

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR ADDRESS IN THE UNITED STATES

**IMPORTANT: You must read the following before continuing.** The following applies to the preliminary offering circular (the “Offering Circular”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer and the Guarantor (each as defined in the Offering Circular) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

#### **Confirmation of your Representation:**

In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Managers (as defined in the Offering Circular), the Issuer and the Guarantor (as defined in the Offering Circular) (1) that you and any customers you represent are not, and that the electronic mail address that you gave the Issuer and the Guarantor and to which this e-mail has been delivered is not, located in the United States and (2) that you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

The materials relating to any offering of securities described in the Offering Circular do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of any of the Issuer, the Guarantor or the Managers in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Managers or any affiliate of the Managers are licenced brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer and/or the Guarantor in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers or any person who controls any Manager nor any director, officer, employee nor agent of any Manager or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

**You are responsible for protecting against viruses and other destructive items.** Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Offering Circular is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Circular.

**Actions that you may not take:** If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

**Preliminary Offering Circular dated 21 November 2017**  
**Subject to Completion**

**Private and Confidential**

**KING TALENT MANAGEMENT LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

**U.S.\$[●] [●] per cent. Guaranteed Subordinated Perpetual Capital Securities**

**unconditionally and irrevocably guaranteed by**



**遠東宏信有限公司**  
**FAR EAST HORIZON LIMITED**

*(incorporated in Hong Kong with limited liability)*

**Issue Price: [●] per cent.**

The U.S.\$[●] [●] per cent. guaranteed subordinated perpetual capital securities (the “**Securities**”) will be issued by King Talent Management Limited (the “**Issuer**”), a company incorporated in the Cayman Islands with limited liability and will be unconditionally and irrevocably guaranteed (the “**Guarantee of the Securities**”) by Far East Horizon Limited (the “**Guarantor**”).

The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Securities (as defined in Condition 4(c) of the “*Terms and Conditions of the Securities*”) of the Issuer. The rights and claims of the holders of the Securities (the “**Holders**” and each a “**Holder**”) in respect of the Securities are subordinated as provided in Condition 2(b) of the “*Terms and Conditions of the Securities*”.

The Guarantor has unconditionally and irrevocably guaranteed on a subordinated basis the due and punctual payment of all sums payable by the Issuer in respect of the Securities. The Guarantee of the Securities constitutes a direct, unsecured and subordinated obligation of the Guarantor which ranks *pari passu* with any Parity Securities of the Guarantor. The rights and claims of the Holders in respect of the Guarantee of the Securities are subordinated as provided in Condition 2(d) of the “*Terms and Conditions of the Securities*”.

Subject to Condition 4(c) of the “*Terms and Conditions of the Securities*”, the Securities confer a right to receive distribution (each a “**Distribution**”) from [●] 2017 (the “**Issue Date**”) at the Distribution Rate described below. Subject to Condition 4(c) of the “*Terms and Conditions of the Securities*”, Distribution shall be payable on the Securities semi-annually in arrear on [●] and [●] of each year (each, a “**Distribution Payment Date**”), with the first Distribution Payment Date falling in [●] 2018.

The rate of Distribution (“**Distribution Rate**”) applicable to the Securities shall be: (i) from and including the Issue Date to, but excluding [●] 2022 (the “**First Reset Date**”), [●] per cent. per annum (the “**Initial Distribution Rate**”); (ii) for each Reset Distribution Period (as defined in Condition 4(c) of the “*Terms and Conditions of the Securities*”) from and including the First Reset Date to, but excluding [●] 2037, the Relevant Reset Distribution Rate (as defined in Condition 4(c) of the “*Terms and Conditions of the Securities*”); and (iii) for each Reset Distribution Period from and including [●] 2037 to, but excluding the redemption date of the Securities, if any, the Relevant Reset Distribution Rate plus 5.00 per cent. per annum.

Unless a Compulsory Distribution Payment Event (as defined in Condition 4(c) of the “*Terms and Conditions of the Securities*”) has occurred, the Guarantor may, at its sole discretion, elect to defer (in whole or in part) a Distribution which is otherwise scheduled to be paid by the Issuer on a Distribution Payment Date to the next Distribution Payment Date by giving notice (the “**Deferral Election Notice**”) of such election to the Holders, the Trustee (as defined in the “*Terms and Conditions of the Securities*”) and the Principal Paying Agent (as defined in the “*Terms and Conditions of the Securities*”) not more than 10 nor less than five business days in Hong Kong prior to the relevant Distribution Payment Date (a “**Deferral Election Event**”). Any Distribution so deferred shall constitute “**Arrears of Distribution**”. The Guarantor may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the notice requirement applicable to any deferral of an accrued Distribution. The Guarantor is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred subject to restrictions in the case of deferral set out below. See “*Terms and Conditions of the Securities – Distribution – Distribution Deferred*.”

If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of a Deferral Election Event, the Guarantor shall not: (i) declare or pay any discretionary dividends, distributions or make any other discretionary payment, and will procure that no discretionary dividend, distribution or other discretionary payment is made, on any of its Junior Securities (as defined in Condition 4(c) of the “*Terms and Conditions of the Securities*”) or Parity Securities (except (A) in relation to its Parity Securities, on a *pro rata* basis with the Securities, or (B) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants); or (ii) at its discretion repurchase, redeem, reduce, cancel, buy-back or otherwise acquire for any consideration any of its Junior Securities or Parity Securities prior to its stated maturity (except (A) in relation to its Parity Securities, on a *pro rata* basis with the Securities, or (B) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants, or (C) as a result of the exchange or conversion of its Parity Securities for its Junior Securities, in each case, unless and until (a) the Issuer or the Guarantor satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amount (as defined in Condition 4(c) of the “*Terms and Conditions of the Securities*”); or (b) the Guarantor is permitted to be so by an Extraordinary Resolution (as defined in the trust deed dated on or about the Issue Date in connection with the Securities (the “**Trust Deed**”) of the Holders.

The Securities are perpetual securities in respect of which there is no fixed redemption date. The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Trustee, the Principal Paying Agent and the Holders 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, if the Issuer satisfies the Trustee immediately before giving such notice that: (i) on the occasion of the next payment due under the Securities, the Issuer (or if the Guarantee of the Securities were called, the Guarantor) has or will become obliged to pay Additional Amounts (as provided or referred to in Condition 7 of the “*Terms and Conditions of the Securities*”) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7 of the “*Terms and Conditions of the Securities*”), or any change in the applicable or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after [●] 2017; and (ii) such obligation cannot be avoided by the Issuer or the Guarantor (as the case may be) taking reasonable measures available to it, *provided that* no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts to the Trustee in respect of the Securities then due. The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the payment, the Principal Paying Agent and the Holders at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption, if immediately before giving such notice, an amendment, clarification or change has occurred in the equity credit methodology of any Relevant Rating Agency (as defined in Condition 5(c) of the “*Terms and Conditions of the Securities*”), which amendment, clarification or change results in a lower equity credit for the Securities and/or the Guarantee of the Securities (for the Guarantor) than the equity credit assigned on the Issue Date or, if equity credit is not assigned on the Issue Date, at the date when equity credit is assigned for the first time. The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and the Holders at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption, if an Accounting Event (as defined in Condition 5(d) of the “*Terms and Conditions of the Securities*”) has occurred and is continuing immediately prior to the giving of the relevant notice. The Securities may be redeemed at the option of the Issuer in whole, but not in part, on the First Reset Date or on any Distribution Payment Date thereafter on the Issuer giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and the Holders 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 Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and the Holders 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, *provided that* prior to the date of such notice at least 80 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased or cancelled.

The Securities are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Securities will be issued within the quota granted pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the “**NDRC Circular**”) issued by the National Development and Reform Commission of the PRC (the “**NDRC**”) or its local counterparts on 14 September 2015 which came into effect on the same day and other applicable implementation rules, regulations, certificates, circulars, notices or policies thereof as issued by the NDRC from time to time. After the issuance of the Securities, the Guarantor intends to provide the requisite information on the issuance of the Securities to the NDRC within the time period as required by the NDRC.

The Securities will be issued in the denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

**Investing in the Securities involves risks. See “Risk Factors” beginning on page 19 for a discussion of certain factors to be considered in connection with an investment in the Securities.**

The Securities and the Guarantee of the Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Securities and the distribution of this Offering Circular, see “*Subscription and Sale*”.

Application will be made to The Stock Exchange of Hong Kong Limited (the “**HKSE**”) for the listing of the Securities by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, “**Professional Investors**”) only. This document is for distribution to Professional Investors only. **Investors should not purchase the Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Securities are only suitable for Professional Investors.**

The HKSE has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Securities on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Securities, the Issuer, the Guarantor or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. You are advised to read and understand the contents of this Offering Circular before investing. If in doubt, you should consult your advisor.

The Securities are expected to be rated “BB” by Fitch Ratings and its successors (“**Fitch**”). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Securities will be initially evidenced by a global certificate (a “**Global Certificate**”) in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about [●] 2017 (the “**Closing Date**”) with a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Securities will not be issued in exchange for interests in the Global Certificate.

***Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers***

**HSBC**

**Standard Chartered Bank**

**UBS**

***Joint Bookrunner***

**Haitong Bank, S.A.**

The date of this Offering Circular is [●] 2017

## NOTICE TO INVESTORS

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING CIRCULAR IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirm that, to the best of its knowledge and belief, (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and their respective subsidiaries taken as a whole (together the “**Group**”), the Securities and the Guarantee of the Securities which is material in the context of the issue and offering of the Securities; (ii) the statements contained in it relating to the Issuer, the Guarantor and the Group, are in every material particular true and accurate and not misleading in every material particular; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after consideration of all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Securities and the Guarantee of the Securities the omission of which would, in the context of the issue and offering of the Securities, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by each of the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

The Issuer and the Guarantor have prepared this Offering Circular solely for use in connection with the proposed offering of the Securities described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank or UBS AG Hong Kong Branch (the “**Joint Lead Managers**”), Haitong Bank, S.A. (together with the Joint Lead Managers, the “**Managers**”), the Issuer or the Guarantor to subscribe for or purchase any of the Securities. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Securities or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Securities, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Hong Kong, the PRC, Singapore and

Japan and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Securities, and distribution of this Offering Circular, see “*Subscription and Sale*”. By purchasing the Securities, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Securities. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to in this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Securities or the Guarantee of the Securities other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Managers, the Trustee or the Agents (as defined in the Conditions) or their respective directors, officers, affiliates or advisers. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Securities shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates to subscribe for or purchase the Securities and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers or advisers has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by any Manager, the Trustee or the Agents or any of their respective affiliates, directors, officers or advisers, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Securities. Nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents or any of the respective affiliates, directors, officers or advisers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of the respective affiliates, directors, officers or advisers that any recipient of this Offering Circular should purchase the Securities. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee, the Agents or on any person affiliated with the Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer and the Guarantor and the merits and risks involved in investing in the Securities. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Securities.

To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers or advisers accepts any responsibility for the contents of this Offering Circular and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers or advisers or on their behalf in connection with the Issuer, the Guarantor or the issue and offering of the Securities. Each of the Managers, the Trustee and the Agents and their respective affiliates, directors, officers or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Securities of any information coming to the attention of the Managers, the Trustee or the Agents or their respective affiliates, directors, officers or advisers.

**In connection with the issue of the Securities, any of the Managers named as Stabilisation Manager (or their respective affiliates) (the “Stabilisation Manager(s)”) (or persons acting on behalf of such Stabilisation Manager(s)) may over-allot Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.**

The Managers and their respective affiliates may purchase the Securities for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities). Furthermore, investors in the Securities may include entities affiliated with the Group.

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Securities under applicable laws or regulations.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “**Hong Kong**” or “**Hong Kong SAR**” are to the Hong Kong Special Administrative Region of the People’s Republic of China, to the “**PRC**” are to the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, to “**HK\$**” are to Hong Kong dollars, to “**CNY**” or “**RMB**” are to Renminbi, the currency of the People’s Republic of China, to “**JPY**” or to Japanese Yen, to “**U.S.\$**” or “**USD**” are to U.S. dollars, to “**sterling**” or “**£**” are to the currency of the United Kingdom and to “**euro**” or “**€**” are to the lawful currency of member states of the European Union (“**Member States**”) that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended from time to time.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.



## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Offering Circular includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities and Exchange Act of 1934 (the (“**Exchange Act**”). The words “anticipate”, “believe”, “expect”, “plan”, “intend”, “targets”, “aims”, “estimate”, “project”, “will”, “would”, “may”, “could”, “continue” and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Offering Circular, including, without limitation, those regarding the Group’s financial position, business strategy, management plans and objectives for future operations, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group’s actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Group’s present and future business strategies and the environment in which the Group expects to operate in the future. Important factors that could cause the Group’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other factors referenced in this Offering Circular:

- the competitive industries in which the Group operates;
- industry risks in the financial leasing business;
- general economic, political and social conditions and developments in the PRC and other jurisdictions in which the Group operates;
- the Group’s ability to meet financial and other covenants provided under its financing agreements;
- legal proceedings and regulatory investigations; and
- other risks identified in the “*Risk Factors*” section of this Offering Circular.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”. Forward-looking statements speak only as of the date of this Offering Circular and the Issuer and the Guarantor expressly disclaim any obligation or undertaking to update publicly or revise any forward-looking statements in this Offering Circular to reflect any change in the Group’s expectations or any change in events, conditions or circumstances on which these forward-looking statements are based. Given the uncertainties of forward-looking statements, there can be no assurance that projected results or events will be achieved and undue reliance should not be placed on these statements.

## **PRESENTATION OF FINANCIAL INFORMATION**

The audited consolidated financial information of the Group as of and for the years ended 31 December 2014, 2015 and 2016 set forth in this Offering Circular is derived from the Guarantor's consolidated financial statements for the years ended 31 December 2015 and 2016 which were prepared and presented in accordance with HKFRS and the interpretation promulgated by the Hong Kong Institute of Certified Public Accountants, have been audited by Ernst & Young, Certified Public Accountants and are included elsewhere in this Offering Circular. The historical results do not necessarily indicate the Group's expected results for any future period.

The audited consolidated financial information of the Group as of and for the year ended 31 December 2014 included in this Offering Circular is derived from the Guarantor's consolidated financial statements for the year ended 31 December 2015 as comparative, whereby the presentation of the consolidated statement of profit or loss is different from that included in the Guarantor's consolidated financial statements for the year ended 31 December 2014. These changes in presentation have had no impact on the reported profit for the year ended 31 December 2014 or any other financial statements as of and for the year ended 2014.

The audited consolidated financial information of the Group as of and for the year ended 31 December 2015 included in this Offering Circular is derived from the Guarantor's consolidated financial statements for the year ended 31 December 2016 as comparative, whereby the presentation of the consolidated statement of profit and loss is different from that included in the Guarantor's consolidated financial statements for the year ended 31 December 2015. These changes in presentation have had no impact on the reported profit for the year ended 31 December 2015 or any other financial statements as of and for the year ended 2015.

The unaudited reviewed interim condensed consolidated financial information of the Group as of and for the six months ended 30 June 2016 and 2017 set forth in this Offering Circular is derived from the Group's unaudited reviewed interim condensed consolidated financial statements as of and for the six months ended 30 June 2017. The interim condensed consolidated financial statements as of and for the six months ended 30 June 2017 were prepared and presented in accordance with HKFRS, were reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and have not been audited by Ernst & Young, Certified Public Accountants. As such, the Group's unaudited reviewed condensed consolidated financial information should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. This unaudited reviewed condensed consolidated financial information should not be taken as an indication of the expected financial condition and results of operations of the Group for the full financial year ending 31 December 2017.

The unaudited consolidated financial information of the Group as at and for the six months ended 30 June 2016 included in this Offering Circular is derived from the Guarantor's consolidated financial statements for the six months ended 30 June 2017 as comparative, whereby the presentation of the consolidated statement of profit and loss is different from that included in the Guarantor's consolidated financial statements for the six months ended 30 June 2016. These changes in presentation have had no impact on the reported profit for the six months ended 30 June 2016 or any other financial statements as at and for the six months ended 30 June 2016.

