389,456	41.03%	56.68%
Gross profit of operating lease	782,750	50.21%	498,591	52.53%	56.99%
Gross profit of educational institutions operation	30,575	1.96%	36,733	3.87%	-16.76%

Note:

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

The gross profit of the industrial operation segment increased by 64.23% to RMB1,558,845,000 for 2018 from RMB949,164,000 for 2017. Among which, the gross profit of the hospital operation and the operating leasing business were RMB610,200,000 and RMB782,750,000 respectively, accounting for 39.14% and 50.21% of the total gross profit of the industrial operation segment.

The gross profit of operating lease increased by 56.99% from RMB498,591,000 for 2017 to RMB782,750,000 for 2018, mainly due to the fact that the price of steel went up, resulting in an increase in the rental price of related leasing items of the Group. Moreover, while increasing the size of operating lease equipment, the Group enhanced reasonable allocation of equipment according to the customer needs in the industry to raise the leasing efficiency of equipment. The gross profit margin for 2018 was 50.57%, which was higher than the gross profit margin of 39.60% for 2017.

In 2018, the gross profit of the education organization operation was RMB30,575,000, with gross profit margin of 17.30% (2017: 25.05%), mainly due to the fact that 4 out of the 6 new kindergartens just put into operation during the current period, and 1 newly operated school was solely allowed to enroll grade 1 and grade 6 students at the beginning under education regulatory requirement, resulting in a decline in enrolment quota from 60% for the end of 2017 to 37% for the end of the year. Recently, 3 kindergartens were in mature operation and 1 school has fulfilled its enrolment quota. The remaining kindergartens and schools have not fulfilled their enrolment quota. The increases in the cost of teachers, rental fees for sites and decoration amortization for new operations projects have led to the decrease of gross profit margin of the education institutions operation.

Management Discussion and Analysis

2.5 Other Income and Gains

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

	For the year ended 31 December		
	2018	2017	
	RMB'000	RMB'000	Change %
Bank interest income	59,400	41,233	44.06%
Gains from structured financial products	18,947	22,948	-17.44%
Government grants	25,777	19,248	33.92%
Income from the holdings of off-balance-sheet assets (1)	334,903	306,194	9.38%
Financial equity investment income (2)	237,078	192,011	23.47%
Fair value gains from derivative instruments	19,025	–	N/A
Gains from the transfer of financial assets (3)	27,619	42,445	-34.93%
Other income	16,309	13,659	19.40%
Total	739,058	637,738	15.89%

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 financial equity investment income was mainly gains on changes and transfer of fair value of financial assets at fair value through profit or loss. In 2018, the Group mainly benefited from the transfer of equity income of a listed company in Hong Kong.

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

Management Discussion and Analysis

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group in 2018 were RMB4,913,015,000, representing an increase of RMB1,001,270,000 or 25.60% from the corresponding period of the previous year. The change in selling and administrative expenses was mainly due to the cost regarding the remuneration and welfare of staff relating to the administrative expenses increased by RMB637,475,000 or 22.30% from the previous year, which was due to the effectively control of the costs by the Group in light of the increase in the headcount of fulltime staff. The total headcount of full-time staff of the Group increased from 11,558 for the end of 2017 to 12,813 for the end of 2018.

Cost to income ratio of the Group in 2018 was 35.36%, which decreased from 36.64% as compared to the corresponding period of the previous year.

2.7 Other Expenses

Other expenses of the Group in 2018 amounted to RMB395,474,000, representing a decrease of 6.45% as compared to RMB422,743,000 in the corresponding period of the previous year. Other expenses comprised foreign exchange loss of RMB128,885,000, representing an increase of RMB97,286,000 as compared to RMB31,599,000 in the corresponding period of the previous year.

2.8 Pre-provision Operating Profit

Pre-provision operation profit of the Group in 2018 amounted to RMB9,152,801,000, representing an increase of RMB2,413,244,000 or 35.81% from the corresponding period of the previous year. The increase of 35.81% in pre-provision operating profit was mainly due to the increase of 35.12% in the Group's revenue, the increase of 41.66% in cost of sales as compared to the corresponding period of the previous year, leading to the increase of 30.16% in gross profit of the Group during the period as well as the increase of 25.60% in selling and administrative expenses. For the changes in respect of the revenue, cost of sales, gross profit and selling and administrative expenses, please refer to the discussion and analysis in paragraphs 2.2, 2.3, 2.4 and 2.6 of this section. In view of the above, facing the objective changes in external environment, the Group adopted a prudent and stable development strategies. The rate of increase was higher for cost of sales than for revenue due to the complicated and changing external financing market. At the same time, the Group further strengthened its operation management and controlled its cost and expenses more effectively, resulting in the growth in pre-provision operating profit basically remained unchanged as compared to the growth in revenue. It is expected that with gradual stabilization of the external market environment in future, the gradual expansion of industrial operating scale and the improvement in internal operating efficiency, the pre-provision profit of the Group will show a steady growing trend.

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2.9 Provision for Assets

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

	For the year ended 31 December				
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Provision for interest-earning assets	1,942,769	73.03%	1,541,414	78.95%	26.04%
Provision for accounts receivable (1)	182,197	6.85%	193,023	9.89%	-5.61%
Provision for other receivables (1)	93,022	3.50%	27,608	1.41%	236.94%
Provision for inventories	21,574	0.81%	44,819	2.30%	-51.86%
Provision for fixed assets (2)	69,725	2.62%	145,505	7.45%	-52.08%
Provision for investment in joint ventures (3)	170,000	6.39%	–	–	N/A
Provision for goodwill (4)	161,225	6.06%	–	–	N/A
Provision for the holdings of off-balance-sheet assets (5)	9,557	0.36%	–	–	N/A
Provision for credit commitments(6)	10,165	0.38%	–	–	N/A
Total	2,660,234	100.00%	1,952,369	100.00%	36.26%

Notes:

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

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

(3) Provision for investment in joint ventures is mainly the provision for potential decline in performance that may be exposed to certain joint venture investments that are potentially affected by industrial policies under the prudent perspective of the Group;

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

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

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

Management Discussion and Analysis

2.10 Income Tax Expense

Income tax expense of the Group in 2018 was RMB2,104,442,000, which increased by RMB726,819,000 or 52.76% from the corresponding period of the previous year. The increase was primarily due to an increase in the operating profit of the Group during the relevant period.

Effective income tax rate of the Group in 2018 was 32.4%, which increased by 3.6% from the corresponding period of the previous year. The following table sets forth a breakdown of particulars of the income tax rate:

	2018	2017	Change %
Domestic statutory tax rate	25.0%	25.0%	–
Cross-border business withholding income tax (1)	1.1%	1.2%	-0.1%
Fees not deductible for tax (2)	3.7%	0.2%	3.5%
Others(3)	2.6%	2.4%	0.2%
Total	32.4%	28.8%	3.6%

Notes:

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

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

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

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

Based on the above discussion and analysis, profit for the period attributable to holders of ordinary shares of the Company was RMB3,927,472,000, which increased by RMB698,415,000 or 21.63% from the corresponding period of the previous year.

2.12 Basic Earnings per Share

Basic earnings per share for the year amounted to RMB1.02, representing an increase of RMB0.18 or 21.43% from the previous year.

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3. Analysis of Financial Position

3.1 Assets (Overview)

As at 31 December 2018, the total assets of the Group increased by RMB38,515,521,000 or 16.93% from the end of the previous year to RMB265,969,794,000. Loans and accounts receivable increased by RMB29,041,913,000 or 15.16% from the end of the previous year to RMB220,634,271,000.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Loans and accounts receivable	220,634,271	82.95%	191,592,358	84.23%	15.16%
Cash and cash equivalents	5,269,392	1.98%	2,815,544	1.24%	87.15%
Restricted deposits	5,280,123	1.99%	4,584,670	2.02%	15.17%
Holding of asset-backed securities/ notes	2,390,434	0.90%	2,492,078	1.10%	-4.08%
Assets with continuing involvement	2,327,322	0.88%	2,492,078	1.10%	-6.61%
Prepayment and other accounts receivable	2,614,220	0.98%	4,327,336	1.90%	-39.59%
Deferred tax assets	4,031,727	1.52%	3,169,406	1.39%	27.21%
Property, plant and equipment	9,984,765	3.75%	6,968,921	3.06%	43.28%
Prepaid land lease payments	1,546,827	0.58%	1,267,742	0.56%	22.01%
Investment in joint ventures/associates	5,964,563	2.24%	2,274,982	1.00%	162.18%
Available-for-sale financial assets	–	–	1,673,442	0.74%	-100.00%
Financial assets at fair value through profit or loss	2,669,404	1.00%	2,010,267	0.88%	32.79%
Derivative financial instruments	1,042,779	0.39%	123,057	0.05%	747.40%
Inventories	448,328	0.17%	273,430	0.12%	63.96%
Contract assets	27,168	0.01%	44,170	0.02%	-38.49%
Goodwill	1,716,527	0.65%	1,283,695	0.56%	33.72%
Other assets	21,944	0.01%	61,097	0.03%	-64.08%
Total assets	265,969,794	100.00%	227,454,273	100.00%	16.93%

Note: Due to the application of new financial standards, items originally included in available-for-sale financial assets were reclassified to financial assets at fair value through profit or loss from 1 January 2018.

Management Discussion and Analysis

3.2 Loans and Accounts Receivable

The main components of assets of the Group were loans and accounts receivable, accounting for 82.95% of the total assets of the Group as of 31 December 2018. In 2018, the Group adjusted development strategies for each industry based on dynamic environment and industry situation to develop relevant markets and strengthened its risk control in a prudent manner to, while safeguarding its assets, implement ongoing and stable expansion of the financial business so as to maintain stable growth in both the number of customers served and the number of new contracts entered into by the Group and keep the net interest-earning assets increase steadily.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-earning assets	223,989,078		193,977,583		15.47%
Less: interest-earning assets provisions	(5,093,732)		(3,869,018)		31.65%
Net interest-earning assets [1]	218,895,346	99.21%	190,108,565	99.23%	15.14%
Others[2]	1,738,925	0.79%	1,483,793	0.77%	17.19%
Net loans and accounts receivable	220,634,271	100.00%	191,592,358	100.00%	15.16%

Notes:

(1) Interest-earning assets include receivable finance lease, entrusted loans, mortgage loans, long term receivables and factoring receivables, as well as their respective interest accrued but not received.

(2) Others include notes receivables and accounts receivables.

3.2.1 Interest-earning Assets

Net interest-earning assets of the Group as of 31 December 2018 were RMB223,989,078,000, representing an increase of 15.47% as compared with RMB193,977,583,000 as of 31 December 2017. The increase was due to a steady increase in both the number of customers served and the number of new contracts entered into by the Group, as a result of the continuous and steady expansion of financial business of the Group on a basis of the Group's effective risk control in 2018.

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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 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	39,247,992	17.52%	37,475,022	19.32%	4.73%
Education	34,381,021	15.35%	33,760,542	17.40%	1.84%
Infrastructure construction	26,200,002	11.70%	26,769,023	13.80%	-2.13%
Industrial machinery	18,710,654	8.35%	21,126,980	10.89%	-11.44%
Public consuming	19,741,461	8.81%	19,770,832	10.19%	-0.15%
Transportation and logistics	19,476,633	8.70%	20,583,050	10.61%	-5.38%
Urban public utilities[(2)]	64,735,477	28.90%	34,492,134	17.79%	87.68%
Others	1,495,838	0.67%	–	–	N/A
Total	223,989,078	100.00%	193,977,583	100.00%	15.47%

Notes:

(1) Net interest-earning assets for healthcare, education and urban public utilities as of 31 December 2018 grew the most in amount among the target industries of the Group, namely by RMB1,772,970,000, RMB620,479,000 and RMB30,243,343,000, respectively over those as at 31 December 2017. The increase was attributable to (i) the business expansion and in-depth exploration in different industries, expanding the customer base of the above-mentioned industries and increasing the introduction of quality customers to the abovementioned 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 increase in the Group's contribution to market promotion and publicity.

(2) As at 31 December 2018, the net interest-earning assets for urban public utilities were RMB64,735,477,000, which were further split according to the sub-segments, of which the net interest-earning assets for (i) urban operations and municipal services were RMB42,281,999,000, and (ii) urban infrastructure construction were RMB22,453,478,000.

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3.2.3 Net Interest-earning Assets by Region

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

	31 December 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Northeast China	23,562,797	10.52%	21,979,917	11.33%
Northern China	29,549,576	13.19%	24,171,324	12.46%
Eastern China	54,382,605	24.28%	43,517,438	22.43%
Southern China	17,063,791	7.62%	15,708,505	8.10%
Central China	30,590,085	13.66%	29,886,576	15.41%
Northwest China	15,608,856	6.97%	16,018,931	8.26%
Southwest China	53,231,368	23.76%	42,694,892	22.01%
Total	223,989,078	100.00%	193,977,583	100.00%

3.2.4 Aged Analysis of Net Interest-earning Assets

The following table sets forth an aged analysis of net interest-earning assets as of the dates indicated, categorized by the time elapsed since the effective date of the relevant leases, entrusted loans, mortgage loans, credit assignment and factoring contracts.

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Net interest-earning assets					
Within 1 year	110,897,727	49.51%	123,262,822	63.54%	-10.03%
1 to 2 years	77,792,874	34.73%	42,944,385	22.14%	81.15%
2 to 3 years	23,483,843	10.48%	19,112,438	9.85%	22.87%
3 years and beyond	11,814,634	5.28%	8,657,938	4.47%	36.46%
Total	223,989,078	100.00%	193,977,583	100.00%	15.47%

Net interests-earning assets within one year represent net interest-earning assets the Group received, and are still valid as of the end of the year or the end of the period. As of 31 December 2018, net interest-earning assets within one year as set out in the table above represented 49.51% of net interest-earning assets of the Group, a decrease as compared with the end of the previous year.

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3.2.5 Maturity Profile of Net Interest-earning Assets

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Maturity date					
Within 1 year	89,254,282	39.85%	69,453,156	35.80%	28.51%
1 to 2 years	66,225,298	29.56%	54,164,397	27.92%	22.27%
2 to 3 years	41,455,583	18.51%	38,116,716	19.65%	8.76%
3 years and beyond	27,053,915	12.08%	32,243,314	16.63%	-16.09%
Total	223,989,078	100.00%	193,977,583	100.00%	15.47%

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 2018, net interest-earning assets due within one year as set forth in the table above represented 39.85% of the Group's net interest-earning assets as of each of the respective dates, which slightly increased as compared to the end of the previous year. This indicated that the maturity of the Group's net interest-earning assets was widely spread and could provide the Group with consistent and sustainable cash inflows that facilitated the matching of our liabilities.

3.2.6 Asset Quality of Net Interest-earning Assets

3.2.6.1 Five-category Net Interest-earning Assets Classification

The Group implements a five-category classification of interest-earning assets that accurately reveal the asset risk profile and confirm the quality of assets primarily by obtaining information on the qualification of stock and assets. On such basis, we have deployed management resources and efforts in a focused manner to effectively implement measures on category management, and have strengthened risk anticipation and the relevance of risk prevention to improve the ability to control asset risks.

Classification criteria

In determining the classification of our interest-earning assets portfolio, we apply a series of criteria that are derived from our own internal regulations regarding the management of lease assets. These criteria are designed to assess the likelihood of repayment by the borrower and the collect ability of principal and interest on our interest-earning assets. Our interest-earning assets classification criteria focus on a number of factors, if applicable; and our asset classifications include:

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

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

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

Doubtful. The debtor's ability to pay is in question as it is unable to make payments in full and/or on a timely basis with its operating revenues and we are likely to incur significant losses notwithstanding the enforcement of any guarantees underlying the contract. 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

The Group continued to carry out operation innovation and management upgrade, closely monitored the external environment in the process of assets introduction, made asset investment in a reasonable manner and refined the management of credit granting procedure. For assets management, the Group adhered to the guiding ideology of "early identification, early disposal and early mitigation", strengthened the overall asset security management system, and improved the process supervision and risk mitigation ability, which secured and controlled the quality of assets during the reporting period.

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

In 2018, the Group continued to strengthen the asset process monitoring system. For asset management localization, we focused on the human resources allocation in key areas, carried out specified investigation on key customer groups and areas, fully exploited regional resources synergies, expanded customer coverage and provided quicker response to abnormal issues. For information monitoring for internet risk, the Group continued to expand the monitoring latitude and depth, set differentiated risky information monitoring on different industries, regions and customer groups, enhanced effective identification for risky information, optimized mechanism for risky information transmission and feedback, and improved efficiency.

In 2018, the Group implemented dynamic management, responsible personnel and regular reporting for key monitoring customers. For customers with signs of risk, the Group took targeted risk prevention measures in a timely manner, and effectively prevented the downward movement of asset quality through strong collection, pre-litigation preservation, debt restructuring, and increased risk countermeasures.

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

In 2018, the Group continued to optimize the risk management mechanism and process system, enhanced the effectiveness of mitigation decision; revised standardized documents, checked the list of dishonest persons subject to enforcement from time to time, and strengthened case analysis and risk warning; continued to consolidate the legal resources protection system, actively expanded cooperation in regional disposal resources; and deepen the development and maintenance of judicial resources, facilitated the distribution of resources across the country, improved the efficiency of cases, and decreased the costs for disposal.

In 2018, the Group continued to improve its capability in non-performing asset disposal, categorize customer group, focused on difficult-to-dispose projects, strengthen result-oriented performance assessment, set disposal and recovery targets, increased assessment incentives, expand ideas and methods for disposal, encourage the use of traditional and innovative diverse methods, and increase disposal and recovery efforts.

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

	31 December 2018		31 December 2017		31 December 2016		31 December 2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Pass	195,099,412	87.10%	174,404,617	89.91%	124,443,723	89.02%	105,643,641	86.61%
Special mention	26,737,919	11.94%	17,811,994	9.18%	13,965,494	9.99%	15,143,803	12.42%
Substandard	1,328,649	0.59%	1,202,699	0.62%	853,232	0.61%	793,889	0.65%
Doubtful	823,098	0.37%	558,273	0.29%	535,892	0.38%	389,145	0.32%
Loss	–	–	–	–	–	–	–	–
Net interest-earning assets	223,989,078	100.00%	193,977,583	100.00%	139,798,341	100.00%	121,970,478	100.00%
Non-performing assets	2,151,747		1,760,972		1,389,124		1,183,034	
Non-performing asset ratio	0.96%		0.91%		0.99%		0.97%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As at 31 December 2018, the Group's assets under special mention accounted for 11.94% of its net interest-earning assets, representing an increase by 2.76% from 9.18% at the end of 2017.

The assets under special mention in the urban public utility industry accounted for 26.98% of the total assets under special mention. This was mainly due to the upper shift of the customer base structure, and larger single projects. In 2018, due to the slightly tight policy supervision and market liquidity, individual customers experienced periodical financial pressure, and the Group prudently adjusted more of the assets of the segment to assets under special mention.

The assets under special mention in the medical industry accounted for 18.18% of the total assets under special mention. This was mainly because, affected by the macro financial environment and tightening of supervision on pharmaceutical industry, the financing situation of some private hospitals and pharmaceutical companies was uncertain, which might affect the operation and cost control of those industries. 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 education industry accounted for 15.60% of the total assets under special mention. This was mainly due to the certain level of attention paid to new sub-segments such as tourism and high-tech parks. Since the scale of investment for this segment was larger, there was certain uncertainty in the financing situation of some customers, which caused periodical pressure on capital turnover. The Group prudently adjusted more of the assets of the segment to assets under special mention.

The assets under special mention in the public welfare and consuming industry accounted for 11.68% of the total assets under special mention. This was mainly due to fluctuations in the macro economic environment, structural adjustment on policies, declining internal and external demand, rising production costs, intensified competition in the industry, and poor financing channels. Some upstream and downstream customers in the manufacturing industry experienced a decline in operating and financing abilities, and the Group prudently classified more of the assets of the segment as assets under special mention.

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

	31 December 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Healthcare	4,861,609	18.18%	1,636,980	9.19%
Education	4,170,725	15.60%	1,630,341	9.15%
Infrastructure construction	2,951,400	11.04%	2,534,215	14.23%
Industrial machinery	1,591,941	5.96%	2,169,603	12.18%
Public consuming	3,123,529	11.68%	3,559,080	19.98%
Transportation and logistics	2,823,627	10.56%	2,646,223	14.86%
Urban public utilities	7,215,088	26.98%	3,635,552	20.41%
Total	26,737,919	100.00%	17,811,994	100.00%

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

	31 December 2018 % of total	31 December 2017 % of total	31 December 2016 % of total	31 December 2015 % of total
Pass	**24.82%**	21.73%	6.84%	6.60%
Special attention	**29.68%**	25.31%	40.15%	43.05%
Substandard	**0.63%**	4.85%	4.39%	2.18%
Doubtful	**1.30%**	0.47%	1.21%	1.42%
Loss	**0.10%**	–	–	–
Recovery	**43.47%**	47.64%	47.41%	46.75%
Total	**100.00%**	100.00%	100.00%	100.00%

The Group's non-performing asset ratio increased slightly, but the overall asset quality remained safe and controllable. As at 31 December 2018, the non-performing asset ratio was 0.96%, which increased by 0.05% from 0.91% as compared to the end of last year.

The non-performing asset ratio for the transportation and logistics industry to total non-performing assets was 21.02%, mainly distributed in the sub-segments such as transportation services and farming, forestry, animal husbandry and fishery. Since the single project amount of transportation vessel project was relatively large, and affected by the prolonged downturn in shipping market, the operating capacity of enterprises recovered slowly, and the non-performing vessel asset takes a longer disposal period. Affected by factors such as regulatory policies and off-season sales, tension appeared in the operating cash flow of individual enterprises in the farming, forestry, animal husbandry and fishery industry. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

The non-performing assets of the infrastructure construction industry accounted for 19.82% of the total non-performing assets, mainly because of the slowdown in fixed asset investment growth, the rise in the prices of construction raw materials, the tightening of real estate policy, the capital tension on some customers' financing end, and the decline in operation. The Group prudently reclassified the assets in the segment into substandard and doubtful assets.

The non-performing assets of the education industry accounted for 18.58% of the total non-performing assets, mainly because of the large scale of single investment in tourism projects and the long period of investment recovery. As affected by the state deleveraging policy, individual tourism enterprises experienced insufficient output, higher rigid debt burden and difficulties in sourcing new financing due to newly constructed projects. The Group prudently reclassified assets under this segment into substandard and doubtful assets.

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The non-performing assets of the industrial machinery industry accounted for 16.14% of the total non-performing assets, mainly distributed in the sub-segments such as material industry, machinery and automobile. Due to the policies on de-capacity, deleverage and environmental protection, most of the sub-segments under industrial sector maintained sluggish growth and experienced continuous shocks; individual companies had excessive debt burdens, rising financing costs, and encountered difficulties in operations. The Group prudently reclassified assets under this 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 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Healthcare	173,067	8.05%	41,082	2.33%
Education	399,858	18.58%	12,012	0.68%
Infrastructure construction	426,516	19.82%	174,225	9.89%
Industrial machinery	347,359	16.14%	390,852	22.20%
Public consuming	159,542	7.42%	560,903	31.85%
Transportation and logistics	452,360	21.02%	541,233	30.73%
Urban public utilities	193,045	8.97%	40,665	2.32%
Total	2,151,747	100.00%	1,760,972	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 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Healthcare	85,001	6.40%	31,282	2.60%
Education	238,630	17.96%	2,676	0.22%
Infrastructure construction	162,229	12.21%	95,726	7.96%
Industrial machinery	347,359	26.14%	243,933	20.28%
Public consuming	132,667	9.99%	366,828	30.50%
Transportation and logistics	362,763	27.30%	462,254	38.44%
Urban public utilities	–	–	–	–
Total	1,328,649	100.00%	1,202,699	100.00%

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

	31 December 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Healthcare	88,066	10.70%	9,800	1.76%
Education	161,228	19.59%	9,336	1.67%
Infrastructure construction	264,287	32.10%	78,499	14.06%
Industrial machinery	–	0.00%	146,919	26.32%
Public consuming	26,875	3.27%	194,075	34.76%
Transportation and logistics	89,597	10.89%	78,979	14.15%
Urban public utilities	193,045	23.45%	40,665	7.28%
Total	823,098	100.00%	558,273	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 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Healthcare	–	–	–	–
Education	–	–	–	–
Infrastructure construction	–	–	–	–
Industrial machinery	–	–	–	–
Public consuming	–	–	–	–
Transportation and logistics	–	–	–	–
Urban public utilities	–	–	–	–
Total	–	–	–	–

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

	31 December 2018	31 December 2017	31 December 2016
	RMB'000	RMB'000	RMB'000
At the beginning of the year	1,760,972	1,389,124	1,183,034
Downgrades[(1)]	1,819,122	1,108,931	989,462
Upgrades	(190,602)	(159,538)	(94,433)
Recoveries	(631,871)	(505,114)	(336,154)
Write-off	(605,874)	(72,431)	(352,785)
At the end of the year	2,151,747	1,760,972	1,389,124
NPA ratio	0.96%	0.91%	0.99%

Note:

(1) Represents downgrades of interest-earning assets classified as normal or special mention at the end of prior year and interest-earning assets newly classified in the period to non-performing categories.

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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 2018		31 December 2017		31 December 2016		31 December 2015	
	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	759,991	14.92%	700,180	18.10%	558,366	18.95%	392,455	16.48%
Provision for pass and special mention assets	4,333,741	85.08%	3,168,838	81.90%	2,388,320	81.05%	1,988,296	83.52%
Total	5,093,732	100.00%	3,869,018	100.00%	2,946,686	100.00%	2,380,751	100.00%
Non-performing assets	2,151,747		1,760,972		1,389,124		1,183,034	
Provision coverage ratio	236.73%		219.71%		212.13%		201.24%	

The Group applied the new financial instrument accounting standards ("HKFRS 9 – Financial Instruments") since 1 January 2018 and adopted the requirements of the expected loss model for the provision of interest-earning assets in accordance with the new standard. The Group's provision for interest-earning assets increased by RMB190,532,000 from RMB3,869,018,000 as at 31 December 2017 to RMB4,059,550,000 as at 1 January 2018.

The following table sets forth the impact of the changes of financial instruments standard on the provision of interest-earning assets.

	1 January 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-earning assets provisions:					
Provision for non-performing assets	700,180	17.25%	700,180	18.10%	–
Provision for pass and special mention assets	3,359,370	82.75%	3,168,838	81.90%	6.01%
Total	4,059,550	100.00%	3,869,018	100.00%	4.92%
Non-performing assets	1,760,972		1,760,972		–
Provision coverage ratio	230.53%		219.71%		10.82%

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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 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Write-off	**605,874**	72,431	352,785	252,062
Non-performing assets as at the end of last year	**1,760,972**	1,389,124	1,183,034	920,332
Write-off ratio[1]	**34.41%**	5.21%	29.82%	27.39%

Note:

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

In 2018, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB605,874,000, which were mainly distributed in the public consuming, industrial machinery, transportation and logistics and construction industries, accounting for RMB277,410,000, RMB130,505,000, RMB64,273,000 and RMB56,466,000, respectively. Despite the Group's effort in collection through judicial means, actionable assets were unable to cover risk exposure of projects at the moment. Although the Group is required to write-off the bad debts of the relevant nonperforming assets pursuant to the requirements of the accounting standards, the Group has not terminated the disposal of assets, and continued to collect the payment through disposal of equipment, demand for payment and exerting pressure on guarantors. From 2011 to 2018, the written-off bad debts amounted to RMB1,416,464,000 and RMB131,371,000 has been recovered.

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

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

	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Overdue ratio (over 30 days)	**0.94%**	0.72%	0.98%	1.08%

The Group adhered to the prudent strategies of risk control and asset management. The Group's lease overdue ratio (over 30 days) was 0.94% as at 31 December 2018, representing 0.22 percentage point higher than 0.72% as at the end of 2017.

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

	31 December 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Healthcare	342,830	16.23%	116,861	8.31%
Education	460,828	21.81%	170,344	12.12%
Infrastructure construction	484,865	22.95%	217,528	15.48%
Industrial machinery	67,596	3.20%	433,340	30.83%
Public consuming	63,364	3.00%	247,476	17.61%
Transportation and logistics	442,638	20.95%	179,214	12.75%
Urban public utilities	250,435	11.86%	40,665	2.90%
Total	2,112,556	100.00%	1,405,428	100.00%

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

	31 December 2018		31 December 2017	
	RMB'000	% of total	RMB'000	% of total
Special mention	755,885	35.78%	450,474	32.05%
Substandard	541,945	25.65%	409,143	29.11%
Doubtful	814,726	38.57%	545,811	38.84%
Loss	–	–	–	–
Total	2,112,556	100.00%	1,405,428	100.00%

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

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

	2018		2017		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	2,604	15.41%	5,887	17.64%	-55.77%
Education	2,808	16.62%	8,124	24.35%	-65.44%
Infrastructure construction	2,094	12.39%	5,570	16.69%	-62.41%
Industrial machinery	2,155	12.75%	2,157	6.46%	-0.09%
Public consuming	2,023	11.97%	5,782	17.33%	-65.01%
Transportation and logistics	1,140	6.75%	1,222	3.66%	-6.71%
Urban public utilities	4,075	24.11%	4,628	13.87%	-11.95%
Total	16,899	100.00%	33,370	100.00%	-49.36%

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

	31 December 2018		31 December 2017		
	RMB million	% of total	RMB million	% of total	Change %
Healthcare	7,710	19.92%	9,571	21.36%	-19.44%
Education	10,244	26.46%	12,406	27.69%	-17.43%
Infrastructure construction	6,432	16.61%	7,817	17.45%	-17.72%
Industrial machinery	2,104	5.44%	2,055	4.59%	2.38%
Public consuming	4,269	11.03%	6,228	13.90%	-31.45%
Transportation and logistics	1,859	4.80%	1,751	3.91%	6.17%
Urban public utilities	6,094	15.74%	4,972	11.10%	22.57%
Total	38,712	100.00%	44,800	100.00%	-13.59%

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The Group disposed of an aggregate of the principal amount of approximately RMB16,899 million of interest-earning assets through asset-backed securities/notes in 2018, representing a decrease of 49.36% as compared to RMB33,370 million in the corresponding period of last year. As at 31 December 2018, the balance of the holding of asset-backed securities/notes-related assets items amounted to RMB2,390,434,000, representing a decrease of 4.08% as compared to RMB2,492,078,000 as at 31 December 2017. 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 2018 with no significant anomalies of asset quality.

Assets with continuing involvement of the Group amounted to RMB2,327,322,000, representing a decrease of 6.61% from RMB2,492,078,000 as at the end of last year. Pursuant to specific requirements of accounting standards, for the asset-backed securities/notes business above the Group should continue to recognize assets and liabilities with continuing involvement in relation to such activities due to risk associated with subordinate and enhanced credit facilities held by the Group.

3.4 Other Assets

On 31 December 2018, cash and cash equivalents of the Group amounted to RMB5,269,392,000. The Group started to reserve relatively sufficient cash to sustain the business development and ensure the capital liquidity safety of the Group. Restricted deposits of the Group amounted to RMB5,280,123,000, which mainly comprised restricted bank deposits.

Prepayments and other receivables of the Group amounted to RMB2,614,220,000, comprised mainly of prepayments for suppliers of machinery and equipment and deductible value-added tax etc.

Deferred tax assets of the Group amounted to RMB4,031,727,000, mainly for the deferred income tax provided for the time difference between accounting and taxation.

Property, plant and equipment of the Group amounted to RMB9,984,765,000, comprised mainly of equipment and instruments for operating leasing, plants and medical equipment of subsidiary hospitals and the main office building of the Group.

Prepaid lease payments and other receivables of the Group amounted to RMB1,546,827,000, comprised mainly of the land use rights of the corresponding land of the Group's main office building and its subsidiary hospitals' buildings.

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Investments in joint ventures/associates of the Group amounted to RMB5,964,563,000, comprised mainly of the equity investments of the Group in joint ventures/associates such as Guangzhou Kangda, Far Wing Capital, industrial fund engaged in entrusted financial leasing and entrusted loan business, provincial asset management companies and the invested hospitals.

The balance of financial assets at fair value through profit or loss of the Group was RMB2,669,404,000, mainly due to the financial equity investment invested by the Group.

The balance of derivative financial instruments of the Group is RMB1,042,779,000, mainly for the financial instruments such as exchange rate forwards and currency swaps of the Group. These instruments are mainly used to hedge the foreign exchange exposure of the Group.

The balance of the Group's goodwill amounted to RMB1,716,527,000, which was mainly the goodwill recognized by the Group for the acquisition of medical and educational institutions.

3.5 Liabilities (Overview)

On 31 December 2018, total liabilities of the Group amounted to RMB226,877,290,000, representing an increase of RMB35,830,809,000 or 18.76% as compared to the end of last year. Interest-bearing bank and other borrowings were the main component of the Group's liabilities, accounting for 76.04% of the total, which relatively remained stable as compared to 75.85% of the end of last year.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	172,514,982	76.04%	144,899,680	75.85%	19.06%
Other payables, accruals and other liabilities	45,238,879	19.94%	39,266,980	20.55%	15.21%
Liabilities for continuing involvement	2,327,322	1.03%	2,492,078	1.30%	-6.61%
Trade and bills payables	3,431,914	1.51%	1,838,961	0.96%	86.62%
Tax Payables	2,025,471	0.89%	1,506,937	0.79%	34.41%
Derivative financial instruments	207,854	0.09%	260,276	0.14%	-20.14%
Deferred tax liabilities	149,472	0.07%	76,707	0.04%	94.86%
Deferred revenue	981,396	0.43%	704,862	0.37%	39.23%
Total Liabilities	226,877,290	100.00%	191,046,481	100.00%	18.76%

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3.6 Interest-bearing Bank and Other Borrowings

In 2018, the global economy in general continued its recovery, and the recovery of major developed economies diverged. From the perspective of the domestic economic and financial situation, the domestic economic operation remained resilient, but the problems in respect of financing of small and micro enterprises and private enterprises were more prominent, and the economy was facing downward pressure. Faced with a severe domestic and international situation, the central bank provided medium-term and long-term liquidity through measures such as four RRR cuts and incremental medium-term lending facilities in 2018 to achieve the goal of transmitting the real economy. From the perspective of domestic monetary policy, the monetary policy throughout the year remained stable and neutral, and shifted from "reasonable liquidity and stability" in the first half of the year to "reasonable liquidity and sufficient" in the second half of the year, while the financial supervision was increasingly strengthened.

Being faced with the complicated financial environment at home and overseas, the Group adhered to the established strategy of "resources globalization" and made good progress in both indirect financing and direct financing with an improved liability structure, thus obviously enjoying a finance cost advantage over the peers.