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## THE OFFERING

*The following summary contains some basic information about the Securities and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in the “Terms and Conditions of the Securities” and the “Summary of Provisions Relating to the Securities while in Global Form” shall have the same meanings in this summary. For a complete description of the terms and conditions of the Securities, see “Terms and Conditions of the Securities” in this Offering Circular.*

*The offering of the Securities contemplated hereby will be made pursuant to the Subscription Agreement (as defined in “Subscription and Sale”).*

<b>Issuer</b>	King Talent Management Limited.
<b>Guarantor</b>	Far East Horizon Limited.
<b>Securities</b>	U.S.\$[●] [●] per cent. guaranteed subordinated perpetual capital securities.
<b>Issue Price</b>	[●] per cent..
<b>Issue Date</b>	[●] 2017.
<b>Form and Denomination</b>	The Securities will be issued in registered form in the denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Status and Subordination of the Securities</b>	<p>The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank <i>pari passu</i> and without any preference among themselves and with any Parity Securities of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in Condition 2(a) of the “<i>Terms and Conditions of the Securities</i>”. In the event of the Winding-Up (as defined below) of the Issuer, the rights and claims of the Holders in respect of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Securities of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of the holders of Parity Securities of the Issuer.</p> <p>“<b>Junior Securities</b>” means, in relation to the Issuer or the Guarantor, as the case may be, (a) its ordinary shares, or any other securities ranking <i>pari passu</i> therewith in respect of which all payments or dividends and distributions are discretionary or the share capital of the Guarantor (in the case of the Guarantee of the Securities)); (b) any instrument or security issued by the Issuer or the Guarantor, as the case may be, which ranks, or is expressed to rank, by its terms or by operation of law, junior to the obligations of the Issuer under the Securities or the obligations of the Guarantor under the Guarantee of the Securities, as the case may be; and (c) any security for which the Issuer or the Guarantor, as the case may be, has guaranteed or otherwise assumed liability where the obligations of the Issuer (in the case of the Securities) or the obligations of the Guarantor (in the case of the Guarantee of the Securities) under the relevant guarantee or other assumption of liability rank or are expressed to rank junior to the obligations of the Issuer under the Securities or the obligations of the Guarantor under the Guarantee of the Securities, as the case may be.</p>

**“Parity Securities”** means, in relation to the Issuer or the Guarantor, as the case may be, any instrument or security (including without limitation any preference share) issued, entered into or guaranteed by the Issuer or the Guarantor (i) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities (in the case of the Issuer) or the obligations of the Guarantor under the Guarantee of the Securities (in the case of the Guarantor) and (ii) the terms of which provide that the making of payments thereon or distributions in respect thereof are fully at the discretion of the Issuer or, as the case may be, the Guarantor and/or, in the case of an instrument or security guaranteed by the Issuer, or, as the case may be, the Guarantor, the issuer thereof.

#### **Status and Subordination of the Guarantee of the Securities**

The Guarantor has unconditionally and irrevocably guaranteed on a subordinated basis the due and punctual payment of all sums payable by the Issuer in respect of the Securities. The Guarantee of the Securities constitutes a direct, unsecured and subordinated obligation of the Guarantor which ranks *pari passu* with any Parity Securities of the Guarantor. The rights and claims of the Holders in respect of the Guarantee of the Securities are subordinated as provided in the *“Terms and Conditions of the Securities”*. In the event of the Winding-Up of the Guarantor, the rights and claims of the Holders in respect of the Guarantee of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Securities of the Guarantor, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Guarantor, other than the claims of the holders of Parity Securities of the Guarantor.

#### **Distribution**

Subject to Condition 4(c) of the *“Terms and Conditions of the Securities”*, the Securities confer a right to receive distribution (each a **“Distribution”**) from the Issue Date at the Distribution Rate in accordance with Condition 4 of the *“Terms and Conditions of the Securities”*.

Subject to Condition 4(c) of the *“Terms and Conditions of the Securities”*, Distribution shall be payable on the Securities semi-annually in arrear on [●] and [●] of each year (each, a **“Distribution Payment Date”**), with the first Distribution Payment Date falling in [●] 2018.

**Rate of Distribution**

The Distribution Rate applicable to the Securities shall be:

- (i) from and including the Issue Date to, but excluding [●] 2022 (the “**First Reset Date**”), the Initial Distribution Rate;
- (ii) for each Reset Distribution Period from and including the First Reset Date to, but excluding [●] 2037, the Relevant Reset Distribution Rate; and
- (iii) for each Reset Distribution Period from and including [●] 2037 to, but excluding the redemption date of the Securities, if any, the Relevant Reset Distribution Rate plus 5.00 per cent. per annum.

“**Relevant Reset Distribution Rate**” means the Comparable Treasury Rate (as defined in Condition 4(c)(viii) of the “*Terms and Conditions of the Securities*”) with respect to the relevant Reset Date plus the Initial Spread (as defined in Condition 4(c)(viii) of the “*Terms and Conditions of the Securities*”).

“**Reset Date**” means the First Reset Date and the day falling every five calendar years thereafter.

“**Reset Distribution Period**” means the period beginning on and including the First Reset Date and ending on but excluding the following Reset Date and each successive period beginning on and including a Reset Date and ending on but excluding the next succeeding Reset Date.

## Optional Deferral

Unless a Compulsory Distribution Payment Event (as defined below) has occurred, the Guarantor may, at its sole discretion, elect to defer (in whole or in part) a Distribution which is otherwise scheduled to be paid by the Issuer on a Distribution Payment Date to the next Distribution Payment Date by giving notice of such election to the Holders, the Trustee and the Principal Paying Agent not more than 10 nor less than five business days in Hong Kong prior to the relevant Distribution Payment Date.

**“Compulsory Distribution Payment Event”** means at any time from and including [●] 2027, circumstances in which during the three-month period ending on the day before the relevant Distribution Payment Date either or both of the following have occurred:

- (i) a discretionary dividend, distribution or other discretionary payment has been paid or declared by the Guarantor (or in the case of any Parity Securities, the issuer thereof) on or in respect of any Junior Securities or any Parity Securities of the Guarantor (except (A) in relation to the Parity Securities of the Guarantor, on a *pro rata* basis or (B) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants); or
- (ii) the Guarantor (or in the case of Parity Securities, the issuer thereof) has at its discretion repurchased, redeemed, reduced, cancelled, bought-back or otherwise acquired for any consideration any of its Junior Securities or any Parity Securities prior to its stated maturity (except (A) in relation to the Parity Securities of the Guarantor, on a *pro rata* basis, (B) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (C) as a result of the exchange or conversion of its Parity Securities for its Junior Securities).

For the avoidance of doubt, the Guarantor's right of optional deferral pursuant to Condition 4(c)(i) of the "*Terms and Conditions of the Securities*" will not be affected solely as a result of the incurrence of any Parity Securities or Junior Securities. In addition, the incurrence of any Parity Securities or Junior Securities itself will not constitute a Compulsory Distribution Payment Event. A non-discretionary payment on, or redemption of, Parity Securities or Junior Securities (such as a scheduled payment of principal and interest on such Parity Securities or Junior Securities, which the issuer thereof has no right to defer) does not constitute a Compulsory Distribution Payment Event.

#### **Cumulative Deferral**

Any Distribution deferred pursuant to the "*Terms and Conditions of the Securities*" shall constitute "**Arrears of Distribution**". The Guarantor may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Guarantor is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to the "*Terms and Conditions of the Securities*" except that the restrictions in the case of deferral described below shall be complied with until all outstanding Arrears of Distribution have been paid in full.

#### **Restrictions in the case of Deferral**

If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of the optional deferral of the Guarantor, the Guarantor shall not:

- (i) declare or pay any discretionary dividends, distributions or make any other discretionary payment, and will procure that no discretionary dividend, distribution or other discretionary payment is made, on any of its Junior Securities or Parity Securities (except (A) in relation to its Parity Securities, on a *pro rata* basis with the Securities, or (B) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants); or

- (ii) at its discretion repurchase, redeem, reduce, cancel, buy-back or otherwise acquire for any consideration any of its Junior Securities or Parity Securities prior to its stated maturity (except (A) in relation to its Parity Securities, on a *pro rata* basis with the Securities, or (B) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (C) as a result of the exchange or conversion of its Parity Securities for its Junior Securities),

in each case, unless and until (a) the Issuer or the Guarantor satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amount; or (b) the Guarantor is permitted to do so by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders.

**Satisfaction of Arrears of  
Distribution by payment**

The Issuer may satisfy any Arrears of Distribution and any Additional Distribution Amounts (in whole or in part) at any time by giving notice of such election to the Holders, the Trustee and the Principal Paying Agent not more than 10 nor less than five Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and any Additional Distribution Amounts on the payment date specified in such notice); and in any event shall satisfy any outstanding Arrears of Distribution (in whole but not in part) and any Additional Distribution Amounts on the earliest of (a) the date of redemption of the Securities in accordance with the “*Terms and Conditions of the Securities*”; (b) the next Distribution Payment Date on the occurrence of a breach of the restrictions in the case of deferral or the occurrence of a Compulsory Distribution Payment Event and (c) on a Winding-Up of the Issuer or the Guarantor. Any partial payment of outstanding Arrears of Distribution and any Additional Distribution Amounts by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.

**Maturity Date**

There is no maturity date.



**Redemption for Tax Reasons**

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Trustee, the Principal Paying Agent and the Holders 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, if the Issuer satisfies the Trustee immediately before giving such notice that:

- (i) on the occasion of the next payment due under the Securities, the Issuer (or, if the Guarantee of the Securities were called, the Guarantor) has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 of the "*Terms and Conditions of the Securities*" as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined below), or any change in the application or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after [●] 2017; and
- (ii) such obligation cannot be avoided by the Issuer or the Guarantor (as the case may be) taking reasonable measures available to it,

provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Securities were then due.

**Redemption upon a ratings event**

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Holders at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption, if, immediately before giving such notice, an amendment, clarification or change has occurred in the equity credit methodology of any Relevant Rating Agency, which amendment, clarification or change results in a lower equity credit for the Securities and/or the Guarantee of the Securities (for the Guarantor) than the equity credit assigned on the Issue Date or, if equity credit is not assigned on the Issue Date, at the date when equity credit is assigned for the first time.

**“Relevant Rating Agency”** means Standard & Poor’s, Fitch Ratings Limited or any other rating agency of equivalent international standing requested from time to time by the Guarantor to grant an equity classification to the Securities and/or the Guarantee of the Securities and in each case, any of their respective successors to the rating business thereof.

**Redemption for accounting reasons**

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (an **“Accounting Event Notice”**) to the Trustee, the Principal Paying Agent and the Holders, at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption, if an Accounting Event has occurred and is continuing immediately prior to the giving of the Accounting Event Notice and the Issuer complies with the requirements under Condition 5(d) of the *“Terms and Conditions of the Securities”*.

An **“Accounting Event”** is deemed to have occurred if as a result of any changes or amendments to the HKFRS issued by the Hong Kong Institute of Certified Public Accountants as amended from time to time or any other generally accepted accounting standards that may be adopted by the Guarantor for the purposes of preparing its financial statements, the Securities and/or the Guarantee of the Securities must not or must no longer be recorded as “equity” in the financial statements of the Guarantor pursuant to those accounting standards.

**Redemption at the option of the Issuer**

The Securities may be redeemed at the option of the Issuer in whole, but not in part, on the First Reset Date or on any Distribution Payment Date thereafter on the Issuer’s giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and the Holders 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.

**Redemption in the case of  
minimal outstanding amount**

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Holders 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, provided that prior to the date of such notice at least 80 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased or cancelled.

**Taxation**

All payments of principal, premium and Distribution, Arrears of Distribution and Additional Distribution Amounts in respect of the Securities by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction, unless the withholding or deduction of Taxes is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts (the "**Additional Amounts**") as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and Distribution, Arrears of Distribution and Additional Distribution Amounts which would otherwise have been receivable in respect of the Securities in the absence of the withholding or deduction, subject to customary exceptions.

"**Tax Jurisdiction**" means the Cayman Islands, Hong Kong and the PRC, or any political subdivision or any authority thereof or therein having power to tax.

**Non-payment**

The right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Guarantor has elected to, or is required to, defer that Distribution in accordance with Condition 4(c) of the *“Terms and Conditions of the Securities”*.

**“Winding-Up”** means, with respect of the Issuer or the Guarantor, a final and effective court order or effective resolution for the winding up, liquidation or similar proceedings (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer or the Guarantor, as the case may be, of a successor in business, or, as the case may be, the terms of which reorganisation, reconstruction, amalgamation or substitution have been previously approved by an Extraordinary Resolution).

**Proceedings for Winding-Up**

If (i) there is a Winding-Up of the Issuer or the Guarantor, or (ii) the Issuer or the Guarantor shall not make payment in respect of the Securities or the Guarantee of the Securities, as the case may be, for a period of 14 days or more after the date on which such payment is due, the Issuer and the Guarantor shall be deemed to be in default under the Securities (in the case of the Issuer) and the Guarantee of the Securities (in the case of the Guarantor) and the Trustee may, subject to the provisions of Condition 8(d) of the *“Terms and Conditions of the Securities”*, institute proceedings for the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or prove in the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or claim in the liquidation of the Issuer, the Guarantor or both of them (as applicable) for the principal amount of the Securities and any Distribution accrued but unpaid, together with all outstanding Arrears of Distribution and Additional Distribution Amounts.

**Limited rights to institute proceedings**

No Holder shall be entitled to proceed directly against the Issuer, the Guarantor or both of them (as applicable) or to institute proceedings for the winding-up or claim in the liquidation of the Issuer, the Guarantor or both of them (as applicable) or to prove in such winding-up unless the Trustee, having become so bound to proceed or to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer, the Guarantor or both of them (as applicable) as those which the Trustee is entitled to exercise as set out in Condition 8 of the “*Terms and Conditions of the Securities*”.

**Clearance and Settlement**

The Securities have been accepted for clearance by Euroclear and Clearstream under the following codes:

ISIN: XS1720930780

Common Code: 172093078

**Governing Law**

English law, except that the subordination provisions applicable to (i) the Issuer shall be governed by, and construed in accordance with, Cayman Islands law and (ii) the Guarantor shall be governed by, and construed in accordance with, Hong Kong law.

**Trustee and Principal Paying Agent**

The Hongkong and Shanghai Banking Corporation Limited

**Registrar and Transfer Agent**

The Hongkong and Shanghai Banking Corporation Limited

**Rating**

The Securities are expected to be rated “BB” by Fitch. A credit rating is not a recommendation to buy sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Listing**

Application will be made to the Hong Kong Stock Exchange for the listing of the Securities on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only. The listing is expected to become effective on or about [●] 2017.

**Further Issues**

The Issuer shall be at liberty, from time to time, without the consent of the Holders to create and issue further securities having terms and conditions the same as the Securities (or the same in all respects save for the amount and date of the first payment of Distribution thereon) and so that such further issue shall be consolidated and form a single Series with the outstanding Securities.

**Use of Proceeds**

See “*Use of Proceeds*”.