With respect to direct financing market, the Group further enriched the bond portfolios by introducing innovative products such as renewable corporate bonds, expanded the quota for Private Placement Notes (PPN) and corporate bonds, and formed the new stage of alternate issue of various products such as corporate bonds, PPN and ultra-short financing bills in different markets.

Within the market of indirect financing, the Group achieved cross-platform facility on the basis of the current financing channel as required by its strategic development, and strengthened its co-operation relationship with key bank channels. The Group formed a deep cooperative relationship with banks including the six big banks and certain policy banks. At the same time, the domestic monetary policy in 2018 continued to be stable and neutral. The Company vigorously expanded its overseas market, and the proportion of overseas capital sources increased.

In 2018, the issuing efficiency of asset securitization products decreased dramatically and the issuing cost was pushed up by the changes in the domestic financial regulation and the volatile bond market. However, based on the market image and efficient issuance capability, the Group continued to promote asset securitization business in an unfavorable market environment, so as to enrich its capital source, optimize its debt structure and improve its management means. In this year, the Group's accumulated asset securitization business amounted to RMB16.9 billion, and the cost remained to be the lowest in the same period. It was the most mature and active financial leasing company with the largest scale of outstanding asset securitization products in China.

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

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As at 31 December 2018, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB172,514,982,000, representing an increase of 19.06% as compared with RMB144,899,680,000 as at the end of last year, mainly due to the increase in the interest-bearing liability resulting from supporting the Group's expanding our business operations. The Group's borrowings were mainly denominated in RMB and USD.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Current	66,635,537	38.63%	55,994,501	38.64%	19.00%
Non-current	105,879,445	61.37%	88,905,179	61.36%	19.09%
Total	172,514,982	100.00%	144,899,680	100.00%	19.06%

As at 31 December 2018, the Group's current interest-bearing bank and other borrowings (including short-term loans and portions that are due within one year in long-term loans) as a percentage of the Group's total interest-bearing bank and other borrowings was 38.63%, which is roughly the same as compared to 31 December 2017, with a sound financing strategy and reasonable liability structure.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	34,729,949	20.13%	17,517,489	12.09%	98.26%
Unsecured	137,785,033	79.87%	127,382,191	87.91%	8.17%
Total	172,514,982	100.00%	144,899,680	100.00%	19.06%

The Group carefully managed its funding risk in 2018. As at 31 December 2018, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 79.87% of the Group's total interest-bearing bank and other borrowings, which decreased as compared with that of the end of last year, mainly because the Group continued to optimize its financing conditions and acquired high-quality financing resources.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank loans	89,008,807	51.59%	78,169,331	53.95%	13.87%
Other loans	83,506,175	48.41%	66,730,349	46.05%	25.14%
Total	172,514,982	100.00%	144,899,680	100.00%	19.06%

As at 31 December 2018, the proportion of the Group's loans as a percentage to the Group's total bank and other borrowings was roughly the same as compared with 31 December 2017, as the Group continued to deepen its financing cooperation with banks and other institutions with a sound financing strategy.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
China	147,754,189	85.65%	126,242,249	87.12%	17.04%
Overseas	24,760,793	14.35%	18,657,431	12.88%	32.71%
Total	172,514,982	100.00%	144,899,680	100.00%	19.06%

As at 31 December 2018, the proportion of the Group's borrowings from China and other borrowings as a percentage to the Group's total borrowings was 85.65%, which decreased as compared with that at the end of last year as the Group proactively expanded various financing channels overseas to satisfy the funding needs.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
RMB	143,131,905	82.97%	128,702,484	88.82%	11.21%
USD	22,121,904	12.82%	12,824,868	8.85%	72.49%
Borrowings in other currencies	7,261,173	4.21%	3,372,328	2.33%	115.32%
Total	172,514,982	100.00%	144,899,680	100.00%	19.06%

As at 31 December 2018, the Group's activities in RMB accounted for 82.97% of its total interest-bearing bank and other borrowings, representing a decrease from the end of last year as the capital cost of RMB has risen at home, the Group actively expanded its overseas market and withdrew US dollar loans to satisfy the funding needs.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	74,394,158	43.12%	65,600,971	45.27%	13.40%
Indirect financing	98,120,824	56.88%	79,298,709	54.73%	23.74%
Total	172,514,982	100.00%	144,899,680	100.00%	19.06%

As at 31 December 2018, Group's direct borrowings accounted for 43.12% of the total, which was roughly the same as compared to the end of last year on account of the Group's deep participation and good cooperation records in both direct and indirect financing markets, and the balanced financing structure ensured the financial resources needed for the future development of the Company.

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3.7 Shareholders' Equity

As at 31 December 2018, the total equity of the Group was RMB39,092,504,000, representing an increase of RMB2,684,712,000 or 7.37% from the end of last year.

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

	31 December 2018		31 December 2017		
	RMB'000	% of total	RMB'000	% of total	Change %
Share capital(1)	10,235,373	26.18%	10,218,442	28.07%	0.17%
Reserve	17,494,370	44.75%	15,122,427	41.54%	15.68%
Equity attributable to ordinary shareholders of the Company(2)	27,729,743	70.93%	25,340,869	69.61%	9.43%
Perpetual securities(3)	9,789,593	25.04%	9,797,723	26.91%	-0.08%
Non-controlling interests	1,573,168	4.03%	1,269,200	3.48%	23.95%
Total Equity	39,092,504	100.00%	36,407,792	100.00%	7.37%

Notes:

(1) The Group's share capital increased by RMB16,931,000 in 2018. It is the exercise price charged for the exercise of share options during the year under the Group's Share Option Scheme and the fair value of the corresponding share options.

(2) The Group's equity attributable to the ordinary shareholders of the Company was RMB25,340,869,000 in the end of 2017. The Group's profit for the year attributable to the ordinary shareholders of the Company was RMB3,927,472,000 in 2018. The final dividend of HK$0.30 per share for the year ended 31 December 2017 was approved at the annual general meeting on 6 June 2018 and paid on 30 July 2018. As at 31 December 2018, the equity attributable to the ordinary shareholders of the Company was RMB27,729,743,000.

(3) On 14 June 2017, the Group issued US$300,000,000 perpetual securities at an initial distribution rate of 4.35%. The Perpetual Securities have no fixed maturity date and are callable at the Company's option in whole on 14 June 2022 ("First Call Date") or any Distribution Payment Date falling after the First Call Date at their principal amounts together with any accrued, unpaid or deferred distributions. The applicable distribution rate will be reset, on the First Call Date and every three years after the First Call Date, to the sum of the initial spread of 2.62%, the treasury rate and a step-up margin of 5.00% per annum.

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

On 4 December 2017, the Group issued US$400,000,000 guaranteed subordinated perpetual capital securities at an initial distribution rate of 5.60%. The Perpetual Securities have no fixed maturity date and are callable at the Company's option in whole on 4 December 2022 ("First Call Date") or any Distribution Payment Date falling after the First Call Date at their principal amounts together with any accrued, unpaid or deferred distributions. The applicable distribution rate will be reset, on the First Call Date and every five years the First Call Date, to the sum of the initial spread and the rate of the US five-year treasury note.

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 2018, no change was made to the objectives, policies or processes for managing capital.

4.1 Gearing Ratio

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Total assets (A)	**265,969,794**	227,454,273
Total liabilities (B)	**226,877,290**	191,046,481
Total equity	**39,092,504**	36,407,792
Gearing ratio (C=B/A)	**85.30%**	83.99%

In 2018, the Company made full use of capital leverage for our operations to keep the Group's gearing ratio relatively high while at the same time closely managed the Group's gearing ratio to avoid potential liquidity risk. As at 31 December 2018, our gearing ratio was 85.30%.

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4.2 Ratio of Assets at Risk to Equity

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

As at 31 December 2018, the ratios of risk assets to equity of International Far Eastern Leasing Co., Ltd., Far East Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd. were 7.01, 5.25 and 4.63 respectively, which was in compliance with the ratio of risk assets to equity requirements of the measures. The Group will ensure that the domestic finance leasing operations entity will continue to meet the above regulatory requirements through allocation of internal resource.

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

International Far Eastern Leasing Co., Ltd.

	31 December 2018 RMB'000	31 December 2017 RMB'000
Total assets	**207,464,792**	182,319,225
Less: Cash	**6,031,761**	3,942,843
Total assets at risk	**201,433,031**	178,376,382
Equity	**28,730,205**	27,001,905
Ratio of assets at risk to equity	**7.01**	6.61

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Total assets	71,498,068	67,342,994
Less: Cash	2,420,545	2,462,191
Total assets at risk	69,077,523	64,880,803
Equity	13,162,029	9,965,599
Ratio of assets at risk to equity	5.25	6.51

Far Eastern Horizon Financial Leasing Co., Ltd.

	31 December 2018 RMB'000	31 December 2017 RMB'000
Total assets	13,684,663	9,954,784
Less: Cash	228,171	44,900
Total assets at risk	13,456,492	9,909,884
Equity	2,909,121	1,327,584
Ratio of assets at risk to equity	4.63	7.46

5. Capital Expenditures

The Group's capital expenditure was RMB7,140,161,000 in 2018, 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 2018, China was affected by the continuous escalation of the trade war and the US interest rate hike, resulting in increasing downward pressure on economic growth. On one hand, China continued to deepen its internal reforms by vigorously transforming government functions, deepening "supply-side reform", and promoting structural adjustment and industrial upgrade. On the other hand, China continued to be more open up by further expanding the influences of the "One Belt, One Road" initiative and seeking for diversified import and export and investment alternative upgrade programs. Furthermore, China also expanded the opening up of the financial and industrial sectors, deepened the integration and coordinated development with the global economic and financial fields. At the same time, it took various measures to ensure smooth operation of the economy. China rectified financial chaos, strengthened innovative financial supervision, increased government debt management, and strived to prevent and resolve major risks.

In 2018, China's economy as a whole rose steadily, and its GDP climbed to a record high of 90 trillion. However, due to the multiple factors such as the slowdown in economic growth, the "de-leverage" crowding out effect and the pressure on the hourly liquidity, the number of defaults in 2018 has further increased. The defaulting entities from SMEs gradually spread to private leading enterprises, listed companies and some local state-owned enterprises.

In 2018, the Company complied with the new changes in China's "new era" and made operational adjustments that provided "service city upgrade, service industry upgrade" to the fund-based business. The management system was also upgraded successfully.

In 2018, the Company paid closer attention to changes in the world situation, China's economy, financial environment, industrial policies, etc., and continuously assessed and managed the impacts of external changes on our operations and customers' operations, finances and liquidity, and maintained risk control policies that were appropriately forward-looking when formulating and adjustable when implementing. We also continuously improved requirements in asset allocation, credit evaluation, project operation, risk monitoring, risk disposal and responsibility implementation to minimize or reduce the adverse effects caused by risk factors.

Management Discussion and Analysis

I) Equalization of Asset Allocation

We continued to implement asset allocation in accordance with industry, regional and customer decentralization principles to ensure a balanced and rational structure.

Adhered to the "industry first" perspective, we carried out equalization on assets allocation. We increased the funding for basic, public welfare, and weak-cycle industries related to health care, education, and public transport, gas, water, and heat. At the same time, we actively participated in industries with high prosperity and that were supported by national industrial upgrading strategy and regional upgrading strategy, such as green industries, "Made in China 2025", artificial intelligence, etc.; thus forming an industry funding layout that focused on weak cycle industry and was supplemented by strong cycle industries. At the same time, we focused on the decentralized allocation of assets among unrelated industries to prevent the derivative risks brought about by unforeseen policy adjustments.

For different regions, we actively participated in the "Belt and Road" related projects, such as participating in the development strategy of serving the Yangtze River Economic Belt and the coordinated development strategy of Beijing-Tianjin-Hebei, serving strategies of "Northeast Revitalization", "Rise of the Central Region" and "Development of Western China", to support developments that resonate with the Chinese economy regional development priorities.

For customers, we adhered to focusing on the industry and the foundation of "longitudinal deepening", and strengthening the "horizontal widening" strategy by continuing to expand the number of customers and customer base, achieving comprehensive and balanced coverage of asset allocation in different types (such as state-owned, listed and private) and sizes (such as large-medium and medium-small-sized) of customers, and continuously reducing credit concentration of large customers to ensure that we were not too focused on a single type of customer;

II) Improving Accuracy of Credit Evaluation

For credit evaluation, we strived to achieve a more accurate risk identification, deeper risk assessment, and more effective risk hedging.

Risk identification is more precise. Based on deepening industry and providing insight into the industry risks, the business department established and improved the regional risk perspective. The marketing and risk control personnel have become closer to the customers, making it easier to understand the customer's risk status in real time and closer to the core of the risk. We fully utilized the evaluation model and tried to use auxiliary means such as big data to effectively identify risks and reduce human factors interference; and established industry, regional and customer-related negative information filtering mechanisms that instantly update negative lists to ensure zero import of major negative customers;

Management Discussion and Analysis

A more in-depth risk assessment. Based on the summary and refinement of different industries and model risk clustering assessment methods, the Company considered the impacts of regional factors on project risk exposures, the differences between large to medium-sized and medium to small-sized customers, and the impacts of operational entity qualifications on project risk exposures. In addition, the assessment focused on the combination of expert experience and scientific methods, and attempted to use innovative tools such as default analysis and corporate portraits to achieve simultaneous management of credit risk and operational risk; in order to promote assessment of major and high-risk projects at all levels of the region, business unit and headquarters and from different dimensions.

Risk hedging is becoming more effective. While adhering to the source of the first repayment, we considered more about the source of the second repayment, and continued to strengthen risk hedging through continued studies on disposal and practice, peer practice, judicial cases, and the advantages and disadvantages of the pledge, and means such as investigation and handling in stages to enhance pertinence and effectiveness of the risk hedging methods and firmly safeguard the bottom line of risk.

III) Improving Project Operation's Quality

We are getting more focus on the process quality of project operations, striving to achieve our management objectives and grasp the management essence.

The process responsibilities of key processes such as credit, business approval, and delivery in the business process were explained explicit, especially for operational standard in key links such as due diligence and credit process, which were refined to the granular level. Duties of customer managers under the double-post shift system were optimized to complement and balance each other. Work and requirements of quality control double-checking for high-risk projects were strengthened. Quality control's connotation was enriched, and we focused on the risk responsibilities of its entire process. We gave full play to the business approval process in implementing its responsibility and corrective actions for the credit policy. For funding, we upheld strict standard for assessing the conditions for giving approval and handling all kinds of abnormal process matters;

In addition, we continued to strengthen the requirements and effects of return visits and on-site inspections by customer managers and asset managers, in order to further implement the process responsibilities of each section and responsible persons, and effectively improve the operational quality of all aspects of the process.

Management Discussion and Analysis

IV) Improving Effectiveness of Risk Monitoring

We continued to improve monitoring content, enrich monitoring methods, increase monitoring efforts, improve monitoring efficiency, and serve the risk management needs of the Company's entire process.

Improving monitoring content. On the basis of routine monitoring, we also adjusted the monitoring content dynamically. We immediately adjusted and updated the information of high-risk industries, high-risk areas and high-risk customers that are undergoing changes, and included them in the monitoring scope. We continued to pay attention to risk issues and their impacts of frequent, industrial, regional or same type of customer, including but not limited to the impact of default events, guarantee risks and stock pledges, on customer operations.

Enriching monitoring methods. Information coverage and timeliness of various types of information acquisition tools were extensively compare, then we selected and optimized the monitoring tools, and continuously enriched our monitoring methods;

Increasing monitoring efforts. In addition to monitoring before importing, we performed continuous monitoring during importing and after importing. We improved monitoring density and frequency of key risks, key changes and sensitive areas. Parts of the monitoring content were able to be displayed real-time on network and mobile devices, thus facilitating timely decision-making and control adjustment.

Improving monitoring efficiency. We continued to optimize the early warning threshold setting according to changes in the internal and external environment. Untimely and underperforming monitoring was summarized in time so as to continuously improve the monitoring network. We researched and learned from the industry's advanced practices, and continuously improved the monitoring quality and efficiency.

V) Lifelong Risk Accountability

When strengthening the supervision and inspection of operational quality and application of outcomes, we strived to improve the operational compliance awareness and skills of frontline employees. We focused on promoting lifelong accountability for major risks, especially for cadres. By continuously improving the cadres' sense of responsibility, we consolidated their management responsibility.

Management Discussion and Analysis

6.2 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings and lease receivables and other loans.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group aims to continuously monitor the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of measures to mitigate such risk. As of 31 December 2018, the Group's interest rate risk exposure was approximately RMB48.4 billion, out of which RMB10.5 billion was monetary fund (approximately RMB38.4 billion as at 31 December 2017, out of which approximately RMB7.4 billion was monetary fund).

The table below demonstrates the sensitivity to a reasonably possible change in interest rate, to the Group's profit before tax with all other variables held constant. The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of each reporting period subject to re-pricing within the coming year.

	Increase/(decrease) in profit before tax of the Group	
	As of 31 December 2018 RMB'000	**As of 31 December 2017 RMB'000**
Change in basis points		
+100 basis points	**127,471**	**105,105**
-100 basis points	**(127,471)**	**(105,105)**

Management Discussion and Analysis

6.3 Currency Risk

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

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and to a lesser extent, other currencies. The Group's treasury operations exposure mainly arises from its transactions in currencies other than RMB. In order to control currency fluctuation risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. The Group proactively hedged against foreign exchange exposure based on the currency and terms through using the operation of financial instruments such as foreign exchange forwards and currency swaps. According to relevant statistics, as of 31 December 2018, the Group's actual exposure to foreign exchange risk (excluding perpetual securities) approximately amounted to US$3,785 million, hedges against foreign exchange exposure amounted to US$4,031 million with the hedge ratio (percentage of the aforesaid two items) of 106.50% (approximately 100.20% as of 31 December 2017). The Group's actual exposure to foreign exchange risk is limited. As at 31 December 2018, the Group's foreign exchange risk exposure (including perpetual securities) was approximately US$4,485 million and the hedge ratio was approximately 89.88% (approximately 74.18% as of 31 December 2017). With the expansion of the Group's foreign currency assets, the impacts of perpetual securities on the Group's foreign exchange risk exposure gradually reduced.

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

		Increase/(decrease) in equity interest excluding perpetual securities of the Group	
	Change in RMB currency rate	As of 31 December 2018	As of 31 December 2017
		RMB'000	RMB'000
Effect on the profit before tax	+1%	(16,908)	(298)
Direct effect of perpetual securities on the equity in the event of future redemption	+1%	48,042	45,739
		31,134	45,441

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.

Management Discussion and Analysis

6.4 Liquidity Risk

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

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

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

	On demand RMB'000	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
			As of 31 December 2018			
Total financial assets	7,443,083	34,692,202	74,351,394	154,177,677	732,875	271,397,231
Total financial liabilities	486,299	33,684,216	53,205,283	140,051,653	938,158	228,365,609
Net liquidity gap	6,956,784	1,007,986	21,146,111	14,126,024	(205,283)	43,031,622
			As of 31 December 2017			
Total financial assets	3,837,915	30,270,350	58,567,391	141,205,699	550,590	234,431,945
Total financial liabilities	427,121	23,912,531	49,007,773	119,484,505	1,035,610	193,867,540
Net liquidity gap	3,410,794	6,357,819	9,559,618	21,721,194	(485,020)	40,564,405

6.5 Operational Risk

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

7. Charge on Group Assets

The Group had lease receivables and entrusted loans of RMB14,870,001,000, long-term receivables of RMB2,227,156,000, cash of RMB510,222,000, property, plant and equipment of RMB1,443,412,000 and prepaid lease payments of RMB910,048,000 pledged to the bank as of 31 December 2018 in order to secure or pay the bank borrowings, cash of RMB319,874,000 was pledged for bank acceptances, letter of credit and etc, and cash of RMB14,919,000 was pledged for collective fund trusts.

8. Material Investments, Acquisitions and Disposals

In 2018, the Group further explored the layout of hospitals by implementing innovative models including successful conversion through previous debt investment projects and full-capital acquisitions, with a total of 54 invested medical institutions in aggregate. Currently, the actual number of contracted holding or participating hospitals and clinics which were put into operation had reached 46, of which the new hospital projects for the year were totaled to be 14, namely Sihui Wanlong, Renshou Yunchang, Zhecheng Chinese medicine, Shuyang Center, Shuyang Huji, six clinics under Hangzhou Dental, Qujing Boya, Chengdu Jinsha and Changxing Zhizhou. The hospitals involving the new settlement and being included in the scope of consolidation during 2018 include the 5 ones, namely Xianning Matang, Qinghai KangLe, Xinxiang League, Renshou Yunchang and Sihui Wanlong; the hospitals being included in the scope in which the Group holds equity interests include the 7 ones, namely Qujing Boya and the six clinics under Hangzhou Dental. They had initially formed national hospitals operation network covering East China, South China, North China, Southwest China and Northeast China. Through the vertical and horizontal linkage, the Group will explore the operating pattern of the administration offices, improve the operational efficiency of the subject units, and constantly improve the content of the business to establish a hospital group under the operation of "One system, One network, One hospital".

In 2018, the Group opened 6 new kindergartens and 1 school in places including Shanghai and Qingdao. Together with 7 kindergartens and 2 schools that operated in previous years, the Group currently operates 13 kindergartens and 3 schools. At that same time, one of the Group's kindergartens in Changsha was still undergoing the process of acquisition. The Group adjusted its development policy according to changes in external policy, and will continue to optimize the service content, improve the quality of teaching, provide the students with a good growing environment based on the "school + ground" idea and continue to work hard for the private and boutique education system with high reputation brand, strong service capability and the most distinctive characteristics.

Management Discussion and Analysis

9. Human Resources

As of 31 December 2018, the Group had 12,813 full-time employees, an increase of 1,255 full-time employees as compared to 11,558 in the corresponding period of 2017.

The Group believes it has a high quality work force with specialized industry expertise. As at 31 December 2018, approximately 59.20% of the Group's employees had bachelor's degrees and above, and approximately 20.23% had master's degrees and above.

9.1 Incentive Schemes

The Group has established effective employee incentive schemes to correlate the remuneration of our employees with their overall performance and contribution to the Company rather than operating results, and have established a merit based remuneration awards system. Employees are promoted not only in terms of position and seniority, but also in terms of professional classification. Our senior employees are reviewed every quarter on the basis of, among other criteria, their performance as business leaders to achieve stipulated performance targets (such as budget targets) and their risk management capabilities on the operational matters under their charge.

With a view of promoting the Group to establish and complete the medium-long term stimulation and restriction system for fully arousing the enthusiasm of the management, attracting and retaining the excellent management talents, and effectively integrating the interests of shareholders, the Company and the management to guarantee the long-term, stable and healthy development, the Board of the Company considered and passed the program of setting up the equity incentive plans (including the share option scheme (the "2014 Share Option Scheme") and restricted share award scheme (the "2014 Restricted Share Award Scheme")) in 2014.

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 2018, the Group complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

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

10.1 Contingent Liabilities

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Legal proceedings:		
Claimed amounts	**2,654**	1,199

10.2 Capital Commitments and Credit Commitments

The Group had the following capital commitments and irrevocable credit commitments as of each of the dates indicated:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	**158,361**	620,444
Capital expenditure for equity investment (1)	**204,049**	517,578
Irrevocable credit Commitments (2)	**9,706,751**	8,036,296

Notes:

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

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

Management Discussion and Analysis

11.Future Outlook

Looking forward, despite the increasing exposures in downward trend of global economic growth, the overall economy still continues with its recovery trend. China's economic structure continues to optimize, emerging industries continue to develop, and economic growth has potential and resilience. The Group will continue to adhere to the line of taking root in industry, focus on industry and deepen industry development. Coupling with the development strategy of "finance + industry", by integrating resources of financial business and industrial operation, and apply service innovation, technological innovation and product innovation, to contribute to the development of the real economy and strive to achieve the corporate vision of "gather global resources, share China's promotion".

In 2019, the Group will adopt a strategy of "stabilizing first, making progress in stability and striving for changes in stability": (i) strengthening position in traditional market. The Group will continue to take root in the industry and deepen the industrial chain to find quality customers in the industry chain. We will also further optimize the marketing network and refine the marketing system. We will enhance the operational management support and optimize the business operation and asset management systems. The operational quality control and management closed loop will be strengthened, and the operational specifications of the business end and the management quality of the functional end will be further improved; (ii) continuous business innovation. We will further organize and coordinate resources of all parties, and continuously innovate services and products. Comprehensive service capabilities will be expanded to meet the financial needs of different stages of development of the real economy customers in various aspects; (iii) enhance the value of industrial operations. In terms of medical segment, on the basis of the layout of the existing hospital's asset advantages, we will accelerate the innovation of the "one system, one network, one hospital" model and create a medical service sector that serves the general public and has Far East characteristics. In terms of construction segment, we will continue to improve the operating lease level of the construction sector, and continuously upgrade the integrated service capabilities of investment, financing, construction and operation to achieve interoperability between finance and industry. In terms of education segment, we will reshape and reorganize the resources within the system to further enhance the teaching quality of subordinate schools and shape high-end brands.

Management Discussion and Analysis

12.Hospital Operation Segment Report

12.1 Analysis of Hospital Operation Sector Profit Statement

	For the year ended 31 December		
	2018	2017	
	RMB' million	RMB' million	Change %
Total Revenue	2,317.07	1,489.17	55.59%
Revenue from hospital operation	2,141.38	1,314.17	62.95%
Other relevant revenue from hospital operation	53.11	33.23	59.83%
Sub-total of revenue from hospital operation (1)	2,194.49	1,347.40	62.87%
Other external revenue (2)	46.23	74.92	-38.29%
Revenue within the Group	76.35	66.85	14.21%
Total Cost	(1,683.23)	(1,059.58)	58.86%
Cost from hospital operation (3)	(1,584.29)	(924.71)	71.33%
Other cost	(98.94)	(134.87)	-26.64%
Gross profit	633.84	429.59	47.55%
Gross profit from hospital operation (4)	610.20	422.69	44.36%
Others	23.64	6.90	242.61%
Labor cost (5)	(221.43)	(128.24)	72.67%
Other administrative and selling expenses (5)	(202.25)	(139.89)	44.58%
Provision for assets	(36.26)	(37.31)	-2.81%
Other profit	26.04	24.04	8.32%
Profit before tax	199.94	148.19	34.92%
Income tax expense	(49.08)	(33.89)	44.82%
Profit for the year	150.86	114.30	31.99%

Management Discussion and Analysis

Notes:

(1) In 2018, the Group continued to accelerate the investment rate for the hospitals and further developed its hospital territory, with a total of 54 invested medical institutions and approximately 20,000 (the end of 2017: 12,000) available beds under institutions operated by the Company. The number of the Group's contracted holding or shareholding hospitals and clinics that have actually been put into operation has reached 46. In 2018, new hospital projects of the Group were totaled to be 14, namely, Sihui Wanlong, Renshou Yunchang, Zhecheng Chinese Medicine, Shuyang Centre, Shuyang Huji, six clinics under Hangzhou Dental, Qujing Boya, Chengdu Jinsha and Changxing Zhizhou. The number of beds available in the 46 medical institutions has exceeded 16,000 (the end of 2017: over 12,000). According to the operation needs of various hospitals, the actual number of beds available at the end of 2018 exceeded 11,000 (the end of 2017: approximately 7,300). In terms of operation capacity, in 2018, the hospital operation revenue of the 46 medical institutions (including the hospitals/clinics in which the Group has shareholdings and the hospitals that the Group has entered into contracts but not yet delivered) amounted to approximately RMB3.769 billion in total (the operating revenue of 2017 from the 32 hospitals: approximately RMB2.143 billion). With the gradual standardization of service models, hospitals in stock have gradually increased their local influence, and their revenue has shown a steady growth. The newly acquired hospitals/clinics still have large room for discipline management and business integration. The Group will continue to plan for future operation with the principle of "one network, one system and one hospital" and incorporate the above hospitals in to a unified operation and management model, focusing on the development of disciplines, increasing the core competitiveness and achieving income growth.

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

(3) The costs of hospital operation shown in the Group's consolidated financial statements of 2018 increased from approximately RMB925 million of 2017 to RMB1.584 billion. In 2018, the number of completed and delivered controlling hospitals was 25 (2017: 20), showing a growth in volume and size. The completion and delivery of the new hospitals in the initial stage of operation concentrated in 2018. Thus, the overall operating cost growth rate was more obvious than the income growth rate. At present, the Group has formed a prototype of some disciplines, and will focus on the full cost accounting of the department, gradually clarify the standardized cost of the department, and adopt a more objective and scientific cost management model to intensify efficiency, control costs, and improve economic output.

(4) The gross profit margin of the Group's operating operations in 2018 was approximately 28%, which was mainly due to the fact that the operating efficiency of the newly settled hospitals has not yet fully realized and therefore declined slightly from 31% in 2017. As the Group more effectively grasps and controls the cost of sections, it provides a good foundation for the growth of gross profit margin.

(5) As the number of completed and delivered controlling hospitals in 2018 increased from 20 of last year to 25, the Group continued to strengthen the construction of medical teams, improve the professional quality of medical staff, and enhance the integrated management level; combined with the introduction of senior management talents in the upper level and local hospitals, the strengthening of market promotion, and the optimization and adjustment to the structure of the Group's top information system, labor and other sales management expenses have increased significantly.

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

Management Discussion and Analysis

12.2 Analysis of the Hospital Operation Sector's Asset

	31 December 2018		31 December 2017		
	RMB' million	% of total	RMB' million	% of total	Change %
Monetary fund	289.26	4.49%	145.71	3.05%	98.52%
Amount of the Group's cash pool	425.43	6.60%	442.06	9.24%	-3.76%
Bill receivables	398.65	6.19%	251.20	5.25%	58.70%
Prepayments (1)	267.55	4.15%	518.02	10.83%	-48.35%
Other receivables	139.55	2.17%	90.83	1.90%	53.64%
Financial assets at fair value through profit or loss of the period	–	–	80.00	1.67%	-100.00%
Entrusted loans	110.11	1.71%	105.49	2.21%	4.38%
Inventories	133.22	2.07%	105.80	2.21%	25.92%
Fixed asset and Intangible assets (2)	2,644.04	41.05%	1,679.28	35.11%	57.45%
Goodwill (3)	1,663.35	25.82%	1,088.00	22.75%	52.88%
Investments in joint ventures/ associates (4)	332.63	5.16%	245.29	5.13%	35.61%
Deferred income tax assets	35.27	0.55%	21.99	0.46%	60.39%
Other assets	2.50	0.04%	9.36	0.19%	-73.29%
Total assets	6,441.56	100.00%	4,783.03	100.00%	34.68%

Notes:

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

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

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

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

Corporate Governance Report

The Board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2018.

Corporate Governance Practices

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

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

The Company's corporate governance practices are based on the Principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

During the accounting period for the year ended 31 December 2018, the Company has complied with all the Code Provisions set out in the CG Code, except for Code Provision E.1.2 as explained in the paragraph headed "Communication with Shareholders and Investors/Investor Relations" below.

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

Corporate Governance Report

Directors' Securities Transactions

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2018.

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 2018.

Corporate Governance Report

Board of Directors

The Board currently comprises 11 members, consisting of 2 executive directors, 5 non-executive directors and 4 independent non-executive directors. Dr. Chen Guogang resigned as a non-executive director of the Company with effect from 20 July 2018.

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

The Board of the Company currently comprises the following directors:

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

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

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

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

Corporate Governance Report

Chairman and Chief Executive Officer

Mr. Ning Gao Ning is a non-executive director and the Chairman of the Board, while Mr. Kong Fanxing is the Chief Executive Officer. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgement. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Officer focuses on implementing objectives, policies and strategies and delegated by the Board.

Independent Non-executive Directors

During the year ended 31 December 2018, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Non-executive Directors and Directors' Re-election

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

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

According to the articles of association of the Company, each of the directors of the Company as appointed under a general meeting of the Company is appointed for a specific term of three years and he/she may serve consecutive terms if re-elected by the Company in general meeting upon the expiration of his/her term. For further details of the re-election of the directors of the Company, please refer to page 100 of the "Directors' Report".

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board make decisions objectively in the interests of the Company.

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

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

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

All directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

All directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, corporate governance, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

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

Corporate Governance Report

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.

During the year ended 31 December 2018, all directors have participated in appropriate continuous professional development activities by reading materials including regulatory update and seminar handouts or reviewing the papers and circulars sent by the Company. As part of the continuous professional development programme, directors are also encouraged to participate in the various briefings and visits to local management and the Company's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions, and duties of the directors. Details are as follows:

Directors	Reading Relevant Material	Attending Seminars/Visiting/ Interviewing Key Management
Executive Directors		
Mr. Kong Fanxing	✓	✓
Mr. Wang Mingzhe	✓	✓
Non-Executive Directors		
Mr. Ning Gaoning	✓	✓
Mr. Yang Lin	✓	✓
Mr. Liu Haifeng David	✓	✓
Mr. Kuo Ming-Jian	✓	✓
Mr. John Law	✓	✓
Independent Non-Executive Directors		
Mr. Cai Cunqiang	✓	✓
Mr. Han Xiaojing	✓	✓
Mr. Liu Jialin	✓	✓
Mr. Yip Wai Ming	✓	✓

Corporate Governance Report

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. During the year ended 31 December 2018, the Board has adopted a board diversity policy for the purpose of ensuring that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board.

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

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

Policy for the Nomination of Directors

During the year ended 31 December 2018, the Company has adopted Policy for the Nomination of Directors, which is incorporated in the terms of reference of the Remuneration and Nomination Committee, taking into consideration the revised Listing Rules effective from 1 January 2019. The Policy sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or re-appointment of Directors. No candidate was nominated for directorship during the year ended 31 December 2018.

Corporate Governance Report

Board Committees

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

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

Audit and Risk Management Committee

The Audit and Risk Management Committee comprises 3 members, including 2 independent non-executive directors, namely, Mr. Yip Wai Ming (Chairman of the Committee) and Mr. Han Xiaojing, and 1 non-executive director, namely, Mr. John Law. Mr. Yip Wai Ming possesses the appropriate accounting or related financial management expertise.

The main duties of the Audit and Risk Management Committee include the following:

- To review the financial information
- To review the relationship with the external auditors
- To review financial reporting system, internal control system and risk management system
- To review the annual budget and final accounts

The Audit and Risk Management Committee is also responsible for performing the corporate governance duties which are set out under "Corporate Governance" on page 76.

The Audit and Risk Management Committee held 4 meetings during the year ended 31 December 2018 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 86.

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

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit and Risk Management Committee.

Corporate Governance Report

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises 3 members including 2 independent non-executive directors, namely, Mr. Liu Jialin (Chairman of the Committee) and Mr. Han Xiaojing, and 1 non-executive director, namely, Mr. Kuo Ming-Jian. The majority of them are independent non-executive directors.

The principal duties of the Remuneration and Nomination Committee include the following:

- To make recommendations to the Board on the remuneration packages of the individual executive directors and senior management
- To review and make recommendations to the Board on the remuneration of the non-executive directors
- To review and make recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management
- To make recommendations to the Board on the terms of service contract(s) or letter(s) of appointment of the new executive director(s) appointed during the year
- To assess the performance of 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

Corporate Governance Report

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

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

The Remuneration and Nomination Committee met 2 times during the year ended 31 December 2018 to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company, assess the performance of the executive directors, as well as make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive directors and senior management and other related matters. The attendance records of the Remuneration and Nomination Committee are set out under "Attendance Record of Directors and Committee Members" on page 86.

Strategy and Investment Committee

The Strategy and Investment Committee comprises 3 members, namely, Mr. Liu Haifeng David (a non-executive director and the 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 2018, no meeting of the Strategy and Investment Committee was held. The attendance records of the Strategy and Investment Committee are set out under "Attendance Record of Directors and Committee Members" on page 86.

Corporate Governance Report

Attendance Record of Directors and Committee Members

During the year ended 31 December 2018, 4 regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance record of each director during their tenure of office at the Board and Board Committee meeting(s) and the general meeting of the Company held during the year ended 31 December 2018 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit and Risk Management Committee	Remuneration and Nomination Committee	Strategy and Investment Committee	Annual General Meeting
Executive Directors					
Mr. Kong Fanxing	4/4	Not applicable	Not applicable	0/0	1/1
Mr. Wang Mingzhe	4/4	Not applicable	Not applicable	Not applicable	1/1
Non-Executive Directors					
Mr. Ning Gaoning	3/4	Not applicable	Not applicable	Not applicable	0/1
Mr. Yang Lin	3/4	Not applicable	Not applicable	Not applicable	0/1
Mr. Liu Haifeng David	4/4	Not applicable	Not applicable	0/0	0/1
Mr. John Law	4/4	4/4	Not applicable	Not applicable	0/1
Mr. Kuo Ming-Jian	4/4	Not applicable	2/2	Not applicable	0/1
Dr. Chen Guogang (resigned on 20 July 2018)	2/4	Not applicable	Not applicable	Not applicable	0/1
Independent Non-Executive Directors					
Mr. Cai Cunqiang	4/4	Not applicable	Not applicable	0/0	0/1
Mr. Han Xiaojing	4/4	3/4	2/2	Not applicable	0/1
Mr. Liu Jialin	4/4	Not applicable	2/2	Not applicable	0/1
Mr. Yip Wai Ming	4/4	4/4	Not applicable	Not applicable	0/1

Apart from the Board meetings stated above, the Chairman also held one meeting with the non-executive directors (including independent non-executive directors) without the presence of executive directors on 29 August 2018.

Corporate Governance Report

Risk Management and Internal Controls

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

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

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

The Audit and Risk Management Committee oversees risk management processes within the Group. The main duties and responsibilities of the Audit and Risk Management Committee are to design risk management systems and policies, to review, approve and supervise overall risk management measures and procedures and their general implementation and effectiveness.

The Internal Audit Department operates independently from the business operation and management of the Company. It reports directly to the Audit and Risk Management Committee on a regular basis and performs independent audits of the reasonableness, completeness and effectiveness of the operational management and risk controls. There are four teams in the Internal Audit Department, namely operation audit team, management audit team, IT audit team and discipline inspection team. Internal Audit Department plans and arranges resources to ensure supervision and assessment of the key control aspects including but not limited to operational monitoring, financial monitoring, compliance monitoring, information security and management duties supervision.

During the course of its audits, the Internal Audit Department is authorized to comprehensively inspect, analyze, evaluate and audit all of the business and operational procedures to identify any material issues or risk matters, and to provide advice for improvement and rectification. The Internal Audit Department is also the main communication channel with relevant external regulatory entities, such as courts and public safety bureaus. Internal Audit Department conducts follow-up audits to monitor the updated status of previously identified issues to ensure corrective and remedial measures have been duly implemented and are enforced. It also evaluates the non-compliance of the risk management policies and procedures by key personnel in the operational process, and may make recommendations to the senior management and the Board to impose certain penalties.

The Audit and Risk Management Committee and Internal Audit Department report to the Board on any findings and make recommendations to the Board as and when appropriate. The Board at least annually conducts a review of the effectiveness of the Company and its subsidiaries' internal control systems. Such review covers all material controls, including financial, operational and compliance controls and risk management functions.

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

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 2018.

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 2018, 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 2018.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. When the directors are aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this corporate governance report.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 127 to 131.

Where appropriate, a statement will be submitted by the Audit and Risk Management Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit and Risk Management Committee.

Corporate Governance Report

Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities relating to the financial statements for the year ended 31 December 2018 is set out in the "Independent Auditors' Report" on pages 127 to 131.

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 2018 is set out below:

Type of services provided by the external auditors	Amount of fees RMB'000
Audit services	4,116
Non-audit service	4,276
Total	8,392

The Group's non-audit service fees mainly comprise of: (i) interim review service fee amounted to RMB1,150,000; (ii) asset securitization business related service fee amounted to RMB2,350,000; (iii) bond issue related service fee amounted to RMB750,000; and (iv) tax service fee amounted to RMB26,000.

Corporate Governance

The Audit and Risk Management Committee is responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policy and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the CG Code which is amended from time to time, and its disclosure in the corporate governance report.

The Board has reviewed the shareholders' communication policy on a regular basis to ensure its effectiveness as well as the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Corporate Governance Report

Company Secretary

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

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

Shareholders' Right

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Convening a General Meeting

General meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Putting Forward Proposals at General Meeting

Pursuant to Sections 580 and 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant general meeting, may put forward proposals for considerations at a general meeting by sending requests in writing to the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for general meeting.

Putting Forward Enquiries to the Board

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

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

Corporate Governance Report

Contact Details

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

Address:	Suite 6305, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Fax:	86-21-50490066
Email:	IR@fehorizon.com
Attention:	Board of Directors

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

Code provision E.1.2 of the CG Code stipulates that, among others, the chairman of the Board shall attend the annual general meeting of the listed issuers and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on 6 June 2018 (the "2018 AGM"), Mr. Ning Gaoning (Chairman of the Board), Mr. Yip Wai Ming (Chairman of the Audit and Risk Management Committee), Mr. Liu Haifeng, David (Chairman of the Strategy and Investment Committee) and Mr. Liu Jialin (Chairman of the Remuneration and Nomination Committee) were unable to attend due to other important business engagements. In order to ensure smooth transaction of business at the 2018 AGM, Mr. Kong Fanxing (Vice Chairman and Chief Executive Officer) chaired the 2018 AGM to answer questions where necessary.

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

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

Biographies of Directors and Senior Management

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

Mr. NING Gaoning (寧高寧), aged 60, holds a Bachelor's degree in Economics from Shandong University in China and a Master of Business Administration degree from University of Pittsburgh in the United States. Mr. Ning has been the Chairman and the Party Group Secretary of Sinochem Group since December 2015 and was appointed as a non-executive director of the Company in March 2016.

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

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

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

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

Mr. KONG Fanxing (孔繁星), aged 55, is an executive director, the Vice Chairman and the Chief Executive Officer of the Company. Mr. Kong received an EMBA degree from Peking University in March 2005, a master's degree in Economics and a bachelor's degree in Economics from University of International Business and Economics (對外經濟貿易大學) in China in June 1991 and July 1986, respectively. Mr. Kong joined Sinochem Group in August 1991. During the period which Mr. Kong worked for Sinochem Group, he had been the general manager of Sinochem International Engineering Trade Company (中化國際工程貿易公司), the deputy general manager of Sinochem International Industrial Company (中化國際實業公司), the deputy general manager, general manager of Sinochem International Tendering Co., Ltd. (中化國際招標有限責任公司), the deputy chief of the fertiliser division of China National Chemicals Import & Export Corporation (中國化工進出口總公司), the executive deputy general manager of Sinochem International Fertilizer Trading Company (中化國際化肥貿易公司) respectively. In April 2001, he joined International Far Eastern Leasing Co., Ltd (遠東國際租賃有限公司) ("Far Eastern") and has become the general manager since then. Mr. Kong has been the President and Chief Executive Officer of the Company since September 2009. Currently, Mr. Kong is also the chairman and general manager of Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司), as well as an executive director and general manager of Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司) and Shanghai Donghong Co., Ltd. (上海東泓實業發展有限公司).

Mr. Kong has over 24 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 48, is an executive director and the Chief Financial Officer of the Company. Mr. Wang obtained a bachelor's degree in Economics from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in China in July 1993 and a MBA degree from Northeastern University (東北大學) in China in March 2003. Mr. Wang joined Far Eastern in October 1995 and has worked there since then. In Far Eastern, Mr. Wang served as the manager of the business development department, the deputy general manager of the first business division, the deputy general manager, the general manager and assistant general manager of quality control department and the chief financial officer. In September 2009, Mr. Wang was appointed as the Chief Financial Officer of the Company and he has held the position since then. Currently, Mr. Wang is also the chief financial officer of Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司) and Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司).

Mr. Wang has over 23 years of experience in finance management.

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

Mr. YANG Lin (楊林), aged 55, has been a non-executive director of the Company since October 2009. Mr. Yang obtained a bachelor's degree in Economics from Tianjin Commerce Collage (天津商學院) in China in July 1985, and studied enterprise management course in University of Stuttgart in Germany (德國思圖加特大學) from 1990 to 1993. Mr. Yang then worked for Siemens AG and Wella AG from 1993 to 1994. In July 1994, Mr. Yang joined Sinochem Group and has worked there ever since. In Sinochem Group, Mr. Yang served as the deputy general manager of the finance and accounting department, the general manager of the treasury department and the deputy general manager of the investment and development department.

Currently, Mr. Yang is the chief financial officer of Sinochem Group as well as the chief financial officer and the chairman of the budget and evaluation committee of Sinochem Corporation. Mr. Yang also holds directorships in Sinochem International Corporation, Sinofert Holdings Limited and Franshion Properties (China) Limited and is the chairman of China Foreign Economy, Trade Trust Co., Ltd.

Mr. Yang has approximately 23 years of experience in finance and treasury management.

Biographies of Directors and Senior Management

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

Mr. LIU Haifeng David (劉海峰), aged 49, has been a non-executive director of the Company since October 2009. He is the chairman of DCP Capital. Mr. Liu previously served as Partner of KKR, Co-head of KKR Asia Private Equity and CEO of KKR Greater China. Mr. Liu was also a member of KKR's Asian Private Equity Investment Committee, Asian Portfolio Management Committee and China Growth Fund Investment Committee. Prior to joining KKR, Mr. Liu was Managing Director of Morgan Stanley and Cohead of Private Equity Asia. Mr. Liu has established one of the leading investment track records in Greater China over the past 25 years and was responsible for a number of successful and innovative investments such as Ping An Insurance, Mengniu Dairy, Qingdao Haier Co., Sunner Poultry, Belle International, Far East Horizon, Nanfu Battery, China Modern Dairy, United Envirotech Ltd, China International Capital Corporation Limited (CICC), China Cord Blood Corporation, Paradise Retail, Hengan International, COFCO Meat, Yuehai Feed, Asia Dairy, Uxin Limited, Tarena Education and etc. Mr. Liu graduated from Columbia University as Class Salutatorian with a B.S. in Electrical Engineering. He is a member of Tau Beta Pi National Engineering Honor Society and a winner of the Edwin Howard Armstrong Memorial Award for the top electrical engineering student at Columbia University. "KKR" as defined in this paragraph means Kohlberg Kravis Roberts & Co. L.P. together with its affiliates. Mr. Liu also serves as a non-executive director for China International Capital Corporation Limited which is a listed company in Hong Kong, Qingdao Haier which is an A-share listed Company, and Sunpower Group which is a listed company in Singapore.

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

Mr. KUO Ming-Jian (郭明鑑), aged 57, was appointed as a non-executive director of the Company in March 2013. Mr. Kuo is currently the Chairman of Cathay United Bank, Chairman of Cathay United Bank (China) and a director of Cathay Financial Holding Co., Ltd. (a company listed in Taiwan, stock code: 2882). He is also a Senior Advisor of Blackstone Private Equity and was appointed as the Vice Chairman and a Senior Managing Director of Blackstone, Great China since 2007. Before joining Blackstone, Mr. Kuo was a Partner and Co-Vice Chairman and Managing Director, Head of greater China in H&Q Asia Pacific. Before that, Mr. Kuo was also the Head and Country Head of Investment Banking for JPMorgan in Hong Kong and the Vice Chairman of JPMorgan's Greater China Operating Committee. Mr. Kuo was an independent non-executive director of Cathay Financial Holdings Co., Ltd. and Cathay Life Insurance Co., Ltd..

Mr. Kuo is also an independent non-executive director of Samson Holding Limited.

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

Biographies of Directors and Senior Management

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

Mr. John LAW (羅強), aged 68, was appointed as a non-executive director of the Company on 25 October 2012. Mr. Law worked for J.P. Morgan & Co. as training head of Asia Pacific Region, as risk manager for Greater China Region and as senior credit officer for Asia Pacific Region, Euroclear respectively. He then worked for Citibank/Citigroup from August 2000 to November 2003 as the regional credit officer for Asia Pacific Financial Markets. Prior to joining the Company, he worked for International Finance Corporation from March 2004 to September 2012 as principal banking specialist for global financial markets.

Mr. Law holds a master degree in business administration (finance) from Indiana University in USA and has more than 30 years' experience in finance.

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

Mr. CAI Cunqiang (蔡存強), aged 69, was appointed as an independent non-executive director of the Company in March 2011. Mr. Cai graduated from Shanghai Maritime College (上海海運學院) (now known as Shanghai Maritime University (上海海事大學)) in 1977, and worked for that college since then. He was promoted to be a deputy professor in 1993 and later a professor in 1995. In 2001, Mr. Cai became the deputy dean of Shanghai Maritime College and was awarded the special government allowance by the State Council. Currently, Mr. Cai is a part-time lawyer in Shanghai Yingtai Law Firm (上海瀛泰律師事務所) and an arbitrator of China Maritime Arbitration Commission (中國海事仲裁委員會).

Mr. Cai is admitted to practicing law in the PRC. Mr. Cai has 41 years of experience in the shipping industry.

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

Mr. HAN Xiaojing (韓小京), aged 64, 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 32 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). He also serves as independent director of Ping An Bank Company Limited (平安銀行股份有限公司) and Beijing Sanju Environmental Protection Company Limited (北京三聚環保新材料股份有限公司).

Biographies of Directors and Senior Management

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

Mr. LIU Jialin (劉嘉凌), aged 56, was appointed as an independent non-executive director of the Company in March 2011. From 1992 to 2007, Mr. Liu worked for Morgan Stanley group of companies and once served as a member of the Management Committee and Asia Executive Committee as well as a Managing Director in the Fixed Income Division in Hong Kong. In 2008, Mr. Liu established Shelter Cove Capital Limited (now known as Voras Capital Management (HK) Limited). Mr. Liu has 30 years of experience in finance and securities industry.

Mr. Liu also serves as the managing director of Cinda International Asset Management Limited.

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 54, was appointed as an independent non-executive director of the Company in March 2011. Mr. Yip graduated from the University of Hong Kong (香港大學) with a bachelor of social sciences degree in November 1987. He also obtained a degree of bachelor of laws from the University of London (倫敦大學) in August 2001. Mr. Yip started his career in Ernst & Young in 1987, and was a senior manager at the time of his departure in 1996. From 1996 to 2010, Mr. Yip served as an associate director in ING Bank N.V., the chief financial officer in Fulbond Holdings Limited (福邦控股有限公司), the vice president of Hi Sun Technology (China) Limited (高陽科技（中國）有限公司), the chief financial officer of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司) and the deputy general manager of Yuzhou Properties Company Limited (禹州地產股份有限公司) respectively. Currently, Mr. Yip is an independent non-executive director of Ju Teng International Holdings Limited (巨騰國際控股有限公司), Pax Global Technology Limited (百富環球科技有限公司), Poly Culture Group Corporation Limited (保利文化集團股份有限公司) and Yida China Holdings Limited (億達中國控股有限公司).

Mr. Yip is a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a member of the Chinese Institute of Certified Public Accountants.

Mr. Yip has over 28 years of experience in accounting and finance.

Biographies of Directors and Senior Management

Mr. CAO Jian (曹健) – Senior Vice President

Mr. CAO Jian (曹健), aged 44, is the Senior Vice President of the Company. Mr. Cao graduated from Nankai University (南開大學) majoring in finance in August 1997, and obtained a master's degree in finance from University of International Business and Economics (對外經濟貿易大學) in December 2006 and an MBA from Shanghai Jiaotong University (上海交通大學) in June 2008. Mr. Cao was a manager of the human resources department in Sinochem Group. He joined International Far Eastern Leasing Co., Ltd. in September 2002, and served as the deputy general manager, the standing deputy general manager and the general manager of the healthcare business division, and the assistant of general manager and the deputy general manager of the Company, thus he has adequate experience in corporate management. Mr. Cao was appointed as the Senior Vice President of the Company in January 2013.

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

Mr. SHANG Bing (尚兵) – Vice President

Mr. SHANG Bing (尚兵), aged 52, is the Vice President of our Company. Mr. Shang graduated from Sichuan University (四川大學) in China, majoring in English language and literature, with a bachelor of arts in July 1989. After graduation, Mr. Shang joined MOFCOM and worked as an officer in the Department of Outward Investment and Economic Cooperation until October 1991. He then joined Embassy of the PRC in the Kingdom of Thailand in November 1991 and worked there until August 1995. In September 1995, Mr. Shang returned to MOFCOM and served there until 2003. From 2003 to 2007, Mr. Shang worked in Chongqing Lifan Holding Company Limited (重慶力帆控股有限公司) and held several positions there such as special assistant to the chairman, director and executive director. In April 2008, Mr. Shang joined Deloitte Touche Tohmatsu CPA Ltd., Beijing Branch and worked there until December 2010. Mr. Shang was appointed as an Assistant President of the Company in January 2011 and the Vice President in June 2012. Mr. Shang is also the general manager of Grand Flight Investment Management Ltd. (遠翼控股有限公司) and Grand Flight Holdings Co., Ltd. (遠翼控股有限公司).

Mr. Shang has over 29 years of experience in relation to government affairs and enterprise management.

Biographies of Directors and Senior Management

Mr. WANG Ruisheng (王瑞生) – Vice President

Mr. WANG Ruisheng (王瑞生), aged 65, is the Vice President of the Company. Mr. Wang graduated from East China Normal University (華東師範大學) majoring in history in September 1989 and obtained an EMBA degree from Peking University (北京大學) in September 2005. Prior to joining Far East Horizon Limited, he worked as Section Chief Assistant of Shanghai Chemicals Import and Export Corporation, General Manager of Black & White Advertising Co., Ltd., Deputy General Manager of Sinochem Shanghai Co., Ltd. and Deputy General Manager of Sinochem International Tendering Co., Ltd. He has extensive experience in corporate management and government relationship. Mr. Wang was appointed as the Vice President of the Company in June 2012. Mr. Wang is also the general manager of Shanghai Zhenjing Industrial Development Co., Ltd (上海臻璟實業發展有限公司), Shanghai Grand Glory Eco Technology Co., Ltd. (上海宏瑞環保有限公司) and Shanghai Hyatt Property Service Co., Ltd. (上海柏悦物業服務有限公司).

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

Mr. WU Zhijiun (吳志軍) – Vice President

Mr. WU Zhijun (吳志軍), aged 46, is the Vice President of the Company. Mr. Wu graduated from Dongbei University of Finance and Economics (東北財經大學) majoring in management of investment economics in July 1996 and obtained a MBA degree from Northeastern University (東北大學) in July 2002. Prior to joining Far East in November 2001, Mr. Wu worked at China Northern Airlines (中國北方航空公司). In Far East, he worked as the deputy general manager of the healthcare business division, the standing deputy general manager and the general manager of Shanghai Domin Medical Engineering Co., Ltd., the general manager of the healthcare business division, and the assistant to the president of the Company, thus has an extensive management experience. Mr. Wu was appointed as the Vice President of the Company in February 2015. Mr. Wu is also the general manager of Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司).

Mr. Wu has over 17 years of experience in the financial leasing industry.

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

Mr. CAI Jianjun (蔡建軍), aged 56, is the Chief Information Officer of the Company. Mr. Cai graduated from Xi'an Jiaotong University (西安交通大學) majoring in Computer and Application in July 1984 and obtained a master degree in Computer Science Education from Chinese Academy of Sciences (中國科學院) in July 1991. Prior to joining Far East Horizon Limited, he worked as deputy director of the Mainframe Computer Lab and Commercial Software Lab at Institute of Computing Technology, Chinese Academy of Sciences; vice president and general manager of Beijing Amadeus Data Limited; technical director of IT Department, director of Strategic Planning Department, chief architect and technical executive director in Lenovo Group; general manager of Information Technology department, Sinochem Group, thus has extensive Computer Technology and enterprise management experience. Mr. Cai was appointed as the Chief Information Officer of the Company in April 2014.

Mr. Cai has over 34 years of experience in Computer Technology and management.

Biographies of Directors and Senior Management

Mr. ZHU Guojie (朱國傑) – Assistant President

Mr. ZHU Guojie (朱國傑), aged 41, is the Assistant President of the Company. Mr. Wang graduated from Nanjing University (南京大學) majoring in International Finance with a bachelor degree in July 1998 and obtained an MBA degree from Fudan University (復旦大學) in July 2004. Prior to joining Far East in August 2004, Mr. Zhu worked at Bank of China Nantong Branch (中國銀行南通分行) and Shanghai Media Group (上海文廣集團). In Far East, he worked as the assistant general manager of healthcare division, the deputy general manager of quality control department, the deputy general manager and the general manager of strategy management department, and the deputy general manager and the general manager of the education business division. Mr. Zhu was appointed as the Assistant President of the Company in July 2016. Mr. Zhu is also the general manager of Shanghai Team Joy Management Limited (上海周濟同悦資產管理有限公司) and Shanghai Teamally Enterprise management Co., Ltd (上海和祁企業管理有限公司).

Mr. Zhu has over 14 years of experience in the financial leasing industry.

Mr. LI Jiancheng (李建成) – Assistant President

Mr. LI Jiancheng (李建成), aged 47, is the Assistant President of the Company. Mr. Li graduated from Shandong University of Science and Technology (山東科技大學) majoring in Geophysics with a bachelor degree in July 1995. He obtained a master degree in Finance from Fudan University (復旦大學) in July 2006 and a EMBA degree from China Europe International Business School (CEIBS) in October 2015. Mr. Li worked at Zhongkexin Jinzhen Futures Brokerage Co., Ltd. (中科信金震期貨經紀有限公司) and Hainan Shenhai Futures Brokerage Co., Ltd. (海南深海期貨經紀有限公司). Upon joining Far East in May 2001, he worked as various positions including the deputy general manager and the general manager of the printing system business division, the general manager of packaging system business division, the general manager of public utility business unit II and the general manager of the infrastructure group. Mr. Li was appointed as the Assistant President of the Company in November 2018.

Mr. Li has over 17 years of experience in the financial leasing industry.

Directors' Report

The Board is pleased to present the Directors' Report of the year 2018 together with the audited financial statements of the Group for the year ended 31 December 2018.

Principal Activities and Business Review

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

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

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

Further discussion and analysis as required by Schedule 5 to the Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2018, and an indication of likely future development in the Group's business, are set out in the "Chairman's Statement", "CEO's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to Financial Statements" sections of this annual report. The above sections form part of the Directors' Report.

Directors’ Report

Results and Dividends

The results of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Profit or Loss on page 132 of this annual report.

The Board recommends the payment of a final dividend of HK$0.30 (2017: HK$0.30) per share in respect of the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on Friday, 19 July 2019. The proposed final dividend will be paid on Wednesday, 31 July 2019 after approval at the Annual General Meeting (“AGM”) to be held on Wednesday, 5 June 2019.

Closure of Share Register

The Annual General Meeting of the Company is scheduled to be held on Wednesday, 5 June 2019. For determining the entitlement to attend and vote at the AGM, the Register of Members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, 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, 30 May 2019, being the last registration date.

The final dividend is subject to the approval of the shareholders of the Company at the Annual General Meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 17 July 2019 to Friday, 19 July 2019, 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, 19 July 2019. 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, 16 July 2019, being the last registration date.

Directors' Report

Financial Highlights

The summary of the Group's results, assets, liabilities and non-controlling interests for the past five financial years is extracted from the audited financial information and financial statements published, which is set out on pages 298 to 300 to this annual report. This summary does not form a part of the audited financial statements.

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

Property, Plant and Equipment

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

Share Capital

Details of the movements in the share capital of the Company are set out in Note 34 to the financial statements.

Directors' Report

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any shares of the Company for the year ended 31 December 2018.

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 136 to 139 of this annual report and Note 37 to the financial statements respectively.

Permitted Indemnity

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

Charitable Donations

The Group's external charitable donations for the year amounted to RMB4,300,000 (2017: RMB4,000,000).

Changes in Directors' Biographical Details

There has been no changes in director's biographical details since the date of the 2018 interim report of the Company up to the date of this annual report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Report

Directors

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

Executive Directors
Mr. KONG Fanxing
Mr. WANG Mingzhe

Non-Executive Directors
Mr. NING Gaoning
Mr. YANG Lin
Mr. LIU Haifeng David
Mr. KUO Ming-Jian
Mr. John LAW
Dr. CHEN Guogang (resigned on 20 July 2018)

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

In accordance with the Articles of Association of the Company, Mr. NING Gaoning, Mr. KUO Ming-Jian, Mr. John LAW, Mr. HAN Xiaojing, Mr. LIU Jialin, Mr. CAI Cunqiang and Mr. YIP Wai Ming will retire at the 2019 Annual General Meeting. All of the retiring directors above are eligible for re-election at the 2019 Annual General Meeting.

Biographical Details of the Directors and Senior Management

Biographical details of the directors and senior management are set out on pages 92 to 99 of this annual report.

Directors' Report

Directors' Service Contracts

As at 31 December 2018, none of the directors of the Company had a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

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

Executive Directors

Each of the executive directors has entered into a service contract with the Company. Each of their appointments is for a term of three years commencing from 11 March 2017. Either party has the right to give not less than three months' written notice to terminate the service contract. Each of the executive directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of the Board, and social welfare benefits provided under the relevant PRC laws and regulations. The aggregate amount of the annual salaries of the two executive directors is RMB12,020,000.

Non-Executive Directors

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

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

Under the relevant appointment letters, the Company shall pay HK$420,000 p.a. as director's fee to each of Mr. LIU Haifeng David, Mr. KUO Ming-Jian and Mr. John LAW.

No payment shall be made by the Company to Mr. NING Gaoning and Mr. YANG Lin under the relevant appointment letters.

Independent Non-Executive Directors

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

Each of the appointments of Mr. CAI Cunqiang, Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming is for a term of three years commencing from 30 March 2017.

Under the relevant appointment letters, the Company shall pay HK$420,000 p.a. as director's fee to each of Mr. HAN Xiaojing, Mr. LIU Jialin and Mr. YIP Wai Ming.

No payment shall be made by the Company to Mr. Cai Cunqiang under the relevant appointment letter.

Directors' Report

Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive directors and the Company considers that each of the independent non-executive directors, namely Mr. HAN Xiaojing, Mr. LIU Jialin, Mr. CAI Cunqiang and Mr. YIP Wai Ming, is independent.

Directors' Emoluments and Senior Management's Emoluments

Details of the remuneration of the directors and that of the senior management of the Group for the year ended 31 December 2018 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 2018, none of the directors of the Company are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Pension Scheme

The Group does not have any pension scheme.

Option Scheme

The Company adopted a share option scheme ("Share Option Scheme") for a period of 10 years commencing on 7 July 2014 on which the Share Option Scheme was approved by the Shareholders of the Company. The purpose of the Share Option Scheme is to incentivize and reward Selected Participants (as defined below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The senior and middle management personnel, as well as other key employees of the Company or any subsidiary of the Company (the "Selected Participant(s)") are persons eligible to participate into the Share Option Scheme. The eligibility of the Selected Participant will be decided by the Board or the Administration Committee, at its respective absolute discretion, as to his contribution to the Company or any of its subsidiaries.

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

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

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

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

Directors' Report

In 2018, options entitling the holders thereof to subscribe for an aggregate of 4,485,368 Shares were granted to two executive Directors and the remaining options entitling the holders to subscribe for an aggregate of 29,623,896 Shares were granted to 308 grantees under the Share Option Scheme. A summary of the movements of the outstanding share options under the Share Option Scheme during the year is as follows:

						Number of share options				
Grantee	Date of grant	Vesting period (Note 1)	Exercise Period (Note 2)	Exercise price per share HK$ (Note 3-7)	Outstanding as at 1 January 2018	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding as at 31 December 2018
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					**12,904,495**	**4,485,368**	**–**	**–**	**–**	**17,389,863**

Directors' Report

Grantee	Date of grant	Vesting period (Note 1)	Exercise Period (Note 2)	Exercise price per share HK$ (Note 3-7)	Number of share options: Outstanding as at 1 January 2018	Granted	Exercised (Note 8)	Lapsed	Cancelled	Outstanding as at 31 December 2018
Employees	11 July 2014	11 July 2016 – 11 July 2018	11 July 2016 – 11 July 2024	5.86	8,436,556	–	893,590	–	39,509	7,503,457
Employees	3 July 2015	3 July 2017 – 3 July 2019	3 July 2017 – 3 July 2025	7.17	13,935,336	–	716,692	–	258,567	12,960,077
Employees	15 June 2016	15 June 2018 - 15 June 2020	15 June 2018 – 15 June 2026	5.714	27,777,985	–	946,068	–	469,789	26,362,128
Employees	20 June 2017	20 June 2019 – 20 June 2021	20 June 2019 – 20 June 2027	6.82	28,396,949	–	–	–	559,708	27,837,241
Employees	18 July 2018	18 July 2020 – 18 July 2022	18 July 2020 – 18 July 2028	7.36	–	29,623,896	–	–	163,725	29,460,171
TOTAL					**91,451,321**	**34,109,264**	**2,556,350**	–	**1,491,298**	**121,512,937**

Directors' Report

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

Note 2: According to the 2014 Share Option Scheme, the options shall be exercised within the Option Period. "Option Period" shall mean, in respect of any particular option, a period (which may not be later than 10 years from the offer date of that option) to be determined and notified by the Board or the Administration Committee to the grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses; and (ii) 10 years from the offer date of that option. There is no minimum period for which any vested option must be held before it can be exercised and no performance target which needs to be achieved by a grantee before the vested options can be exercised.

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

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

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

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

Note 7: The exercise price is not less than the higher of (i) the closing price of HK$7.36 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 18 July 2018 (i.e. the grant date) and (ii) the average closing price of HK$7.032 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 18 July 2018. The Share does not carry nominal value. The closing price of shares immediately before the date on which the options were granted is HK$7.18 per share.

Note 8: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK$7.77.

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

Directors' Report

Restricted Share Award Scheme

Reference is made to announcements of the Company dated 11 June 2014 and 2 June 2016. The Company adopted a restricted share award scheme ("Award Scheme") on 11 June 2014 and made further amendments to it on 2 June 2016. This Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. In 2018, the Company granted 51,163,896 Shares under the Award Scheme and as at 31 December 2018, the Company granted an aggregate of 198,804,029 Shares under the Award Scheme.

Management Contracts

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

Arrangements for the Directors to Purchase Shares or Debentures

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

Directors' 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 2018, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were detailed as follows:

Name of shareholder	Name of corporation	Capacity/nature of interest	Total number of ordinary shares[1]	Approximate percentage of interest in the Company
KONG Fanxing	The Company	Beneficial owner	33,794,000(L)[2]	0.85%
		Interest in a controlled corporation	267,173,000(L)[3]	6.75%
WANG Mingzhe	The Company	Beneficial owner	11,036,661(L)[4]	0.27%
LIU Haifeng David	The Company	Interest in a controlled corporation	316,442,100(L)[5]	8.00%
LIU Jialin	The Company	Beneficial owner	125,000(L)	0.00%
		Interest of spouse	125,000(L)	0.00%

Directors' Report

Notes:

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

(2) The interest includes 13,169,599 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme and 19,754,401 underlying shares in respect of the awarded shares granted pursuant to the Company's 2014 Restricted Share Award Scheme. In addition to the share interest in respect of the share options, awarded shares granted and interest in a controlled corporation (see note (3) below), to the best of the directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Kong Fanxing is interested in 870,000 ordinary shares of the Company as at 31 December 2018. Please refer to the Company's 2018 Annual Report for the details of both schemes and the announcements of the Company dated 11 July 2014, 3 July 2015, 15 June 2016, 20 June 2017 and 18 July 2018 respectively for the details of the grants of share options.

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

(4) The interest includes 4,220,264 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme and 6,430,397 underlying shares in respect of the awarded shares granted pursuant to the Company's 2014 Restricted Share Award Scheme. In addition to the share interest in respect of the share options and awarded shares granted, to the best of the directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Wang Mingzhe is interested in 386,000 ordinary shares of the Company as at 31 December 2018. Please refer to the Company's 2018 Annual Report for the details of both schemes and the announcements of the Company dated 11 July 2014, 3 July 2015, 15 June 2016, 20 June 2017 and 18 July 2018 respectively for the details of the grants of share options.