**Replacement of Capital Intention**

*The Issuer intends (without thereby assuming any legal obligation to do so), during the period from the Issue Date to and including [●] 2037, that if the Securities are assigned an equity credit (or such similar classification then used by Standard & Poor’s) at the time of such redemption or repurchase, it will redeem or repurchase the Securities pursuant to:*

- (a) redemption of the Securities at the option of the Issuer pursuant to the provisions described under Condition 5(b) of the “Terms and Conditions of the Securities” or Condition 5(e) of the “Terms and Conditions of the Securities”; or*
- (b) a repurchase of the Securities by the Issuer, the Guarantor or their respective affiliates of more than (i) 10 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 12-month period; or (ii) 25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 10 year period,*

*only if the Aggregate Equity Credit (as defined below) of the Securities to be redeemed or repurchased as at the Issue Date does not exceed the Aggregate Equity Credit received by the Issuer, the Guarantor or any other subsidiaries of the Guarantor during the 365 day period prior to the date of such redemption or repurchase from securities offerings involving the sale or issuance, by the Issuer, the Guarantor or any other subsidiaries of the Guarantor of securities to third party purchasers other than the Issuer, the Guarantor or any other subsidiaries of the Guarantor (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities) (the “Restrictions”). “Aggregate Equity Credit” means the “equity credit” (expressed as a percentage) assigned by Standard & Poor’s to the relevant securities multiplied by the aggregate principal amount of such securities.*



*The Restrictions shall not apply if on the date of such redemption or repurchase:*

- (a) the Guarantor has a corporate credit rating from Standard & Poor's that is equal to or greater than the rating assigned to the Guarantor by Standard & Poor's as at the Issue Date, and to the best knowledge of the Guarantor, after giving effect to such redemption or repurchase, such rating will not be revised downward, withdrawn or placed on review or "credit watch" with negative implications (or other similar review or change of outlook) by Standard & Poor's to levels below the rating assigned to the Guarantor as at the Issue Date as a result of such redemption or repurchase; or*
- (b) the Guarantor no longer has a corporate credit rating by Standard & Poor's; or*
- (c) a Ratings Event, an Accounting Event or a combination of the foregoing has occurred; or*
- (d) the Issuer, the Guarantor or any subsidiary of the Guarantor has individually or in the aggregate, redeemed, cancelled or purchased the Securities equal to or in excess of 80 per cent. of the aggregate principal amount of the Securities issued on the Issue Date; or*
- (e) the statements made in the Restrictions set forth hereunder are no longer required for the Securities to be assigned an equity credit that is equal to or greater than the equity credit assigned by Standard & Poor's on the Issue Date; or*
- (f) there shall have occurred a general moratorium on, or disruption in, commercial banking activities in the Cayman Islands, Hong Kong, the United Kingdom, the European Economic Area or the United States by any Cayman Islands, Hong Kong, United Kingdom, European Economic Area, New York State or United States Federal authorities, which would be likely to materially prejudice dealings in the Securities in the secondary market.*

## SUMMARY FINANCIAL INFORMATION

*The following tables set forth the summary consolidated financial information of the Guarantor as of and for the years indicated.*

*The audited consolidated financial information of the Group as of and for the years ended 31 December 2014, 2015 and 2016 set forth below is derived from the Guarantor's consolidated financial statements for the years ended 31 December 2015 and 2016 which were prepared and presented in accordance with HKFRS and the interpretation promulgated by the Hong Kong Institute of Certified Public Accountants, have been audited by Ernst & Young, Certified Public Accountants and are included elsewhere in this Offering Circular. The historical results do not necessarily indicate the Group's expected results for any future period.*

*The audited consolidated financial information of the Group as of and for the year ended 31 December 2014 included in this Offering Circular is derived from the Guarantor's consolidated financial statements for the year ended 31 December 2015 as comparative, whereby the presentation of the consolidated statement of profit or loss is different from that included in the Guarantor's consolidated financial statements for the year ended 31 December 2014. These changes in presentation have had no impact on the reported profit for the year ended 31 December 2014 or any other financial statements as of and for the year ended 2014.*

*The audited consolidated financial information of the Group as of and for the year ended 31 December 2015 included in this Offering Circular is derived from the Guarantor's consolidated financial statements for the year ended 31 December 2016 as comparative, whereby the presentation of the consolidated statement of profit and loss is different from that included in the Guarantor's consolidated financial statements for the year ended 31 December 2015. These changes in presentation have had no impact on the reported profit for the year ended 31 December 2015 or any other financial statements as of and for the year ended 2015.*

*The unaudited reviewed interim condensed consolidated financial information of the Group as of and for the six months ended 30 June 2017 set forth below is derived from the Group's unaudited reviewed interim condensed consolidated financial statements as of and for the six months ended 30 June 2017. The interim condensed consolidated financial statements as of and for the six months ended 30 June 2017 were prepared and presented in accordance with HKFRS, were reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and have not been audited by Ernst & Young, Certified Public Accountants. As such, the Group's unaudited reviewed condensed consolidated financial information should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. This unaudited reviewed condensed consolidated financial information should not be taken as an indication of the expected financial condition and results of operations of the Group for the full financial year ending 31 December 2017.*

*The unaudited consolidated financial information of the Group as at and for the six months ended 30 June 2016 included in this Offering Circular is derived from the Guarantor's consolidated financial statements for the six months ended 30 June 2017 as comparative, whereby the presentation of the consolidated statement of profit and loss is different from that included in the Guarantor's consolidated financial statements for the six months ended 30 June 2016. These changes in presentation have had no impact on the reported profit for the six months ended 30 June 2016 or any other financial statements as at and for the six months ended 30 June 2016.*

## Consolidated Statement of Profit or Loss of the Group

	For the years ended 31 December			For the six months ended 30 June	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE . . . . .	10,060,717	11,795,983	13,928,369	7,280,667	8,972,211
Cost of sales . . . . .	(4,106,547)	(4,771,610)	(5,735,538)	(2,566,867)	(3,508,756)
Gross profit . . . . .	5,954,170	7,024,373	8,192,831	4,713,800	5,463,455
Other income and gains . . .	523,689	510,032	477,443	144,238	200,806
Selling and distribution costs . . . . .	(1,356,023)	(1,452,611)	(1,545,606)	(974,218)	(960,771)
Administrative expenses . . .	(1,659,885)	(1,925,049)	(2,588,544)	(1,584,805)	(2,076,507)
Other expenses . . . . .	(249,400)	(454,489)	(306,790)	(130,158)	(218,488)
Finance costs . . . . .	(14,667)	(122,221)	(157,755)	(84,723)	(92,292)
Share of net profit/(losses) of:					
Associates . . . . .	13,511	—	300	162	(10,781)
Share of net profit/(losses) of:					
Joint ventures . . . . .	(195)	(310)	591	826	(1,518)
PROFIT BEFORE TAX . . . .	3,211,200	3,579,725	4,072,470	2,085,122	2,303,904
Income tax expense . . . . .	(869,026)	(999,734)	(1,130,683)	(619,698)	(684,358)
PROFIT FOR THE YEAR/PERIOD (AS APPLICABLE) . . . . .	<u>2,342,174</u>	<u>2,579,991</u>	<u>2,941,787</u>	<u>1,465,424</u>	<u>1,619,546</u>
Attributable to:					
Ordinary shareholders of the parent . . . . .	2,295,954	2,503,109	2,882,208	1,439,491	1,619,032
Holders of perpetual securities . . . . .	36,036	73,080	78,284	37,212	39,856
Non-controlling interests .	<u>10,184</u>	<u>3,802</u>	<u>(18,705)</u>	<u>(11,279)</u>	<u>(39,342)</u>
	<u>2,342,174</u>	<u>2,579,991</u>	<u>2,941,787</u>	<u>1,465,424</u>	<u>1,619,546</u>

## Consolidated Statement of Comprehensive Income of the Group

	For the years ended 31 December			For the six months ended 30 June	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR/PERIOD (AS APPLICABLE) . . . . .	<u>2,342,174</u>	<u>2,579,991</u>	<u>2,941,787</u>	<u>1,465,424</u>	<u>1,619,546</u>
OTHER COMPREHENSIVE INCOME					
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>					
Available-for-sale investments:					
Changes in fair value . . . . .	–	–	83,860	–	(13,573)
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gains on disposal . . . . .	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(26,118)</u>
	–	–	83,860	–	(39,691)
Cash flow hedges:					
Effective portion of changes in fair value of hedging instruments arising during the year/period (as applicable) . . . . .	111,377	742,402	866,887	74,082	(404,649)
Reclassification to the consolidated statement of profit or loss . . . . .	380,966	(849,733)	(1,072,484)	(623,558)	109,774
Income tax effect . . . . .	<u>(81,237)</u>	<u>17,710</u>	<u>34,099</u>	<u>90,663</u>	<u>48,557</u>
	411,106	(89,621)	(87,638)	(458,813)	(246,318)
Exchange differences on translation of foreign operations . . . . .	<u>(599)</u>	<u>(30,629)</u>	<u>9,113</u>	<u>19,559</u>	<u>7,712</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods . . . . .	<u>410,507</u>	<u>(120,250)</u>	<u>(78,525)</u>	<u>(439,254)</u>	<u>(278,297)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD (AS APPLICABLE), NET OF TAX . . . . .	<u>410,507</u>	<u>(120,250)</u>	<u>(78,525)</u>	<u>(439,254)</u>	<u>(278,297)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD (AS APPLICABLE) . . . . .	<u>2,752,681</u>	<u>2,459,741</u>	<u>2,863,262</u>	<u>1,026,170</u>	<u>1,341,249</u>
Attributable to:					
Ordinary shareholders of the parent. . . . .	2,706,461	2,382,859	2,803,683	1,000,237	1,340,735
Holders of perpetual securities . . . . .	36,036	73,080	78,284	37,212	39,856
Non-controlling interests .	<u>10,184</u>	<u>3,802</u>	<u>(18,705)</u>	<u>(11,279)</u>	<u>(39,342)</u>
	<u>2,752,681</u>	<u>2,459,741</u>	<u>2,863,262</u>	<u>1,026,170</u>	<u>1,341,249</u>

# Consolidated Statement of Financial Position of the Group

	As of 31 December			As of 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment . . . . .	1,733,169	3,357,879	4,995,714	5,413,399
Prepaid land lease payments . . . . .	987,878	1,150,026	1,215,828	1,234,987
Goodwill . . . . .	64,164	359,452	748,821	1,122,558
Other assets . . . . .	54,283	666,407	2,434,148	3,119,336
Investments in joint ventures . . . . .	80,985	1,187,975	1,404,870	1,534,566
Investments in associates . . . . .	94,154	–	263,700	382,104
Available-for-sale investments . . . . .	394,253	427,142	289,889	214,794
Equity investments at fair value through profit or loss . . . . .	–	244,132	721,239	1,144,111
Derivative financial instruments . . . . .	227,033	696,858	478,789	31,018
Loans and accounts receivables . . . . .	60,156,452	73,856,030	84,721,981	104,369,662
Prepayments, deposits and other receivables . . . . .	95,647	579,575	2,431,140	3,400,679
Deferred tax assets . . . . .	904,331	1,300,724	1,907,364	2,491,367
Restricted deposits . . . . .	123,694	96,137	12,600	103,593
Total non-current assets . . . . .	64,916,043	83,922,337	101,626,083	124,562,174
<b>CURRENT ASSETS</b>				
Inventories . . . . .	78,708	114,793	246,057	326,009
Construction contracts . . . . .	82,339	42,387	44,129	53,073
Derivative financial instruments . . . . .	63,244	420,376	904,087	429,441
Loans and accounts receivables . . . . .	39,284,977	46,710,279	54,079,396	63,253,097
Prepayments, deposits and other receivables . . . . .	2,152,852	3,057,298	5,161,098	2,631,744
Restricted deposits . . . . .	830,111	2,544,754	2,448,764	2,940,247
Cash and cash equivalents . . . . .	3,317,850	2,500,665	2,051,307	2,790,075
Total current assets . . . . .	45,810,081	55,390,552	64,934,838	72,423,686
<b>CURRENT LIABILITIES</b>				
Trade and bills payables . . . . .	3,489,071	8,337,635	2,887,266	2,274,969
Other payables and accruals . . . . .	4,204,755	6,431,179	8,378,115	10,928,267
Derivative financial instruments . . . . .	8,773	–	61,059	124,237
Interest-bearing bank and other borrowings . . . . .	30,272,870	41,699,533	53,545,549	59,761,153
Deferred revenue . . . . .	7,577	–	–	–
Taxes payable . . . . .	840,356	644,112	1,002,600	753,651
Total current liabilities . . . . .	38,823,402	57,112,459	65,874,589	73,842,277
NET CURRENT LIABILITIES . . . . .	6,986,679	(1,721,907)	(939,751)	(1,418,591)
TOTAL ASSETS LESS CURRENT LIABILITIES . . . . .	71,902,722	82,200,430	100,686,332	123,143,583

	As of 31 December			As of 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT LIABILITIES</b>				
Trade and bills payables . . . . .	–	–	55	–
Interest-bearing bank and other borrowings . . . . .	41,504,967	41,729,268	53,392,039	70,738,657
Derivative financial instruments . . . .	215,174	288,114	31,158	41,202
Deferred tax liabilities . . . . .	137,556	129,392	70,850	45,185
Other payables and accruals . . . . .	12,306,828	16,262,396	19,729,080	22,236,783
Deferred revenue . . . . .	288,304	260,778	148,068	174,538
Other liabilities . . . . .	–	569,062	2,468,981	3,485,982
Total non-current liabilities . . . . .	54,452,829	59,239,010	75,840,231	96,722,347
Net assets . . . . .	17,449,893	22,961,420	24,846,101	26,421,236
<b>EQUITY</b>				
Equity attributable to ordinary shareholders of the parent				
Share capital . . . . .	6,683,751	10,210,572	10,213,017	10,213,688
Other reserves . . . . .	9,429,201	11,180,465	12,746,213	13,301,296
	16,112,952	21,391,037	22,959,230	23,514,984
Holders of perpetual securities . . . . .	1,258,170	1,227,203	1,231,881	2,036,648
Non-controlling interests . . . . .	78,771	343,180	654,990	869,604
Total equity . . . . .	17,449,893	22,961,420	24,846,101	26,421,236



## RISK FACTORS

*Prior to making an investment decision, prospective investors should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. PRC laws and regulations may differ from the laws and regulations in other countries. Additional risks not described below or not currently known to the Group or that it currently deems immaterial may also adversely affect the Group's business, financial condition or results of operations or the value of the Securities. The Group believes that the risk factors described below represent the principal risks inherent in investing in the Securities, but the inability of the Group to make payment on or in connection with any Securities may occur for reasons which may not be considered as significant risks by the Group based on information currently available to it or which it may not currently be able to anticipate. All of these factors are contingencies which may or may not occur and the Group is not in a position to express a view on the likelihood of any such contingency occurring.*

*The Group does not represent that the statements below regarding the risk factors of holding any Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

*This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.*

### **Risks Relating to the Group's Business**

***Any inability to effectively mitigate credit risk and maintain its asset quality may have a material adverse impact on the Group's business, financial condition and results of operations***

The sustainability of the Group's business and future growth depends largely on its ability to effectively manage its credit risk and maintain the quality of its receivables portfolio. As such, any deterioration in its asset quality or impairment in the collectability of lease receivables could materially and adversely affect its results of operations. The Group's non-performing assets ratios were 0.91 per cent., 0.97 per cent. and 0.99 per cent. as of 31 December 2014, 2015 and 2016, respectively, and 0.95 per cent. as of 30 June 2017. The Group may not be able to control effectively the level of its non-performing assets in its current lease receivables portfolio or control effectively the level of new non-performing assets in the future. The amount of the Group's non-performing assets may increase in the future due to a substantial increase in its lease contract value, a deterioration in the quality of its lease receivables portfolio, or a decline in the quality of future receivables. The Group's net lease receivables from customers have increased from RMB97,059.2 million as of 31 December 2014 to RMB110,334.1 million as of 31 December 2015, to RMB116,865.7 million as of 31 December 2016, and to RMB144,009.1 million as of 30 June 2017.

The quality of the Group's lease receivables portfolio may deteriorate for a variety of reasons, including factors beyond its control, such as a slowdown in the economic growth of the PRC or global economies, a recurrence of a global credit crisis or other adverse macroeconomic trends which may cause operational, financial and liquidity problems for its customers thereby affecting their ability to make timely lease payments. If the level of its impaired lease receivables increases, the Group's business, financial condition and results of operations may be materially and adversely affected.