(5) The interests includes (1) 1,067,000 ordinary shares of the Company held directly by New Trace Limited which is 100% controlled by Mr. Liu Haifeng David; (2) 196,775,100 ordinary shares of the Company held directly by Capital Rise Limited; and (3) 118,600,000 underlying shares held directly through Capital Lead Limited in respect of the right under a call option (exercisable between 24 June 2018 and 31 October 2018) and the right of first refusal (exercisable between 1 July 2018 and 30 June 2019). 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 2018, none of the directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Substantial Shareholders' Interests in the Shares

Based on the information available to the directors of the Company, as at 31 December 2018 (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 2018, the entities or individuals who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares[1]	Approximate percentage of interest
Sinochem Group[2]	Interest in a controlled corporation	919,914,440(L)	23.26%
Greatpart Limited[2]	Beneficial owner	919,914,440(L)	23.26%
Prime Capital Management (Cayman) Limited	Investment manager	205,911,000(L)	5.20%
JPMorgan Chase & Co.	Beneficial owner	4,829,785(L)	0.12%
		637,000(S)	0.01%
	Investment manager	68,000(L)	0.00%
	Approved lending agent	390,429,651(P)	9.87%
Cathay Life Insurance Co., Ltd.	Beneficial owner	296,316,000(L)	7.49%
KONG Fanxing	Beneficial owner	33,794,000(L)[3]	0.85%
	Interest in a controlled corporation	267,173,000(L)[4]	6.75%
Aim Future Limited	Interest in a controlled corporation	267,173,000(L)[4]	6.75%
UBS Group AG[5]	Person having a security interest in shares	11,254,000(L)	0.28%
	Interest in a controlled corporation	227,372,971(L)	5.75%
LIU Haifeng David	Interest in a controlled corporation	316,442,100(L)[6]	8.00%
Capital Bridge Limited[6]	Interest in a controlled corporation	315,375,100(L)	7.97%
DCP Capital Partners L.P.[6]	Interest in a controlled corporation	315,375,100(L)	7.97%
DCP General Partner, Ltd[6]	Interest in a controlled corporation	315,375,100(L)	7.97%
DCP, Ltd.[6]	Interest in a controlled corporation	315,375,100(L)	7.97%
Julian Juul WOLHARDT[6]	Interest in a controlled corporation	315,375,100(L)	7.97%

Directors' Report

Notes:

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

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

(3) Please refer to Note (2) of the section headed "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations" for further details of the shareholding structure.

(4) Please refer to Note (3) of the section headed "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations" for further details of the shareholding structure.

(5) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 24 October 2018 for further details of the shareholding structure.

(6) Please refer to Note (5) of the section headed "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations" for further details of the shareholding structure.

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

Public Float

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

Bond Issue

In 2018, the Group further enriched the bond financing varieties and expanded the size of the issue in the domestic direct financing market, thus forming a continuous issuance situation. The Group completed 17 issuances in the year, with an aggregate amount of RMB22.7 billion, including corporate bonds of RMB9.7 billion, PPNs of RMB3.5 billion, ultra-short financial bonds of RMB7.5 billion, and mid-term notes of RMB2.0 billion as follows:

In 2018, it completed the issuance of six 3-year corporate bonds totaling RMB9.7 billion with an annual interest rate range of 4.80% to 6.40% in China.

In 2018, it completed the issuance of four 3-year PPN totaling RMB3.5 billion with an annual interest rate range of 5.78% to 6.30% in China.

In 2018, it completed the issuance of six 140-day ultra-short financial bonds totaling RMB7.5 billion with an annual interest rate range of 2.99% to 5.00% in China.

Directors' Report

In 2018, it completed the issuance of 3-year mid-term notes totaling RMB2.0 billion with annual interest rate of 5.70% in China.

In 2018, the Group issued two senior bonds totaling US$600 million and RMB630 million respectively abroad. Details are as follows:

On 27 February 2018, it completed the issuance of 5-year senior bonds of US$200 million and 3-year senior bonds of RMB630 million under MTN with an annual interest rate of 4.375% and 4.90% respectively abroad.

On 3 July 2018, it completed the issuance of 3-year senior bonds of US$400 million with an annual interest rate of 3M Libor+200bp.

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 2018 Percentage of the total income (before business taxes and surcharges) (%)
Top five customers	1.28%
The largest customer	0.31%

	Percentage of total costs (%)
Top five suppliers	21.61%
The largest supplier	5.01%

As far as the directors are aware, none of the directors of the Company, their close associates or shareholders holding more than 5% shares of the Company had any interest in the top five customers or top five suppliers of the Group.

Directors' Report

Key Relationships with Employees, Customers, Suppliers and Others

The Company is committed to building harmonious and mutual relationships with employees, customers, suppliers, investors, the government and the whole society and promotes the healthy, sustainable, stable and harmonious development of the industry economy and the whole society through value sharing and supply. The Company regards employees as valuable assets. For details of employees' talent development and remuneration policy, please refer to the section headed "Human Resources" under Management Discussion and Analysis. The Company upholds the principle of honesty and trustworthiness, strives to provide customers with quality services and creates a reliable service environment for customers. The Company puts emphasis on the selection of suppliers, encourages fair and open competition and establishes long-term cooperation with quality suppliers on the basis of mutual trust. For the year ended 31 December 2018, the Company has had no significant dispute with its employees, customers or suppliers.

Connected Transactions

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

Non-exempt Continuing Connected Transactions

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

On 17 June 2011, the Company entered into a framework agreement with Sinochem Finance with a term of three years, whereby the Group agreed to utilize various financial services from Sinochem Finance ("**2011 Sinochem Finance Framework Agreement**"). Subsequently, upon the expiry of the 2011 Sinochem Finance Framework Agreement on 16 June 2014, the Company entered into a new framework agreement with Sinochem Finance ("**2014 Sinochem Finance Framework Agreement**") with a term of one year to renew the continuing connected transactions of provision of financial services by Sinochem Finance to the Group under the 2011 Sinochem Finance Framework Agreement on substantially the same terms. On 10 June 2015, the Company entered into a new framework agreement with Sinochem Finance ("**2015 Sinochem Finance Framework Agreement**") with a term of three years effective from 17 June 2015 to renew the continuing connected transactions of provision of financial services by Sinochem Finance to the Group under the 2014 Sinochem Finance Framework Agreement on substantially the same terms. As the 2015 Sinochem Finance Framework Agreement expired in June 2018, the Company entered into a new framework agreement with Sinochem Finance ("**2018 Sinochem Finance Framework Agreement**") on 6 June 2018 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 will expire on 31 December 2020. Upon expiry of its initial term, subject to the fulfilment of the relevant requirements of the Listing Rules, the term shall automatically be extended for a further term of three years, unless a written notice of termination is served by one party to the other at least one month prior to the expiry of each such term. The Company entered into the above framework agreements due to various advantages of utilizing financial services provided by Sinochem Finance over independent commercial banks and also because the risk profile of Sinochem Finance is not greater than those of independent commercial banks in the PRC.

Directors' Report

Sinochem Finance is an associate of Sinochem Group, which is a substantial shareholder of the Company. Accordingly, Sinochem Finance is a connected person of the Company and the provision of financial services by Sinochem Finance to the Group under the 2011 Sinochem Finance Framework Agreement, the 2014 Sinochem Finance Framework Agreement, the 2015 Sinochem Finance Framework Agreement and the 2018 Sinochem Finance Framework Agreement constitutes continuing connected transactions of the Company.

The annual cap on the maximum daily outstanding balance of deposits (Including accrued interest) is RMB1,100 million during the term of the 2018 Sinochem Finance Framework Agreement. This annual cap is based primarily on (i) the requirement to settle accounts receivables through the deposit accounts of the members of the Group maintained with Sinochem Finance and requirements for accounts receivable with the members of the Group or any third party, (ii) the strategies of the treasury management of the Group, (iii) the development and financial needs of the Group during the period of the 2018 Sinochem Finance Framework Agreement, and (iv) the average cash balance of the Group. The applicable annual cap was not exceeded for the year ended 31 December 2018.

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

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

Directors' Report

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

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

On 3 December 2014, the Company and Sinochem Group entered into a framework agreement pursuant to which Sinochem Group has agreed that it will and will procure its associates to agree to provide property leasing services to the Group ("**Property Leasing Framework Agreement**"). The initial term of the Property Leasing Framework Agreement is from 1 January 2015 to 31 December 2017. According to the terms of the Property Leasing Framework Agreement, upon expiry of its initial term, subject to the fulfilment of the relevant requirements of the Listing Rules, its term shall automatically be extended for a further term of three years, unless a written notice of termination is served by one party to the other within the prescribed time period prior to the expiry of each such term. On 6 December 2017, the Board resolved to extend the term of the Property Leasing Framework Agreement. No party received any written notice of termination of the Property Leasing Framework Agreement as of 6 December 2017. The term of the Property Leasing Framework Agreement was automatically extended for three years to 31 December 2020 from 1 January 2018.

As the Group has already been occupying and leasing the same units at prevailing market rates from Sinochem Group and its associates, the Directors are of the view that substantial time and costs can be saved if the Group renews the individual leases entered into with Sinochem Group and its associates instead of moving to other buildings. In addition, by entering into the Property Leasing Framework Agreement, the Company will be in a better position to regulate and monitor the transactions contemplated thereunder. Sinochem Group is a substantial shareholder of the Company and therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions under the property leases previously entered into and terminated and the ongoing transactions contemplated under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company.

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

Directors' Report

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

The proposed annual caps of the extended Property Leasing Framework Agreement, being the total rent and related fees payable by the Group to Sinochem Group and/or its associates under the extended Property Leasing Framework Agreement, for the three years ending 31 December 2020 are RMB85 million, RMB15 million and RMB17 million per annum, respectively. The proposed annual caps are based primarily on (i) the historical transaction amounts; (ii) an expected approximate 30% growth in the rent for the year ending 31 December 2018, which is in accordance with the market condition; (iii) the fact that some of the current leases will be terminated due to the Group moving to its self-owned premises for each of the two years ending 31 December 2020; and (iv) an expected approximate 10% consolidated growth in transaction amounts in relation to the remaining premises for each of the two years ending 31 December 2020, taking into account the increase in demand by the relevant parties and the expected growth in the rent. The applicable annual cap was not exceeded for the year ended 31 December 2018.

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

Details of related party transactions of the Company for the year ended 31 December 2018 are set out in Note 46 to the consolidated financial statements. Save for the related party transactions as set out under item (ii), (iv), (ix), (x), (xii) and (xiii) and the related party transactions in respect of senior management (non-director) compensation under item (xv), all the related party transactions set out in Note 46 constitute connected transactions under Chapter 14A of the Listing Rules. The Company confirms that all such related party transactions complied with the applicable requirements under Chapter 14A of the Listing Rules.

Confirmation of Independent Non-Executive Directors

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

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

(b) either on normal commercial terms or on terms no less favorable 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 2018.

Audit and Risk Management Committee

Audit and Risk Management Committee comprises three members, namely Mr. YIP Wai Ming (Chairman), Mr. HAN Xiaojing and Mr. John LAW, among whom, two are independent non-executive Directors (including one independent non-executive director who owns appropriate professional qualifications or expertise in accounting or relevant finance management). They have reviewed the accounting principles and practices adopted by the Group and discussed matters regarding auditing and financial reporting, including reviewing the financial results of the Group for the year ended 31 December 2018.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2018 have been audited by Ernst & Young, the auditor of the Company.

Directors' Report

Auditor

Pursuant to the resolution of the 2018 Annual General Meeting of the Company, the Company reappointed Ernst & Young as the auditor of the Company in 2018. The proposal of reappointing Ernst & Young as the auditor of the Company will be put forward at the Annual General Meeting to be held on Wednesday, 5 June 2019 for consideration and approval.

By order of the Board
NING Gaoning
Chairman
20 March 2019

Corporate Social Responsibility Report

Philosophy of Responsibility

Sharing of value created for the building of harmonious development

Anchored in the core responsibility philosophy of "value sharing and harmonious development", Far East Horizon has always been dedicated to building a harmonious and symbiotic relationship with the investors, customers, partners, employees, governments and the community as a whole while constantly innovating and expanding its integrated operations services. Through sharing of value and achieving a "win-win" situation, the Company whole-heartedly promoted the industrial economy as well as the wellness, sustainability, stability and harmonious development of the society as a whole.

Accountable to Investors

Valuable in-depth cooperation to share the growth in China

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

Accountable to Industries

Support industries upgrade and resurrection of the Chinese culture

Far East Horizon focuses on serving the fundamental industries, namely medical, construction, education, public consuming, industrial machinery, transportation and logistics and urban public utilities, and build industry-specific and professional operation and security systems that closely adhere to the needs of customer. The Company provides customization of specialized financial services and products, as well as industrial investment operations, operating leasing, trade brokers, management consulting, operating leasing, engineering services and other industries integrated operations services.

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

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

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

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

Employee Responsibilities

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

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

Employee rights

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

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

Employee development

In order to provide its employees with a diverse, inclusive, open and equal working environment, Far East Horizon made constant improvements to the Company's human resources management system. Through the establishment of Far East College, Far East E Learning Platform and training information management system, Far East Horizon renovated in the development of a learning organization focusing in self-review, self-driven, self-enhancement, which created a team environment featuring all staff on a lifelong basis.

Corporate Social Responsibility Report

Employee care

Far East Horizon pays close attention to the physical and mental health of its employees. Through "large health benefits", Far East Horizon organizes regular staff health check, and organizes all kinds of physical and mental health workshop for women workers, parenting and health issues. These initiatives effectively identified and traced the risk of physical and mental health of employees, mitigated the stress on work and life for the staff, and fulfilled the health needs of employees.

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

By adhering to the principle of "helping the poor, caring and loving", the Company set up an "assistance plan for the loved ones" and "milk bottle assistance plan" under the workers' union, providing necessary financial aid and support for employees or current graduates in difficulties or jeopardy, respectively.

Social Welfare Activities

We were kind at heart and showed boundless love.

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

Since its establishment, the foundation has stuck to its initial principle, focused on people's livelihood, drawn on its strengths and organized public programs and events in various areas including helping the poor, medical assistance, scholarships and student grants and volunteer services. Public programs were organized across 48 cities in 26 provinces or autonomous regions, with over RMB16 million of donations and close to 30,000 beneficiaries.

Education subsidy:

For five years, the foundation has organized scholarship and student grant programs in nearly 20 cities across China, benefitting in total 8,000 students. The foundation not only provides scholarships and student grants to outstanding college students, 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.

Corporate Social Responsibility Report

Medical assistance

The foundation organized medical assistance programs in over 30 cities across China, providing financial support for impoverished patients and helping families falling into poverty due to illness. In addition, the foundation supported the medical development of the western region, elevated overall local diagnosis and treatment technology, and delivering hope to more patients and families, with close to 1,300 beneficiaries in total.

Helping the poor

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

Volunteer services

The foundation set up a volunteer service platform for staff of the Company and caring people in the community, formed the Far East Horizon Volunteer Team and carried out various diverse volunteer activities such as the "Wonderful Zoo Love Volunteering"(動物園愛心奇妙日志願者行動) and the "Approach Nature Environment Campaign" (小手親近大自然環保行動), bringing joy and happiness to the community, spreading the spirit of charity and promoting the spirit of volunteering.

Award recognition

- Included on the list of the most transparent foundation of China in 2018.
- Received the Best Practice Award at the 8th China Charity Festival of 2018.
- Received the Outstanding Brand Award at the 2018 Social Responsibility Conference.
- Received the "Intelligent Assistive" Outstanding Group Award of Shanghai Disabled Person Association in 2018.

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 132 to 297, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and accounts receivable under HKFRS 9	
The Group's loans and accounts receivable consisted of lease receivables, interest receivables, notes receivable, accounts receivable, factoring receivables, entrusted loans, long-term receivables and secured loans, and accounted for 83.0% 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. HKFRS 9, the new accounting standards on financial instruments, has been adopted by the Group on January 1, 2018. HKFRS 9 requires that the measurement of impairment of financial assets be changed from the "incurred loss" model to the "expected credit loss" ("ECL") model. In order to measure impairment of loans and accounts receivable under HKFRS 9, management should use judgement, assumptions and estimation techniques in aspects such as judging significant increases in credit risk, estimating the parameters for measuring ECL and determining the forward-looking adjustments. The accounting policies, the impact of change resulting from initial adoption of HKFRS 9, disclosures of the allowance for impairment of loans and receivables and the related credit risk are included in note 2.4, note 2.2(b), note 3, note 23 and note 49 to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls relating to approval, post approval monitoring, the credit grading management, and loan impairment assessment including the transition to ECL on adoption of HKFRS 9. We adopted a risk-based sampling approach in our tests of the allowances for impairment of loans and receivables. We selected samples of performing loans considering size, risk factors, industry trends for our tests on the reasonableness of loan grading and measurement of impairment. We evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: • Assessing the rationality of the expected credit loss model methodology and related parameters, including default probability, default loss rate, risk exposure, and significant increase in credit risk; • Assessing the management's consideration of forward-looking adjustment information when determining expected credit losses, including the use of macroeconomic information, the judgement of adjustments, and the reasonableness of reviews. We also assessed the adequacy of the Group's disclosure of the allowance for impairment of loans and receivables and the related credit risk in note 2.2(b), note 2.4, note 3, note 23 and note 49 to the consolidated financial statements.
Impairment assessment of goodwill	
As at 31 December 2018, goodwill amounted to RMB1,717 million, representing 4.4% of net assets. The goodwill arose from the Group's acquisition of companies in recent years. The annual impairment assessment on such goodwill was complex and involved the use of various significant assumptions and estimates in respect of future profitability and discount rates, and others. The accounting policies and disclosures of the impairment assessment of goodwill are included in note 2.4, note 3 and note 15 to the consolidated financial statements.	Our audit procedures included, amongst others, assessing and testing the assumptions, methodologies, and data used by the Group in performing the impairment assessment of goodwill. We involved our valuation specialists in performing these procedures. We specifically focused on assessing the reasonableness of the forecasted future profitability and discount rates used. We also assessed the historical accuracy of the management's forecasts. We also assessed the adequacy of the Group's disclosures included in note 15 to the consolidated financial statements about the key assumptions.

Independent Auditor's Report

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
20 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	25,378,612	18,782,314
Cost of sales	7	(11,484,055)	(8,106,962)
Gross profit		13,894,557	10,675,352
Other income and gains	5	566,217	587,533
Selling and distribution costs		(2,284,711)	(1,862,315)
Administrative expenses		(3,050,828)	(2,239,754)
Impairment losses on financial and contract assets		(2,237,710)	(1,762,045)
(Losses)/gains on disposal of financial assets		(30,852)	81,027
Other expenses		(191,781)	(453,565)
Finance costs	6	(459,849)	(225,372)
Share of net profits/(losses) of:			
Associates		63,299	(13,650)
Share of net profits/(losses) of:			
Joint ventures		224,225	(23)
PROFIT BEFORE TAX	7	6,492,567	4,787,188
Income tax expense	10	(2,104,442)	(1,377,623)
PROFIT FOR THE YEAR		4,388,125	3,409,565
Attributable to:			
Ordinary shareholders of the parent		3,927,472	3,229,057
Holders of perpetual securities	38	502,735	231,264
Non-controlling interests		(42,082)	(50,756)
		4,388,125	3,409,565
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY SHAREHOLDERS OF THE PARENT	12	RMB	RMB
Basic and diluted			
– Earnings per share		1.02	0.84

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	4,388,125	3,409,565
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax:		
Available-for-sale investments:		
Changes in fair value	–	(12,662)
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
– gains on disposal	–	(71,198)
	–	(83,860)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	945,932	(729,145)
Reclassification to the consolidated statement of profit or loss	(1,456,122)	569,192
Income tax effect	100,856	26,809
	(409,334)	(133,144)
Exchange differences on translation of foreign operations	(12,188)	16,715
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(421,522)	(200,289)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(421,522)	(200,289)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,966,603	3,209,276
Attributable to:		
Ordinary shareholders of the parent	3,505,950	3,028,768
Holders of perpetual securities	502,735	231,264
Non-controlling interests	(42,082)	(50,756)
	3,966,603	3,209,276

Consolidated Statement of Financial Position

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	9,984,765	6,968,921
Prepaid land lease payments	14	1,546,827	1,267,742
Goodwill	15	1,716,527	1,283,695
Other intangible assets	16	21,944	19,678
Investments in joint ventures	18	1,899,013	1,508,405
Investments in associates	19	4,065,550	766,577
Available-for-sale investments	20	–	260,556
Financial assets at fair value through profit or loss	21	2,222,429	2,010,267
Derivative financial instruments	22	934,739	583
Loans and accounts receivables	23	132,844,117	122,614,916
Prepayments, other receivables and other assets	24	4,716,664	5,208,185
Deferred tax assets	26	4,031,727	3,169,406
Restricted deposits	27	15,061	176,353
Total non-current assets		163,999,363	145,255,284
CURRENT ASSETS			
Inventories	28	448,328	273,430
Construction contracts	29	–	44,170
Derivative financial instruments	22	108,040	122,474
Loans and accounts receivables	23	87,790,154	68,977,442
Contract assets	25	27,168	–
Prepayments, other receivables and other assets	24	2,615,312	4,144,726
Restricted deposits	27	5,265,062	4,408,317
Cash and cash equivalents	27	5,269,392	2,815,544
Financial assets at fair value through profit or loss	21	446,975	–
Available-for-sale investments	20	–	1,412,886
Total current assets		101,970,431	82,198,989
CURRENT LIABILITIES			
Trade and bills payables	30	3,431,914	1,838,961
Other payables and accruals	31	15,886,540	12,556,035
Derivative financial instruments	22	190,386	88,090
Interest-bearing bank and other borrowings	32	66,635,537	55,994,501
Income tax payable		2,025,471	1,506,937
Total current liabilities		88,169,848	71,984,524
NET CURRENT ASSETS		13,800,583	10,214,465

Consolidated Statement of Financial Position

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		177,799,946	155,469,749
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	105,879,445	88,905,179
Derivative financial instruments	22	17,468	172,186
Deferred tax liabilities	26	149,472	76,707
Other payables and accruals	31	29,352,339	26,053,094
Deferred revenue	33	981,396	704,862
Other liabilities	50	2,327,322	3,149,929
Total non-current liabilities		138,707,442	119,061,957
Net assets		39,092,504	36,407,792
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	34	10,235,373	10,218,442
Reserves	37	17,494,370	15,122,427
		27,729,743	25,340,869
Holders of perpetual securities	38	9,789,593	9,797,723
Non-controlling interests		1,573,168	1,269,200
Total equity		39,092,504	36,407,792

Kong Fanxing
Director

Wang Mingzhe
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2018

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 34)	Capital reserve RMB'000 (Note 37)	Shares held for share award scheme RMB'000 (Note 36)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 37)	Reserve fund RMB'000 (Note 37)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 38)	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	10,218,442	2,105,322	(659,384)	329,672	1,082	121,913	16,843	633,498	12,573,481	25,340,869	9,797,723	1,269,200	36,407,792
Effect of adoption of new accounting standards (Note 2.2)	–	–	–	–	–	–	–	–	(163,425)	(163,425)	–	–	(163,425)
At 1 January 2018 (restated)	10,218,442	2,105,322	(659,384)	329,672	1,082	121,913	16,843	633,498	12,410,056	25,177,444	9,797,723	1,269,200	36,244,367
Profit for the year	–	–	–	–	–	–	–	–	3,927,472	3,927,472	502,735	(42,082)	4,388,125
Other comprehensive income	–	–	–	–	–	–	(409,334)	–	–	(409,334)	–	–	(409,334)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(12,188)	–	(12,188)	–	–	(12,188)
Total comprehensive income	–	–	–	–	–	–	(409,334)	(12,188)	3,927,472	3,505,950	502,735	(42,082)	3,966,603
Final 2017 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(972,002)	(972,002)	–	–	(972,002)
Distribution paid to holders of perpetual securities	–	–	–	–	–	–	–	–	–	–	(510,865)	–	(510,865)
Shares vested under restricted share award scheme	–	–	286,880	(227,395)	–	–	–	–	(59,485)	–	–	–	–
Purchase of shares under share award scheme	–	–	(300,575)	–	–	–	–	–	–	(300,575)	–	–	(300,575)
Transfer of share option reserve upon exercise of share options	16,931	–	–	(3,518)	–	–	–	–	–	13,413	–	–	13,413

Consolidated Statement of Changes In Equity

Year ended 31 December 2018

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 34)	Capital reserve RMB'000 (Note 37)	Shares held for share award scheme RMB'000 (Note 36)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 37)	Reserve fund RMB'000 (Note 37)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 38)	Non-controlling interests RMB'000	Total equity RMB'000
Recognition of equity-settled share-based payments	–	–	–	305,904	–	–	–	–	–	305,904	–	–	305,904
Special reserve – safety fund appropriation	–	–	–	–	2,491	–	–	–	(2,573)	(82)	–	82	–
Special reserve – safety fund utilisation	–	–	–	–	(1,147)	–	–	–	1,185	38	–	(38)	–
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	225,488	225,488
Disposal of subsidiaries (Note 40)	–	–	–	–	–	–	–	–	–	–	–	(587)	(587)
Purchase of non-controlling interests	–	(347)	–	–	–	–	–	–	–	(347)	–	(2,655)	(3,002)
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4,582)	(4,582)
Acquisition of subsidiaries (Note 39)	–	–	–	–	–	–	–	–	–	–	–	148,412	148,412
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(20,070)	(20,070)
At 31 December 2018	10,235,373	2,104,975*	(673,079)*	404,663*	2,426*	121,913*	(392,491)*	621,310*	15,304,653*	27,729,743	9,789,593	1,573,168	39,092,504

* These reserve accounts comprise the consolidated reserves of RMB17,494,370,000 (31 December 2017: RMB15,122,427,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to ordinary shareholders of the parent													
	Share capital RMB'000 (Note 34)	Capital reserve RMB'000 (Note 37)	Shares held for share award scheme RMB'000 (Note 36)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 37)	Reserve fund RMB'000 (Note 37)	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 38)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	10,213,017	2,114,102	(852,459)	218,130	656	121,913	149,987	83,860	616,783	10,293,241	22,959,230	1,231,881	654,990	24,846,101
Profit for the year	–	–	–	–	–	–	–	–	–	3,229,057	3,229,057	231,264	(50,756)	3,409,565
Other comprehensive income for the year:														
Cash flow hedges, net of tax	–	–	–	–	–	–	(133,144)	–	–	–	(133,144)	–	–	(133,144)
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	(12,662)	–	–	(12,662)	–	–	(12,662)
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gains on disposal of available-for-sale investments, net of tax	–	–	–	–	–	–	–	(71,198)	–	–	(71,198)	–	–	(71,198)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	16,715	–	16,715	–	–	16,715
Total comprehensive income for the year	–	–	–	–	–	–	(133,144)	(83,860)	16,715	3,229,057	3,028,768	231,264	(50,756)	3,209,276
Final 2016 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	–	(762,997)	(762,997)	–	–	(762,997)
Distribution paid to holders of perpetual securities	–	–	–	–	–	–	–	–	–	–	–	(81,011)	–	(81,011)
Shares vested under restricted share award scheme	–	–	193,075	(141,594)	–	–	–	–	–	(51,481)	–	–	–	–

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to ordinary shareholders of the parent													
	Share capital RMB'000 (Note 34)	Capital reserve RMB'000 (Note 37)	Shares held for share award scheme RMB'000 (Note 36)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 37)	Reserve fund RMB'000 (Note 37)	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 38)	Non-controlling interests RMB'000	Total equity RMB'000
Transfer of share option reserve upon exercise of share options	5,425	–	–	(1,141)	–	–	–	–	–	–	4,284	–	–	4,284
Recognition of equity-settled share-based payments	–	–	–	254,277	–	–	–	–	–	–	254,277	–	–	254,277
Special reserve – safety fund appropriation	–	–	–	–	822	–	–	–	–	(849)	(27)	–	27	–
Special reserve – safety fund utilisation	–	–	–	–	(396)	–	–	–	–	409	13	–	(13)	–
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	262,638	262,638
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(1,886)	(1,886)
Purchase of non-controlling interests	–	(8,780)	–	–	–	–	–	–	–	–	(8,780)	–	(9,542)	(18,322)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	420,025	420,025
Issue of perpetual securities	–	–	–	–	–	–	–	–	–	–	–	9,645,550	–	9,645,550
Redemption of senior perpetual securities	–	–	–	–	–	–	–	–	–	(133,899)	(133,899)	(1,229,961)	–	(1,363,860)
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(6,283)	(6,283)
At 31 December 2017	10,218,442	2,105,322*	(659,384)*	329,672*	1,082*	121,913*	16,843*	–*	633,498*	12,573,481*	25,340,869	9,797,723	1,269,200	36,407,792

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6,492,567	4,787,188
Adjustments for:			
Finance costs and bank charges		8,987,124	6,027,065
Bank interest income		(59,400)	(48,879)
Share of net (profits)/losses of associates		(63,299)	13,650
Share of net (profits)/losses of joint ventures		(224,225)	23
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value losses, net	7	–	24,988
Realised fair value (gains)/losses, net		(19,025)	256,069
Gains on disposal of available-for-sale investments	7	–	(71,198)
Gains on structured financial products	5	(18,947)	(22,948)
(Gains)/losses on disposal of property, plant and equipment, net		(3,840)	15,965
Losses/(gains) on disposal of subsidiaries	7	4,930	(2,100)
Depreciation		912,436	491,574
Provision for impairment of loans and accounts receivables	7	2,124,966	1,734,437
Provision for property, plant and equipment	7	69,725	145,505
Provision for impairment of inventories	7	21,574	44,819
Provision for impairment of prepayments, other receivables and other assets	7	102,579	27,608
Impairment of credit commitments	7	10,165	–
Impairment of an investment in a joint venture	7	170,000	–
Impairment of goodwill	7	161,225	–
Amortisation of intangible assets and other assets	7	44,509	52,999
Equity-settled share-based payment expense	7	305,904	254,277
Foreign exchange loss, net		128,885	31,599
Fair value losses from financial liabilities at fair value through profit or loss	7	–	63,438
Dividend income from available-for-sale investments	5	–	(1,661)
Realized gains on derecognition of financial assets at fair value through profit or loss	7	(145,222)	–
Fair value gains from financial assets at fair value through profit or loss	5	(74,833)	(182,590)
Interest income from subordinated tranches of asset-backed securities/notes		(334,903)	(241,299)
Transaction cost incurred in purchasing financial assets at fair value through profit or loss		125	2,854
Gains on bargain purchase of a subsidiary		–	(1,981)
		18,593,020	13,401,402

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Increase in inventories		(166,688)	(55,141)
Increase in construction contracts		–	(41)
Increase in loans and accounts receivables		(31,647,483)	(54,674,597)
Decrease in contract assets		17,002	–
Decrease in prepayments, other receivables and other assets		1,904,215	934,868
Increase in restricted cash related to asset-backed securitisations and collective fund trusts		(212,388)	(2,092,975)
Increase/(decrease) in trade and bills payables		1,511,377	(1,173,862)
Increase in other payables and accruals		5,685,793	9,667,211
Increase in other liabilities		276,409	692,995
Net cash flows used in operating activities before tax and interest		(4,038,743)	(33,300,140)
Interest paid		(8,605,413)	(5,413,771)
Bank interest received		59,400	48,879
Income tax paid		(2,258,478)	(2,121,598)
Net cash flows used in operating activities		(14,843,234)	(40,786,630)
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on structured financial products	5	18,947	22,948
Realised gain on derivative financial instruments not qualifying as hedges		12,740	19,324
Proceeds from disposal of property, plant and equipment		195,963	302,118
Acquisition of subsidiaries		(105,926)	(246,113)
Proceeds from disposal of subsidiaries		(219,181)	3,845
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(3,684,665)	(2,524,390)
Purchase of shareholding for joint ventures		(125,106)	(138,095)
Purchase of shareholding for associates		(3,224,464)	(520,710)
Dividend received from joint ventures		55,115	1,761
Dividend received from associates		13,996	6,176
Dividend income from available-for-sale investments	5	–	1,661
Proceeds from disposal of joint ventures		343,061	32,475
Proceeds from disposal of associates		73,800	–
Purchase of available-for-sale investments		–	(1,569,887)
Proceeds from disposal of available-for-sale investments		–	173,672
Purchase of financial assets at fair value through profit or loss		(1,909,882)	(1,477,332)
Disposal of financial assets at fair value through profit or loss		2,109,481	364,000
Transaction costs paid in purchasing financial assets at fair value through profit or loss		(125)	(2,854)
Net cash flows used in investing activities		(6,446,246)	(5,551,401)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		13,413	4,284
Capital injection from non-controlling shareholders		225,488	262,638
Purchase of non-controlling interests		(3,002)	(18,322)
Cash received from borrowings		128,763,849	160,742,636
Repayments of borrowings		(103,035,383)	(122,135,649)
Proceeds from non-controlling interests of consolidated structured entities		–	864,413
Payment to non-controlling interests of consolidated structured entities		–	(340,000)
Dividends paid		(972,002)	(762,997)
Increase in pledged deposits		(483,065)	(30,331)
Realised fair value gains from derivative financial instruments in hedges for borrowings		–	383,424
Distribution paid to holders of perpetual securities	38	(510,865)	(81,011)
Dividends paid to non-controlling shareholders		(8,313)	(5,740)
Purchase of shares under share award scheme		(300,575)	–
Redemption of senior perpetual securities		–	(1,363,860)
Issue of perpetual securities		–	9,645,550
Liquidation of a subsidiary		(4,582)	–
Net cash flows from financing activities		23,684,963	47,165,035
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,395,483	827,004
Cash and cash equivalents at beginning of year		2,815,544	2,051,307
Effect of exchange rate changes on cash and cash equivalents		58,365	(62,767)
CASH AND CASH EQUIVALENTS AT END OF YEAR		5,269,392	2,815,544

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Far East Horizon Limited (the "Company") is a limited liability company which was incorporated in Hong Kong on 15 May 2008. Pursuant to the special resolutions dated 15 October 2008 and 29 November 2010, respectively, the Company changed its name from Fully Ascent Limited to Far Eastern Hong Xin Co., Limited and then to Far East Horizon Limited. The registered office of the Company is located at Suite 6305, 63/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Group is principally engaged in the provision of finance to its customers by a wide array of assets under finance lease arrangements, operating lease arrangements, entrusted loan arrangements, factoring, the provision of advisory services, equipment operation business, industrial operation business and other services as approved by the Ministry of Commerce (the "MOFCOM") of the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Through a group reorganisation (the "Reorganisation") as set out in the section headed "Our History and Reorganisation" in the Prospectus dated 18 March 2011 for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies comprising the Group on 13 March 2009. The Company was listed on the Stock Exchange on 30 March 2011.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to HKFRS 4, amendments to HKAS 40 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs amendments are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement		Re-classification	Re-measurement		HKFRS 9	
	Notes	Category	Amount RMB'000	RMB'000	ECL RMB'000	Other RMB'000	Amount RMB'000	Category
Financial assets								
Loans and accounts receivables	(i)	L&R	191,592,358	–	(190,532)	–	191,401,826	AC
Financial assets included in prepayments, other receivables and other assets	(i)	L&R	5,441,511	–	(1,133)	–	5,440,378	AC
Restricted deposits		L&R	4,584,670	–	–	–	4,584,670	AC
Available-for-sale investments	(ii)	AFS	1,673,442	(1,673,442)	–	–	–	N/A
To: Financial assets at fair value through profit or loss				(1,673,442)	–	–		
Financial assets at fair value through profit or loss	(ii)	FVPL	2,010,267	1,673,442	–	–	3,683,709	FVPL
From: Available-for-sale investments				1,673,442	–	–		
Derivative financial instruments		FVPL	583	–	–	–	583	FVPL
Derivative financial instruments	(iii)		122,474	–	–	–	122,474	
Cash and cash equivalents		L&R	2,815,544	–	–	–	2,815,544	AC
			208,240,849	–	(191,665)	–	208,049,184	
Non-financial assets		N/A	19,213,424	–	54,475	–	19,267,899	N/A
Including: Deferred tax assets	(i)	N/A	3,169,406	–	54,475	–	3,223,881	N/A
Total assets			227,454,273	–	(137,190)	–	227,317,083	

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

		HKAS 39 measurement			Re-measurement		HKFRS 9	
	Notes	Category	Amount RMB'000	Re-classification	ECL	Other	Amount RMB'000	Category
Financial Liabilities:								
Trade and bills payables		AC	1,838,961	–	–	–	1,838,961	AC
Financial liabilities included in other payables and accruals		AC	36,254,402	–	–	–	36,254,402	AC
Derivative financial instruments		FVPL	15,511	–	–	–	15,511	FVPL
Derivative financial instruments	(iii)		244,765	–	–	–	244,765	
Interest-bearing bank and other borrowings		AC	144,899,680	–	–	–	144,899,680	AC
Financial liabilities included in other liabilities		FVPL	657,851	–	–	–	657,851	FVPL
			183,911,170	–	–	–	183,911,170	
Non-financial liabilities		N/A	7,135,311	–	26,235	–	7,161,546	N/A
Include: non-financial liabilities included in other liabilities	(i)	N/A	2,492,078	–	26,235	–	2,518,313	N/A
Total liabilities			191,046,481	–	26,235	–	191,072,716	

Notes: L&R Loans and receivables

AFS Available-for-sale instruments

AC Financial assets or financial liabilities at amortised cost

FVPL Financial assets at fair value through profit or loss

Notes:

(i) HKFRS 9 expected credit losses have decreased net assets by RMB163,425,000 principally comprising of RMB190,532,000 reduction in the carrying value of assets classified as "loans and accounts receivables", RMB1,133,000 reduction in the carrying value of assets classified as "financial assets included in prepayments, other receivables and other assets", RMB26,235,000 increase in "Provisions" under "Other liabilities" relating to expected credit losses on credit commitments and RMB54,475,000 increase in "deferred tax assets".

(ii) RMB103,555,000 of available-for-sale equity investments as they were not designated as equity instruments at fair value through other comprehensive income and RMB1,569,887,000 of available-for-sale unlisted debt investment as these debt investments did not pass the contractual cash flow characteristics test in HKFRS 9 have been reclassified as "Financial assets at fair value through profit or loss" in accordance with HKFRS 9.

(iii) These derivative financial instruments are hedging instruments designated in cash flow hedges.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 23, 24 and 31 to the financial statements.

Measurement category	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECLs under HKFRS 9 at 1 January 2018
Financial assets at amortised cost	**RMB'000**	**RMB'000**	**RMB'000**
Loans and accounts receivables	4,105,236	190,532	4,295,768
Financial assets included in prepayments, other receivables and other assets	34,071	1,133	35,204
Total	4,139,307	191,665	4,330,972

Measurement Category	Impairment allowances under HKAS 37 at 31 December 2017	Re-measurement	ECLs under HKFRS 9 at 1 January 2018
Credit commitments	**RMB'000**	**RMB'000**	**RMB'000**
Provisions (credit commitments)	–	26,235	26,235
Total	–	26,235	26,235

The pre-tax net asset impact of additional impairment allowances on adoption of HKFRS 9 was RMB217,900,000; RMB191,665,000 in respect of financial assets at amortised cost and RMB26,235,000 related to credit commitments. Total expected credit loss allowance at 1 January 2018 was RMB4,330,972,000 in respect of financial assets at amortised cost and RMB26,235,000 related to credit commitments.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under HKAS 39	12,573,481
Recognition of ECLs for loans and accounts receivables under HKFRS 9	(190,532)
Recognition of ECLs for financial assets included in prepayments, other receivables and other assets under HKFRS 9	(1,133)
Recognition of ECLs for credit commitments under HKFRS 9	(26,235)
Deferred tax in relation to the above	54,475
Balance as at 1 January 2018 under HKFRS 9	12,410,056

(c) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

There was no cumulative effect of the initial application of HKFRS 15 to be recognised as an adjustment to the opening balance of retained profits as at 1 January 2018 and the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	Increase/ (decrease) RMB'000
Assets		
Construction contracts	(i)	(44,170)
Contract assets	(i)	44,170
Total assets		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on the consolidated statement of profit or loss or on the comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Notes	HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Construction contracts	(i)	–	27,168	(27,168)
Contract assets	(i)	27,168	–	27,168
Total assets		27,168	27,168	–

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 are described below:

(i) Construction services

Before the adoption of HKFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the construction services were billed to customers. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB44,170,000 from construction contracts to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in construction contracts of RMB27,168,000 and an increase in contract assets of RMB27,168,000.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

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

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

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

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

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

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

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining *whether an Arrangement contains a Lease,* HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. As a result, the total assets and the total liabilities in the consolidated statement of financial position as at 1 January 2019 are both increased by less than 0.5%, mainly arising from the effect of right-of-use assets and lease liabilities, and there is no significant impact on total equity in the consolidated statement of financial position as at 1 January 2019.

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

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

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Notes to Financial Statements

31 December 2018

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary of fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Category	Annual depreciation rate
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Buildings	1.90-19.40%
Equipment, tools and moulds	5.00-33.33%
Office equipment and computers	9.50-33.33%
Motor vehicles	9.00-32.33%
Vessels	3.20-7.90%
Others	10.00-50.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets (other than goodwill)

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and accounts receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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 (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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.

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)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

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

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

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

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.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Held-to-maturity investments

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other gains or losses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition(applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for 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).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

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

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

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

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

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

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

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.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate or return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in cost of sales in the statement of profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (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.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, 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:

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Cash flow hedges

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

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

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

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

Fair value hedges

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

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

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

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Current versus non-current classification

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

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

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

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

Treasury shares

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

Perpetual securities

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

Inventories

Inventories are goods valued at the lower of cost and net realisable value at the end of the reporting period. The cost of inventories issued is determined on the specific identification basis. The difference between the cost and the lower net realisable value is stated as a provision. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sale.

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate or is deducted in reporting the related expense.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 January 2018)

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

(a) Sale of goods

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

(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 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(c) Provision of services

The Group generates service income from services provided at a fixed price over time or at a point in time.

Revenue from other sources

Operating lease income is recognised on a time proportion basis over the lease terms.

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.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease;

(b) from the rendering of services, where income is recognised when the services have been rendered and the revenue can be reasonably estimated and deferred revenue is recorded as liability when the payments have been made in advance by customers for services yet to be rendered as at each reporting date and recognised as income when the services have been rendered and the revenue can be reasonably estimated;

(c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

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

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

Contract assets (applicable from 1 January 2018)

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 liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

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

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

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

(c) The costs are expected to be recovered.

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

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (applicable before 1 January 2018)

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

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share option scheme and a restricted share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 35 and note 36 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 2018

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.

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.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries whose functional currency is other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with a functional currency other than RMB which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use required the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the goodwill at 31 December 2018 was RMB1,716,527,000 (31 December 2017: RMB1,283,695,000). Further details are given in note 15.

Impairment of financial instruments

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets and liabilities

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and liabilities and income tax charge in the period in which such estimate has been changed.

Fair value of financial instruments

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

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

Share-based payments

Estimating fair value for share-based payment transactions requires determination of an appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including volatility, expected exercise behaviour and dividend yield, etc, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 35 and note 36.

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between finance leases and operating leases

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

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

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two operating segments, namely the financial, lease and advisory business and the industrial operation and management business, based on internal organisational structure, management requirement and the internal reporting system:

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

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Notes to Financial Statements

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

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

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

As at and for the year ended 31 December 2018

	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue: (Note 5)				
Sales to external customers	22,652,776	2,725,836	–	25,378,612
Intersegment sales	66,535	38,727	(105,262)	–
Cost of sales	(9,451,728)	(2,032,327)	–	(11,484,055)
Other income and gains	339,565	236,625	(9,973)	566,217
Selling and distribution costs and administrative expenses	(4,313,762)	(1,061,368)	39,591	(5,335,539)
Other expenses	(167,867)	(23,934)	20	(191,781)
Finance costs	(381,312)	(154,161)	75,624	(459,849)
Impairment losses on financial and contract assets	(2,225,917)	(11,793)	–	(2,237,710)
Losses on disposal of financial assets	(30,852)	–	–	(30,852)
Share of profits of associates	60,429	2,870	–	63,299
Share of profits of joint ventures	11,498	212,727	–	224,225
Profit before tax	6,559,365	(66,798)	–	6,492,567
Income tax expense	(2,067,172)	(37,270)	–	(2,104,442)
Profit after tax	4,492,193	(104,068)	–	4,388,125
Segment assets	258,620,098	13,518,790	(6,169,094)	265,969,794
Other segment information:				
Impairment losses recognised in the statement of profit or loss	2,267,982	392,252	–	2,660,234
Depreciation and amortisation	671,349	279,076	–	950,425
Capital expenditure	1,679,509	5,460,652	–	7,140,161

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31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2017

	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	16,979,725	1,802,589	–	18,782,314
Intersegment sales	58,130	22,285	(80,415)	–
Cost of sales	(6,733,623)	(1,373,339)	–	(8,106,962)
Other income and gains	300,757	294,405	(7,629)	587,533
Gains on disposal of financial assets	81,027	–	–	81,027
Selling and distribution costs and administrative expenses	(3,468,902)	(659,576)	26,409	(4,102,069)
Other expenses	(365,368)	(88,197)	–	(453,565)
Finance costs	(199,166)	(87,841)	61,635	(225,372)
Impairment losses on financial and contract assets	(1,726,371)	(35,674)	–	(1,762,045)
Share of (losses)/profits of associates	(13,750)	100	–	(13,650)
Share of (losses)/profits of joint ventures	(12,364)	12,341	–	(23)
Profit before tax	4,900,095	(112,907)	–	4,787,188
Income tax expense	(1,353,418)	(24,205)	–	(1,377,623)
Profit after tax	3,546,677	(137,112)	–	3,409,565
Segment assets	222,826,104	10,874,392	(6,246,223)	227,454,273
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,747,245	205,124	–	1,952,369
Depreciation and amortisation	395,731	148,842	–	544,573
Capital expenditure	2,658,270	771,038	–	3,429,308

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31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	25,185,172	18,647,673
Hong Kong	168,664	123,753
Other countries or regions	24,776	10,888
	25,378,612	18,782,314

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	20,044,646	13,541,913
Hong Kong	1,539,512	806,602
	21,584,158	14,348,515

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

Information about a major customer

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

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5. REVENUE, OTHER INCOME AND GAINS

	Note	2018 RMB'000	2017 RMB'000
Revenue			
Revenue from contracts with customers	(i)	7,856,946	–
Sale of goods		–	263,040
Construction services		–	45,293
Service fee income		–	4,661,303
Healthcare service income		–	1,314,168
Education service income		–	146,631
Chartering and brokerage income		–	131,540
Other income		–	94,566
Revenue from other sources			
Operating lease income		1,547,727	1,259,195
Finance lease, factoring and loan interest income		16,137,698	10,972,384
Taxes and surcharges		(163,759)	(105,806)
		25,378,612	18,782,314

Notes to Financial Statements

31 December 2018

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) **Disaggregated revenue information**

For the year ended 31 December 2018

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

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31 December 2018

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

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

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

For the year ended 31 December 2018

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

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:

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

Notes to Financial Statements

31 December 2018

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(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 and payment is generally due within 90 days from the date of billing. 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.

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 transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018 RMB'000
Within one year	426,203
More than one year	212,222
	638,425

The remaining performance obligations expected to be recognised in more than one year relate to service fee that are to be satisfied within thirteen years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

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5. REVENUE, OTHER INCOME AND GAINS (continued)

	Note	2018 RMB'000	2017 RMB'000
Other income and gains			
Bank interest income		59,400	41,233
Gains on structured financial products		18,947	22,948
Gains on disposal of property, plant, and equipment		7,723	3,668
Government grants	5a	25,777	19,248
Fair value gains from financial assets at fair value through profit or loss		74,833	182,590
Interest income from subordinated tranches of asset-backed securities/notes		334,903	306,194
Dividend income from available-for-sale investments		–	1,661
Gains on disposal of subsidiaries		–	2,100
Realised gains from derivative instruments – not designated as hedges		19,025	–
Dividends of financial assets at fair value through profit or loss		17,023	–
Others		8,586	7,891
		566,217	587,533

5a. GOVERNMENT GRANTS

	2018 RMB'000	2017 RMB'000
Government special subsidies	25,777	19,248
	25,777	19,248

Notes to Financial Statements

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6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans, overdrafts and other loans for industrial operation business	370,966	224,508
Interest on finance leases for industrial operation business	118,409	11,763
Total interest expense on financial liabilities not at fair value through profit or loss	489,375	236,271
Less: Interest capitalised	(29,526)	(10,899)
	459,849	225,372

7. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of borrowings included in cost of sales	8,527,275	5,801,693
Cost of inventories sold	127,657	250,347
Cost of construction services	128,635	56,259
Cost of operating leases	764,977	760,604
Cost of chartering	146,123	150,007
Cost of healthcare services	1,585,245	924,712
Cost of education services	146,116	109,898
Cost of others	58,027	53,442

Notes to Financial Statements

31 December 2018

7. PROFIT BEFORE TAX (continued)

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

	2018 RMB'000	2017 RMB'000
Depreciation	108,936	44,834
Less: Government grants released*	(788)	(556)
	108,148	44,278
Amortisation of intangible assets and other assets:		
Current year expenditure	45,772	54,377
Less: Government grants released*	(1,263)	(1,378)
	44,509	52,999
Rental expenses	187,542	170,624
Auditors' remuneration – audit services	4,116	5,850
– other services	4,276	5,153
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
Current year expenditure	3,294,432	2,333,898
Less: Government grants released*	(432,080)	(32,130)
	2,862,352	2,301,768
– Equity-settled share-based payment expense	305,904	254,277
– Pension scheme contributions	111,895	95,479
– Other employee benefits	215,559	206,711
	3,495,710	2,858,235
Impairment of an investment in a joint venture	170,000	–
Impairment of goodwill	161,225	–
Impairment of loans and accounts receivables (Note 23)	2,124,966	1,734,437
Impairment of financial assets included in prepayments, other receivables and other assets	102,579	27,608
Impairment of credit commitments	10,165	–
Impairment of inventories	21,574	44,819
Impairment of property, plant and equipment	69,725	145,505
Entertainment expenses	124,435	91,378
Business travelling expenses	251,011	234,068
Consultancy fees	162,176	116,683

Notes to Financial Statements

31 December 2018

7. PROFIT BEFORE TAX (continued)

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

	2018 RMB'000	2017 RMB'000
Office expenses	67,238	35,339
Advertising and promotional expenses	23,839	28,645
Transportation expenses	17,701	17,145
Communication expenses	29,266	24,048
Litigation expenses	19,288	20,768
Other miscellaneous expenses:		
Current year expenditure	379,336	213,443
Less: Government grants released*	(5,576)	(6,911)
	373,760	206,532
Losses on disposal of property, plant and equipment	3,883	19,633
Donation	5,198	4,814
Bank commission expenses	32,793	47,411
Fair value losses from derivative instruments		
– transactions not qualifying as hedges	–	24,988
Foreign exchange losses/(gains), net:		
Cash flow hedges (transfer from equity to offset foreign exchange)	(1,482,848)	445,424
Others	1,611,733	(413,825)
Realised losses from derivative instruments		
– transactions not qualifying as hedges	–	256,069
Losses on disposal of subsidiaries (Note 40)	4,930	–
Fair value losses from financial liabilities at fair value through profit or loss	–	63,438
Other expenditure	16,092	5,613
Losses/(gains) on derecognition of loans and accounts receivables measured at amortised cost	176,074	(9,829)
Realized gains on derecognition of financial assets at fair value through profit or loss	(145,222)	–
Realized gains on derecognition of available-for-sale investments	–	(71,198)

* Government grants have been received by subsidiaries of the Company from the local government for improvement of technology, staff training and development, and others. The government grants received have been deducted from the expenses to which they related. Government grants received for which related expenditure has yet been undertaken are included in deferred revenue in the statement of financial position (Note 33).

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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:

	2018 RMB'000	2017 RMB'000
Fees	2,340	2,541
Other emoluments:		
Salaries, allowances and benefits in kind	7,620	7,612
Performance related bonuses*	4,300	4,300
Pension scheme contributions	100	283
	12,020	12,195
	14,360	14,736

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

During 2018, certain directors were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 35 and Note 36 to the financial statements, respectively.

(a) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Mr. Cai Cunqiang	–	–
Mr. Han Xiaojing	360	363
Mr. Liu Jialing	360	363
Mr. Yip Wai Ming	360	363
	1,080	1,089

Notes to Financial Statements

31 December 2018

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:

	2018 RMB'000	2017 RMB'000
Mr. Ning Gaoning	–	–
Mr. Yang Lin	–	–
Mr. Chen Guogang	180	363
Mr. Liu Haifeng	360	363
Mr. Luo Qiang	360	363
Mr. Guo Mingjian	360	363
	1,260	1,452

(c) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2018					
Executive directors:					
Mr. Kong Fanxing	–	4,778	2,500	50	7,328
Mr. Wang Mingzhe	–	2,842	1,800	50	4,692
	–	7,620	4,300	100	12,020
Year ended 31 December 2017					
Executive directors:					
Mr. Kong Fanxing	–	4,774	2,500	173	7,447
Mr. Wang Mingzhe	–	2,838	1,800	110	4,748
	–	7,612	4,300	283	12,195

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	
	2018	2017
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2017: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2017: three) non-directors, highest paid employees for the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	7,110	7,098
Performance related bonuses	3,900	3,900
Pension scheme contributions	150	319
	11,160	11,317

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

	Number of employees	
	2018	2017
HK$3,500,001 to HK$4,000,000 (Equivalent to RMB2,996,193 to RMB3,424,220)	1	1
HK$4,000,001 to HK$4,500,000 (Equivalent to RMB3,424,221 to RMB3,852,248)	1	1
HK$4,500,001 to HK$5,000,000 (Equivalent to RMB3,852,249 to RMB4,280,275)	1	1
	3	3

During the year ended 31 December 2018, certain highest paid employees were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 35 and Note 36 to the financial statements, respectively.

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES (continued)

The Group adopted collective economic-gain bonus schemes (the "Schemes") since 2014. According to the Schemes, the Group paid a portion of employee bonus to separate funds (the "Employees' Collectively Owned Funds"). The Employees' Collectively Owned Funds are collectively owned by employees participating the Scheme until distributed to individual employees. A committee (the "Committee"), elected by the general meeting of employee representatives, is established to be in charge of the management and operation of the Scheme and the determination and distribution of the Employees' Collectively Owned Funds to all individual participating employees. In the view of the directors, the Employees' Collectively Owned Funds are not the property of the Company or any of its subsidiaries, and the Group has no rights and obligations in respect of the management and operation of the Employees' Collectively Owned Funds. As at 31 December 2018, the above information of the five highest paid employees has not taken into employees' potential entitlement under the Schemes.

10. INCOME TAX

	2018 RMB'000	2017 RMB'000
Current – Hong Kong		
Charge for the year	90,866	61,040
Current – Mainland China		
Charge for the year	2,674,708	2,565,915
Deferred tax (Note 26)	(661,132)	(1,249,332)
Total tax charge for the year	2,104,442	1,377,623

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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% (2017: 25%) on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

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

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

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31 December 2018

10.INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

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

	2018 RMB'000	2017 RMB'000
Profit before tax	6,492,567	4,787,188
Tax at the statutory income tax rates	1,710,768	1,241,819
Expenses not deductible for tax	224,296	60,385
Income not subject to tax	(52,484)	(20,243)
Adjustment on current income tax in respect of prior years	23,523	10,766
Utilisation of previously unrecognised tax losses	(7,962)	(5,551)
Unrecognised tax losses	125,446	46,051
Effect of recognition of deductible temporary differences that were not recognised in prior years	(6,070)	(8,539)
Effect of withholding tax on interest on intra-group balances	86,925	52,935
Income tax expense as reported in the consolidated statement of profit or loss	2,104,442	1,377,623

The share of tax attributable to associates and joint ventures amounting to approximately RMB24,083,000 (31 December 2017: a credit amount of RMB4,550,000) and RMB77,069,000 (31 December 2017: RMB2,026,000), respectively, is included in "Share of net (losses)/profits of: Associates" and "Share of net (losses)/profits of: Joint ventures" in the consolidated statement of profit or loss.

11.DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final dividend – HK$0.30 (2017: HK$0.30) per ordinary share	1,010,551	963,480

A final dividend for the year 2018 of HK$0.30 per share was proposed at the meeting of the Board of directors ("the Board") held on 20 March 2019. As at 31 December 2018, based on the total number of outstanding ordinary shares of 3,844,445,611(2017: 3,842,039,341) (excluding the 109,717,026 (2017: 109,566,946) shares held for share award scheme (note 36)), the proposed final dividend amounted to approximately HK$1,153,334,000 (2017: HK$1,152,612,000) (equivalent to RMB1,010,551,000 (2017: RMB963,480,000)). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the financial statements.

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

The calculation of basic earnings per share for the year is based on the consolidated net profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,838,383,169 (2017: 3,826,729,633) outstanding during the year.

The calculation of the diluted earnings per share amounts is based on the consolidated net profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, namely share options (Note 35), and the number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

Earnings

	2018 RMB'000	2017 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	3,927,472	3,229,057

Shares

	Number of shares 2018	 2017
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	3,838,383,169	3,826,729,633
Effect of dilution – weighted average number of ordinary shares:		
Share options	3,665,450	859,236
Weighted average number of ordinary shares for diluted earnings per share	3,842,048,619	3,827,588,869

For the year ended 31 December 2018, the unvested share options under the Share Option Scheme (Note 35) and the unvested restricted shares under the Restricted Share Award Scheme (Note 36) had no dilutive effect on earnings per share. The Group had no other potentially dilutive ordinary shares in issue. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these financial statements.

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13.PROPERTY, PLANT AND EQUIPMENT

31 December 2018

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Vessels RMB'000	Others RMB'000	Total RMB'000
At 31 December 2017 and at 1 January 2018:									
Cost	249,743	1,310,582	4,385,516	183,044	75,390	1,269,669	1,012,918	31,660	8,518,522
Accumulated depreciation and impairment	(91,951)	(106,777)	(978,273)	(108,174)	(44,424)	–	(207,041)	(12,961)	(1,549,601)
Net carrying amount	157,792	1,203,805	3,407,243	74,870	30,966	1,269,669	805,877	18,699	6,968,921
At 1 January 2018, net of accumulated depreciation and impairment	157,792	1,203,805	3,407,243	74,870	30,966	1,269,669	805,877	18,699	6,968,921
Acquisition of subsidiaries	–	193,593	136,493	16,031	3,589	20,568	–	–	370,274
Additions	98,872	147,814	1,408,454	87,816	21,370	1,210,766	777,417	11,536	3,764,045
Depreciation provided during the year	(35,102)	(113,554)	(605,997)	(37,259)	(12,055)	–	(49,226)	(59,243)	(912,436)
Transfers	178,566	987,042	92,728	5,711	–	(1,566,967)	–	302,920	–
Disposals	(15,057)	(7,394)	(138,257)	(29,272)	(2,143)	–	–	–	(192,123)
Disposal of a subsidiary	–	–	–	(1,371)	–	–	–	–	(1,371)
Exchange realignment	–	–	–	–	–	–	57,180	–	57,180
Impairment	–	–	(17,662)	–	–	–	(52,063)	–	(69,725)
At 31 December 2018, net of accumulated depreciation and impairment	385,071	2,411,306	4,283,002	116,526	41,727	934,036	1,539,185	273,912	9,984,765
At 31 December 2018:									
Cost	511,180	2,719,096	5,826,605	286,465	95,081	934,036	1,860,427	346,115	12,579,005
Accumulated depreciation and impairment	(126,109)	(307,790)	(1,543,603)	(169,939)	(53,354)	–	(321,242)	(72,203)	(2,594,240)
Net carrying amount	385,071	2,411,306	4,283,002	116,526	41,727	934,036	1,539,185	273,912	9,984,765

As at 31 December 2018, the Group has not obtained the property ownership certificates for eight buildings (31 December 2017: Seven) with a net book value of RMB435,524,000 (31 December 2017: RMB536,251,000).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 31 December 2018.

As at 31 December 2018, property, plant and equipment with a net carrying amount of RMB1,443,412,000 (31 December 2017: RMB1,342,199,000) were pledged to secure general banking facilities granted to the Group.

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13.PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2017

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Vessels RMB'000	Others RMB'000	Total RMB'000
At 31 December 2016 and at 1 January 2017:									
Cost	159,587	573,597	3,686,731	135,571	60,127	793,904	533,460	27,425	5,970,402
Accumulated depreciation and impairment	(66,037)	(67,594)	(681,754)	(87,238)	(30,958)	–	(32,205)	(8,902)	(974,688)
Net carrying amount	93,550	506,003	3,004,977	48,333	29,169	793,904	501,255	18,523	4,995,714
At 1 January 2017, net of accumulated depreciation and impairment	93,550	506,003	3,004,977	48,333	29,169	793,904	501,255	18,523	4,995,714
Acquisition of subsidiaries	21,410	325,073	53,149	8,316	3,458	202,590	–	59	614,055
Additions	66,811	36,051	922,255	39,852	7,236	895,439	411,480	3,967	2,383,091
Depreciation provided during the year	(26,293)	(29,670)	(374,155)	(22,091)	(9,452)	–	(51,468)	(4,059)	(517,188)
Transfers	27,552	366,419	3,602	1,235	691	(622,264)	219,635	3,130	–
Disposals	(25,020)	(71)	(200,661)	(766)	(136)	–	(88,508)	(2,921)	(318,083)
Disposal of a subsidiary	(218)	–	(1,924)	(9)	–	–	–	–	(2,151)
Exchange realignment	–	–	–	–	–	–	(41,012)	–	(41,012)
Impairment	–	–	–	–	–	–	(145,505)	–	(145,505)
At 31 December 2017, net of accumulated depreciation and impairment	157,792	1,203,805	3,407,243	74,870	30,966	1,269,669	805,877	18,699	6,968,921
At 31 December 2017:									
Cost	249,743	1,310,582	4,385,516	183,044	75,390	1,269,669	1,012,918	31,660	8,518,522
Accumulated depreciation and impairment	(91,951)	(106,777)	(978,273)	(108,174)	(44,424)	–	(207,041)	(12,961)	(1,549,601)
Net carrying amount	157,792	1,203,805	3,407,243	74,870	30,966	1,269,669	805,877	18,699	6,968,921

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14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At the beginning of the year	1,383,484	1,305,034
Additions	234,670	41,752
Acquisition of subsidiaries	82,794	36,698
At the end of the year	1,700,948	1,383,484
Accumulated amortisation:		
At the beginning of the year	(115,742)	(89,206)
Addition	(28,764)	(26,483)
Acquisition of subsidiaries	(9,615)	(53)
At the end of the year	(154,121)	(115,742)
Net carrying amount:		
At the end of the year	1,546,827	1,267,742
At the beginning of the year	1,267,742	1,215,828

As at 31 December 2018, the Group has not obtained the land ownership certificate for two parcel (31 December 2017: Nil) of land with a net book value of RMB181,329,000 (31 December 2017: Nil). The Group was in the process of applying for the land ownership certificate for the above parcel of land as at 31 December 2018. The group has obtained the certificate for one of above parcel of land at 29 January 2019, with a net book value of RMB177,540,000.

As at 31 December 2018, the Group's leasehold land of approximately RMB910,048,000 (31 December 2017: RMB882,248,000) was pledged to secure general banking facilities granted to the Group.

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15. GOODWILL

	RMB'000
At 1 January 2017:	
Cost	749,521
Accumulated impairment	(700)
Net carrying amount	748,821
Cost at 1 January 2017, net of accumulated impairment	748,821
Acquisition of subsidiaries	534,874
Cost and net carrying amount at 31 December 2017	1,283,695
At 31 December 2017:	
Cost	1,284,395
Accumulated impairment	(700)
Net carrying amount	1,283,695
Cost at 1 January 2018, net of accumulated impairment	1,283,695
Acquisition of subsidiaries (Note 39)	594,057
Impairment during the year	(161,225)
Cost and net carrying amount at 31 December 2018	1,716,527
At 31 December 2018:	
Cost	1,878,452
Accumulated impairment	(161,925)
Net carrying amount	1,716,527

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

- Medical service industry; and
- Education service industry.

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15. GOODWILL (continued)

For cash-generating units within medical service industry

The recoverable amount of each CGU within the medical service industry has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period or a longer period which can be justified approved by senior management. The post-tax discount rates applied to the cash flow projections is 14.0% (2017: 14.0%). The implied pre-tax discount rates for the cash flow projections are 15.9% to 19.2% (2017: 15.9% to 17.7%). As at 31 December 2018, the Group assessed the impairment on goodwill and the recoverable amounts exceeded carrying amount, and hence the goodwill was not regarded as impaired (2017: Nil).

For cash-generating units within educational service industry

The recoverable amount of each CGU within the educational service industry has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The post-tax discount rate applied to the cash flow projections is 17.0% (2017: 14.0%). The implied pre-tax discount rates for the cash flow projections are 17.0% to 21.4% (2017: 17.1% to 17.5%).

As at 31 December 2018, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill (RMB213,990,000) arising from the acquisition of some kindergartens and international schools was higher than its recoverable amount (RMB52,765,000). Considering the fact that the actual educational service income was below previously expected financial budget, the management thus estimated that the future cash flows of these kindergartens and international schools would probably be reduced than originally expected, resulting in a decrease in value-in-use calculation. As a result, an impairment loss of approximately RMB161,225,000 (2017: Nil) was recognised in the Group's consolidated financial statements for the year ended 31 December 2018.

The carrying amounts of goodwill are as follows:

	2018 RMB'000	2017 RMB'000
Medical service industry	1,663,762	1,088,412
Education service industry	52,765	195,283
Total	1,716,527	1,283,695

Assumptions were used in the value in use calculation of each CGU within the medical service industry and educational service industry for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill.