***Any inability to effectively manage its cash flow position may have a material adverse impact on the Group's liquidity and its continuing position in net cash outflows from operating activities***

The Group cannot guarantee that it will not continue to experience periods of net cash outflows from operating activities in the future. For the years ended 31 December 2014, 2015 and 2016, the Group had net cash outflows from operating activities in the amounts of RMB13,347.0 million, RMB10,289.7 million and RMB21,009.2 million, respectively, and RMB21,197.2 million for the six months ended 30 June 2017, as the Group expanded its business and increased the balance of its net lease receivables. As the Group engages in the business of financial leasing, it correspondingly increases its bank and other borrowings, which are recorded as cash inflows from financing activities. Net cash inflows from financing activities were RMB15,829.3 million, RMB12,738.7 million and RMB23,178.7 million for the years ended 31 December 2014, 2015 and 2016, respectively, and RMB23,514.1 million for the six months ended 30 June 2017. This trend in the Group's net cash inflows from financing activities is primarily attributable to trends relating to (i) cash outflows due to repayments on borrowings and (ii) cash inflows due to cash received from borrowings. For the years ended 31 December 2014, 2015 and 2016, cash outflows due to repayments on borrowings were RMB63,291.6 million, RMB70,310.1 million and RMB74,108.9 million, respectively, and RMB55,101.3 million for the six months ended 30 June 2017, while cash inflows due to cash received from borrowings were RMB78,696.7 million, RMB80,704.2 million and RMB97,000.2 million, respectively, and RMB78,210.2 million for the six months ended 30 June 2017. For these reasons, the Group had net cash outflows from operating activities throughout the period. At the same time, the Group's cash flows from operating activities are also impacted by its ability to collect on its outstanding lease receivables. Therefore, the Group's net cash flows from operating activities can be adversely impacted if it does not effectively manage its credit risk and fails to maintain the quality of its lease receivables portfolio. The Group's liquidity in the future will to some extent depend on its ability to maintain adequate cash inflows from operating activities, collected primarily from its outstanding lease receivables. If the Group does not effectively manage its credit risk, or should there be any prolonged or significant decrease in the quality of its lease receivables portfolio, its liquidity and cash flows from operating activities could be materially and adversely affected.

***The Group cannot guarantee that it can or will continue to match the maturity profile of its assets and liabilities as both its assets and liabilities grow. Any inability to do so will impact its liquidity and its ability to repay its borrowings and settle its outstanding liabilities, which could have a material adverse effect on its business, financial condition and results of operations***

The Group strives to effectively match its asset growth with its fundraising on an ongoing basis through regular review and periodic adjustment of its funding sources and structure, as necessary, in view of the changes to its internal financial condition and its external business environment. As of 31 December 2014, 2015 and 2016 and as of 30 June 2017, the Group's total financial assets, based on the contractual undiscounted cash flows, amounted to RMB117,917.2 million, RMB142,716.7 million, RMB164,511.4 million and RMB200,518.3 million, respectively, while its total financial liabilities, based on the contractual undiscounted cash flows, amounted to RMB93,965.6 million, RMB117,939.2 million, RMB142,000.3 million and RMB171,022.7 million, respectively. As of 30 June 2017, the Group recorded net current liabilities of RMB1,418.6 million, which was calculated by reference to the principal the Group borrowed from banks and other financial institutions and that which the Group lent to its customers, without taking into account the interest of such assets and liabilities. The Group manages its liquidity risk by regularly monitoring the relative maturities between its assets and liabilities and by taking the necessary steps to maintain an appropriate and prudent balance of long-term and short-term funding sources. The Group

manages its interest rate exposure by regularly assessing potential changes in interest rates using gap analysis. While the Group has not experienced net liquidity shortfalls for the years ended 31 December 2014, 2015, 2016 and for the six months ended 30 June 2017 with respect to its financial assets and liabilities as a whole or with respect to its current financial assets and liabilities (receivable or payable in one year or less), there is no assurance that the Group will continue to maintain this in the future. The Group may fail to effectively match the relative maturities of its assets and liabilities or manage its interest rate exposures between its borrowings and its lease receivables. Net liquidity shortfalls may occur and the Group may not be able to meet its financial liabilities as they fall due. In addition, such liquidity shortfalls may also impair the Group's ability to obtain sufficient additional financing, if at all. As a result, the Group's liquidity may be impaired, which would have a material adverse effect on its business, financial condition and its results of operation.

***The Group may not be able to obtain sufficient funds on commercially acceptable terms to finance its operations or expansion plans, or at all***

Due to the capital-intensive nature of its business operations, a substantial amount of capital as well as ongoing funding activities are required to support the growth of the Group's lease receivables portfolio and to fund future expansion. The Group primarily funds its operations and expansion through both domestic and foreign bank loans and cash flow from its operations. As of 30 June 2017, the aggregate amount of current and non-current borrowings of the Group is RMB59,761.2 million and RMB70,738.7 million, respectively. If there are changes in the international and/or domestic macroeconomic conditions or policies, or if the Group fails to maintain its existing and future loan arrangements on commercially acceptable terms, the Group may not be able to continue to obtain adequate funding in the future on reasonable commercial terms, or at all. If sufficient financing is not available to meet its needs, or cannot be obtained on commercially acceptable terms, or at all, the Group may not be able to refinance its existing portfolio, fund the operation and/or expansion of its business, introduce new services or compete effectively.

In recent years, the People's Bank of China ("PBOC") has adjusted the benchmark interest rates, the one-to-three year Renminbi lending rates and three-to-five year Renminbi lending rates several times. Since 2012, the PBOC has reduced the benchmark one-year lending rate several times, to the rate of 4.35% in October 2015, where it has been maintained. Adjustments to the interest rates which the Group is charged for its bank borrowings may lag behind its adjustments to the interest rates charged to its customers. This is because interest rates adjustments for both the Group's bank borrowings and its lease contracts with its customers take place at each subsequent payment date. The majority of the Group's lease contracts have monthly payment dates, while most of its bank borrowings have quarterly or semi-annual payment dates. As interest rate adjustments for its bank borrowings tend to take place at a more gradual pace, the Group's net interest spreads may narrow and its net interest margins may decrease as a result.

There can be no assurance that the PBOC will not raise lending rates, and any increase may cause the Group to be unable to obtain sufficient financing, or at all. As a result, the business, financial condition, results of operations and prospects of the Group would be materially and adversely affected.

***The Group may not be able to service its debts***

The Group's financing agreements with debt lenders contain a number of covenants, undertakings, restrictions and default provisions. Examples of major covenants, undertakings and restrictions that may trigger default provisions include:

- transfer of material operating assets (e.g. 20 per cent. of the total assets) without obtaining lender's prior approval;
- material changes to the Group's shareholding structure, including but not limited to merger or consolidation with another company or division, restructuring, change of controlling shareholder;
- seeking additional financing from third parties for the underlying assets without lender's prior approval; and
- failure of the Group's financial indicators to meet certain standards set out under the financing agreements.

As of the date of this Offering Circular, none of the Group's lenders has claimed default against the Group under the above provisions. The Group has not breached any of the provisions that could result in any event of default in any of the three years ended 31 December 2014, 2015, 2016 and during the six months ended 30 June 2017. If it fails to comply with any of these provisions, or is unable to generate sufficient cash flows from its business operations, from the disposal of the assets underlying its leases, or from other business activities, or if it is unable to obtain further financing on favorable terms or at all to meet or repay its debts when due, the lenders may be entitled to accelerate the maturity of loans or foreclose on collateral supporting such loans, which would consequently adversely affect the Group's business, financial condition and its ability to obtain future financing.

***The Group's provisions for impairment losses on lease receivables may not be adequate to cover future credit losses, and it may need to increase its provisions for impaired receivables to cover such future credit losses***

The Group makes provisions for impairment losses on lease receivables in accordance with HKFRS. The Group's impairment provisions on receivables amounted to RMB1,963.4 million, RMB2,196.2 million, RMB2,527.2 million and RMB3,052.5 million, representing 2.02 per cent., 1.99 per cent., 2.16 per cent. and 2.12 per cent. of the Group's net lease receivables as of 31 December 2014, 2015, 2016 and as of 30 June 2017, respectively. This reflected both the growth of its business operations and its approach to provisions in view of the adverse macroeconomic environment. The amount of such provisions for impairment losses is determined on the basis of its internal provisioning procedures and guidelines, with consideration of factors such as the nature and industry-specific characteristics of its customers and their creditworthiness, economic conditions and trends, write-off experience, delinquencies and the value of underlying collateral and guarantees. As the Group's provisions under HKFRS require significant judgment and estimation, its allowance for impairment losses may not always be adequate to cover credit losses in the business operations. Its allowance may prove to be inadequate if adverse changes occur in the PRC economy or other economies in which the Group operates or if other events adversely affect specific customers, industries or markets. Under such circumstances, it may need to make additional provisions for its receivables, which could significantly reduce its profit and may materially and adversely affect its business, financial condition, results of operations and prospects.

***The value of collateral or guarantees securing the Group's leases and the assets underlying its leases to be disposed upon repossession may be inadequate***

As of 31 December 2016, certain of the Group's leases were secured by guarantees. It also conducts financial leasing business within the transportation industry through entrusted loans, all of which are secured by collateral. To mitigate the risks, the Group usually requests that lessees provide guarantees for the leases. However, such guarantees need to be agreed and whether they are provided may depend upon the nature of the business of the particular lessees. For example, the lessees that are public institutions such as hospitals and universities usually do not provide guarantees due to low risk and their state-ownership. In the event of any material default on interest payment terms, the Group is contractually entitled to enforce its security rights over any collateral or guarantee, and/or repossess and dispose of the assets underlying its leases to realise their residual value. The value of its collateral and/or assets underlying its leases to be disposed of may decline and may be materially and adversely affected by a number of factors, such as damage, loss, oversupply, devaluation or reduced market demand. Similarly, a significant deterioration in the financial condition of guarantors under its leases could significantly decrease the amounts it may recover under such guarantees.

The Group's policies require periodic internal re-evaluations of collateral and assets underlying its leases to be disposed of for impairment testing purposes. If the value of such collateral or assets underlying its leases to be disposed of prove to be inadequate to cover the related lease receivables, the Group may need to obtain additional security from its customers or other sources, but there is no assurance that it could do so.

Decline in the value of such collateral, guarantees or assets underlying its leases to be disposed of or its inability to obtain additional security may result in impairments and require the Group to make additional impairment provisions against its lease receivables, which may, in turn, materially and adversely affect its business, financial condition and results of operations.

***The Group may not be able to successfully enforce its rights to the underlying collateral or guarantees to its leases, or enforce its rights to repossess leased assets***

As mentioned above, certain leases of the Group are secured either by guarantees or collateral. In the event of any material default on the payment terms thereof, the Group is entitled to enforce its security rights over any collateral or guarantee, and/or repossess and dispose of the assets underlying its leases to realise their residual value. The lessees under the leases secured by guarantees are independent third parties to the Group, its shareholders or directors or any of their respective associates. In the PRC, the procedures for liquidating or otherwise realising the collateral value of tangible assets and the procedures for enforcing the rights to a guarantee or to repossess and dispose of the assets underlying its leases are usually time-consuming. The whole process may take three to six months or even a longer period of time. Furthermore, in practice it may be difficult to realise such collateral value, enforce the guarantee or repossess and dispose of the assets underlying the leases. Although the Group could apply to a PRC court in accordance with the PRC Civil Procedure Law (民事訴訟法) for the attachment and disposal of any underlying collateral, the enforcement of a guarantee or the repossession of the assets underlying its leases upon default, it is uncertain whether any judgment made by local courts would be enforceable due to uncertainties of the PRC legal system in respect of such enforcement. In addition, under PRC law, the Group's rights to any collateral securing its leases may be subordinated to other claims. For example, according to the PRC Enterprise Bankruptcy Law (企業破產法), claims for the amount that a company in bankruptcy owed its employees prior to 27 August 2006 (being the date of publication

of the PRC Enterprise Bankruptcy Law), including but not limited to salaries, medical insurance and pension benefits, will have priority over the Group's rights to collateral. If the Group is unable to bring an enforcement action on any collateral, or guarantee and/or repossess and dispose of the assets underlying its leases on a timely basis, it may have a material adverse effect on its asset quality, financial condition or results of operations.

***The provision of advisory services has made significant contributions to the Group's revenue. There is no assurance that the Group's revenue generated from advisory services will remain stable or continue to make a significant contribution to its total revenue***

Revenue generated from the Group's advisory services (before business taxes and surcharges) amounted to RMB2,709.4 million, RMB3,850.7 million, RMB3,820.5 million and RMB2,872.2 million for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2017, representing approximately 26.6 per cent., 32.3 per cent., 27.2 per cent. and 31.8 per cent. of its total revenue (before business taxes and surcharges), respectively. The fees that the Group charges for the provision of its advisory services are set with each customer on a case-by-case basis. Although the Group expects its advisory services to continue to experience steady growth with the expansion of its business, there can be no assurance that the demand from its customers for advisory services will remain stable. In addition, failure to provide satisfactory and customised advisory services in a timely manner to address the specific needs of the Group's customers may reduce revenue generated from its advisory services, which may materially and adversely affect its results of operation and overall financial position.

***The Group relies on its key personnel and its ability to attract and retain qualified personnel***

The Group depends on the continued efforts of its senior management team and other key employees for its success. The executive Directors (namely Mr. Kong Fanxing and Mr. Wang Mingzhe) and its senior management (namely Mr. Kong Fanxing, Mr. Wang Mingzhe, Mr. Cao Jian, Mr. Shang Bing, Mr. Wang Ruisheng, Mr. Wu Zhijun, Mr. Wang Jiayin, Mr. Cai Jianjun and Mr. Zhu Guojie) have played vital roles in the Guarantor's operations. Most of them have more than 13 years of experience in the financial service industry in China and possess a deep understanding of the Group's nine target industries, its competitors and the laws regulating its business. Therefore, they play an important role in formulating and implementing appropriate strategies to achieve business success for the Guarantor. All senior management team members have signed open-ended employment contracts with the Group and it cannot be guaranteed that any of the key employees will not voluntarily terminate his or her employment with the Group or leave his or her position due to other reasons beyond its control. The loss of service of any of the key management, in particular the executive Directors, could impair the Group's ability to operate and make it difficult to implement its business and growth strategies. The Group may not be able to replace such persons within a reasonable period of time or with another individual of equivalent expertise and experience, which may severely disrupt its business operations.

The Group's continued success also depends on its ability to attract and retain qualified personnel to manage its existing operations and future growth. Qualified individuals are in high demand and the Group may not be able to successfully attract, assimilate or retain all the personnel it needs with the required industry expertise (such as personnel for its sales and marketing, quality control and asset management departments). The Group may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore there is no assurance that the Group's compensation and benefits payments will not increase unpredictably or at a greater rate than its revenues. The Group's failure to attract and retain qualified personnel and any increase in staffing



costs to retain such personnel could have a negative impact on its ability to maintain its competitive position and grow its business, and may also have a material adverse effect on its financial condition, results of operations and prospects.

***The Group's risk management systems and internal control policies may not be effective in mitigating the Group's risk exposure***

The Group's risk management systems and internal control policies may not be effective in mitigating its exposure to all types of risks, including unidentified or unanticipated risks. Some risk management and control methods are based upon historical market behaviours and past events. As such, the Group may not be able to adequately identify or estimate future risk exposures, which could be significantly greater than indicated by measures based on historical data. Other risk management methods depend on evaluation of information regarding markets, customers or other relevant matters, which may be inaccurate, incomplete, obsolete or improperly evaluated. For instance, the information infrastructure in the PRC is relatively undeveloped and there is no extensive and unified nationwide credit information system. As such, the Group is only able to rely on publicly available resources and its internal resources to assess credit risks associated with a particular customer. Such assessment may not be based on complete, accurate or reliable information. Furthermore, as the Group enters new industry sectors, approaches other customer segments or develops additional product and service offerings, it may not be in a position to adequately identify and predict future risk exposures.

In addition, management of operational, legal or regulatory risks requires various sets of policies and procedures in order to accurately record and verify a large number of transactions and events. Such policies and procedures may not be fully effective. Any failure of the Group's risk management procedures or any failure to identify applicable risks may have a material adverse effect on its results of operations and financial condition.

***Disruptions to the Group's information technology systems may adversely affect its operations and financial condition***

The Group's business operations are dependent on the ability of its information technology systems to accurately process a large number of transactions and information in a timely manner. These systems include the System Application Products System, the Customer Relationship Management System, the Asset Management Expert System and the Leasing Contract Approval System. The proper functioning of the Group's financial control, risk management, accounting, customer service and other data processing systems is critical to the Group's business and its ability to compete effectively. The Group has established its own internal back-up systems to carry on principal functions upon system failures.