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

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

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

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16. OTHER INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
Software (Note 16a)	21,542	19,570
Others	402	108
	21,944	19,678

16a. SOFTWARE

	2018 RMB'000	2017 RMB'000
Cost:		
At the beginning of the year	82,760	75,950
Acquisition of subsidiaries	620	789
Additions	10,954	6,103
Disposals	(551)	(34)
Exchange differences	39	(48)
At the end of the year	93,822	82,760
Accumulated amortisation:		
At the beginning of the year	(63,190)	(54,628)
Acquisition of subsidiaries	(177)	(246)
Additions	(9,225)	(8,362)
Disposals	347	12
Exchange differences	(35)	34
At the end of the year	(72,280)	(63,190)
Net carrying amount:		
At the end of the year	21,542	19,570
At the beginning of the year	19,570	21,322

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17. SCOPE OF CONSOLIDATION

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) (Note ii)	PRC/Mainland China 13 September 1991	US$1,816,710,922	100	–	Finance leasing
Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司) (Note ii)	PRC/Mainland China 10 December 2013	RMB6,500,000,000	55.38	44.62	Finance leasing
Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司) (Note ii)	PRC/Mainland China 12 January 2017	RMB1,500,000,000	45	55	Finance leasing
Shanghai Donghong Co., Ltd. (上海東泓實業發展有限公司) (Note ii)	PRC/Mainland China 28 April 2006	RMB1,700,000,000	–	100	Trading
Shanghai Domin Medical Engineering Co., Ltd. (上海德明醫用設備工程有限公司) (Note ii)	PRC/Mainland China 4 March 2010	RMB100,000,000	–	100	Engineering and trading
Shanghai Dopont Industrial Co., Ltd. ("Dopont") (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB900,000,000	–	100	Trading
Far East Horizon Shipping Consulting Limited (遠東宏信祥瑞航運經紀（上海）有限公司) (Note ii)	PRC/Mainland China 5 September 2012	HK$15,000,000	–	100	Shipping brokerage
Far East Horizon Shipping Holdings Co., Ltd. (遠東宏信航運控股有限公司) (Note i)	Cayman Islands 2 October 2009	US$1,000	100	–	Investment holding
Shanghai Horizon Construction Development Co., Ltd. (上海宏信建設發展有限公司) (Note ii)	PRC/Mainland China 14 April 2014	RMB1,600,000,000/ RMB600,000,000	–	100	Construction
Shanghai Horizon Equipment & Engineering Co., Ltd. (上海宏信設備工程有限公司) (Note ii)	PRC/Mainland China 13 July 2011	RMB1,067,889,293	–	96.81	Operating leasing
Tianjin Horizon Equipment Rental Co., Ltd. (天津宏信設備租賃有限公司) (Note ii)	PRC/Mainland China 27 July 2012	RMB100,000,000	–	96.81	Operating leasing
Shanghai Horizon Infrastructure Investment Co., Ltd. (上海宏信基礎設施投資有限公司) (Note ii)	PRC/Mainland China 12 January 2016	RMB1,000,000,000	–	100	Investment holding

Notes to Financial Statements

31 December 2018

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司) (Note ii)	PRC/Mainland China 2 August 2013	RMB380,000,000/ RMB292,410,000	–	55	Operating leasing
Yiyang Yuhong Infrastructure Construction & Development Co., Ltd. (益陽市昱宏基礎設施建設發展有限公司) (Note ii)	PRC/Mainland China 26 November 2015	RMB30,000,000	–	100	Construction
Pan Xian Yuhong Infrastructure Investment Co., Ltd. (盤縣昱宏基礎設施投資有限公司) (Note ii)	PRC/Mainland China 7 November 2015	RMB80,000,000	–	100	Construction
Ziyang Yuyi Construction Investment Co., Ltd. (資陽市昱奕建設投資有限公司) (Note ii)	PRC/Mainland China 29 July 2016	RMB100,000,000/ RMB89,725,900	–	98	Construction
Jishou Yuxin Construction Investment Co., Ltd. (吉首市昱信建設發展有限公司) (Note ii)	PRC/Mainland China 14 September 2016	RMB93,400,000	–	90	Construction
Yanan Yanyan Expressway Link Line Infrastructure Construction & Investment Co., Ltd. (延安市延延連接線建設投資有限公司) (Note ii)	PRC/Mainland China 19 January 2017	RMB202,318,678	–	54	Construction
Yanan Yuhua Infrastructure Construction & Investment Co., Ltd. (延安昱華建設投資有限公司) (Note ii)	PRC/Mainland China 22 September 2017	RMB92,858,760	–	60	Construction
Zhongxiang Hongrui Infrastructure Construction & Investment Co., Ltd. (鐘祥宏瑞建設投資有限公司) (Note ii)	PRC/Mainland China 25 October 2017	RMB296,817,100/ RMB295,997,800	–	90	Construction
Guangzhou Horizon Equipment & Engineering Co., Ltd. (廣州宏途設備工程有限公司) (Note ii)	PRC/Mainland China 23 March 2015	RMB700,000,000	–	96.81	Operating leasing
Grand Flight Investment Management Limited (宏翔投資管理有限公司) (Note i)	British Virgin Islands 12 August 2014	US$1	–	100	Investment holding
Shanghai Thrive Kind Healthcare Investment Co., Ltd. (上海臻慈醫療投資有限公司) (Note ii)	PRC/Mainland China 10 February 2015	RMB400,000,000/ RMB146,940,000	–	51	Investment holding

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31 December 2018

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Huangshi Hongyue maternity hospital Co., Ltd. (黃石宏悦婦產醫院有限公司) (Note ii)	PRC/Mainland China 27 October 2015	RMB35,000,000	–	51	Medical service
Horizon Education Investment Holding (Shanghai) Co., Ltd. (上海宏信教育投資控股有限公司) (Note ii)	PRC/Mainland China 17 July 2014	RMB200,000,000	–	100	Investment holding
Shanghai Team Joy Management Limited (上海周濟同悦資產管理有限公司) (Note ii)	PRC/Mainland China 23 October 2015	RMB279,111,217/ RMB268,051,217	–	76.68	Investment holding
Shanghai Montessori Academy Co., Ltd. (上海森勝蒙世教育投資有限公司) (Note ii)	PRC/Mainland China 2 April 2015	RMB121,970,168	–	64.34	Investment holding
Wuhan Montessori Academy Co., Ltd. (武漢森勝蒙世教育諮詢有限公司) (Note ii)	PRC/Mainland China 7 April 2016	RMB2,000,000/ RMB1,000,000	–	64.34	Investment holding
Hangzhou Montessori Academy Co., Ltd. (杭州森勝蒙世教育諮詢有限公司) (Note ii)	PRC/Mainland China 16 May 2016	RMB2,000,000/ RMB500,000	–	64.34	Investment holding
Chongqing Montessori Academy Co., Ltd. (重慶森勝蒙世教育科技有限公司) (Note ii)	PRC/Mainland China 27 May 2016	RMB2,000,000/ RMB1,000,000	–	64.34	Investment holding
Xiamen Montessori Academy Co., Ltd. (廈門森勝蒙世教育諮詢有限公司) (Note ii)	PRC/Mainland China 18 February 2016	RMB2,000,000	–	64.34	Investment holding
Montessori Academy Xiamen Siming Campus (廈門市思明區蒙世學堂幼兒園) (Note ii)	PRC/Mainland China 28 October 2016	RMB2,000,000	–	64.34	Education service
Shanghai Xi Wei Investment Consulting Co., Ltd. (上海習威投資諮詢有限公司) (Note ii)	PRC/Mainland China 21 November 2012	RMB4,000,000	–	38.61	Investment holding
Montessori Academy Biyun Campus (上海浦東新區民辦習威幼兒園) (Note ii)	PRC/Mainland China 8 October 2014	RMB2,000,000	–	38.61	Education service

Notes to Financial Statements

31 December 2018

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Sunflower Language Co., Ltd. (上海太陽花語言培訓有限公司) (Note ii)	PRC/Mainland China 7 March 2002	RMB1,000,000	–	64.34	Education service
Kunshan Yi Ze Education Consulting Co., Ltd. (昆山易擇教育諮詢有限公司) (Note ii)	PRC/Mainland China 7 May 2010	RMB50,000	–	64.34	Investment holding
Shanghai Teamally Enterprise Management Co., Ltd. (上海和祁企業管理有限公司) (Note ii)	PRC/Mainland China 21 July 2015	RMB100,000,000	–	100	Investment holding
Shanghai Shengyi Yuanhong Investment Co., Ltd. (上海聖裔遠宏投資有限公司) (Note ii)	PRC/Mainland China 10 August 2015	RMB1,219,500	–	60	Investment holding
Chengdu Confucius Investment Co., Ltd. (成都孔裔投資有限公司) (Note ii)	PRC/Mainland China 11 November 2015	RMB1,000,000	–	60	Investment holding
Chengdu Anren Confucius International School (成都安仁孔裔外國語學校) (Note ii)	PRC/Mainland China 11 November 2015	RMB1,000,000	–	60	Education service
Qingdao Confucian Education Investment Consulting Co., Ltd. (青島孔裔教育投資顧問有限公司) (Note ii)	PRC/Mainland China 28 April 2010	RMB2,600,000	–	70	Advisory service
Confucius International School Qingdao (青島牛津外語專修學校) (Note ii)	PRC/Mainland China 28 April 2010	RMB1,200,000	–	70	Education service
Horizon Healthcare Management (Shanghai) Co., Ltd. (上海宏信醫院管理有限公司) (Note ii)	PRC/Mainland China 27 December 2012	RMB5,000,000	–	81	Advisory service
Far East Healthcare Holding Limited (遠東醫療控股有限公司) (Note i)	Hong Kong 30 August 2012	HK$10,000,000	–	100	Investment holding
Tianjin Renju Investment Management Co., Ltd. (天津仁聚投資控股有限公司) (Note ii)	PRC/Mainland China 12 January 2015	US$300,000,000/ US$268,155,035.61	–	100	Investment holding

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31 December 2018

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司) (Note ii)	PRC/Mainland China 26 April 2013	RMB1,800,000,000	–	100	Investment holding
Huakang Orthopaedics Hospital Co., Ltd. (惠州華康骨傷醫院有限公司) (Note ii)	PRC/Mainland China 20 February 2004	RMB35,130,000	–	69.30	Medical service
Siping Cancer Institute & Hospital Co., Ltd. (四平市腫瘤醫院有限公司) (Note ii)	PRC/Mainland China 23 April 2014	RMB58,823,990	–	58.48	Medical service
Binhai Xinrenci Hospital Co., Ltd. (濱海新仁慈醫院有限公司) (Note ii)	PRC/Mainland China 20 January 2015	RMB1,612,900	–	66.06	Medical service
Anda Jiren Hospital Co., Ltd. (安達市濟仁醫院有限責任公司) (Note ii)	PRC/Mainland China 9 April 2015	RMB20,460,878	–	50.44	Medical service
Zhoushan Dinghai Guanghua Hospital Co., Ltd. (舟山定海廣華醫院有限責任公司) (Note ii)	PRC/Mainland China 17 May 2012	RMB18,200,205	–	42.20	Medical service
Zhoushan Putuo Guanghua Hospital Co., Ltd. (舟山市普陀廣華醫院有限責任公司) (Note ii)	PRC/Mainland China 17 December 2013	RMB20,000,000	–	29.54	Medical service
Deyang The Fifth Hospital Co., Ltd. (德陽第五醫院股份有限公司) (Note ii)	PRC/Mainland China 6 January 2012	RMB145,000,000	–	70	Medical service
Nayong Xinli Hospital Co., Ltd. (納雍新立醫院有限公司) (Note ii)	PRC/Mainland China 12 May 2016	RMB11,381,469	–	51	Medical service
Siyang Hospital of Traditional Chinese Medicine Co., Ltd. (泗陽縣中醫院有限公司) (Note ii)	PRC/Mainland China 6 January 2016	RMB30,000,000	–	50	Medical service
Siyang XieHe Hospital Co., Ltd. (泗陽協和醫院有限公司) (Note ii)	PRC/Mainland China 8 July 2016	RMB3,833,333	–	35	Medical service
Chongqing Yudong Hospital Co., Ltd. (重慶渝東醫院有限責任公司) (Note ii)	PRC/Mainland China 7 December 2007	RMB29,154,515	–	51	Medical service

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17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zhengzhou Renji Hospital Co., Ltd. (鄭州仁濟醫院有限公司) (Note ii)	PRC/Mainland China 6 December 2016	RMB21,000,000	–	51	Medical service
Shenzhen CiHai Hospital Co., Ltd. (深圳慈海醫院有限公司) (Note ii)	PRC/Mainland China 21 December 2015	RMB50,000,000/ RMB0	–	69.82	Medical service
Shenzhen ZhongHai Hospital Co., Ltd. (深圳中海醫院有限公司) (Note ii)	PRC/Mainland China 21 December 2015	RMB50,000,000/ RMB30,000,000	–	69.82	Medical service
Dongguan Tangxia GuanHua Hospital Co., Ltd. (東莞市塘廈莞華醫院有限公司) (Note ii)	PRC/Mainland China 12 January 2016	RMB23,000,000/ RMB0	–	69.82	Medical service
Daishan Guanghua Orthopedic Hospital Co., Ltd. (岱山廣華骨傷醫院有限公司) (Note ii)	PRC/Mainland China 4 January 2017	RMB140,000,000	–	52.43	Medical service
Meizhou TieLuQiao Hospital Co., Ltd. (梅州鐵爐橋醫院有限公司) (Note ii)	PRC/Mainland China 8 December 2015	RMB13,422,819	–	51	Medical service
Zhaotong Renan Hospital Co., Ltd. (昭通仁安醫院有限責任公司) (Note ii)	PRC/Mainland China 8 November 2013	RMB534,545,000	–	51.02	Medical service
Qiaojia Renan Hospital Co., Ltd. (巧家仁安醫院有限公司) (Note ii)	PRC/Mainland China 1 April 2017	RMB500,000	–	51.02	Medical service
Tianjin Junda Enterprise Management Co., Ltd. (天津駿達企業管理有限公司) (Note ii)	PRC/Mainland China 4 November 2016	RMB100,000/ RMB0	–	100	Investment management
Tianjin Xiangji Enterprise management Center (Limited Partnership) (天津祥驥企業管理諮詢中心（有限合夥）) (Note ii, Note iii)	PRC/Mainland China 15 June 2016	RMB10,000/ RMB0	–	95.95	Investment management
Shanghai Grand Glory Eco Technology Co., Ltd. (上海宏瑞環保科技有限公司) (Note ii)	PRC/Mainland China 26 December 2014	RMB50,000,000/ RMB22,000,000	–	70.40	Eco technology

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31 December 2018

17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Far east Horizon Medical Technology Development Co., Ltd. (遠東宏信醫療科技發展有限公司) (Note ii)	PRC/Mainland China 16 November 2016	RMB50,000,000	–	100	Investment holding
Shanghai Everboom Health Investment Co., Ltd. (上海佰昆健康投資有限公司) (Note ii)	PRC/Mainland China 21 April 2016	RMB100,000,000	–	35	Investment holding
Shanghai Team Grow Management Limited (上海周濟同歷資產管理有限公司) (Note ii)	PRC/Mainland China 5 October 2015	RMB10,000,000/ RMB2,500,000	–	100	Investment management
Jinhua Rehabilitation Hospital Co., Ltd. (金華康復醫院有限公司) (Note ii)	PRC/Mainland China 1 November 2016	RMB50,000,000	–	21	Medical service
Tangshan Caofeidian Yurui Construction and Engineering Co., Ltd (唐山曹妃甸昱瑞建設工程有限公司) (Note ii)	PRC/Mainland China 31 March 2016	RMB192,000,000/ RMB34,560,100	–	89	Construction
Shanghai Hongwen School (上海浦東新區民辦宏文學校) (Note ii)	PRC/Mainland China 22 March 2018	RMB10,000,000	–	100	Education service
Montessori Academy Xiushan Campus (上海徐匯區民辦蒙世學堂秀山幼兒園) (Note ii)	PRC/Mainland China 31 May 2018	RMB2,000,000/ RMB0	–	64.34	Education service
Montessori Academy Xuhui Campus (上海市徐匯區民辦蒙世學堂幼兒園) (Note ii)	PRC/Mainland China 3 January 2018	RMB2,000,000/ RMB0	–	64.34	Education service
Chengdu Gaoxinyuan Company Limited (成都高新區蒙世幼兒園) (Note ii)	PRC/Mainland China 5 May 2014	RMB2,400,000	–	76.68	Education service
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 service
Xianning Rongentang Pharmaceutical. Co., Ltd (咸寧市榮恩堂藥業有限公司) (Note ii)	PRC/Mainland China 17 March 2005	RMB10,000,000/ RMB0	–	51	Medical service

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31 December 2018

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Renshou Yunchang Hospital Company Limited (仁壽運長醫院有限責任公司) (Note ii)	PRC/Mainland China 12 October 2016	RMB40,000,000	–	63.5	Medical service
Jinhua Hongyue Women & Children Hospital. Co., Ltd (金華宏悦婦女兒童醫院有限公司) (Note ii)	PRC/Mainland China 8 February 2018	RMB100,000,000/ RMB25,000,000	–	30.60	Medical service
Qinghai Kangle Hospital Company Limited (青海省康樂醫院有限公司) (Note ii)	PRC/Mainland China 14 September 2017	RMB25,000,000	–	60	Medical service
Xinxiang League Hospital Company Limited (新鄉同盟醫院有限公司) (Note ii)	PRC/Mainland China 9 November 2017	RMB22,727,272.73	–	51	Medical service
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/ RMB96,990,035.27	–	100	Medical service
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	RMB500,000,000	–	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	RMB1,000,000,000	–	100	Investment management
Tiianjin Kaifeng Enterprise Management Co., Ltd. (天津凱鋒企業管理有限公司) (Note ii)	PRC/Mainland China 10 January 2018	RMB100,000,000	–	100	Investment management
Tianjin Hongjie Asset Management Co., Ltd. (天津宏傑資產管理有限公司) (Note ii)	PRC/Mainland China 29 January 2018	RMB1,000,000,000	–	100	Investment management
Horizon Financial Company Limited (宏信金服（天津）信息科技有限公司) (Note ii)	PRC/Mainland China 10 May 2018	RMB30,000,000/ RMB17,400,000	–	80	Investment management
Far East Horizon Consulting Service Co., Ltd. (遠東宏信諮詢服務有限公司) (Note ii)	PRC/Mainland China 8 December 2017	RMB50,000,000/ RMB500,000	–	44.62	Investment management

Notes to Financial Statements

31 December 2018

17. SCOPE OF CONSOLIDATION (continued)

As at 31 December 2018, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yushan Yusheng Construction & Engineering Investment Co., Ltd (玉山縣玉昇建設工程投資有限公司) (Note ii)	PRC/Mainland China 20 December 2017	RMB162,530,000/ RMB118,804,742.10	–	99	Construction
Nanchang Hongdi Infrastructure Construction Co., Ltd (南昌市宏迪建設有限公司) (Note ii)	PRC/Mainland China 8 August 2017	RMB20,000,000/ RMB19,800,000	–	94	Construction
Far East Horizon Medical Group Co., Ltd (遠東宏信醫院集團有限公司) (Note ii)	PRC/Mainland China 13 April 2015	RMB1,800,000,000	–	100	Investment holding
Montessori Kinder Garden Tianjin Taolesi Campus (天津市西青區桃樂絲幼稚園) (Note ii)	PRC/Mainland China 27 August 2014	RMB500,000	–	76.68	Education service

The above table lists the subsidiaries and consolidated structured entities of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Note i: Foreign invested enterprise

Note ii: Domestic company

Note iii: Consolidated structured entity

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18.INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	1,947,408	1,386,800
Excess of consideration over share of net assets acquired	121,605	121,605
Provision for impairment	(170,000)	–
	1,899,013	1,508,405

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
Shanghai Dongling Investment, LLP (上海東翎投資合夥企業(有限合夥))	Registered capital of RMB55,717,310	PRC/Mainland China	49.2	49.2	Investment holding
Weihai Haida Hospital Co., Ltd. (威海海大醫院有限公司)	Registered capital of RMB5,000,000	PRC/ Mainland China	50	50	Medical service
Weihai Haida Nursing Hospital Co., Ltd. (威海海大護理院有限公司)	Registered capital of RMB1,000,000	PRC/Mainland China	50	50	Medical service
Kunming Broadhealthcare Investment Co., Ltd. (昆明博健醫療投資有限公司)	Registered capital of RMB14,333,328	PRC/Mainland China	33.3837	33.3837	Healthcare investment and management
Guangzhou Kangda Industrial Technology Co., Ltd. ("Kangda") (廣州康大工業科技產業有限公司)	Registered capital of HK$200,000,000	PRC/Mainland China	60*	60	Development and construction
Skycity (Shanghai) Business Co., Ltd. (天空之城(上海)實業有限公司)	Registered capital of RMB6,818,000	PRC/Mainland China	46.01	46.01	Electronic products
Kunming Boyue Maternal and Infant Care Co., Ltd. (昆明博悦母嬰護理有限責任公司)	Registered capital of RMB5,555,600	PRC/Mainland China	28.36	28.36	Medical service
Grand Flight Holdings Co., Ltd. (遠翼控股有限公司)	Authorised capital of US$50,000	British Virgin Islands	70*	70	Investment holding

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18. INVESTMENTS IN JOINT VENTURES (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
Grand Flight Hooyoung Investment Management Co., Ltd. (遠翼宏揚投資管理有限公司)	Authorised capital of US$50,000	Cayman Islands	70*	70	Investment holding
Grand Flight Hooyoung Investment L.P. (遠翼宏揚投資有限合夥)	US$ 73,329,460.54	Cayman Islands	55*	55	Investment holding
Teamway Shipping Limited (匯聯船務有限公司)	HK$10,000	Hong Kong	50	50	Shipping service
Gold Chance Shipping Limited (金運船務有限公司)	HK$10,000	Hong Kong	50	50	Shipping service
Fengyang Gulou Hospital Co., Ltd. (鳳陽縣鼓樓醫院有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	35	35	Medical service
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. (蘇州高新康復醫院有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	61*	61	Medical service
Grand Flight Investment Management Co., Ltd. (遠翼投資管理有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	90*	90	Investment holding
Tianjin Yuanyi Kaiyuan Asset Management Centre ("Yuanyi Kaiyuan") (Limited Partnership) (天津遠翼開元資產管理中心(有限合夥))	Registered capital of RMB1,505,420,000	PRC/Mainland China	39.856	39.856	Investment holding

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

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

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

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18. INVESTMENTS IN JOINT VENTURES (continued)

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

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	140,975	145,483
Other current assets	2,536,304	2,005,139
Current assets	2,677,279	2,150,622
Non-current assets	9,464	3,795
Financial liabilities, excluding other payables and accruals	(43,000)	–
Other payables and accruals	(575,275)	(219,642)
Current liabilities	(618,275)	(219,642)
Non-current liabilities	(520,000)	(365,000)
Net assets	1,548,468	1,569,775
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	60%	60%
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	929,081	941,865
Cumulative impairment	(170,000)	–
Carrying amount of the investment	759,081	941,865

	2018 RMB'000	2017 RMB'000
Administrative expenses	(12,808)	(14,911)
Other expenses	(8,498)	–
Other income	–	10,006
Loss and total comprehensive income for the year	(21,306)	(4,905)

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18. INVESTMENTS IN JOINT VENTURES (continued)

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

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

	2018 RMB'000
Other expenses	(35,155)
Other income	640,547
Profit and total comprehensive income for the period after the Group's investment in the joint venture	605,392
Dividend received	53,578

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

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' (loss)/profit for the year	(4,276)	2,920
Aggregate carrying amount of the Group's investments in the joint ventures	623,410	566,540

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19.INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	3,382,840	766,577
Excess of consideration over share of net assets acquired	682,710	–
	4,065,550	766,577

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
Shanghai Yijia Construction Development Co., Ltd. (上海藝佳建設發展有限公司)	Registered capital of RMB14,285,800	PRC/Mainland China	30	30	Development and construction
Hangzhou Guoya Stomatological Hospital Co., Ltd. (杭州國雅口腔醫院有限公司)	Registered capital of RMB31,408,000	PRC/Mainland China	36.2777	36.2777	Medical service

As at 31 December 2018, the Group invested in five companies which are mainly engaged in the investment holding business in Mainland China, with the registered capital of RMB4,508,513,600, RMB3,000,000,000, RMB3,930,000,000, RMB1,000,000,000 and RMB1,000,000,000, respectively. The percentage of ownership interest and profit sharing of the Group in these companies are 27.20%, 19.50%, 10.0254%, 13.3082% and 10.00%, respectively. The aforementioned companies are accounted for using the equity method.

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19.INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of 3 largest associates (in terms of carrying amount) adjusted for any differences in accounting policies and reconciled to the fair value of the net assets in the financial statements.

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

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

	2018 RMB'000	2017 RMB'000
Share of the associates' profit/(loss) for the year	33,824	(13,650)
Aggregate carrying amount of the Group's investments in the associates	1,575,088	766,577

The above balances include a total of RMB871,628,000 (31 December 2017: RMB642,475,000) investments held by the Group as an investor in sub-ordinated tranches of several collective fund trusts, whose total funds raising amount to RMB4,277,520,000 (31 December 2017: RMB3,301,000,000), the Group had significant influence over these trusts. These trusts conduct entrusted finance lease and entrusted loan businesses.

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20. AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Unlisted equity investments, at cost	–	103,555
Unlisted debt investments, at fair value	–	1,569,887
	–	1,673,442
Portion classified as current assets	–	1,412,886
Non-current portion	–	260,556

The above equity investments were reclassified as financial assets at fair value through profit or loss as they were not designed as equity instruments at fair value through other comprehensive income in HKFRS 9 and the above debt investments were reclassified as financial assets at fair value through profit or loss as the debt investments did not pass the contractual cash flow characteristics test in HKFRS 9.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Listed equity investments, at fair value	–	445,183
Unlisted equity investments, at fair value	801,617	1,441,084
Unlisted debt investments, at fair value	1,867,787	–
Unlisted equity investments, at cost	–	124,000
	2,669,404	2,010,267

The above equity investments at 31 December 2018 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 at 31 December 2018 included a carrying amount of RMB282,298,000 were wealth management products issued by banks or asset management companies in Mainland China. The above debt investments at 31 December 2018 also included a carrying amount of RMB1,390,603,000 convertible bonds with face value of US$200,000,000. They 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.DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross-currency interest rate swaps	984,879	–	122,474	(112,844)
Forward currency contracts	43,299	(204,537)	–	(131,921)
Interest rate swaps	14,601	(3,317)	583	(15,511)
	1,042,779	(207,854)	123,057	(260,276)
Portion classified as non-current:				
Cross-currency interest rate swaps	903,290	–	–	(53,079)
Forward currency contracts	17,368	(14,151)	–	(104,100)
Interest rate swaps	14,081	(3,317)	583	(15,007)
	934,739	(17,468)	583	(172,186)
Current portion	108,040	(190,386)	122,474	(88,090)
	1,042,779	(207,854)	123,057	(260,276)

Cash flow hedge under HKFRS 9

At 31 December 2018, the Group designated 36 (2017: 24) cross-currency interest rate swap contracts and 17 (2017: 15) forward currency contracts as hedges of future cash flows arising from foreign currency borrowings, details as follows:

At 31 December 2018, the Group had 7 (2017: 3) cross-currency interest rate swaps in place with notional amounts of HK$2,106,000,000 (2017: HK$780,000,000) whereby the Group receives a floating rate of interest on the HK$ notional amount at HKD-HIBOR-HKAB and pays a fixed rate of interest on the RMB notional amount at 3.96% to 4.21% per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 7 floating rate long-term borrowings denominated in HK$ with the total face value of HK$2,106,000,000 (2017: HK$780,000,000).

At 31 December 2018, the Group had 27 (2017: 21) cross-currency interest rate swaps in place with notional amounts of US$2,955,000,000 (2017: US$1,640,799,000) whereby the Group receives a floating rate of interest on the US$ notional amount at USD-LIBOR-BBA and pays a fixed rate of interest on the RMB notional amount at 3.35% to 5.84% per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 27 floating rate long-term borrowings denominated in US$ with the total face value of US$2,955,000,000 (2017: US$1,640,799,000).

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22.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

At 31 December 2018, the Group had 2 (2017: Nil) cross-currency interest rate swaps in place with notional amounts of US$200,000,000 (2017: Nil) whereby the Group receives a fixed rate of interest on the US$ notional amount at 4.38% p.a. and pays a fixed rate of interest on the RMB notional amount at 5.84% to 5.88% per annum. The swaps are being used to hedge the foreign currency exposure of 2 fixed rate long-term borrowings denominated in US$ with the total face value of US$200,000,000 (2017: Nil).

At 31 December 2018, the Group had 17 (2017:15) forward currency contracts with a total notional amount of US$321,100,000 (2017: US$142,000,000), SG$200,000,000 (2017: SG$200,000,000) and AU$200,000,000 (2017: AU$200,000,000) as hedges of future cash flows arising from foreign currency borrowings which will be settled in United States Dollar, Singapore Dollar and Australian Dollar, respectively.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the cross-currency interest rate swap contracts and forward currency contracts match the terms of the terms of the borrowing contracts (i.e., notional amount, expected payment date and interest rate). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the cross-currency interest rate swap contracts and forward currency contracts 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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22.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

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

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

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

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

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22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

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

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

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

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

Fair value hedge under HKFRS 9 – Interest rate risk

At 31 December 2018, the Group had 14 (2017:7) interest rate swap agreements in place with a total notional amount of RMB11,900,000,000 (2017: RMB5,400,000,000) whereby it receives interest at fixed rates of 4.05% to 4.85% per annum and pays interest at variable rates equal to the benchmark interest rate of Renminbi loans of the People's Bank of China on the notional amount. The swaps are used to hedge the exposure to changes in the fair value of the fixed rate long-term bonds. The critical terms of the interest rate swaps substantially match those of the borrowings. These hedges were assessed to be highly effective.

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22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

The hedge ineffectiveness can arise from:

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

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

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

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

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

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

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23.LOANS AND ACCOUNTS RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Loans and accounts receivables due within 1 year	87,790,154	68,977,442
Loans and accounts receivables due after 1 year	132,844,117	122,614,916
	220,634,271	191,592,358

23a. Loans and accounts receivables by nature

	31 December 2018 RMB'000	31 December 2017 RMB'000
Lease receivables (Note 23b)*	233,565,773	195,347,057
Less: Unearned finance income	(27,249,304)	(22,271,711)
Net lease receivables (Note 23b/23c)**	206,316,469	173,075,346
Interest receivables (Note 23c)*	1,857,404	1,189,896
Factoring receivable (Note 23c/23g)**	2,222,096	2,914,198
Entrusted loans (Note 23c/23h)*/**	9,171,912	15,089,836
Long-term receivables (Note 23c/23i) */**	4,366,744	1,624,066
Secured loans (Note 23c)**	54,453	84,241
Subtotal of Interesting-bearing assets	223,989,078	193,977,583
Less:		
Provision for lease receivables (Note 23d)**	(4,846,354)	(3,539,797)
Provision for factoring receivable (Note 23d)**	(45,088)	(97,218)
Provision for entrusted loans (Note 23d)**	(188,337)	(222,817)
Provision for long-term receivables (Note 23d)**	(13,301)	–
Provision for secured loans (Note 23d)**	(652)	(9,186)
Provision for interesting-bearing assets	(5,093,732)	(3,869,018)
Notes receivable	162,940	111,749
Accounts receivable (Note 23e)*	1,983,858	1,608,262
Provision for accounts receivable (Note 23f)	(407,873)	(236,218)
Total of loans and accounts receivables	220,634,271	191,592,358

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

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

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23b (1). An aging analysis of lease receivables, determined based on the age of the receivables since the effective date of the relevant lease contracts, as at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Lease receivables:		
Within 1 year	120,885,693	131,365,517
1 to 2 years	81,819,070	37,347,975
2 to 3 years	19,974,406	17,542,648
3 to 5 years	10,886,604	9,090,917
Total	233,565,773	195,347,057

	31 December 2018 RMB'000	31 December 2017 RMB'000
Net lease receivables:		
Within 1 year	104,914,424	114,348,790
1 to 2 years	72,788,965	34,098,933
2 to 3 years	18,483,450	16,147,468
3 to 5 years	10,129,630	8,480,155
Total	206,316,469	173,075,346

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Lease receivables:		
Due within 1 year	93,206,939	70,860,654
Due in 1 to 2 years	69,732,415	54,756,878
Due in 2 to 3 years	42,559,640	37,917,162
Due in 3 to 5 years	27,685,931	31,314,497
Due after 5 years	380,848	497,866
Total	233,565,773	195,347,057

Notes to Financial Statements

31 December 2018

23.LOANS AND ACCOUNTS RECEIVABLES (continued)

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Net lease receivables:		
Due within 1 year	79,478,262	60,576,573
Due in 1 to 2 years	61,915,905	48,257,912
Due in 2 to 3 years	38,854,786	34,428,098
Due in 3 to 5 years	25,711,412	29,374,433
Due after 5 years	356,104	438,330
Total	206,316,469	173,075,346

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 2018, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB14,870,001,000 (31 December 2017: RMB13,990,886,000) (see note 32(a)).

23c. Analysis of interest-bearing assets

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Total RMB'000
As at 31 December 2018				
Total interest-bearing assets	203,187,703	18,649,628	2,151,747	223,989,078
Allowance for impairment losses	(3,145,672)	(1,188,069)	(759,991)	(5,093,732)
Interest-bearing assets, net	200,042,031	17,461,559	1,391,756	218,895,346

Notes to Financial Statements

31 December 2018

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23c. Analysis of interest-bearing assets (continued)

	31 December 2017 RMB'000
Interest-bearing assets:	
Individually assessed (Note (i))	1,760,972
Collectively assessed	192,216,611
Total	193,977,583
Allowance for impairment losses	
Individually assessed (Note (i))	700,180
Collectively assessed	3,168,838
Total	3,869,018

Note (i) Individually assessed interest-bearing assets include those classified as substandard, doubtful and loss by the Group.

23d. Change in provision for interest-bearing assets

The Group has applied the general approach to providing for expected credited losses ("ECL") prescribed by HKFRS 9 from 1 January 2018, which permits the use of either a twelve-month basis or a lifetime basis to record expected credit losses based on an expected credit loss model for interest-bearing assets.

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

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31 December 2018

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

23d. Change in provision for interest-bearing assets (continued)

	Year ended 31 December 2018			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III** (Lifetime ECL – impaired)	Total
At beginning of the year before adopting HKFRS 9				3,869,018
At beginning of the year after adopting HKFRS 9	2,880,655	478,715	700,180	4,059,550
Impairment losses for the year	689,630*	633,372	619,767	1,942,769
Disposal	(364,689)	–	–	(364,689)
Conversion to Stage I	92,857	(92,857)	–	–
Conversion to Stage II	(157,606)	181,496	(23,890)	–
Conversion to Stage III	–	(15,227)	15,227	–
Write-off	–	–	(605,874)	(605,874)
Recovery of interest-bearing assets previously written off	–	–	54,400	54,400
Exchange differences	4,825	2,570	181	7,576
At end of the year	3,145,672	1,188,069	759,991	5,093,732

* This includes RMB1,775,748,000 loss allowance provided for newly originated interest-bearing assets, and RMB1,086,118,000 of loss allowances reversed as a result of repayment of existing interest-bearing assets.

** The majority of the interest-bearing assets are finance lease receivables, under which the lessor owns the related leased asset, so the finance leases are similar to secured lendings. Among these interest-bearing assets, 94% (in the terms of carrying amount) of the credit-impaired assets falling in stage 3 in the table above are finance lease receivables and hence the related leased assets owned by the Group, such leased assets are similar to security and constitute the main source of collection of impaired assets.

	Individually assessed 31 December 2017 RMB'000	Collectively assessed 31 December 2017 RMB'000	Total 31 December 2017 RMB'000
At beginning of the year	558,366	2,388,320	2,946,686
Charge for the year	195,569	1,345,845	1,541,414
Recovery of interest-bearing assets previously written off	20,113	–	20,113
Disposal	–	(556,073)	(556,073)
Write-off	(72,431)	–	(72,431)
Exchange differences	(1,437)	(9,254)	(10,691)
At end of the year	700,180	3,168,838	3,869,018

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23e. An aging analysis of accounts receivable as at the end of the reporting period is as follows:

Accounts receivable are non-interest-bearing and are generally on 60-day terms, while the credit terms for major customers can be extended to 180 days.

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	1,487,678	1,283,606
More than 1 year	496,180	324,656
Total	1,983,858	1,608,262

23f. Change in provision for accounts receivable

	31 December 2018 RMB'000	31 December 2017 RMB'000
At beginning of year	236,218	82,385
Charge for the year	182,197	193,023
Acquisition of a subsidiary	1,570	2,993
Write-off	(11,322)	(41,719)
Exchange differences	(790)	(464)
At end of period/year	407,873	236,218

Impairment under HKFRS 9 for the year ended 31 December 2018

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.

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 2018

	Aging				
	within 1 year	1-2 years	2-3 years	3-5 years	Total
Gross Carrying amount	1,487,678	279,861	148,127	68,192	1,983,858
Expected credit loss	133,637	97,634	108,410	68,192	407,873
Average expected credit loss rate	8.98%	34.89%	73.19%	100.00%	

Notes to Financial Statements

31 December 2018

23. LOANS AND ACCOUNTS RECEIVABLES (continued)

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	1,100,526	1,253,283
More than 1 year	1,121,570	1,660,915
	2,222,096	2,914,198

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Entrusted loans:		
Within 1 year	261,833	4,983,273
1 to 2 years	3,066,647	7,434,203
2 to 3 years	4,256,344	2,631,696
3 to 5 years	1,587,088	40,664
Total	9,171,912	15,089,836

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Entrusted loans:		
Due within 1 year	4,457,443	5,663,725
Due in 1 to 2 years	3,026,296	4,722,929
Due in 2 to 3 years	1,476,332	3,013,227
Due in 3 to 5 years	211,841	1,665,642
Due after 5 years	–	24,313
Total	9,171,912	15,089,836

23i. Long term receivables

As at 31 December 2018, the carrying value of long term receivables pledged or charged as security for the Group's borrowings amounted to RMB2,227,156,000 (31 December 2017: RMB1,224,437,000) (Note 32(a)).