However, it cannot be guaranteed that the Group's operations will not be significantly disrupted if any of the Group's systems fail due to, among other things, fire, natural disasters, power loss, software faults, computer virus attacks, conversion errors due to system upgrades, or security breaches. The "Network and Information Safety Measures" formulated by the Group's Information Technology centre under the Quality Control Department may not be effective in preventing any harm or damage resulting from risks threatening its information technology systems. Any disruption to any of the Group's information technology systems could harm its business and adversely affect its operations and financial condition.

***The Group may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties***

Fraud or other misconduct by employees (such as unauthorised business transactions and breaches of its internal policies and procedures) or third parties (such as breach of law) may be difficult to detect and prevent, and could subject the Group to financial loss, sanctions imposed by governmental authorities and serious harm to its reputation. The Group's risk management systems, information technology systems and internal control procedures are designed to monitor its operations and overall compliance. However, it may be unable to identify non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions the Group takes to prevent and detect such activities may not be effective. Hence, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or that such fraud or misconduct may occur in the future. This may have a material adverse effect on the Group's business, financial condition and results of operations.

***The Group may not be able to fully prevent or timely detect any money laundering and other illegal or improper activities***

The Group has strictly complied with applicable anti-money laundering laws and other relevant regulations. The Group is not aware of any money laundering or other major illegal or improper activities engaged by or involving any employee of its domestic or overseas operations.

However, the Group cannot assure potential investors that it can completely eradicate money laundering activities or other improper activities carried out by organisations or individuals through it. If the Group fails to timely detect and prevent money laundering activities or other illegal or improper activities, relevant regulatory agencies will have the power and authority to impose sanctions on it, which may adversely affect its reputation, financial condition and results of operations.

***The Group may not have adequate insurance coverage to cover potential liabilities or losses***

The Group has obtained insurance coverage for its business operations in accordance with legal requirements, and in respect of all assets which it deems material for its operations. The Group faces various risks in connection with its businesses and may lack adequate insurance coverage or may have no relevant insurance coverage. In addition, the Group does not maintain business interruption insurance, which is in line with the general practice in the PRC. As a result, its insurance coverage may be inadequate to cover such losses should they arise. Any such uninsured losses may materially and adversely affect its results of operations and financial position.

***Failure to obtain, renew or retain licences, permits or approvals or failure to comply with applicable laws and regulations may affect the Group's ability to conduct its business***

The Group is required to hold various licences, permits and approvals issued by relevant authorities allowing it to conduct its business operations. Any infringement of legal or regulatory requirements, or any suspension or revocation of these licences, permits and approvals, may have a material adverse impact on the business operations of the Group. In addition, the licensing requirements within the PRC financial leasing industry are constantly evolving and the Group may be subject to more stringent regulatory requirements due to changes in political or economic policies in the PRC. It cannot be certain that the Group will be able to satisfy such regulatory requirements and as a

result it may be unable to retain, obtain or renew relevant licences, permits or approvals in the future. This may in turn hinder the Group's business operations and materially and adversely affect its results of operations and financial condition.

Pursuant to existing foreign exchange regulations in the PRC, foreign exchange transactions for capital account purposes, including direct overseas investment and various international loans, may require the registration with the State Administration of Foreign Exchange of the PRC ("SAFE") (國家外匯管理局) or a bank to which SAFE has delegated its authority. If the Group fails to complete such registration to convert Renminbi into foreign currencies for such purposes, its capital expenditure plans, business operations and consequently its results of operations and financial condition could be materially and adversely affected.

***If the Group encounters difficulties in executing and integrating its growth strategy and expansion plans, its growth prospects may be limited and it may be unable to recoup the costs incurred***

As part of its business strategy, the Group plans to expand its business to include other target industries in the PRC with attractive growth potential. The Group intends to achieve this through expansion, alliances, joint ventures or partnerships, when suitable opportunities arise and under appropriate market conditions. In April 2012, the Group consolidated the electronic information business and incorporated the electronic business in the machinery industry into other industries. The Group incubated its new business in the electronic information industry and established a new business segment in this regard, namely the electronic information segment, in December 2012. This new business segment targets the information industry in the PRC and provides finance leases and other related value-added services to customers in this target market. In March 2015, the Group established a new business sector, namely the urban utility business unit, which would focus on providing a wide range of financial products and professional consulting services to China's urban utilities industry. Through this new sector, the Group aims to seize the opportunities arising from the development of China's urban utilities by providing a wide range of financial products and professional consulting services to three main urban utility industries namely urban environmental protection, urban public transportation and urban energy.

There can be no assurance that the Group will be able to identify any suitable target industries, investment projects or business partners in the near future. In addition, failure to effectively manage the Group's expansion may lead to increased costs, reduced growth and reduced profitability for the Group. Even upon completion of investments or partnerships, the Group may experience difficulties in integrating such businesses into its business model, and may incur higher costs than initially anticipated. This may materially and adversely affect the Group's business, results of operation and financial position.

## **Risks Relating to the Industry**

### ***The Group operates in an increasingly competitive market***

The financial services industry is an increasingly competitive industry and it cannot be certain that the Group will be able to sustain its competitive advantage or effectively implement its business strategies.

The Group's competitors are mainly comprised of bank-affiliated leasing companies, captive leasing companies, independent leasing companies and other financial service companies, which are all similarly involved in the financial leasing and/or financial services business. Competition from such entities may have an impact in the Group's industry, business and operating environment, such as downward competitive pressure on interest rates charged to customers, expansion by existing competitors, adoption by its competitors of innovative financial services or comparatively effective branding efforts, any of which may have a material adverse effect on the Group's business, financial condition and results of operations.

Upon China's accession to the World Trade Organisation in 2001, the PRC leasing industry entered a phase of rapid development and the number of both foreign and domestic investors in the industry has increased. In order to fulfill its commitment to liberalise the PRC financial leasing market, China's Ministry of Commerce ("**MOFCOM**") (中華人民共和國商務部) and the State Council of the PRC ("**State Council**") (國務院) have implemented several policies to further develop the leasing industry and encourage additional investment since 2005 including the *Guiding Opinions on Encouraging the Development of Financial Leasing Industry in the 12th Five-year Period* (商務部關於“十二五”期間促進融資租賃業發展的指導意見) issued by MOFCOM in December 2011, the *Opinions on Further Supporting the Healthy Development of Small and Micro Businesses* (關於進一步支持小型微型企業健康發展的意見) promulgated by the State Council in April 2012, the *Instructive Opinions on Improving the Technological Upgrading of Enterprises* (關於促進企業技術改造的指導意見) promulgated by the State Council in September 2012, the *Guiding Opinions of the State Council on Accelerating the Development of Production-oriented Service Industries and Promoting Industrial Restructuring and Upgrading* (國務院關於加快發展生產性服務業促進產業結構調整升級的指導意見) promulgated by the State Council in July 2014 and the *Guiding Opinions of the General Office of the State Council on Accelerating the Development of the Financial Leasing Industry* (國務院辦公廳關於加快融資租賃業發展的指導意見) promulgated by the General Office of the State Council in August 2015. It is expected that the relevant PRC governments may issue new implementing rules to promote the development of financial leasing companies under their respective regimes. The Group believes that these rules and measures are likely to further increase competition in the PRC financial leasing industry. If the Group is unable to successfully compete against current and future participants in the industry, its business, results of operations, financial condition and prospects may be materially and adversely affected.

***The transportation industry in which the Group is involved is highly cyclical***

A significant part of the Group's net lease receivables relates to the transportation industry. The transportation industry is highly cyclical with demand for and supply of vessels to be leased or sold affected by several factors, including global and regional economic and political conditions, changes in regulatory regimes, strikes or armed conflicts, extreme weather conditions and piracy. These factors are beyond the Group's control and the nature, timing and degree of changes in industry conditions are largely unpredictable. Any decrease in demand for the Group's services in the transportation industry due to cyclical downturns could result in extensive customers defaults, decreased revenue and an inability to grow or maintain its business, and could materially and adversely affect its business, results of operations and financial condition.

***Interest rate changes may adversely affect interest expense related to the Group's borrowings, reduce net interest income and reduce demand for its leasing services***

The Group's business is affected by interest rates, both the interest rates charged to its financial leasing customers and the rates it pays interest on its loans and other financing obligations. In order to remain responsive to changing interest rates and to manage its interest rate exposure, the Group has implemented measures to adjust the structure of its assets and liabilities by assessing the sensitivity of projected net interest income under various interest rate scenarios. However, an increase in interest rates, or the perception that such an increase may occur, could adversely affect the Group's ability to obtain bank loans at favorable interest rates, its ability to maximise its interest income, its ability to originate new leases and its ability to grow. In addition, changes in interest rates or in the relationships between short-term and long-term interest rates or between different interest rate indices (i.e. basis risk) could affect the interest rates received from interest-earning assets differently from the interest rates paid on interest-bearing liabilities, which could, in turn, result in an increase in interest expense or a decrease in the Group's net interest income (which is its interest income minus its interest expense). In addition, the Group's net interest income is also impacted by whether it can adjust the interest rates it charges its customers in response to fluctuations in interest rates for its interest-bearing bank borrowings so as to maintain its net interest spread and its net interest margin. If the Group fails to appropriately adjust interest rates on its lease contracts in a timely manner, its net interest spread and its net interest margins may decrease and, as a result, its profitability and results of operations would be adversely impacted. Any increase to its interest expense or decrease to its net interest income could have a material adverse effect on its business, results of operations and financial condition.

***Fluctuation of equipment prices may adversely affect the Group's operation and business***

The Group currently operates its business by targeting nine focused industries which it believes to have sustainable growth potential, namely the healthcare, education, infrastructure construction, electronic information, transportation, urban utilities, packaging, machinery and comprehensive development (being textiles, light industry, living consumption services and other relevant sectors) industries. There is no assurance that the demand for financial leasing services in these target industries will remain sustainable. Rapid increase of equipment price may reduce overall demand and accordingly reduce the Group's origination of new contracts. Moreover, reduction of equipment price may also affect the Group's ability to recover the related lease receivables due to the increasing likelihood of default by its customers. To be specific, the price at which the Group is able to sell any asset underlying its leases may be lower than the price at which it acquired such assets and this may have a material adverse effect on the Group's business, results of operations and financial condition.

**Risks Relating to Conducting Operations in China**

***Changes in the economic, political and social conditions in the PRC may have a material adverse effect on the Group's business, results of operations and financial condition***

The Chinese economy differs from the economies in developed countries in many respects, including the degree of government involvement and the control of capital investment, as well as the overall level of development. The Group believes the PRC government has indicated its commitment to the continued reform of the economic system as well as the structure of the government. The PRC government's reform policies have emphasised the independence of enterprises and the use of market mechanisms. Since the introduction of these reforms, significant

progress has been made in economic development, and enterprises have enjoyed an improved environment for their development. However, any changes in the political, economic or social conditions in the PRC may have a material adverse effect on the Group's present and future business operations.

***Any slowdown in the Chinese economy may affect the target industries in which the Group operates and result in a material adverse effect on the Group's business, results of operations, financial condition and prospects***

Most of the Group's revenue is derived from the provision of financial leasing services and extended value-added services. The Group relies primarily on domestic demand to achieve growth in its revenue. Such demand is materially influenced by industrial development and the overall economic growth in China as well as policy support for its target industries and for its financial services. Any deterioration of these industries in China resulting from a global economic downturn or the Chinese government's macroeconomic measures affecting these industries may have a material adverse impact on its financial performance and prospects. Furthermore, any deterioration in the financial condition of the Group's customers in these industries or any industry-specific difficulties encountered by these customers could affect its business (such as the deterioration of the quality of its existing lease receivables and its ability to generate new leases), thereby materially and adversely affecting its business, financial condition or results of operations.

Furthermore, the global crisis in financial services and credit markets since 2008 caused a slowdown in the growth of the global economy with a corresponding impact on the Chinese economy. Although there are signs of recovery in the global and Chinese economies, it cannot be certain that any such recovery is sustainable. In addition, if the crisis in global financial services and credit markets were to persist, there is no certainty as to its impact on the global economy, especially the Chinese economy. As a result of global economic cycles, it cannot be certain that the Chinese economy will grow in a sustained or steady manner. Any slowdown or recession in the Chinese economy may affect the Group's ability to secure new leases and contracts and its ability to obtain sufficient financing, which may in turn have a material adverse effect on its business, results of operations, financial condition and prospects.

***The Group may be subject to PRC income taxes on its worldwide income***

Under the PRC EIT Law, the term "de facto management bodies" is defined as "bodies that substantially carry out comprehensive management and control of the business operations, employees, accounts and assets of enterprises". Under the PRC EIT Law, an enterprise outside of China whose "de facto management bodies" are located in China is considered a "resident enterprise" and will be subject to a uniform 25 per cent. enterprise income tax rate on its global income. In April 2009, the State Administration of Tax ("SAOT") (國家稅務總局) further specified criteria for the determination of the "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in China and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in China, (ii) decisions relating to the enterprise's financial and human resource matters are made by, or are subject to approval by, organizations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China and (iv) 50 per cent. or more of voting board members or senior executives of the enterprise habitually reside in China. In addition, SAOT issued the *Measures for the*



*Administration of Income Tax for Chinese-controlled Resident Enterprises Registered Overseas* (the “Measures”) (境外註冊中資控股居民企業所得稅管理辦法(試行)) to provide more guidance on the implementation of the aforesaid circular which came into effect on 1 September 2011 and was revised on 17 April 2015 and 28 June 2016. The Measures specify that SAOT is entitled to decide whether a foreign enterprise controlled by a PRC company or a PRC company group shall be deemed a “resident enterprise” through the application of such foreign enterprises or the investigation conducted by the competent tax authorities.

In January 2014, SAOT issued a circular on the *Determination of PRC Tax Resident Enterprises Subject to Criteria of “De Facto Management Body”* (關於依據實際管理機構標準實施居民企業認定有關問題的公告), which requires a Chinese-controlled offshore-incorporated enterprise that falls within the criteria of “de facto management body” to make an application for the classification as a “resident enterprise”, which in turn will be confirmed by the province-level tax authority. However, it is still unclear how the PRC tax authorities will determine whether a non-PRC entity (that has not already been notified of its status for EIT purposes) will be classified as a “resident enterprise”.

Neither the Issuer nor the Guarantor is currently treated as a PRC resident enterprise by the relevant tax authorities and has not applied for such a treatment. There is no assurance that they will not be considered a “resident enterprise” under the PRC EIT Law and not be subject to the enterprise income tax rate of 25 per cent. on each of their global income in the future.

Under the PRC EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10 per cent. is normally applicable to PRC-sourced income of nonresident enterprises, subject to adjustment by applicable treaty. The PRC EIT Law’s implementation regulations further set forth that interest income is viewed as PRC-sourced income if the enterprise that pays interest is domiciled in the PRC. If the Issuer is deemed a PRC resident enterprise for tax purposes, interest paid to overseas Securityholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at the rate of up to 10 per cent. If the Guarantor is deemed a PRC resident enterprise for tax purposes, and has to make payment pursuant to the Guarantee of the Securities where the Issuer fails to make the relevant payment, such payment made by it to overseas Securityholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at the rate of up to 10 per cent. Similarly, any gain realised on the transfer of the Securities by investors is also subject to a 10 per cent. (or lower treaty rate, if any) PRC income tax if such gain is regarded as income derived from sources within the PRC.

***The Group’s profits and results of operations may be materially and adversely affected by tax reforms in the PRC***

On 23 March 2016, the Ministry of Finance of the PRC and the State Administration of Taxation jointly released the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知), whereby business tax in certain industry sectors will be replaced by value-added tax with effect from 1 May 2016. On 19 April 2016 and 18 August 2016, the SAOT respectively released the Announcement on Matters relating to the Tax Collection and Administration in Comprehensive Promotion of the Pilot Programme of Replacing Business Tax with Value-added Tax (關於全面推開營業稅改徵增值稅試點有關稅收徵收管理事項的公告) and the Announcement on Several Collection and Administration Issues in Pilot Programme of Replacing Business Tax with Value-added Tax (關於營改增試點若干徵管問題的公告), which specifically provided the relevant tax collection and administration matters regarding the implementation of the replacement of business tax with value-added tax. Accordingly, value-added tax at a rate of 6 per cent. and 17 per cent. has been imposed on the Group’s indirect financing business and direct financing business, respectively. A small portion of the Group’s



customers are no longer allowed to deduct their value-added tax due to imposition of the value-added tax on the Group's indirect financing business, which may result in an increase in tax burden of these customers. As such, the Group may have less bargaining power during the negotiation with these customers, which may adversely affect the Group's profits and results of operations.

Moreover, there is no assurance that the PRC governmental authorities will not adopt any new taxation policies to the financing leasing industry in the PRC in the future. Any future actions and policies adopted by the PRC government may affect the Chinese economy and adversely impact financial leasing industry in the PRC, which could materially and adversely affect the Group's profits and results of operations.

***Any limitation on the ability of the Guarantor's PRC subsidiaries to pay dividends to the Guarantor and repay its debts to creditors could limit the Guarantor's ability to fulfill its payment obligations under the Guarantee of the Securities***

The Guarantor is a holding company incorporated in Hong Kong, and it relies on dividends and intercompany loan repayments paid by its PRC operating subsidiaries for its cash requirements, including the funds necessary to service the securities and any other debt it may incur, and to pay its operating expenses. PRC regulations currently permit payments of dividends only out of accumulated profits, as determined in accordance with the accounting standards and regulations in the PRC, which differ in many aspects from generally accepted accounting principles in other jurisdictions. The Guarantor's PRC subsidiaries are required to allocate certain percentages of any accumulated profits after tax each year to their statutory common reserve fund as required under the PRC Company Law, until the aggregate accumulated statutory common reserve funds exceed 50 per cent. of its registered capital. These reserve funds cannot be distributed as cash dividends. In addition, if the Guarantor's PRC subsidiaries incur debts on their own or enter into certain agreements in the future, the instruments governing the debts or such other agreements may restrict their ability to pay dividends or make other repayments or distributions to the Guarantor. Therefore, these restrictions on the availability and usage of the Guarantor's major source of funding may materially and adversely affect its ability to service the Securities and its other debts.

The Guarantor's PRC subsidiaries receive substantially all of their revenue in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of the PRC subsidiaries to use their Renminbi revenues to pay dividends to the Guarantor. The PRC Government has stated publicly that it intends to make the Renminbi freely convertible in the future.

However, uncertainty exists as to timing and whether the PRC Government will restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC, in which case the ability of the PRC subsidiaries to pay dividends to the Guarantor or to satisfy their other foreign exchange requirements may be adversely affected.

***PRC regulation of loans to and direct investments in PRC companies by offshore holding companies may delay or prevent the Group from providing loans or capital contributions to its PRC subsidiaries, which could materially and adversely affect their liquidity and its ability to fund and expand its business***

Under the PRC law, any capital contributions and loans made by the Issuer and the Guarantor (as a foreign shareholder) to the Group's PRC-incorporated subsidiaries are subject to the relevant PRC regulatory regime. In terms of a foreign shareholder's loan, the loan made by the Issuer and/or the

Guarantor to the Guarantor's PRC subsidiaries must be registered with SAFE or any government bureau or agency to which SAFE has delegated its authority. Otherwise, the loan cannot be remitted into the PRC and (if required) converted into Renminbi. In respect of capital contributions made by the Issuer and/or the Guarantor to the Guarantor's PRC subsidiaries, Issuer and/or the Guarantor must complete the registration formalities with the competent business registration authority (e.g. the State Administration for Industry and Commerce ("SAIC") or its relevant local branch), the filings with the competent foreign investment authority (e.g. MOFCOM or its relevant local branch), and the foreign exchange registrations with the relevant bank. Due to the discretionary and arbitrary nature of the aforementioned relevant agencies, there can be no assurance that the Group will be able to register the loans or complete the registration and filing in a timely fashion, or at all. If the Group fails to complete such registration or filings, its ability to finance the operations of its PRC subsidiaries and expansion projects may be adversely affected, which in turn could harm the Group's business, results of operations and financial condition.

***The uncertainties of the PRC legal system and its laws and regulations may have a negative impact on the Group's operations***

The Group's core business is conducted in the PRC and substantially all of its operations are located in the PRC, hence its business operations are regulated primarily by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law systems, past court judgments in the PRC have limited precedential value and may be cited only for reference. Furthermore, PRC written statutes often require detailed interpretations by courts and enforcement bodies for their application and enforcement. The PRC laws and regulations are still evolving and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and enforcement, and such uncertainties may have a negative impact on the Group's business and prospects.

The Group intends to continue exploring growth opportunities within other target industries in China with growth potential and thus may be subject to further laws and regulations applicable to these new industries. MOFCOM promulgated the *Measures on the Administration of Foreign Investment in the Leasing Industry* (外商投資租賃業管理辦法) on 3 February 2005 and had it revised on 28 October 2015 to regulate the operation of foreign-invested leasing and financial leasing businesses generally (which is applicable to International Far Eastern Leasing Co., Ltd. ("Far Eastern")). Under these measures, the risky assets of a foreign-invested financial leasing company shall not in general exceed ten times the company's net assets. On 18 September 2013, MOFCOM promulgated the *Measures for Supervision and Administration of Financial Leasing Enterprises* (融資租賃企業監督管理辦法), which provides for a uniform regulatory system for the operation, supervision and administration of both foreign-invested and domestic-invested financial leasing enterprises. In accordance with the *Notice Concerning the Clarification of the Operating Rules with respect to the Settlement of Renminbi in the Context of Foreign Direct Investment* (關於明確外商直接投資人民幣結算業務操作細則的通知), promulgated by the PBOC on 14 June 2012, apart from some certain special types of foreign invested enterprises, such as foreign invested holding companies and foreign invested financial leasing companies, the total amount of the Renminbi and foreign currency loans of an foreign invested enterprise shall not exceed the difference between the total investment and its registered capital approved by relevant governmental authorities.

There is no assurance that the Group will not be subject to any further regulatory measures imposing stricter requirements such as further restrictions on the proportion of risky assets or the introduction of minimum capital adequacy requirements. If the Group fails to meet any such additional

regulatory requirements, MOFCOM or other relevant regulators may take corrective actions (including, for example, restricting the growth of the Group's lease receivables and its business activities), thereby materially and adversely affecting the Group's business, results of operations and financial condition.

***The NDRC Circular, including the pilot programmes thereunder, is a recent regulation and its interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Securities***

According to the NDRC Circular issued by the NDRC and which came into effect on September 14, 2015, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities or medium-to-long term loans issued or incurred outside the PRC with the NDRC prior to the issuance of securities or loans, and report the particulars of the relevant issuance within 10 working days upon completion of each issuance. The NDRC Circular, including the pilot programmes thereunder, is a recent regulation and its interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the securities. In addition, the administration of the NDRC Circular, including the pilot programmes thereunder, may be subject to a certain degree of executive and policy discretions by the NDRC. The NDRC Circular does not expressly state the legal consequences of non-compliance with the post-issue notification requirements under the NDRC Circular; therefore there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Issuer, the Guarantor, the Securities or the investors in the Securities. There is also no assurance that the foreign debt quota issued by the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Securities in the PRC.

***Any failure to comply with PRC regulations regarding the Guarantor's employee equity incentive plans may subject the PRC plan participants or the Group to fines and other legal or administrative sanctions***

The Guarantor is a company listed on the HKSE. Directors, executive officers and other employees of the Guarantor who are PRC citizens or who have resided in the PRC for a continuous period of not less than one year and who have been granted restricted shares (the "RSUs") or options will be subject to the *Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company* (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知), issued by SAFE in February 2012, according to which, employees, directors, supervisors and other senior management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company participating in such stock incentive plan, and complete certain other procedures. Failure to complete such SAFE registrations may subject them to legal sanctions and may also limit the participants' ability to receive dividends or sales proceeds from the Guarantor's equity incentive plans. There are also regulatory uncertainties that could restrict the Guarantor's ability to adopt additional equity incentive plans for its directors and employees under PRC law.

In addition, SAT has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise their share options or receive RSUs will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company

have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their share options or RSUs. Although the Guarantor currently withholds income tax from its PRC employees in connection with their exercise of options and the granting of their RSUs, if the employees fail to pay, or the PRC subsidiaries fail to withhold the relevant taxes according to the applicable PRC laws, rules and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

***The recurrence of SARS or an outbreak of other epidemics, such as bird flu, Type A H1N1 influenza, H7N9 influenza, Ebola virus, MERS, natural disasters, acts of war or terrorism or other factors beyond its control may adversely affect the Group's business, results of operations and financial condition***

Certain areas in the PRC, including the areas in which the Group operates, may be prone to infectious diseases such as Severe Acute Respiratory Syndrome, or SARS. Outbreaks of infectious diseases in the past have damaged the regional and national economies in the PRC. A recurrence of SARS or an outbreak of other infectious diseases such as avian influenza H5N1 bird flu, Type A H1N1 influenza, H7N9 influenza, Ebola virus or Middle East respiratory syndrome, or MERS, especially in the areas in which the Group or its customers operate, may result in material disruptions to the Group and its customers' businesses. Natural disasters such as earthquakes, floods, severe weather conditions or other catastrophic events may severely affect the regions in which the Group or its customers operate. These natural disasters could cause a material economic downturn in the affected area, nationally or internationally and could have a material adverse effect on the Group's business prospects, financial condition and results of operations.

Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response to such events, as well as geopolitical uncertainty and international conflict and tension, would affect economic development and construction projects. In turn, there could be a material adverse effect on the Group's business, financial condition and results of operations. In addition, the Group may not be adequately prepared in terms of contingency planning or have recovery capabilities in place to deal with a major incident or crisis. As a result, the Group's operational continuity may be adversely and materially affected and the Group's reputation seriously harmed.

***It may be difficult to effect service upon, or to enforce judgments against, the Group or the Directors or senior management residing in the PRC in connection with judgments obtained from courts other than PRC courts***

A substantial part of the Group's assets are located within the PRC. In addition, the majority of the Group's directors and senior management reside within the PRC. Therefore, it may not be possible for investors to effect service of process upon the Group's directors and senior management inside the PRC, including for matters arising under applicable securities laws. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "Arrangement"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party

with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for holders of the Securities to effect service of process against the Group's assets or Directors in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom or most other European countries, or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

***The enforcement of the Labour Contract Law and other labour-related regulations in China may adversely affect the Group's business and its results of operations***

In China, Labour Contract Law of the PRC (中華人民共和國勞動合同法), as amended in December 2012 with such amendments effect from 1 July 2013 (the "**Labour Contract Law**"), the *Interim Provisions on Labour Dispatching* (勞務派遣暫行規) which came into effect on 1 March 2014 and the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008 provide for regulation on employment contract, temporary employment, paid vacation, employment termination and related compensation. These laws and regulation in general have improved employee benefit and protection, implemented more restrictions on the use of dispatched workers, temporary employees and increased cost to employers upon termination of employees. As a result of these protective labour measures or any additional future measures, the Group's labour costs may increase. The Group cannot give assurance that any disputes, work stoppages or strikes will not arise in the future.

***The PRC Anti-Monopoly Law may restrict the Group's business dealings or require it to divest its shares in certain assets in China***

The PRC Anti-Monopoly Law (中華人民共和國反壟斷法), which attempts to prevent monopolistic activities and protect fair competition in the PRC, became effective on 1 August 2008. It prohibits business entities (including the Group and all of its subsidiaries) from engaging in monopolistic behavior, entering into monopolistic agreements, abusing a dominant market position or pursuing consolidations which exclude, restrict or potentially inhibit competition. The PRC Anti-Monopoly Law does not prohibit any business entity from increasing its market share to achieve or maintain a dominant market position through fair competition, nor does it set limits on the market share that any one entity can achieve or maintain in the PRC. The PRC Anti-Monopoly Law also provides clear standards under which business operators are excluded from anti-monopoly examination.

Under the PRC Anti-Monopoly Law, an entity that enters into monopolistic agreements or abuses its dominant market position may be subject to penalties, including confiscation of illegal gains and fines ranging from one per cent. to 10 per cent. of its revenue for the preceding year. If an entity pursues an illegal consolidation, it may be forced to terminate the consolidation, divest its shares and assets or businesses within a limited period of time or otherwise unwind the consolidation. The



operating flexibility of the Group's PRC subsidiaries and the Group's business expansion through a merger with or acquisition of other competitors may be subject to strict examination and approval by MOFCOM, which is the main authority in charge of reviewing anti-monopoly issues related to business combinations. As the PRC Anti-Monopoly Law has not been fully interpreted and implemented, its effect on the Group's business is not yet known and it cannot give assurances that the relevant authorities will not interpret the law in such a manner or announce specific rules such that the implementation of the PRC Anti-Monopoly Law will affect its business in general or will contradict the PRC government's existing policies. In the event of non-compliance with the PRC Anti-Monopoly Law, the Group may be subject to substantial fines and other penalties. In the event of these circumstances, its business model and revenues may be materially and adversely affected.

## **Risks Relating to the Securities**

### ***The Securities are perpetual securities and investors have no right to require redemption***

The Securities are perpetual and have no maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securities can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, the Holders should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

### ***The Issuer's obligations under the Securities and the Guarantor's obligations under the Guarantee of the Securities are subordinated***

The Issuer's obligations under the Securities constitute its direct, unsecured and subordinated obligations. In the event of the Winding-Up of the Issuer, the rights and claims of the Holders in respect of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Securities of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of holders of Parity Securities of the Issuer.

The Guarantor's obligations under the Guarantee of the Securities constitute its direct, unsecured and subordinated obligation. In the event of the Winding-Up of the Guarantor, the rights and claims of the Holders in respect of the Guarantee of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Securities of the Guarantor, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Guarantor, other than the claims of holders of Parity Securities of the Guarantor.

In the event of a shortfall of funds on a Winding-Up of the Issuer or the Guarantor, there is a real risk that an investor in the Securities will lose all or some of its investment and will not receive a full return of the principal amount of the Securities or any unpaid Distributions, Arrears of Distribution or Additional Distribution Amounts.

### ***The Securities may not be suitable investment for all investors***

The Securities are complex financial instruments. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities;
- (d) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***Holders may not receive Distribution payments if the Guarantor elects to defer Distribution payments***

Unless a Compulsory Distribution Payment Event has occurred, the Guarantor may, at its sole discretion, elect to defer the payment of any scheduled Distribution on the Securities for any period of time. The Guarantor is not subject to any limits as to the number of times Distributions can or shall be deferred pursuant to the “*Terms and Conditions of the Securities*” subject to compliance with Condition 4(c)(v) of the “*Terms and Conditions of the Securities*”. Although, following a deferral, Arrears of Distributions are cumulative, subject to the “*Terms and Conditions of the Securities*” the Guarantor may defer its payment for an indefinite period of time by delivering the relevant deferral notices to the Holders.

Any such deferral of Distribution shall not constitute a default of the Issuer in respect of the Securities or of the Guarantor in respect of the Guarantee of the Securities. Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which there was an original issue discount or in respect of which interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in our business and/or financial condition.

***All redemption rights are at the Issuer’s discretion and the timing of redemption of the Securities may not correspond with the Holders’ expectations or preferences***

The Securities are redeemable at the option of the Issuer in whole, but not in part, on the First Reset Date or on any Distribution Payment Date thereafter. In addition, the Issuer also has the right to redeem the Securities, in whole but not in part, at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption if (a) there are any amendments or changes to HKFRS or any other generally accepted accounting standards that may be adopted by the Guarantor for the purposes of preparing its financial statements, such that the Securities and/or the Guarantee of the Securities must not or must no longer be recorded as “equity” in the financial statements of the Guarantor pursuant to those accounting standards or (b) there is an amendment, clarification or change in the equity credit methodology of any Relevant Rating Agency, which amendment, clarification or change results in a lower equity credit for the Securities and/or the Guarantee of the Securities (for the Guarantor)



than the equity credit assigned on the Issue Date, or if equity credit is not assigned on the Issue Date, at the date when equity credit is assigned for the first time.