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23.LOANS AND ACCOUNTS RECEIVABLES (continued)

23j. Balances with related parties

		31 December 2018 RMB'000	31 December 2017 RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	60,000	21,533
Long-term receivables	(ii)	75,000	75,000
Interest receivables		17,348	12,747
– Weihai Haida Hospital Co., Ltd.			
Long-term receivables	(ii)	30,000	30,000
Lease receivables		–	10,000
Interest receivables		1,720	883
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Lease receivables		15,935	–
Interest receivables		36	95
– Tianjin FIS Asset Management Co., Ltd.			
Long-term receivables	(ii)	496,496	–
Interest receivables		434	–
– Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.			
Entrusted loan	(i)	16,500	–
– Fengyang Gulou Hospital Co., Ltd.			
Accounts receivables		14,540	15,630
Provision		(7,733)	–
		770,276	215,888

(i) Balances of entrusted loans interest-bearing at annual interest rates ranging from 6.175% to 13% (31 December 2017: 6.245%).

(ii) Balances of long-term receivables interest-bearing at annual interest rates ranging from 4.85% to 6.05% (31 December 2017: from 5.655% to 6.05%).

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24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2018 RMB'000	2017 RMB'000
Current assets:			
Prepayments		579,007	944,142
Leased assets*		653,837	2,232,027
Rental and project deposit		146,806	217,994
Other receivables		360,412	222,060
Input VAT		278,198	257,547
Amounts deductible against output VAT		339,135	138,242
Subordinated tranches of asset-backed securities/notes (Note 51)		206,317	5,706
Due from related parties	24a	97,021	95,341
Other current asset		5,987	46,208
Impairment allowance		(51,408)	(14,541)
		2,615,312	4,144,726
Non-current assets:			
Rental deposit due after 1 year		17,936	32,257
Subordinated tranches of asset-backed securities/notes (Note 51)		2,121,005	2,486,372
Continuing involvement in transferred assets (Note 51)		2,327,322	2,492,078
Preference tranches of asset-backed securities		63,112	30,349
Long-term other receivables		80,265	–
Others		107,024	167,129
		4,716,664	5,208,185
		7,331,976	9,352,911

* The leased assets arise from the situations where the Group had already made payments to vendors or suppliers of machinery and equipment, but the terms of the lease contracts of the said machinery and equipment have not commenced. The Group records these paid amounts under leased assets among its current assets as such assets had already been earmarked for leases to customers. Once the terms of a lease contract commence, the Group ceases to recognise the amount relating to the leased assets and recognise the lease receivables due under the lease contract.

Notes to Financial Statements

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

24a. BALANCES WITH RELATED PARTIES

	Notes	2018 RMB'000	2017 RMB'000
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
China Jin Mao Group Co., Ltd.	(i)	21,363	21,363
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,493
Jin Mao (Shanghai) Property Management Service Co., Ltd.	(i)	6	6
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	175
Joint ventures:			
Gold Chance Shipping Limited	(i)	35,621	35,547
Teamway Shipping Limited	(i)	35,965	35,547
Weihai Haida Hospital Co., Ltd.	(i)	566	–
Fengyang Gulou Hospital Co., Ltd.	(i)	422	–
Kunming Broadhealthcare Investment Co., Ltd.	(i)	410	210
		97,021	95,341

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

25. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from construction services	27,168	44,170	–
	27,168	44,170	–

Contract assets are initially recognised for revenue earned from the provision of related construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

Notes to Financial Statements

31 December 2018

25. CONTRACT ASSETS (continued)

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	27,168
Total contract assets	27,168

26. DEFERRED TAX

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

Deferred tax assets

	Fee income received in advance RMB'000	Government special subsidy RMB'000	Share-based payments RMB'000	Allowances for impairment losses RMB'000	Salary and welfare payable RMB'000	Losses available for offsetting against future taxable profits RMB'000	Cash flow hedge RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2018	466,727	467,860	127,090	1,157,620	862,550	156,855	1,744	9,830	3,250,276
Effect of adoption of HKFRS 9	–	–	–	54,475	–	–	–	–	54,475
(Charged)/credited to the statement of profit or loss during the year	(85,209)	168,385	16,476	439,397	212,186	(12,345)	–	1,312	740,202
Disposal of subsidiaries	–	–	–	–	(439)	(12)	–	(983)	(1,434)
Credited to reserve	–	–	–	–	–	–	96,494	–	96,494
Exchange differences	–	–	–	1,476	–	336	–	–	1,812
Gross deferred tax assets at 31 December 2018	381,518	636,245	143,566	1,652,968	1,074,297	144,834	98,238	10,159	4,141,825

	Fee income received in advance RMB'000	Government special subsidy RMB'000	Share-based payments RMB'000	Allowances for impairment losses RMB'000	Salary and welfare payable RMB'000	Losses available for offsetting against future taxable profits RMB'000	Cash flow hedge RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2017	–	307,914	63,521	843,642	652,098	51,269	517	8,282	1,927,243
Credited to the statement of profit or loss during the year	466,727	159,946	63,569	319,533	210,452	103,753	–	1,548	1,325,528
Credited to reserve	–	–	–	–	–	–	1,227	–	1,227
Exchange differences	–	–	–	(5,555)	–	1,833	–	–	(3,722)
Gross deferred tax assets at 31 December 2017	466,727	467,860	127,090	1,157,620	862,550	156,855	1,744	9,830	3,250,276

Notes to Financial Statements

31 December 2018

26. DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2018	34,953	4,362	29,626	9,385	79,251	157,577
(Credited)/charged to the statement of profit or loss during the year	(2,822)	–	46,564	–	35,328	79,070
Arising from acquisition of subsidiaries	27,285	–	–	–	–	27,285
Credited to reserve	–	(4,362)	–	–	–	(4,362)
Gross deferred tax liabilities at 31 December 2018	59,416	–	76,190	9,385	114,579	259,570

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

Notes to Financial Statements

31 December 2018

26. DEFERRED TAX (continued)

For the purpose of the presentation of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31 December 2018 RMB'000 (Audited)	31 December 2017 RMB'000 (Audited)
Net deferred tax assets recognised in the consolidated statement of financial position	4,031,727	3,169,406
Net deferred tax liabilities recognised in the consolidated statement of financial position	149,472	76,707

As at 31 December 2018, the Group had tax losses arising in Hong Kong of RMB273,775,000 (31 December 2017: RMB475,092,000) 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 RMB364,656,000 (31 December 2017: RMB299,932,000) 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 2018, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB490,941,000 (31 December 2017: RMB146,129,000) and RMB276,628,000 (31 December 2017: RMB100,924,000), respectively, due to uncertainty in their recoverability.

Pursuant to the resolution of the Company, part of the Mainland China subsidiaries' profits generated from 2012 onwards will be retained by the Mainland China subsidiaries for the use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not reverse in the foreseeable future. As at 31 December 2018, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB684,582,000 (31 December 2017: RMB508,911,000).

Notes to Financial Statements

31 December 2018

27. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	10,498,240	7,334,216
Time deposits	51,275	65,998
	10,549,515	7,400,214
Less:		
Pledged deposits	845,015	361,950
Restricted bank deposits related to asset securitisations	4,314,961	4,150,820
Restricted bank deposits related to collective fund trusts	120,147	71,900
Cash and cash equivalents	5,269,392	2,815,544

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB9,440,130,000 (31 December 2017: RMB7,029,788,000). 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 2018, cash of RMB510,222,000 (31 December 2017: RMB211,948,000) was pledged for bank and other borrowings (Note 32(b)).

As at 31 December 2018, cash of RMB319,874,000 (31 December 2017: RMB135,083,000) was pledged for bank acceptances, letters of credit and others.

As at 31 December 2018, cash of RMB14,919,000 (31 December 2017: RMB14,919,000) was pledged for collective fund trusts.

As at 31 December 2018, cash of RMB372,120,000 (31 December 2017: RMB596,867,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

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31 December 2018

28.INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	350,435	212,447
Work in process	32,109	19,131
Raw materials	65,784	41,852
	448,328	273,430

29.CONSTRUCTION CONTRACTS

	2018 RMB'000	2017 RMB'000
Gross amount due from contract customers	–	44,170
Contract costs incurred plus recognised profits less recognised losses to date	–	276,534
Less: Progress billings	–	(232,364)
	–	44,170

30.TRADE AND BILLS PAYABLES

	Note	2018 RMB'000	2017 RMB'000
Current:			
Bills payable		2,103,326	814,544
Trade payables		1,268,387	1,024,417
Due to related parties	30a	60,201	–
		3,431,914	1,838,961
Non-current:			
Trade payables		–	–
		3,431,914	1,838,961

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31 December 2018

30. TRADE AND BILLS PAYABLES (continued)

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

	2018 RMB'000	2017 RMB'000
Within 1 year	3,181,260	1,570,880
1 to 2 years	110,837	194,373
2 to 3 years	73,761	37,668
3 years and beyond	66,056	36,040
	3,431,914	1,838,961

30a. BALANCES WITH RELATED PARTIES

	2018 RMB'000	2017 RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	60,000	–
Associate:		
Shanghai Yijia Construction Development Co., Ltd.	201	–
	60,201	–

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

	Notes	2018 RMB'000	2017 RMB'000
Current:			
Lease deposits, entrusted loan deposits and factoring deposits due within one year		3,484,025	3,757,768
Salary payables		2,187,664	652,736
Welfare payables		84,104	60,973
Advances from customers		920,817	967,681
Due to related parties	31a	50,716	2,680
Contract liabilities	31b	425,273	–
Other taxes payable		850,494	655,716
Interest payable		2,062,235	1,611,428
Funds collected on behalf of special purpose entities in relation to asset-backed securitisations		4,314,961	4,150,820
Funds collected on behalf of collective fund trusts		17,492	–
Funds collected on behalf of collective fund trusts – due to related parties	31a	102,655	71,900
Provision of credit commitments		36,400	–
Other payables		1,337,345	502,538
Shareholding purchase consideration to be paid		–	121,194
Dividend payables		12,359	601
		15,886,540	12,556,035
Non-current:			
Lease deposits, entrusted loan deposits and factoring deposits due after one year		29,008,011	26,005,062
Contract liabilities	31b	222,505	–
Other payables		120,490	46,699
Quality guarantee deposit		1,333	1,333
		29,352,339	26,053,094
		45,238,879	38,609,129

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31 December 2018

31.OTHER PAYABLES AND ACCRUALS (continued)

31a. Balances with Related Parties

	2018 RMB'000	2017 RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	12,343	1,915
Joint ventures:		
Gold Chance Shipping Limited	–	765
Fengyang Gulou Hospital Co., Ltd.	20	–
Kunming Broadhealthcare Investment Co., Ltd.	1	–
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	2,494	–
Tianjin FIS Asset Management Co., Ltd.	1	–
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	1,983	–
Grand Flight Investment Management Co., Ltd.	33,874	–
	38,373	765
Associates:		
Hua Bao – Far Eastern Leasing portfolio investment collective fund trust	9,058	9,058
CITIC – Far Eastern Leasing portfolio investment collective fund trust	53,475	62,842
XMITIC – Far Eastern Leasing portfolio investment collective fund trust	34,397	–
SCHTRUST- Far Eastern Leasing portfolio investment collective fund trust	5,725	–
	102,655	71,900
	153,371	74,580

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

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31 December 2018

31. OTHER PAYABLES AND ACCRUALS (continued)

31b. Contract Liabilities

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Contract liabilities		
Short-term:		
– Sale of goods	10,343	10,251
– Service fee	414,930	643,877
Long-term:		
– Service fee	222,505	–
Total contract liabilities	647,778	654,128

Contract liabilities include short-term advances received to deliver goods and services. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term 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

	2018			2017		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	5.00~5.44	2019	519,800	5.66	2018	24,000
Current portion of long term bank loans – secured	2.30~6.41	2019	9,312,914	3.19~5.94	2018	8,649,832
Bank loans – unsecured	2.33~6.10	2019	15,136,896	1.90~5.66	2018	16,409,873
Current portion of long term bank loans – unsecured	2.30~5.70	2019	18,957,422	3.19~5.13	2018	18,774,211
Other loans – secured	–	–	–	5.08~7.00	2018	703,531
Other loans – unsecured	6.10~7.80	2019	315,400	4.75~10.26	2018	312,878
Bonds – unsecured*	2.99~6.40	2019	22,393,105	3.80~4.88	2018	11,120,176
			66,635,537			55,994,501
Non-current						
Bank loans – secured	3.24~6.41	2020~2032	24,497,235	2.30~5.15	2019~2026	8,140,126
Bank loans – unsecured	2.90~8.20	2020~2023	19,584,540	2.30~8.20	2019~2021	26,171,289
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	5.60	2021	1,000,000	–	–	–
Other loans – secured	6.78	2021	400,000	–	–	–
Other loans – unsecured	4.00~10.26	2020~2021	8,396,617	4.00~10.26	2019~2021	112,969
Bonds – unsecured*	3.60~6.40	2020~2023	52,001,053	3.00~6.13	2019~2022	54,480,795
			105,879,445			88,905,179
			172,514,982			144,899,680

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

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

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	43,927,032	43,857,916
In the second year	28,982,673	19,589,388
In the third to fifth years, inclusive	14,353,712	14,449,636
Beyond five years	745,390	272,391
	88,008,807	78,169,331
Loans from subsidiaries of the ultimate holding company of a shareholder repayable:		
Within one year or on demand	–	–
In the second year	–	–
In the third to fifth years, inclusive	1,000,000	–
Beyond five years	–	–
	1,000,000	–
Other borrowings repayable:		
Within one year or on demand	22,708,505	12,136,585
In the second year	48,888,052	22,489,716
In the third to fifth years, inclusive	11,909,618	32,104,048
Beyond five years	–	–
	83,506,175	66,730,349
	172,514,982	144,899,680

(a) As at 31 December 2018, the Group's bank and other borrowings were secured by the pledge of or the transfer of certain of the Group's lease receivables and long term receivables amounting to RMB13,747,761,000 (31 December 2017: RMB13,794,562,000) and RMB1,729,420,000 (31 December 2017: RMB855,284,000), respectively.

(b) As at 31 December 2018, the Group's bank borrowings amounting to RMB18,225,279,000 (31 December 2017: RMB2,130,684,000) were secured by the pledge of cash.

(c) As at 31 December 2018, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB1,027,489,000 (31 December 2017: RMB736,959,000). The Group had not provided any guarantees for other entities (31 December 2017: Nil).

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33. DEFERRED REVENUE

	Service fee		Government special subsidies	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of year	–	95,576	704,862	52,492
Additions during the year	–	–	716,241	693,345
Amortised to the statement of profit or loss	–	(80,398)	(439,707)	(40,975)
Transfers	–	(15,178)	–	–
At the end of year	–	–	981,396	704,862

(i) Service fee

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

(ii) Government special subsidy

For the year ended 31 December 2018, the Group received a government special subsidy of RMB199,763,000 (2017: RMB237,370,000), which was mainly granted in accordance with the policies on Shanghai Pudong New Area government financial subsidy. In addition, the Group also received a government special subsidy of RMB473,990,000 (2017: RMB455,624,328) due to policies to support finance lease industry of the Tianjin Dongjiang bonded port area. In addition, the Group received a government special subsidy of RMB35,460,000 (2017: Nil) due to policies of Putuo District to upgrade and develop industrial support fund of enterprises. Those special subsidies are granted for certain purposes only. The amortisation of those special subsidies reduced the expense to which it related or reduced the amortisation charges of the related assets.

34. SHARE CAPITAL

	Number of shares	Amounts HK$
Issued and fully paid ordinary shares:		
At 31 December 2017 (note (i))	3,951,606,287	13,012,431,000
At 31 December 2018 (note (i))	3,954,162,637	13,032,555,000

Note:

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

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34. 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 2018 and 31 December 2017	3,951,606,287	13,012,431	10,218,442
Share options exercised (note (ii))	2,556,350	20,124	16,931
As at 31 December 2018	3,954,162,637	13,032,555	10,235,373

Note:

(ii) The subscription rights attaching to 893,590, 716,692 and 946,068 share options were exercised at the subscription price of HK$5.86, HK$7.17 and HK$5.714 per share, respectively (note 35), resulting in the issue of 2,556,350 shares for a total cash consideration, before expenses, of HK$15,780,000. An amount of HK$4,344,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

35. SHARE OPTION SCHEME

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

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants 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.

The offer of a grant of share options ("Share Options") may be accepted within 14 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the Grantees subject to any early termination, the share option scheme will remain in force for a period of 10 years commencing on the date on which the share option scheme is approved by the shareholders of the Company. The vesting of the share options is mainly subject to fulfilment of the Company's performance targets, the Grantees remaining at all times after the offer date and on each vesting date as an employee of the Group, as well as the Grantees achieving a specified level in annual personal performance evaluations.

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

On 18 July 2018, the Board announced that, the Company has resolved to the 5th offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 34,109,264 ordinary shares in the capital of the Company.

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35. SHARE OPTION SCHEME (continued)

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

Expiry date	Exercise price* per share option HK$	Number of share options 2018	2017
11 July 2024	5.86	9,281,353	10,214,452
3 July 2025	7.17	15,411,202	16,386,461
15 June 2026	5.714	30,708,096	32,123,953
20 June 2027	6.82	32,166,747	32,726,455
18 July 2028	7.36	33,945,539	–
		121,512,937	91,451,321

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

Exercise price per share option (HK$)	Date of grant	Outstanding as at 1 January 2017	Granted during the year ended 31 December 2017	Forfeited during the year ended 31 December 2017	Exercised during the year ended 31 December 2017	Outstanding as at 31 December 2017	Granted during the year ended 31 December 2018	Forfeited during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Outstanding as at 31 December 2018
5.86	11 July 2014	11,034,230	–	(150,204)	(669,574)	10,214,452	–	(39,509)	(893,590)	9,281,353
7.17	3 July 2015	16,902,459	–	(363,102)	(152,896)	16,386,461	–	(258,567)	(716,692)	15,411,202
5.714	15 June 2016	32,696,824	–	(572,871)	–	32,123,953	–	(469,789)	(946,068)	30,708,096
6.82	20 June 2017	–	32,924,000	(197,545)	–	32,726,455	–	(559,708)	–	32,166,747
7.36	18 July 2018	–	–	–	–	–	34,109,264	(163,725)	–	33,945,539
Total number at the end of the year		60,633,513	32,924,000	(1,283,722)	(822,470)	91,451,321	34,109,264	(1,491,298)	(2,556,350)	121,512,937
Weighted average exercise price (HK$)		6.15	6.82	6.31	6.10	6.39	7.36	6.57	6.17	6.66

9,281,353 (2017: 6,465,439), 10,003,662 (2017: 5,360,160) and 9,649,917 (2017: Nil) share options which were granted on 11 July 2014, 3 July 2015 and, 15 June 2016 respectively, were vested and exercisable, but not yet exercised during the year.

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35.SHARE OPTION SCHEME (continued)

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2018 was RMB185,356,000 (31 December 2017: RMB134,650,000). The weighted average fair values were RMB1.49, RMB1.53 and RMB1.55 per option (31 December 2017: RMB1.44, RMB1.48 and RMB1.50 per option) each for three tranches with two-year, three-year and four-year vesting periods, respectively. The Group recognised a share option expense of RMB43,779,000 (2017: RMB33,872,000) during the year ended 31 December 2018 in employee benefit expense.

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

	2018	2017
Expected dividend yield (%)	4.08	3.37
Expected volatility (%)	34.72	35.39
Risk-free interest rate (%)	2.19	1.29
Validity period of the share options (year)	10	10
Share price (HK$ per share)	7.36	6.82
Expected exercise trigger multiple	2.00	2.00

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

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

At 31 December 2018, the Company had 92,578,005 (31 December 2017: 79,625,722) non-vested share options (including 12,529,229 (31 December 2017: 10,902,192) non-vested share options granted to certain executive directors, 20,613,500 (31 December 2017: 17,964,478) non-vested share options granted to certain employees among five highest paid employees and 27,767,479 (31 December 2017: 24,741,290) non-vested share options granted to certain key management personnel) outstanding under the Share Option Scheme. Should all of them be vested, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 92,578,005 (31 December 2017: 79,625,722) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 121,512,937 (2017: 91,451,321) share options outstanding under the Share Option Scheme, which represented approximately 3.16% (2017: 2.38%) of the Company's shares in issue as at that date.

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36.RESTRICTED SHARE AWARD SCHEME

On 11 June 2014, the Board announced that it has adopted a share award scheme (the "Share Award Scheme"), under which some restricted shares (the "Restricted Shares") will be held on trust for the relevant selected grantees (the "Selected Grantees") until such Restricted Shares are vested with the relevant Selected Grantees in accordance with the Share Award Scheme rules. The number of Restricted Shares under the Share Award Scheme shall not exceed 197,544,000, representing 6% of the Company's issued share capital as at the date of approval of the Share Award Scheme by the Board. The Share Award Scheme shall be effective from its adoption until it is terminated by the Board or shareholders in a general meeting.

Pursuant to the rules of the Share Award Scheme, the Company has set up a trust, and a third party company acts as the trustee (the "Trustee"). The Company's shares may be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the Selected Grantees until such shares are vested with the Selected Grantees in accordance with the provisions of the Share Award Scheme.

The vesting of the Restricted Shares under the Share Award Scheme is mainly subject to the fulfilment of Company's performance targets, Selected Grantees remaining as an employee of the Group, as well as Selected Grantees achieving a specified level in annual personal performance evaluations.

The following Restricted Shares were outstanding under the Share Award Scheme during the year:

	Number of Restricted Shares
At 1 January 2017	86,891,134
Granted	49,386,000
Vested	(30,581,972)
Forfeited	(1,478,518)
At 31 December 2017 and 1 January 2018	104,216,644
Granted	51,163,896
Vested	(46,323,920)
Forfeited	(1,646,536)
At 31 December 2018	107,410,084

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36.RESTRICTED SHARE AWARD SCHEME (continued)

46,323,920 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:

2018

Number of Restricted Shares	Vesting period
8,531,358	3 July 2015 to 3 July 2019
15,793,665	15 June 2016 to 15 June 2019
16,083,376	20 June 2017 to 20 June 2019
16,083,376	20 June 2017 to 20 June 2020
16,972,760	18 July 2018 to 18 July 2019
16,972,760	18 July 2018 to 18 July 2020
16,972,789	18 July 2018 to 18 July 2021
107,410,084	

2017

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

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36.RESTRICTED SHARE AWARD SCHEME (continued)

At 31 December 2018, the Company had 107,410,084 (31 December 2017: 104,216,644) non-vested Restricted Shares (including 14,489,441 (31 December 2017: 14,246,969) non-vested Restricted Shares granted to certain executive directors, 23,909,075 (31 December 2017: 23,624,668) non-vested Restricted Shares granted to certain employees among five highest paid employees and 32,295,232 (31 December 2017: 32,606,673) non-vested Restricted Shares granted to certain key management personnel) outstanding under the Share Award Scheme.

Under the Share Award Scheme, there were non-vested shares of 109,717,026 (31 December 2017: 109,566,946) in total amounting to RMB673,079,000 (31 December 2017: RMB659,384,000), i.e. at a weighted average price of RMB6.13 (2017: RMB6.02), held by the trust at 31 December 2018. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount RMB'000
At 1 January 2017	140,148,918	852,459
Vested	(30,581,972)	(193,075)
At 31 December 2017 and 1 January 2018	109,566,946	659,384
Purchase of shares under Share Award Scheme	46,474,000	300,575
Vested	(46,323,920)	(286,880)
At 31 December 2018	109,717,026	673,079

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2018 was RMB577,643,000 (31 December 2017: RMB517,443,000). The weighted average fair values were RMB6.03, RMB5.68, RMB5.06 and RMB4.74 per share (31 December 2017: RMB5.75, RMB4.98, RMB4.82 and RMB4.43 per share) each for four tranches with one-year, two-year, three-year and four-year vesting periods (31 December 2017: for four tranches with one-year, two-year, three-year and four-year vesting periods), respectively. The Group recognised an amount of RMB262,125,000 (2017: RMB220,405,000) in employee benefit expense during the year ended 31 December 2018.

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

	2018	2017
Expected dividend yield (%)	4.08	3.37
Share price (HK$ per share)	7.36	6.82

37.RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity of the financial statements.

The Group's capital reserve represents the excess of the carrying amounts of capital and capital reserve of the subsidiaries acquired pursuant to the reorganisation as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalised in excess of the nominal value of shares issued.

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as are required to transfer no less than 10% of their profits after taxation, as determined under PRC Company Law, to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to this statutory reserve fund must be made before the distribution of dividend to shareholders.

Special reserve mainly represents funds set aside for the purpose of certain safety production activities. Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the subsidiary, Shanghai Horizon Construction Engineering Equipment Co., Ltd. set aside funds mainly for construction service activities at prescribed rates. These funds can be used for maintenance and/or improvements of safety of these activities, and are not available for distribution to shareholders.

Share-based compensation reserve of the Group comprises the recognition of the equity-settled share-based payments under the Share Option Scheme and the Share Award Scheme which are yet to be exercised. The amount will either be transferred to the share capital account when the related share options or awards are exercised, or be transferred to retained profits should the related options or awards expire or be forfeited.

38.PERPETUAL SECURITIES

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

Distributions of the Perpetual Securities may be paid semi-annually in arrears on 14 June and 14 December of each year (the "Distribution Payment Date") and may be deferred at the discretion of the Company unless a compulsory distribution payment event (including distributions to ordinary shareholders of the Company) has occurred. Following a deferral, arrears of distributions are cumulative.

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

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38.PERPETUAL SECURITIES (continued)

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

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

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

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

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

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of the Perpetual Capital Securities, the Renewable Bonds and the Guaranteed Perpetual Securities other than an unforeseen liquidation of the Company.

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

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38.PERPETUAL SECURITIES (continued)

For the year ended 31 December 2018, the profits attributable to holders of the Perpetual Capital Securities, the Renewable Bonds and the Guaranteed Perpetual Securities (collectively “Perpetual Securities”) based on the applicable distribution rates, were RMB90,809,000 (2017: RMB47,373,000), RMB263,253,000 (2017: RMB136,736,000), and RMB148,673,000 (2017: RMB11,228,000), respectively, and the distribution made by the Group to the holders of the Perpetual Securities was RMB510,865,000 (2017: RMB81,011,000).

39.BUSINESS COMBINATIONS

In January 2018, the Group acquired 60% of the voting shares of Qinghai Kangle Hospital Company Limited (“Qinghai Kangle Hospital”), 51% of the voting shares of Xinxiang League Hospital Company Limited (“Xinxiang League Hospital”), and 51% of the voting shares of Xianning Matang Hospital Company Limited (“Xianning Matang Hospital”).

In March 2018, the Group acquired 63.5% of the voting shares of Renshou Yunchang Hospital Company Limited (“Renshou Yunchang Hospital”) and 100% of the voting shares of Chengdu Gaoxinyuan Company Limited (“Chengdu Gaoxinyuan”).

In October 2018, the Group acquired 100% of the voting shares of Sihui Wanlong Hospital.Co.,Ltd. (“Sihui Wanlong”) and 100% of the voting shares of Montessori Kinder Garden Tianjin Taolesi Campus (“Tianjin Taolesi”).

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

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Qinghai Kangle Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	40,482
Prepaid land lease payments	8,464
Cash	61,289
Trade receivables	1,733
Prepayments, other receivables and other assets	108,679
Inventories	3,360
	224,007
Liabilities	
Trade payables	(23,628)
Other payables and accruals	(184,576)
Deferred tax liabilities	(3,914)
Other liabilities	(126)
	(212,244)
Total identifiable net assets at fair value	11,763
Non-controlling interests	(4,705)
Goodwill arising on acquisition	93,942
Purchase consideration transferred	101,000
Including: Consideration paid as additional capital injection to the subsidiary	81,000
Consideration to be paid as additional capital injection to the subsidiary	20,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	61,289
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	61,289
Transaction costs of the acquisition (included in cash flows from operating activities)	(922)
	60,367

Since the acquisition, Qinghai Kangle Hospital has contributed RMB91,849,000 to the Group's revenue and a net profit of RMB5,409,000 to the consolidated profit for the year ended 31 December 2018.

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Xinxiang League Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	74,686
Prepaid land lease payments	3,157
Cash	13,654
Trade receivables	8,543
Prepayments, other receivables and other assets	94,630
Inventories	5,273
	199,943
Liabilities	
Trade payables	(27,567)
Other payables and accruals	(10,580)
Taxes payable	(11,100)
Deferred tax liabilities	(3,075)
Other liabilities	(13,890)
	(66,212)
Total identifiable net assets at fair value	133,731
Non-controlling interests	(65,528)
Goodwill arising on acquisition	70,882
Purchase consideration transferred	139,085
Including: Consideration paid upon acquisition	54,643
Consideration paid as additional capital injection to the subsidiary	36,429
Consideration to be paid as additional capital injection to the subsidiary	48,013
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	13,654
Cash paid	(54,643)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(40,989)
Transaction costs of the acquisition (included in cash flows from operating activities)	(182)
	(41,171)

Since the acquisition, Xinxiang League Hospital has contributed RMB85,191,000 to the Group's revenue and a net profit of RMB6,624,000 to the consolidated profit for the year ended 31 December 2018.

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Xianning Matang Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	91,972
Prepaid land lease payments	20,640
Cash	6,004
Trade receivables	2,148
Prepayments, other receivables and other assets	71,463
Inventories	10,626
Other intangible assets	435
	203,288
Liabilities	
Trade payables	(4,355)
Other payables and accruals	(68,090)
Interest-bearing bank and other borrowings	(65,500)
Taxes payable	(790)
Deferred tax liabilities	(14,451)
	(153,186)
Total identifiable net assets at fair value	50,102
Non-controlling interests	(24,550)
Goodwill arising on acquisition	58,448
Purchase consideration transferred	84,000
Including: Consideration paid as additional capital injection to the subsidiary	84,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	6,004
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	6,004
Transaction costs of the acquisition (included in cash flows from operating activities)	(937)
	5,067

Since the acquisition, Xianning Matang Hospital has contributed RMB85,531,000 to the Group's revenue and caused a net loss of RMB3,684,000 to the consolidated profit for the year period ended 31 December 2018.

Notes to Financial Statements

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Renshou Yunchang Hospital

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

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	130,978
Prepaid land lease payments	40,918
Cash	10,706
Trade receivables	11,126
Prepayments, other receivables and other assets	193,919
Inventories	4,292
Other intangible assets	8
	391,947
Liabilities	
Trade payables	(17,757)
Other payables and accruals	(124,451)
Interest-bearing bank and other borrowings	(97,000)
Taxes payable	(27)
Deferred tax liabilities	(5,784)
	(245,019)
Total identifiable net assets at fair value	146,928
Non-controlling interests	(53,629)
Goodwill arising on acquisition	65,951
Purchase consideration transferred	159,250
Including: Consideration paid as additional capital injection to the subsidiary	149,067
Consideration to be paid as additional capital injection to the subsidiary	10,183
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	10,706
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	10,706
Transaction costs of the acquisition (included in cash flows from operating activities)	(939)
	9,767

Since the acquisition, Renshou Yunchang Hospital has contributed RMB55,706,000 to the Group's revenue and caused a net loss of RMB15,621,000 to the consolidated profit for the year ended 31 December 2018.

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Chengdu Gaoxinyuan

The fair values of the identifiable assets and liabilities of Chengdu Gaoxinyuan as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	501
Cash	183
Trade receivables	508
Prepayments, other receivables and other assets	1,095
	2,287
Liabilities	
Trade payables	(168)
Other payables and accruals	(1,724)
Deferred tax liabilities	(61)
	(1,953)
Total identifiable net assets at fair value	334
Goodwill arising on acquisition	8,666
Purchase consideration transferred	9,000
Including: Consideration paid upon acquisition	1,800
Consideration paid after acquisition	7,200
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	183
Cash paid	(9,000)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(8,817)
Transaction costs of the acquisition (included in cash flows from operating activities)	(101)
	(8,918)

Since the acquisition, Chengdu Gaoxinyuan has contributed RMB2,433,000 to the Group's revenue and caused a net loss of RMB2,566,000 to the consolidated profit for the year ended 31 December 2018.

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Sihui Wanlong

The fair values of the identifiable assets and liabilities of Sihui Wanlong as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	31,609
Cash	11,905
Trade receivables	2,717
Prepayments, other receivables and other assets	6,412
Inventories	5,956
	58,599
Liabilities	
Trade payables	(10,010)
Other payables and accruals	(83,108)
Interest-bearing bank and other borrowings	(6,608)
	(99,726)
Total identifiable net assets at fair value	(41,127)
Goodwill arising on acquisition	286,127
Purchase consideration transferred	245,000
Including: Consideration paid upon acquisition	145,000
Consideration to be paid after acquisition	100,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	11,905
Cash paid	(145,000)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(133,095)
Transaction costs of the acquisition (included in cash flows from operating activities)	(850)
	(133,945)

Since the acquisition, Sihui Wanlong has contributed RMB22,431,000 to the Group's revenue and a net profit of RMB1,654,000 to the consolidated profit for the year ended 31 December 2018.

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39. BUSINESS COMBINATIONS (continued)

Acquisition of Tianjin Taolesi

The fair values of the identifiable assets and liabilities of Tianjin Taolesi as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	46
Cash	521
Prepayments, other receivables and other assets	93
	660
Liabilities	
Trade payables	(91)
Other payables and accruals	(310)
	(401)
Total identifiable net assets at fair value	259
Goodwill arising on acquisition	10,041
Purchase consideration transferred	10,300
Including: Consideration paid after acquisition	1,545
Consideration to be paid as additional capital injection to the subsidiary	8,755
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	521
Cash paid	(1,545)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(1,024)
Transaction costs of the acquisition (included in cash flows from operating activities)	(65)
	(1,089)

Since the acquisition, Tianjin Taolesi has contributed RMB886,000 to the Group's revenue and a net profit of RMB284,000 to the consolidated profit for the year ended 31 December 2018.

If the acquisitions had taken place at the beginning of the period, revenue of the Group would have been RMB25,520,211,000 and net profit of the Group for the year would have been RMB3,865,881,000.

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 RMB4,732,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

Notes to Financial Statements

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39.BUSINESS COMBINATIONS (continued)

The assessments of the fair values of the identifiable assets and liabilities of Sihui Wanlong and Tianjin Taolesi are still ongoing and the information of the fair values of the identifiable assets and liabilities is provisional.

The Group acquired Zhengzhou Renji Hospital Company Limited, Shenzhen Xinzhonghai Healthcare Investment Company Limited, Siyang Xiehe Hospital Company Limited, Daishan Guanghua Orthopedic Hospital Company Limited, Jinhua Rehabilitation Hospital Company Limited, Meizhou TieLuQiao Hospital Company Limited, Zhaotong Renan Hospital Company Limited and Jinhua BaiKun Yangsheng Yanglao Hospital Company Limited during the year ended 31 December 2017.