In addition, the Securities may be redeemed at the option of the Issuer in whole, but not in part 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, if there are any changes in, or amendments to, the laws or regulations of a Tax Jurisdiction or any change in the application or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after the [●] 2017 such that the Issuer (or, if the Guarantee of the Securities were called, the Guarantor) has or will become obliged to pay Additional Amounts (as defined in Condition 7 of the “*Terms and Conditions of the Securities*”) in respect of tax on the Securities and such obligation cannot be avoided by taking reasonable measures available to the Issuer or the Guarantor (as the case may be). The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, 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, provided that prior to the date of the notice of redemption at least 80 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased or cancelled.

The date on which the Issuer elects to redeem the Securities may not accord with the expectation or preference of individual Holders. This may be disadvantageous to Holders in light of market conditions or the individual circumstances of the Holder. A Holder’s ability to realise value at a certain time may be limited to selling the Securities into the secondary market. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

***The Securities will be evidenced by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the Clearing Systems***

The Securities will be evidenced by beneficial interests in a Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (the “**Clearing Systems**”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Certificate. While the Securities are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Securities are evidenced by the Global Certificate, the Issuer will discharge its payment obligations under the Securities by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the Clearing Systems to receive payments under the Securities. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing Systems to appoint appropriate proxies.

***There are limited remedies for non-payment under the Securities***

Any scheduled Distribution will not be due if the Guarantor elects to defer that Distribution. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. The only remedy against the Issuer or the Guarantor available to the Trustee or (where the Trustee has failed to proceed against the Issuer and/or the Guarantor, as provided in the “*Terms and Conditions of the Securities*”) any Holder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting proceedings for the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or proving and/or claiming in the Winding-Up or the liquidation of the Issuer, the Guarantor or both of them (as applicable) in respect of any of the Issuer and/or the Guarantor’s respective payment obligations arising from the Securities and the Guarantee of the Securities.

***The Securities contain provisions regarding modification and waivers which may affect the rights of the Holders***

The Conditions contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Holders agree to (i) any modification of the Securities, the Agency Agreement or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification (except such modification in respect of which an increased quorum is required as mentioned in the “*Terms and Conditions of the Securities*”) of the Securities, the Agency Agreement and the Trust Deed (as the case may be) which in the Trustee’s opinion is not materially prejudicial to the interests of the Securityholders.

***Certificates in definitive form (“Definitive Certificates”) will in no circumstances be issued to any person holding Securities in an amount lower than the minimum denomination***

The Securities will be issued in the denominations of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof.

Definitive Certificates will only be issued if Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so. If Definitive Certificates are issued, such Securities will be issued only in respect of amounts equal to denominations of U.S.\$200,000 or in integral multiples of U.S.\$1,000 in excess thereof. Any remaining nominal amount of Securities will be cancelled and the Holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Securities. Definitive Certificates will in no circumstances be issued to any person holding Securities in an amount lower than the minimum denomination and such Securities will be cancelled and the Holders will have no rights against the Issuer and/or the Guarantor (including rights to receive principal or Distributions or to vote) in respect of such Securities.

***A trading market for the Securities may not develop***

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Guarantor's financial condition. Accordingly, there can be no assurance as to the development or liquidity of any trading market for the Securities. The Stabilisation Manager is not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Stabilisation Manager. Although the Issuer has received an eligibility letter from the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Securities, there can be no guarantee that such listing will be maintained, or that, if listed, a liquid trading market will develop or continue. If an active trading market for the Securities does not develop or continue, the market price and liquidity of the Securities may be adversely affected. The Issuer may elect to apply for a de-listing of the Securities from any stock exchange or markets of such stock exchange on which they are traded because the maintenance of such listing is or would be unduly burdensome.

***The Group may raise other capital which affects the price of the Securities***

The Group now has, and will continue to have after the offering of the Securities, a substantial amount of indebtedness. As of 30 June 2017, the Group's total loans and borrowings outstanding, including both current and non-current borrowings, amounted to RMB130,500 million, which may have important consequences to the Holders of the Securities. For example, such indebtedness could:

- reduce the amounts available to the Holders on a Winding-Up of the Issuer or the Guarantor;
- increase the Group's vulnerability to adverse general economic and industry conditions;
- require the Group to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of the Group's cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit the Group's flexibility in planning for or reacting to changes in our businesses and the industry in which it operates;
- place the Group at a competitive disadvantage compared to its competitors that have less debt;
- limit, along with the financial and other restrictive covenants of its indebtedness, among other things, the Group's ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, the Group may from time to time incur substantial additional indebtedness and contingent liabilities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by the Holders on the Winding-Up of the Issuer or the Guarantor and/or may increase the likelihood of a deferral of Distribution under the Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of the Holders to sell their Securities.

The Group's ability to generate sufficient cash to satisfy its outstanding and future debt and other obligations will depend upon its future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond its control. There can be no assurance that it will be able to generate sufficient cash flow for these purposes. If the Group is unable to service its indebtedness and satisfy its other obligations, it will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In the event of a shortfall of funds on a Winding-Up of the Issuer or the Guarantor, there is a real risk that an investor in the Securities will lose all or some of its investment and will not receive a full or partial return of the principal amount of the Securities or any unpaid Distributions, Arrears of Distribution or Additional Distribution Amounts.

***The Trustee may request that the Holders provide an indemnity and/or security and/or prefunding to its satisfaction***

Pursuant to the "Terms and Conditions of the Securities" and the Trust Deed, the Trustee may, in certain circumstances, request the Holders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes any action on behalf of the Holders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may have an impact on when such actions can be taken.

***An investment in the Securities is subject to interest rate risk***

The Federal Reserve increased its benchmark interest rates several times in 2017. There is no guarantee that the Federal Reserve will not further increase its benchmark interest rates. The Securities will carry a fixed Distribution Rate. Consequently, the trading price of the Securities will vary with fluctuations in US dollar interest rates.

***The Guarantor's ability to make payments on the Securities under the Guarantee of the Securities depends upon receipt of distributions from the Group's subsidiaries, associated companies and joint ventures***

The Guarantor is primarily an investment holding company and its ability to make payments under the Guarantee of the Securities depends upon the receipt of dividends, distributions, interest or advances from wholly owned or partly owned subsidiaries, associated companies and joint ventures. The ability of its subsidiaries, jointly-controlled entities and associated companies to pay dividends may be subject to applicable laws and regulations. The outstanding indebtedness of subsidiaries may contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the percentage interests in its subsidiaries, jointly-controlled entities and associated companies could be reduced in the future.

***The rating of the Securities may not reflect all risks and may be changed at any time, which may adversely affect value of the Securities***

The Securities are expected to be assigned a rating of “BB” by Fitch. One or more independent rating agencies may assign credit ratings to the issue of the Securities. Any rating represents the opinions of the rating agency and its assessment of the ability of the Issuer or the Guarantor to perform their respective obligations under the Securities or, as the case may be, the Guarantee of the Securities and the credit risks in determining the likelihood that payments will be made when due under the Securities. Such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. There can be no assurance that the rating assigned to any Securities will remain in effect for any given period or that the rating will not be lowered, suspended or withdrawn by the rating agencies in the future if, in their judgment, the circumstances so warrant. Neither the Issuer nor the Guarantor has any obligation to inform Securityholders of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the rating of the Securities at any time may adversely affect the market price of the Securities.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Securities are legal investments for it, (ii) the Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Securities under any applicable risk-based capital or similar rules.

***The liquidity and price of the Securities following the offering may be volatile***

The price and trading volume of the Securities may be highly volatile. Factors such as variations in the Group’s revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Securities to change. Any such developments may result in large and sudden changes in the volume and price at which the Securities will trade. There can be no assurance that these developments will not occur in the future.

***Developments in the international financial markets may adversely affect the market price of the Securities***

The market price of the Securities may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of entities with PRC operations is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors’ reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC.

Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Securities could be adversely affected.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Securities, after deducting the fees and other expenses in connection with the issue of the Securities, will be approximately U.S.\$[●] million, which will be used for the working capital and general corporate purposes of the Group. Subject to all necessary approvals having been obtained from the relevant PRC government authorities, the proceeds may also be on-lent to the subsidiaries of the Guarantor in the PRC by way of intercompany loans.

## CAPITALISATION AND INDEBTEDNESS

### Capitalisation of the Group

The following table sets out the consolidated capitalisation of the Group, as derived from the Guarantor's interim condensed consolidated financial statements and adjusted to give effect to the issue of the Securities (before deducting the fees and other expenses in connection with the issue of the Securities). It should be read in conjunction with the interim condensed consolidated financial statements of the Group and the notes thereto.

	As of 30 June 2017	
	Actual	As adjusted
	(RMB'000)	(RMB'000)
<b>Interest-bearing bank and other borrowings</b>		
– Current . . . . .	59,761,153	59,761,153
– Non-current . . . . .	70,738,657	70,738,657
<b>Total borrowings</b> . . . . .	<u>130,499,810</u>	<u>130,499,810</u>
<b>Equity</b>		
Equity attributable to ordinary shareholders of the parent		
– Share capital . . . . .	10,213,688	10,213,688
– Other reserves . . . . .	13,301,296	13,301,296
	23,514,984	23,514,984
Holders of perpetual securities . . . . .	2,036,648	2,036,648
Securities to be issued <sup>(1)</sup> . . . . .	–	[●]
Non-controlling interests . . . . .	869,604	869,604
<b>Total equity</b> . . . . .	<u>26,421,236</u>	<u>[●]</u>
<b>Total capitalisation</b> <sup>(2)</sup> . . . . .	<u>156,921,046</u>	<u>[●]</u>

*Note:*

(1) Refers to the aggregate principal amount of the Securities (before deducting the fees and other expenses in connection with the issue of the Securities). This amount has been translated into Renminbi based on the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States as at 9 November 2017, which was RMB6.6378 per USD1.00.

(2) The capitalisation represents the sum of total equity and total borrowings.

On 6 July 2017, Far Eastern issued RMB5 billion renewable corporate bonds in the PRC domestic market.

Save as indicated above, there has been no material change in the capitalisation of the Group since 30 June 2017.



## TERMS AND CONDITIONS OF THE SECURITIES

*The following is the text of the terms and conditions of the Securities (the “Conditions”) which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates (as defined below) issued in respect of the Notes:*

The U.S.\$[●] [●] per cent. guaranteed subordinated perpetual capital securities (the “**Securities**”, which expression includes any further securities issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of King Talent Management Limited (the “**Issuer**”) are constituted by, are subject to and have the benefit of, a trust deed dated [●] 2017 (as amended, restated, replaced or supplemented from time to time, the “**Trust Deed**”) between the Issuer, Far East Horizon Limited (the “**Guarantor**”) and The Hongkong and Shanghai Banking Corporation Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated [●] 2017 (as amended, restated, replaced or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Securities), The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Securities), the transfer agent named therein (the “**Transfer Agent**”, which expression includes any successor or additional transfer agent appointed from time to time in connection with the Securities), the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Securities), and The Hongkong and Shanghai Banking Corporation Limited as calculation agent (the “**Calculation Agent**”, which expression includes any successor calculation agent appointed from time to time in connection with the Securities) and the Trustee. References herein to the “**Agents**” are to the Registrar, the Principal Paying Agent, the Transfer Agent and the Paying Agents and any reference to an “**Agent**” is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Holders (as defined in Condition 3(a) (*Register, Title and Transfers – Register*)) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours upon reasonable advance written notice at the specified office for the time being of the Trustee, being at the date hereof Level 30, HSBC Main Building, 1 Queen’s Road Central, Hong Kong and at the specified offices of each of the Agents.

### 1. Form and Denomination

The Securities are in registered form in the denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an “**Authorised Denomination**”).

### 2. Status and Subordination of the Securities and the Guarantee of the Securities

- (a) *Status of the Securities:* The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Securities (as defined in Condition 4(c)(viii) (*Distribution – Distribution Deferral – Definitions*)) of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in this Condition 2.

- (b) *Ranking of claims in respect of the Securities:* In the event of the Winding-Up (as defined in Condition 8(g) (*Non-payment – Definitions*)) of the Issuer, the rights and claims of the Holders in respect of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Securities (as defined in Condition 4(c)(viii) (*Distribution – Distribution Deferral – Definitions*)) of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of holders of Parity Securities of the Issuer.
- (c) *Guarantee of the Securities; Status of the Guarantee of the Securities:* The Guarantor has, in the Trust Deed, unconditionally and irrevocably guaranteed on a subordinated basis the due and punctual payment of all sums payable by the Issuer in respect of the Securities. This guarantee (the “**Guarantee of the Securities**”) constitutes a direct, unsecured and subordinated obligation of the Guarantor which ranks *pari passu* with any Parity Securities of the Guarantor. The rights and claims of the Holders in respect of the Guarantee of the Securities are subordinated as provided in this Condition 2.
- (d) *Ranking of claims in respect of the Guarantee of the Securities:* In the event of the Winding-Up of the Guarantor, the rights and claims of the Holders in respect of the Guarantee of the Securities shall rank ahead of those persons whose claims are in respect of any Junior Securities of the Guarantor, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Guarantor, other than the claims of holders of Parity Securities of the Guarantor.
- (e) *Set-off – Securities:* Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Securities, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.
- (f) *Set-off – Guarantee of the Securities:* Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Guarantor in respect of, or arising under or in connection with the Guarantee of the Securities, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Guarantor. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Guarantor in respect of, or arising under or in connection with the Guarantee of the Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Guarantor (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Guarantor) and, until such time as payment is made, shall hold such amount in trust for the Guarantor (or the liquidator or, as appropriate, administrator of the Guarantor) and accordingly any such discharge shall be deemed not to have taken place.

*Upon issue, the Securities will be evidenced by a global certificate (the “**Global Certificate**”) substantially in the form scheduled to the Trust Deed. The Global Certificate will be registered in the name of a nominee for, and deposited with a common depositary for Euroclear Bank S.A./N.V. (the “**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”) and will be exchangeable for individual Certificates only in the circumstances set out therein.*

### **3. Register, Title, Transfers and Replacements**

- (a) *Register:* The Registrar will maintain a register (the “**Register**”) in respect of the Securities in accordance with the provisions of the Agency Agreement. In these Conditions, “**Securityholder**”, or, in respect of a Security, “**Holder**” means the person in whose name such Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each, a “**Certificate**”) will be issued to each Holder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title:* The Holder of each Security shall (except as otherwise required by law) be treated as the absolute owner of such Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such Holder.
- (c) *Transfers:* Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Security may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Security may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Holder are being transferred) the principal amount of the balance of Securities not transferred are Authorised Denominations. Where not all the Securities represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Securities will be issued to the transferor. No transfer of title to a Security will be valid unless and until registered on the Register.

*Transfers of interests in the Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

- (d) *Registration and delivery of Certificates:* Within three business days of the surrender of a Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Securities transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request, cost and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day, excluding a Saturday and a Sunday, on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

- (e) *No charge*: The transfer of a Security will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods*: Holders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or Distribution (as defined in Condition 4(a) (*Distribution – Accrual of Distribution*)) in respect of the Securities.
- (g) *Regulations concerning transfers and registration*: All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer (acting together with the Guarantor) with the agreement of the Principal Paying Agent. A copy of the current regulations will be mailed electronically by the Registrar to any Holder who requests in writing a copy of such regulations.
- (h) *Replacement of Securities*: Should any Security be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Securities must be surrendered before replacements will be issued.

#### 4. Distribution

- (a) *Accrual of Distribution*: Subject to Condition 4(c) (*Distribution – Distribution Deferral*), the Securities confer a right to receive distribution (each a “**Distribution**”) from [●] 2017 (the “**Issue Date**”) at the Distribution Rate in accordance with this Condition 4. Subject to Condition 4(c) (*Distribution – Deferral of Distribution*), Distribution shall be payable on the Securities semi-annually in arrear on [●] and [●] of each year (each, a “**Distribution Payment Date**”), with the first Distribution Payment Date falling in [●] 2018.

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (i) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Holder and (ii) the day which is three days after the Principal Paying Agent or the Trustee has notified the Holders that it has received all sums due in respect of the Securities up to such third day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

The amount of Distribution payable on each Distribution Payment Date shall be U.S.\$[●] in respect of each Security of U.S.\$200,000 denomination and U.S.\$[●] in respect of each Security of U.S.\$1,000 denomination. If a Distribution is required to be paid in respect of a Security on any other date, it shall be calculated by applying the Distribution Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Security divided by the Calculation Amount, where “**Calculation Amount**” means U.S.\$1,000 and

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

Distribution payable under this Condition will be paid in accordance with Condition 6 (*Payments*).