40.DISPOSAL OF SUBSIDIARIES

In January 2018, upon the amendments to the partnership agreement, the Group lost its control over Tianjin Yuanyi Kaiyuan Asset Management Centre (Limited Partnership) and Grand Flight Investment Management Co., Ltd., since under the amended partnership agreement the Group no longer had the unilateral ability to direct the relevant activities in these investees, which resulted in the disposal of the subsidiaries. The aforementioned companies changed from subsidiaries to joint ventures of the Group.

Disposal of Tianjin Yuanyi Kaiyuan Asset Management Centre (Limited Partnership)

	Note	2018 RMB'000
Net assets disposed of:		
Cash and cash equivalents		203,764
Financial assets at fair value through profit or loss		1,059,265
Trade and bills payables		(2,000)
Other liabilities		(652,847)
Non-controlling interests		950
		609,132
Fair value of the retained interests in subsidiaries disposed of		(604,202)
Loss on disposal of a subsidiary	7	(4,930)
		–
Satisfied by:		
Cash		–
Analysis of cash flows on disposal:		
Cash consideration		–
Cash and cash equivalents disposed of		203,764
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary		(203,764)

Notes to Financial Statements

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40.DISPOSAL OF SUBSIDIARIES (continued)

Disposal of Grand Flight Investment Management Co., Ltd.

	2018 RMB'000
Net assets disposed of:	
Property, plant and equipment	1,371
Cash and cash equivalents	15,417
Loans and accounts receivables	2,597
Prepayments, other receivables and other assets	1,771
Deferred tax assets	1,434
Other payables and accruals	(7,221)
Non-controlling interests	(1,537)
	13,832
Fair value of the retained interests in subsidiaries disposed of	(13,832)
	–
Satisfied by:	
Cash	–
Analysis of cash flows on disposal:	
Cash consideration	–
Cash and cash equivalents disposed of	15,417
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(15,417)

Notes to Financial Statements

31 December 2018

41.NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables RMB'000	Payables to non-controlling interests of consolidated structured entities RMB'000
At 1 January 2018	79,599,225	66,886,439	25,444	657,851
Changes from financing cash flows	14,929,028	10,788,745	10,693	–
Foreign exchange movement	1,318,879	491,926	–	–
Interest expense	5,165,129	3,789,767	2,456	–
Interest paid classified as operating cash flows	(5,334,205)	(3,271,208)	–	–
Fair value gains	–	–	–	(5,004)
Increase arising from acquisition of subsidiary	182,998	–	–	–
Decrease arising from disposal of subsidiary	–	–	–	(652,847)
At 31 December 2018	95,861,054	78,685,669	38,593	–

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

Notes to Financial Statements

31 December 2018

42. CONTINGENT LIABILITIES

At 31 December 2018, contingent liabilities that are not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Claimed amounts	2,654	1,199

43. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings are included in Notes 13, 14, 23, 27 and 32, respectively, to the financial statements.

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its equipment, tools and moulds (Note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due were as follows:

	2018 RMB'000	2017 RMB'000
Within one year	1,174,081	640,521
In the second to fifth years, inclusive	503,178	274,548
	1,677,259	915,069

Notes to Financial Statements

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44. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain properties as its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to more than five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	2018 RMB'000	2017 RMB'000
Within one year	142,361	135,549
In the second to fifth years, inclusive	502,446	365,913
More than five years	395,274	426,857
	1,040,081	928,319

45. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in Note 44(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	158,361	620,444
Purchase of shareholding	204,049	517,578
	362,410	1,138,022

(b) Credit commitments

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

	2018 RMB'000	2017 RMB'000
Irrevocable credit commitments	9,706,751	8,036,296

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

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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
Sinochem Finance Co., Ltd.
China Jin Mao Group Co., Ltd.
Beijing Chemsunny Property Co., Ltd.
Jin Mao (Shanghai) Property Management Service Co., Ltd.
Sinochem Jinmao Property Management (Beijing) Co., Ltd.
Sinochem Corporation
Sinochem International (Overseas) Pte. Ltd.
Sinochem International Tendering Co., Ltd. ("Sinochem Tendering")

Joint ventures
Weihai Haida Hospital Co., Ltd.
Guangzhou Kangda Industrial Technology Co., Ltd.
Kunming Broadhealthcare Investment Co., Ltd.
Teamway Shipping Limited
Gold Chance Shipping Limited
Fengyang Gulou Hospital Co., Ltd.
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd
Grand Flight Investment Management Co., Ltd.
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.

Associates
Tianjin FIS Asset Management Co., Ltd.
Shanghai Yijia Construction Development Co., Ltd.
Hua Bao – Far Eastern Leasing portfolio investment collective fund trust
CITIC – Far Eastern Leasing portfolio investment collective fund trust
XMITIC – Far Eastern Leasing portfolio investment collective fund trust
SCHTRUST- Far Eastern Leasing portfolio investment collective fund trust

In addition to the transactions and balances in Notes 23, 24, 27, 30, 31 and 32 to the financial statements, the Group had the following material transactions with related parties during the year.

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46. RELATED PARTY TRANSACTIONS (continued)

(i) Interest income from cash at banks

	2018 RMB'000	2017 RMB'000
Sinochem Finance Co., Ltd.	4,353	4,150

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

(ii) Service fee income

	2018 RMB'000	2017 RMB'000
Weihai Haida Hospital Co., Ltd.	–	157
Kunming Broadhealthcare Investment Co., Ltd.	196	118
	196	275

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

(iii) Interest expense on borrowings

	2018 RMB'000	2017 RMB'000
Sinochem Finance Co., Ltd.	61,432	17,458

The interest expenses were charged at a rate of 4.35% to 5.60% per annum.

(iv) Interest expenses

	2018 RMB'000	2017 RMB'000
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	28	–
Grand Flight Investment Management Co., Ltd.	206	–
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	36	–
	270	–

The interest expenses were charged at a rate of 1.49% per annum.

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31 December 2018

46. RELATED PARTY TRANSACTIONS (continued)

(v) Commission fee

	2018 RMB'000	2017 RMB'000
Sinochem Finance Co., Ltd.	9,862	6,069

(vi) Settlement transactions fee

	2018 RMB'000	2017 RMB'000
Sinochem Finance Co., Ltd.	–	196

(vii) Consultancy fee

	2018 RMB'000	2017 RMB'000
Sinochem Finance Co., Ltd.	1,651	–

(viii) Rental expenses

	2018 RMB'000	2017 RMB'000
China Jin Mao Group Co., Ltd.	28,548	50,558
Beijing Chemsunny Property Co., Ltd.	8,155	7,805
Jin Mao (Shanghai) Property Management Services Co., Ltd.	3,437	411
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	564	563
	40,704	59,337

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

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46. RELATED PARTY TRANSACTIONS (continued)

(ix) Interest income

	2018 RMB'000	2017 RMB'000
Weihai Haida Hospital Co., Ltd.	1,961	1,221
Guangzhou Kangda Industrial Technology Co., Ltd.	9,547	23,141
Kunming Broadhealthcare Investment Co., Ltd.	3,963	2,987
Tianjin FIS Asset Management Co., Ltd.	410	–
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	366	–
	16,247	27,349

(x) Non-cancellable operating leases

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
China Jin Mao Group Co., Ltd.	–	32,044
Beijing Chemsunny Property Co., Ltd.	18,282	27,423
	18,282	59,467

(xi) Tendering service fee

	2018 RMB'000	2017 RMB'000
Sinochem International Tendering Co., Ltd.	–	744

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

(xii) Sales of goods

	2018 RMB'000	2017 RMB'000
Fengyang Gulou Hospital Co., Ltd.	–	113

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31 December 2018

46.RELATED PARTY TRANSACTIONS (continued)

(xiii) Construction services

	2018 RMB'000	2017 RMB'000
Weihai Haida Hospital Co., Ltd.	99	593

(xiv) Finance lease with CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang"), CRRC Qingdao Sifang Co., Ltd. ("CRRC Sifang") and Sinochem Tendering

On 31 August 2018, considering the change of prevailing market conditions, Far East Horizon (Tianjin) Financial Leasing Co., Ltd, an indirect wholly-owned subsidiary of the Company, after friendly negotiations, entered into (i) the Termination Agreements for 2015 Finance Lease Arrangement, pursuant to which Far East Horizon (Tianjin) Financial Leasing Co., Ltd, CRRC Sifang and Sinochem Tendering agreed to terminate the 2015 Finance Lease Arrangement; and (ii) the two equipment transfer agreements, pursuant to which Far East Horizon (Tianjin) Financial Leasing Co., Ltd agreed to transfer and CRRC Sifang agreed to acquire the title of the 2015 Equipments at the total transfer price of RMB44,049,843.15.

On the same date, considering the change of prevailing market conditions, after friendly negotiations, Far East Horizon (Tianjin) Financial Leasing Co., Ltd entered into (i) the Termination Agreements for 2016 Finance Lease Arrangement, pursuant to which Far East Horizon (Tianjin) Financial Leasing Co., Ltd, CRRC Sifang and Sinochem Tendering agreed to terminate the 2016 Finance Lease Arrangement; and (ii) the two equipment transfer agreements, pursuant to which Far East Horizon (Tianjin) Financial Leasing Co., Ltd agreed to transfer and CRRC Sifang agreed to acquire the title of the 2016 Equipments at the total transfer price of RMB51,327,735.76.

In the opinion of the directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

(xv) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short term employee benefits	125,567	119,215

During 2018, certain key management personnel of the Group were granted share options and restricted shares in respect of their services to the Group under the share option scheme and the restricted share award scheme of the Company, further details of which are set out in Note 35 and Note 36 to the financial statements.

Further details of directors' emoluments are set out in Note 8 to the financial statements.

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

Notes to Financial Statements

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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:

As at 31 December 2018

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Hedging instruments designated in cash flow hedges RMB'000	Total RMB'000
Loans and accounts receivables	220,634,271	–	–	220,634,271
Financial assets included in prepayments, other receivables and other assets	3,679,459	–	–	3,679,459
Restricted deposits	5,280,123	–	–	5,280,123
Derivative financial instruments designated as cash flow hedging	–	–	1,028,178	1,028,178
Derivative financial instruments designated as hedging instruments	–	14,601	–	14,601
Financial assets at fair value through profit or loss	–	2,669,404	–	2,669,404
Cash and cash equivalents	5,269,392	–	–	5,269,392
	234,863,245	2,684,005	1,028,178	238,575,428

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Hedging instruments designated in cash flow hedges RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	3,431,914	–	–	3,431,914
Financial liabilities included in other payables and accruals	40,315,186	–	–	40,315,186
Interest-bearing bank and other borrowings*	172,514,982	–	–	172,514,982
Derivative financial instruments designated as cash flow hedging	–	204,537	–	204,537
Derivative financial instruments designated as hedging instruments	–	–	3,317	3,317
	216,262,082	204,537	3,317	216,469,936

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

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47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2017

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Hedging instruments designated in cash flow hedges RMB'000	Total RMB'000
Loans and accounts receivables	191,592,358	–	–	191,592,358
Financial assets included in prepayments, other receivables and other assets	5,441,511	–	–	5,441,511
Restricted deposits	4,584,670	–	–	4,584,670
Derivative financial instruments designated as cash flow hedging	–	–	122,474	122,474
Derivative financial instruments designated as hedging instruments	–	583	–	583
Available-for-sale investments	–	1,673,442	–	1,673,442
Financial assets at fair value through profit or loss	–	2,010,267	–	2,010,267
Cash and cash equivalents	2,815,544	–	–	2,815,544
	204,434,083	3,684,292	122,474	208,240,849

Financial liabilities

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

Notes to Financial Statements

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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 on the statement of financial position mainly represent cash and cash equivalents, restricted deposits, loans and accounts receivables, financial assets included in deposits, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and borrowings.

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable:

Cash and cash balances, current portion of financial assets included in deposits and other receivables, trade and bills payables, short term borrowings and current portion of financial liabilities included in other payables and accruals

Substantially all of the financial assets and liabilities mature within one year from the end of each reporting period and their carrying values approximate to their fair values.

Loans and accounts receivables, interest-bearing bank and other borrowings except for bonds issue and short term borrowings and restricted deposits

Substantially all of the loans and accounts receivables, restricted deposits and interest-bearing bank and other borrowings, except for bonds issued and short term borrowings, are on floating rate terms and bear interest at prevailing market interest rates and their carrying values approximate to their fair values.

Bonds issued

The fair values of the bonds issued are calculated based on a discounted cash flow model that is used based on a current yield curve appropriate for the remaining term to maturity.

The table below summarises the carrying amounts and fair values of bonds issued which are included in interest-bearing bank and other borrowings not presented at fair value on the statement of financial position.

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Bonds	74,394,157	65,600,971	75,300,048	65,146,283

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

Financial instruments not measured at fair value (continued)

Non-current portion of financial assets included in prepayments deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals

The fair values of the non-current portion of financial assets included in prepayment deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The difference between the carrying amounts and the fair values of those financial assets and liabilities is not significant.

Financial instruments measured at fair value

Non-deliverable cross-currency swaps and interest rate swaps

Non-deliverable cross-currency swaps and interest rate swaps are measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets at fair value through profit or loss

The valuations of the financial assets at fair value through profit or loss were based on information known to the Group and market conditions existing at the end of the reporting period. The fair values were determined by using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions, referring to the current market value of another instrument that is substantially the same and making as much use of available and supportable market data as possible.

Fair value hierarchy

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

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

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

Fair value hierarchy (continued)

Assets and liabilities measured at fair value

As at 31 December 2018

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – assets	–	984,879	–	984,879
Forward currency contracts – assets	–	43,299	–	43,299
Interest rate swaps – assets	–	14,601	–	14,601
Cross-currency interest rate swaps – liabilities	–	–	–	–
Forward currency contracts – liabilities	–	(204,537)	–	(204,537)
Interest rate swaps – liabilities	–	(3,317)	–	(3,317)
Financial assets at fair value through profit or loss	–	2,669,404	–	2,669,404

As at 31 December 2017

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Available-for-sale investments – debt investments	–	1,569,887	–	1,569,887
Cross-currency interest rate swaps – assets	–	122,474	–	122,474
Interest rate swaps – assets	–	583	–	583
Cross-currency interest rate swaps – liabilities	–	(112,844)	–	(112,844)
Forward currency contracts – liabilities	–	(131,921)	–	(131,921)
Interest rate swaps – liabilities	–	(15,511)	–	(15,511)
Financial assets at fair value through profit or loss	445,183	1,441,084	–	1,886,267
Other liabilities	–	(657,851)	–	(657,851)

During the year ended 31 December 2018, there were no transfer at fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (year ended 31 December 2017: Nil).

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed

As at 31 December 2018

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	75,300,048	–	75,300,048

As at 31 December 2017

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	65,146,283	–	65,146,283

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 22).

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49.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The table below demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, to the Group's profit before tax.

The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of the reporting period subject to repricing within the coming year.

	Increase/(decrease) in profit before tax As at 31 December	
	2018 RMB'000	2017 RMB'000
Change in basis points		
+100 basis points	127,471	105,105
– 100 basis points	(127,471)	(105,105)

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in profit before tax based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of financial instruments with different maturities move by the same amount and, therefore, do not reflect the potential impact on profit before tax in the case where some rates change while others remain unchanged.

Currency risk

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

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and, to a lesser extent, other currencies. The Group's exposure to treasury operations mainly arises from its transactions in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. For example, the Group enters into cross currency interest rate swaps and forward currency contracts to mitigate the currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 22)

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

The exchange rate of RMB to United States Dollar ("US$") is managed under a floating exchange rate system. The Hong Kong Dollar ("HK$") exchange rate has been pegged to US$ and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to US$.

The table below is a sensitivity analysis of exchange rate change of the currency to which the Group had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis shows the effect of a reasonably possible movement in the currency rate against RMB, with all other variables held constant, on profit before tax. This effect, however, was based on the assumption that the Group's foreign exchange exposures as at the end of each reporting period were kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

Group

Currency	Change in currency rate	Increase/(decrease) in profit before tax As at 31 December 2018 RMB'000	2017 RMB'000
US$	+/-1%	24,900/(24,900)	6,042/(6,042)
HK$	+/-1%	(7,647)/7,647	(5,413)/5,413

Credit risk

Credit risk is the risk of loss arising from a lessee's or counterparty's inability to meet its obligations.

The Group enters into transactions only with recognised and creditworthy third parties. In accordance with the policy of the Group, the Group examines and verifies the credit risk of all customers that the Group has credit transactions with. Besides, the Group monitors and controls the lease receivables regularly to mitigate the risk of significant exposure from bad debts.

Other financial assets of the Group include cash and bank deposits, accounts receivable, notes receivable, derivative financial instruments, entrusted loans and subordinated tranches of asset-backed securities/notes. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk is equal to the carrying amounts of these assets.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on the customers' creditworthiness information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Simplified Approach RMB'000	Total RMB'000
Contract assets	–	–	–	27,168	27,168
Accounts receivable	–	–	–	1,575,985	1,575,985
Interest-bearing assets	200,042,087	17,461,559	1,391,700	–	218,895,346
Financial assets included in prepayments, other receivables and other assets	3,679,459	–	–	–	3,679,459
Pledged deposits	5,280,123	–	–	–	5,280,123
Cash and cash equivalents	5,269,392	–	–	–	5,269,392
	214,271,061	17,461,559	1,391,700	1,603,153	234,727,473

Note:

Among which, the financial assets falling in stage 1 are mainly credit rated as Pass, except for an amount of interest-bearing assets of RMB8,088,291,000 are credit rated as Special Mention; All of the financial assets falling in stage 2 and stage 3 are credit rated as Special Mention and Non-performing, respectively.

As at 31 December 2017

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

	As at 31 December 2017 RMB'000	%
Net lease receivables		
Healthcare	34,318,815	20
Packaging	13,995,007	8
Transportation	17,153,562	10
Infrastructure construction	23,731,482	14
Industrial machinery	16,649,415	10
Education	31,890,059	18
Comprehensive development	11,555,583	7
Electronic information	12,469,955	7
Urban public utilities	11,311,468	6
	173,075,346	100
Less: Impairment provision of lease receivables	(3,539,797)	
Net	169,535,549	

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49.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2017 (continued)

The customers of the Group are widely dispersed and are engaged in different industries, and in this respect, there is no significant credit risk concentration within the Group.

The quantitative data of exposure to credit risk arising from lease receivables, notes receivable, accounts receivable, entrusted loans, derivative financial instruments and other receivables are set out in Note 23, Note 22 and Note 24 respectively. Note 51 also sets out the details of securitisation transactions, whereby the Group transfers loans and accounts receivable to special purpose entities and acquires some subordinated tranches of those asset-backed securities/notes issued by those special purpose entities. That results in the Group retaining significant portions of credit risk in the transferred loans and accounts receivable.

The analysis of financial assets which are neither past due nor impaired is as follows:

	As at 31 December 2017 RMB'000
Lease receivables	170,187,651
Notes receivable	**110,699**
Accounts receivable	**1,483,897**
Factoring receivables	**2,735,148**
Entrusted loans	**14,972,610**
Secured loans	**61,435**
Interest receivables	**1,180,870**
Derivative financial instruments	**123,057**
Prepayments, other receivables and other assets	**5,438,044**
Long term receivables	**1,619,511**

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31 December 2018

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2017 (continued)

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

2017	Less than 90 days RMB'000	90 days to 1 year RMB'000	1 year to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Loans and accounts receivables	1,430,836	–	–	–	1,430,836

Liquidity risk

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

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

The tables below summarise the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows:

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	As at 31 December 2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	2,173,529	28,221,034	73,686,963	148,823,317	547,465	253,452,308
Financial assets included in prepayments, other receivables and other assets	–	1,084,128	228,200	2,181,721	185,410	3,679,459
Restricted deposits	162	5,045,993	222,263	15,471	–	5,283,889
Derivative financial instruments	–	36,149	71,891	934,739	–	1,042,779
Financial assets at fair value through profit or loss	–	304,898	142,077	2,222,429	–	2,669,404
Cash and cash equivalents	5,269,392	–	–	–	–	5,269,392
Total financial assets	7,443,083	34,692,202	74,351,394	154,177,677	732,875	271,397,231
FINANCIAL LIABILITIES:						
Trade and bills payables	266,612	995,802	2,169,500	–	–	3,431,914
Financial liabilities included in other payables and accruals	219,687	6,852,837	4,115,078	29,031,036	96,548	40,315,186
Interest-bearing bank and other borrowings	–	25,835,577	46,730,319	111,003,149	841,610	184,410,655
Derivative financial instruments	–	–	190,386	17,468	–	207,854
Total financial liabilities	486,299	33,684,216	53,205,283	140,051,653	938,158	228,365,609
Net liquidity gap	6,956,784	1,007,986	21,146,111	14,126,024	(205,283)	43,031,622

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31 December 2018

49.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	As at 31 December 2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	1,018,717	22,397,077	57,709,317	136,110,130	522,179	217,757,420
Financial assets included in prepayments, other receivables and other assets	–	2,254,283	512,540	2,646,277	28,411	5,441,511
Restricted deposits	1,167	4,313,109	99,978	177,886	–	4,592,140
Derivative financial instruments	–	–	122,474	583	–	123,057
Available-for-sale investments	2,487	1,305,881	123,082	260,556	–	1,692,006
Financial assets at fair value through profit or loss	–	–	–	2,010,267	–	2,010,267
Cash and cash equivalents	2,815,544	–	–	–	–	2,815,544
Total financial assets	3,837,915	30,270,350	58,567,391	141,205,699	550,590	234,431,945
FINANCIAL LIABILITIES:						
Trade and bills payables	234,400	918,960	685,601	–	–	1,838,961
Financial liabilities included in other payables and accruals	192,721	5,317,900	4,690,686	25,962,198	90,897	36,254,402
Interest-bearing bank and other borrowings	–	17,666,897	43,552,170	93,350,121	286,862	154,856,050
Derivative financial instruments	–	8,774	79,316	172,186	–	260,276
Other liabilities	–	–	–	–	657,851	657,851
Total financial liabilities	427,121	23,912,531	49,007,773	119,484,505	1,035,610	193,867,540
Net liquidity gap	3,410,794	6,357,819	9,559,618	21,721,194	(485,020)	40,564,405

Notes to Financial Statements

31 December 2018

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is defined by management as net debt divided by total equity plus net debt. Net debt includes bank and other borrowings. The gearing ratios as at the reporting dates are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank and other borrowings	172,514,982	144,899,680
Total equity	39,092,504	36,407,792
Total equity and net debt	211,607,486	181,307,472
Gearing ratio	82%	80%

50. OTHER LIABILITIES

	2018	2017
	RMB'000	RMB'000
Continuing involvement in transferred assets (Note 51)	2,327,322	2,492,078
Payables to non-controlling interests of consolidated structured entities	–	657,851
	2,327,322	3,149,929

Notes to Financial Statements

31 December 2018

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 acquire some subordinated tranches of those asset-backed securities/notes and accordingly may retain portions of the risks and rewards of the transferred loans and accounts receivables. The Group would determine whether or not to derecognise the transferred loans and accounts receivables mainly by evaluating the extent to which it retains the risks and rewards of the transferred assets.

During the year ended 31 December 2018, the Group did not transfer loans and accounts receivables to unconsolidated structured entities, which qualified for full derecognition(2017: RMB932,429,000. The Group did not provide liquidity support to these unconsolidated structured entities. There was no exposure to losses).

During the year ended 31 December 2018, the Group also transferred an aggregate carrying amount of RMB16,754,638,000 (2017: RMB32,425,140,000) of loans and accounts receivables to other unconsolidated structured entities, where the Group retained continuing involvement in the transferred assets, therefore, the Group recognized its acquisition of subordinated tranches of such asset-backed securities/notes issued by the structured entities of RMB955,302,000 (2017: RMB1,852,055,000) as other receivables, as well as recognized the transferred assets to the extent of its continuing involvement amounting to RMB955,302,000 (2017: RMB1,852,055,000) as other assets, and associated liabilities amounting to RMB955,302,000 as other liabilities (2017: RMB1,852,055,000). As a result, as at 31 December 2018, the balance of subordinated tranches of asset-backed securities/notes held by the Group amounted to RMB2,327,322,000 (31 December 2017: RMB2,492,078,000). In addition, the balances of continuing involvement in transferred assets and associated liabilities both amounted to RMB2,327,322,000 (31 December 2017: both RMB2,492,078,000), which approximate the maximum exposure to losses from its involvement in such securitisation arrangements and the unconsolidated structured entities.

As a result of the above securitisation transactions, the Group recognised gains of RMB27,619,000 and losses of RMB1,676,000 (2017: gains of RMB42,445,000 and losses of RMB32,616,000) 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 2018.

53. COMPARATIVE AMOUNTS

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

Notes to Financial Statements

31 December 2018

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 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	327	707
Investments in subsidiaries	36,300,374	29,831,604
Deferred tax assets	102,802	65,700
Loans and accounts receivables	14,681,717	12,111,396
Prepayments, other receivables and other assets	–	30,901
Restricted deposits	–	44,336
Derivative financial instruments	650,435	–
Total non-current assets	51,735,655	42,084,644
CURRENT ASSETS		
Loans and accounts receivables	1,070,092	709,750
Prepayments, other receivables and other assets	5,672,215	3,261,380
Dividend receivable from subsidiaries	13,033	12,409
Restricted deposits	166,733	36,916
Cash and cash equivalents	858,820	163,989
Derivative financial instruments	–	122,474
Total current assets	7,780,893	4,306,918
CURRENT LIABILITIES		
Other payables and accruals	1,083,404	1,159,793
Derivative financial instruments	186,197	87,586
Income tax payable	(168)	(8,034)
Interest-bearing bank and other borrowings	3,857,041	7,801,319
Total current liabilities	5,126,474	9,040,664
NET CURRENT ASSETS/(LIABILITIES)	2,654,419	(4,733,746)
TOTAL ASSETS LESS CURRENT LIABILITIES	54,390,074	37,350,898

Notes to Financial Statements

31 December 2018

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 2018 RMB'000	31 December 2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	54,390,074	37,350,898
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	24,724,697	9,840,996
Derivative financial instruments	–	105,315
Total non-current liabilities	24,724,697	9,946,311
Net assets	29,665,377	27,404,587
EQUITY		
Share capital	10,235,373	10,218,442
Reserves	17,389,126	15,149,377
	27,624,499	25,367,819
Holders of perpetual securities	2,040,878	2,036,768
Total equity	29,665,377	27,404,587

Kong Fanxing
Director

Wang Mingzhe
Director

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31 December 2018

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve# RMB'000	Special reserve RMB'000	Reserve fund RMB'000	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	2,114,102	(852,459)	218,130	656	121,913	149,987	83,860	616,783	10,293,241	12,746,213
Profit for the year	–	–	–	–	–	–	–	–	3,256,007	3,256,007
Other comprehensive income for the year:										
Cash flow hedges, net of tax	–	–	–	–	–	(133,144)	–	–	–	(133,144)
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(12,662)	–	–	(12,662)
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gains on disposal of available-for-sale investments, net of tax	–	–	–	–	–	–	(71,198)	–	–	(71,198)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	16,715	–	16,715
Total comprehensive income for the year	–	–	–	–	–	(133,144)	(83,860)	16,715	3,256,007	3,055,718
Final 2016 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(762,997)	(762,997)
Shares vested under restricted share award scheme	–	193,075	(141,594)	–	–	–	–	–	(51,481)	–
Transfer of share option reserve upon exercise of share options	–	–	(1,141)	–	–	–	–	–	–	(1,141)
Recognition of equity-settled share-based payments	–	–	254,277	–	–	–	–	–	–	254,277
Special reserve – safety fund appropriation	–	–	–	822	–	–	–	–	(849)	(27)
Special reserve – safety fund utilisation	–	–	–	(396)	–	–	–	–	409	13
Purchase of non-controlling interests	(8,780)	–	–	–	–	–	–	–	–	(8,780)
Redemption of senior perpetual securities	–	–	–	–	–	–	–	–	(133,899)	(133,899)
At 31 December 2017	2,105,322	(659,384)	329,672	1,082	121,913	16,843	–	633,498	12,600,431	15,149,377

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31 December 2018

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: (continued)

A summary of the Company's reserves is as follows: (continued)

	Capital reserve	Shares held for share award scheme	Share-based compensation reserve#	Special reserve	Reserve fund	Hedging reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	2,105,322	(659,384)	329,672	1,082	121,913	16,843	–	633,498	12,600,431	15,149,377
Effect of adoption of new accounting standards (Note 2.2)	–	–	–	–	–	–	–	–	(163,425)	(163,425)
At 1 January 2018 (restated)	2,105,322	(659,384)	329,672	1,082	121,913	16,843	–	633,498	12,437,006	14,985,952
Profit for the year	–	–	–	–	–	–	–	–	3,795,278	3,795,278
Other comprehensive income for the year:										
Cash flow hedges, net of tax	–	–	–	–	–	(409,334)	–	–	–	(409,334)
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	–	–	–
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gains on disposal of available-for-sale investments, net of tax	–	–	–	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(12,188)	–	(12,188)
Total comprehensive income for the year	–	–	–	–	–	(409,334)	–	(12,188)	3,795,278	3,373,756
Purchase of shares under share award scheme	–	(300,575)	–	–	–	–	–	–	–	(300,575)
Final 2017 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	–	–	–	–	(972,002)	(972,002)
Shares vested under restricted share award scheme	–	286,880	(227,395)	–	–	–	–	–	(59,485)	–
Transfer of share option reserve upon exercise of share options	–	–	(3,518)	–	–	–	–	–	–	(3,518)
Recognition of equity-settled share-based payments	–	–	305,904	–	–	–	–	–	–	305,904
Special reserve – safety fund appropriation	–	–	–	2,491	–	–	–	–	(2,573)	(82)
Special reserve – safety fund utilisation	–	–	–	(1,147)	–	–	–	–	1,185	38
Purchase of non-controlling interests	(347)	–	–	–	–	–	–	–	–	(347)
At 31 December 2018	2,104,975	(673,079)	404,663	2,426	121,913	(392,491)	–	621,310	15,199,409	17,389,126

Notes to Financial Statements

31 December 2018

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: (continued)

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

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past few financial years as extracted from the published audited financial information and financial statements is set out below.

Business Overview

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	25,378,612	18,782,314	13,928,369	11,795,983	10,060,717
Cost of sales	(11,484,055)	(8,106,962)	(5,735,538)	(4,771,610)	(4,106,547)
Gross profit	13,894,557	10,675,352	8,192,831	7,024,373	5,954,170
Other income and gains	739,058	637,738	477,443	510,032	523,689
Selling and administrative expenses	(4,913,015)	(3,911,745)	(2,872,888)	(2,531,237)	(2,265,899)
Other expenses	(395,474)	(422,743)	(306,790)	(454,489)	(249,400)
Finance costs	(459,849)	(225,372)	(157,755)	(122,221)	(14,667)
Gains and loss on investment in joint ventures/associates	287,524	(13,673)	891	(310)	13,316
Pre-provision profit	9,152,801	6,739,557	5,333,732	4,426,148	3,961,209
Provision for assets	(2,660,234)	(1,952,369)	(1,261,262)	(846,423)	(750,009)
Profit before tax	6,492,567	4,787,188	4,072,470	3,579,725	3,211,200
Income tax expense	(2,104,442)	(1,377,623)	(1,130,683)	(999,734)	(869,026)
Profit for the year	4,388,125	3,409,565	2,941,787	2,579,991	2,342,174
Attributable to:					
Holders of ordinary shares of the Company	3,927,472	3,229,057	2,882,208	2,503,109	2,295,954
Holders of perpetual securities	502,735	231,264	78,284	73,080	36,036
Non-controlling interests	(42,082)	(50,756)	(18,705)	3,802	10,184
	4,388,125	3,409,565	2,941,787	2,579,991	2,342,174

Financial Summary

The following table sets forth the results of the Group converted into US$ at the respective average exchange rate as at the end of each period[(1)] as of the dates indicated.

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	3,788,588	2,788,514	2,074,125	1,870,508	1,647,151
Cost of sales	(1,714,371)	(1,203,599)	(854,100)	(756,642)	(672,328)
Gross profit	2,074,217	1,584,915	1,220,025	1,113,866	974,823
Other income and gains	110,329	94,682	71,098	80,877	85,739
Selling and administrative expenses	(733,428)	(580,757)	(427,813)	(401,382)	(370,976)
Other expenses	(59,037)	(62,762)	(45,685)	(72,069)	(40,832)
Finance costs	(68,648)	(33,460)	(23,492)	(19,381)	(2,401)
Gains and loss on investment in joint ventures/associates	42,922	(2,030)	133	(49)	2,180
Pre-provision profit	1,366,355	1,000,588	794,266	701,862	648,533
Provision for assets	(397,127)	(289,858)	(187,819)	(134,219)	(122,792)
Profit before tax	969,228	710,730	606,447	567,643	525,741
Income tax expense	(314,157)	(204,529)	(168,374)	(158,530)	(142,278)
Profit for the year	655,071	506,201	438,073	409,113	383,463
Attributable to:					
Holders of ordinary shares of the Company	586,304	479,402	429,200	396,922	375,896
Holders of perpetual securities	75,049	34,335	11,658	11,588	5,900
Non-controlling interests	(6,282)	(7,536)	(2,785)	603	1,667
	655,071	506,201	438,073	409,113	383,463

Financial Summary

Assets, liabilities and non-controlling interests

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	265,969,794	227,454,273	166,560,921	139,312,889	110,726,124
Total liabilities	(226,877,290)	(191,046,481)	(141,714,820)	(116,351,469)	(93,276,231)
Perpetual securities	(9,789,593)	(9,797,723)	(1,231,881)	(1,227,203)	(1,258,170)
Non-controlling interests	(1,573,168)	(1,269,200)	(654,990)	(343,180)	(78,771)
	27,729,743	25,340,869	22,959,230	21,391,037	16,112,952

The following table sets forth the assets, liabilities and non-controlling interests of the Group converted into US$ at the respective average rate as at the end of each period[(1)] as of the dates indicated.

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	38,753,030	34,809,812	24,010,512	21,453,876	18,095,461
Total liabilities	(33,057,071)	(29,237,930)	(20,428,834)	(17,917,868)	(15,243,705)
Perpetual securities	(1,426,389)	(1,499,453)	(177,581)	(188,987)	(205,617)
Non-controlling interests	(229,218)	(194,239)	(94,420)	(52,849)	(12,873)
	4,040,352	3,878,190	3,309,677	3,294,172	2,633,266

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	Average exchange rate
31 December 2014	6.1190	6.1080
31 December 2015	6.4936	6.3063
31 December 2016	6.9370	6.7153
31 December 2017	6.5342	6.7356
31 December 2018	6.8632	6.6987

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