(b) *Rate of Distribution*: The rate of distribution (“**Distribution Rate**”) applicable to the Securities shall be:

- (i) from and including the Issue Date to, but excluding [●] 2022 (the “**First Reset Date**”), the Initial Distribution Rate;
- (ii) for each Reset Distribution Period from and including the First Reset Date to, but excluding [●] 2037, the Relevant Reset Distribution Rate; and
- (iii) for each Reset Distribution Period from and including [●] 2037 to, but excluding the redemption date of the Securities, if any, the Relevant Reset Distribution Rate plus 5.00 per cent. per annum.

(c) *Distribution Deferral*:

- (i) *Optional Deferral*: Unless a Compulsory Distribution Payment Event has occurred, the Guarantor may, at its sole discretion, elect to defer (in whole or in part) a Distribution which is otherwise scheduled to be paid by the Issuer on a Distribution Payment Date to the next Distribution Payment Date by giving notice (the “**Deferral Election Notice**”) of such election to the Securityholders, the Trustee and the Principal Paying Agent not more than 10 nor less than five business days in Hong Kong prior to the relevant Distribution Payment Date (a “**Deferral Election Event**”).
- (ii) *No obligation to pay*: The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if, and only if, the Guarantor validly elects and notifies the Issuer not to do so in accordance with Condition 4(c)(i) (*Distribution – Distribution Deferral – Optional Deferral*) and any failure to pay Distribution shall not constitute a default of the Issuer in respect of the Securities or of the Guarantor in respect of the Guarantee of the Securities.
- (iii) *Requirements as to Notice*: From [●] 2027, each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form scheduled to the Trust Deed signed by one authorised signatory of the Guarantor confirming that no Compulsory Distribution Payment Event has occurred. The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event (and that no Compulsory Distribution Payment Event has occurred) in which event it shall be conclusive and binding on the Holders.

- (iv) *Cumulative Deferral*: Any Distribution deferred pursuant to this Condition 4(c) shall constitute “**Arrears of Distribution**”. The Guarantor may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Guarantor is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to this Condition 4(c) except that Condition 4(c)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall accrue distribution at the prevailing Distribution Rate and the amount of such distribution (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable as if it were a Distribution pursuant to this Condition 4 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in this Condition 4. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added (for the purpose of calculating the Additional Distribution Amount accruing thereafter) to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

- (v) *Restrictions in the case of Deferral*: If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of this Condition 4(c), the Guarantor shall not:

- (A) declare or pay any discretionary dividends, distributions or make any other discretionary payment, and will procure that no discretionary dividend, distribution or other discretionary payment is made, on any of its Junior Securities or Parity Securities (except (i) in relation to its Parity Securities, on a *pro rata* basis with the Securities, or (ii) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants); or
- (B) at its discretion repurchase, redeem, reduce, cancel, buy-back or otherwise acquire for any consideration any of its Junior Securities or Parity Securities prior to its stated maturity (except (i) in relation to its Parity Securities, on a *pro rata* basis with the Securities, or (ii) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (iii) as a result of the exchange or conversion of its Parity Securities for its Junior Securities),

in each case, unless and until (a) the Issuer or the Guarantor satisfies in full all outstanding Arrears of Distribution and any Additional Distribution Amount; or (b) the Guarantor is permitted to do so by an Extraordinary Resolution (as defined in the Trust Deed) of the Securityholders.



- (vi) *Satisfaction of Arrears of Distribution by payment*: The Issuer may satisfy any Arrears of Distribution and any Additional Distribution Amounts (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 14 (*Notices*)), the Trustee and the Principal Paying Agent not more than 10 nor less than five Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and any Additional Distribution Amounts on the payment date specified in such notice); and in any event shall satisfy any outstanding Arrears of Distribution (in whole but not in part) and any Additional Distribution Amounts on the earliest of (a) the date of redemption of the Securities in accordance with Condition 5 (*Redemption and Purchase*); (b) the next Distribution Payment Date on the occurrence of a breach of Condition 4(c)(v) (*Distribution – Distribution Deferral – Restrictions in the case of Deferral*) or the occurrence of a Compulsory Distribution Payment Event; and (c) on a Winding-Up of the Issuer or the Guarantor. Any partial payment of outstanding Arrears of Distribution and any Additional Distribution Amounts by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.
- (vii) *No default*: Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Distribution payment in accordance with this Condition 4(c) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 8 (*Non-payment*)) on the part of the Issuer or the Guarantor under the Securities or for any other purpose.

(viii) *Definitions*: For the purposes of these Conditions:

**“Business Day”** means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and New York;

**“Calculation Date”** means, for the purpose of calculating the Relevant Reset Distribution Rate, the commencement date of the relevant Reset Distribution Period;

**“Comparable Period”** means the period of five years;

**“Comparable Treasury Issue”** means, in relation to calculating the Relevant Reset Distribution Rate, the U.S. Treasury security selected by the Calculation Agent as having a maturity of the Comparable Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of the Comparable Period;



**“Comparable Treasury Price”** means, with respect to any redemption date:

- (a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for US Government Securities”; or
- (b) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations;

**“Comparable Treasury Rate”** means the rate notified by the Calculation Agent to the Issuer, the Guarantor and the Securityholders (in accordance with Condition 15 (*Notices*)) in per cent. per annum equal to the yield, under the heading that represents the average for the week immediately prior to the relevant Calculation Date, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System (<https://www.federalreserve.gov/releases/h15/>) and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity corresponding to the Comparable Treasury Issue. If such release (or any successor release) is not published during the week preceding the Calculation Date or does not contain such yields, Treasury Rate means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. The Comparable Treasury Rate will be calculated on the second Business Day preceding the relevant Calculation Date;

**“Compulsory Distribution Payment Event”** means at any time from and including [●] 2027, circumstances in which during the three-month period ending on the day before the relevant Distribution Payment Date either or both of the following have occurred:

- (a) a discretionary dividend, distribution or other discretionary payment has been paid or declared by the Guarantor (or in the case of any Parity Securities, the issuer thereof) on or in respect of any Junior Securities or any Parity Securities of the Guarantor (except (i) in relation to the Parity Securities of the Guarantor, on a *pro rata* basis or (ii) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants); or
- (b) the Guarantor (or in the case of Parity Securities, the issuer thereof) has at its discretion repurchased, redeemed, reduced, cancelled, bought-back or otherwise acquired for any consideration any of its Junior Securities or any Parity Securities prior to its stated maturity (except (i) in relation to the Parity Securities of the Guarantor on a *pro rata* basis, (ii) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (iii) as a result of the exchange or conversion of its Parity Securities for its Junior Securities).

For the avoidance of doubt, the Guarantor's right of optional deferral pursuant to Condition 4(c)(i) (*Distribution – Distribution Deferral – Optional Deferral*) will not be affected solely as a result of the incurrence of any Parity Securities or Junior Securities. In addition, the incurrence of any Parity Securities or Junior Securities itself will not constitute a Compulsory Distribution Payment Event. A non-discretionary payment on, or redemption of, Parity Securities or Junior Securities (such as a scheduled payment of principal and interest on such Parity Securities or Junior Securities, which the issuer thereof has no right to defer) does not constitute a Compulsory Distribution Payment Event.

**“Initial Distribution Rate”** means [●] per cent. per annum;

**“Initial Spread”** means [●] per cent.;

**“Junior Securities”** means, in relation to the Issuer or the Guarantor, as the case may be, (a) its ordinary shares, or any other securities ranking *pari passu* therewith in respect of which all payments or dividends and distributions are discretionary or the share capital of the Guarantor (in the case of the Guarantee of the Securities)); (b) any instrument or security issued by the Issuer or the Guarantor, as the case may be, which ranks, or is expressed to rank, by its terms or by operation of law, junior to the obligations of the Issuer under the Securities or the obligations of the Guarantor under the Guarantee of the Securities, as the case may be; and (c) any security for which the Issuer or the Guarantor, as the case may be, has guaranteed or otherwise assumed liability where the obligations of the Issuer (in the case of the Securities) or the obligations of the Guarantor (in the case of the Guarantee of the Securities) under the relevant guarantee or other assumption of liability rank or are expressed to rank junior to the obligations of the Issuer under the Securities or the obligations of the Guarantor under the Guarantee of the Securities, as the case may be;

**“Parity Securities”** means, in relation to the Issuer or the Guarantor, as the case may be, any instrument or security (including without limitation any preference share) issued, entered into or guaranteed by the Issuer or the Guarantor (i) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities (in the case of the Issuer) or the obligations of the Guarantor under the Guarantee of the Securities (in the case of the Guarantor) and (ii) the terms of which provide that the making of payments thereon or distributions in respect thereof are fully at the discretion of the Issuer or, as the case may be, the Guarantor and/or, in the case of an instrument or security guaranteed by the Issuer, or, as the case may be, the Guarantor, the issuer thereof;

**“Reference Treasury Dealer”** means each of any three investment banks of recognised standing that is a primary US Government securities dealer in The City of New York, selected by the Issuer in good faith;

**“Reference Treasury Dealer Quotations”** means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date;

**“Relevant Reset Distribution Rate”** means the Comparable Treasury Rate with respect to the relevant Reset Date plus the Initial Spread;

“**Reset Date**” means the First Reset Date and the day falling every five calendar years thereafter;

“**Reset Distribution Period**” means the period beginning on and including the First Reset Date and ending on but excluding the following Reset Date and each successive period beginning on and including a Reset Date and ending on but excluding the next succeeding Reset Date; and

“**Standard & Poor’s**” means each of S&P Global Ratings and/or S&P Global Inc., as applicable.

## 5. Redemption and Purchase

- (a) *No fixed redemption date*: The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 2 (*Status and Subordination of the Securities and the Guarantee of the Securities*) and without prejudice to Condition 8 (*Non-payment*)), only have the right to redeem or purchase them in accordance with the following provisions of this Condition 5.
  - (b) *Redemption for tax reasons*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Trustee, the Principal Paying Agent and the Securityholders (in accordance with Condition 14 (*Notices*)) 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, if the Issuer satisfies the Trustee immediately before giving such notice that:
    - (i) on the occasion of the next payment due under the Securities, the Issuer (or, if the Guarantee of the Securities were called, the Guarantor) has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7 (*Taxation*)), or any change in the application or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after [●] 2017; and
    - (ii) such obligation cannot be avoided by the Issuer or the Guarantor (as the case may be) taking reasonable measures available to it,
- ((i) and (ii) together, a “**Gross-Up Event**”) *provided that* no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Securities then due.

Prior to the publication of any Tax Redemption Notice, the Guarantor shall deliver or procure that there is delivered to the Trustee a certificate (in the form set out in the Trust Deed) signed by one authorised signatory of the Issuer or, as the case may be, the Guarantor stating that the Issuer or, as the case may be, the Guarantor is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such Additional Amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(b).

- (c) *Redemption upon a ratings event:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the to the Trustee, the Principal Paying Agent and the Securityholders (in accordance with Condition 14 (*Notices*)) at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption, if, immediately before giving such notice, an amendment, clarification or change has occurred in the equity credit methodology of any Relevant Rating Agency, which amendment, clarification or change results in a lower equity credit for the Securities and/or the Guarantee of the Securities (for the Guarantor) than the equity credit assigned on the Issue Date or, if equity credit is not assigned on the Issue Date, at the date when equity credit is assigned for the first time.

For the purposes of this Condition 5(c):

- (i) “**Fitch**” means Fitch Ratings Limited; and
- (ii) “**Relevant Rating Agency**” means Standard & Poor’s, Fitch or any other rating agency of equivalent international standing requested from time to time by the Guarantor to grant an equity classification to the Securities and/or the Guarantee of the Securities and in each case, any of their respective successors to the rating business thereof.

Prior to the publication of any notice of redemption pursuant to this Condition 5(c), the Guarantor shall deliver or procure that there is delivered to the Trustee a certificate (in the form set out in the Trust Deed) signed by one authorised signatory of the Guarantor stating that the circumstances referred to above prevail and setting out the details of such circumstances. The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Upon the expiry of any such notice as is referred to in this Condition 5(c), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(c), *provided that* such date for redemption shall be no earlier than the last day before the date on which the Securities and/or the Guarantee of the Securities be assigned a lower category of equity credit.

- (d) *Redemption for accounting reasons:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (an “**Accounting Event Notice**”) to the Trustee, the Principal Paying Agent and the Securityholders (in accordance with Condition 14 (*Notices*)), at (i) 101 per cent. of their principal amount, if such redemption takes place on or before [●] 2022 and (ii) their principal amount, if such redemption takes place after [●] 2022, together with all outstanding Arrears of Distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption, if an Accounting Event has occurred and is continuing immediately prior to the giving of the Accounting Event Notice and the Issuer complies with the requirements under this Condition 5(d).

For the purposes of this Condition, an “**Accounting Event**” is deemed to have occurred if as a result of any changes or amendments to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants as amended from time to time or any other generally accepted accounting standards that may be adopted by the Guarantor for the purposes of preparing its financial statements, the Securities and/or the Guarantee of the Securities must not or must no longer be recorded as “equity” in the financial statements of the Guarantor pursuant to those accounting standards.

No Accounting Event Notice shall be given at any time before 90 days before the amendment or change constituting an Accounting Event becoming effective in respect of the Guarantor. Prior to the publication of any Accounting Event Notice, the Guarantor shall deliver or procure that there is delivered to the Trustee:

- (A) a certificate (in the form set out in the Trust Deed) signed by one authorised signatory of the Guarantor stating that the Accounting Event has occurred and such event cannot be avoided by the Guarantor taking reasonable measures available to it; and
- (B) an opinion, in form and substance satisfactory to the Trustee of the Guarantor’s independent auditors or auditors of a recognised accountancy firm of international standing to the effect that such Accounting Event has occurred (irrespective of whether such amendment or change is then effective).

The Trustee shall be entitled to accept and rely on such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Holders notwithstanding that such opinion may contain a monetary or other limitation or any exclusion of liability of such auditors.

Upon the expiry of any such notice as is referred to in this Condition 5(d), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(d) provided such date for redemption shall be no earlier than the last day before the date on which the Securities must not or must no longer be so recorded as “equity” of the Guarantor pursuant to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants as amended from time to time or any other generally accepted accounting standards that may be adopted by the Guarantor for the purposes of preparing its financial statements.

- (e) *Redemption at the option of the Issuer:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, on the First Reset Date or on any Distribution Payment Date thereafter on the Issuer’s giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and the Securityholders (in accordance with Condition 14 (*Notices*)) 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.
- (f) *Redemption in the case of minimal outstanding amount:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and the Securityholders (in accordance with Condition 14 (*Notices*)) 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, *provided that* prior to the date of such notice at least 80 per cent. in principal amount of the Securities originally issued has already been redeemed or purchased or cancelled.

- (g) *No other redemption*: The Issuer shall not be entitled to redeem the Securities and shall have no obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 5(b) (*Redemption and Purchase – Redemption for tax reasons*) to 5(f) (*Redemption and Purchase – Redemption in the case of minimal outstanding amount*) above.
- (h) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Securities in the open market or otherwise and at any price. Such Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation. For the purposes of these Conditions, “**Subsidiary**” means entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer or, as the case may be, the Guarantor.
- (i) *Cancellation*: All Securities which are redeemed will forthwith be cancelled or surrendered therewith at the time of redemption. All Securities so cancelled and the Securities purchased and cancelled pursuant to Condition 5(h) above shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.
- (j) *No liability for calculations*: Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Holders or any other person for not doing so.

## 6. Payments

- (a) *Principal*: Payments of principal shall be made in U.S. dollars by U.S. dollar cheque drawn on, or, upon application by a Holder of a Security to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of redemption) upon surrender, or, (in the case of part payment only) endorsement, of the relevant Certificates at the Specified Office of any Paying Agent.
- (b) *Distribution*: Payments of Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall be made in U.S. dollars by U.S. dollar cheque drawn on, or upon application by a Holder of a Security to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of Distribution payable on redemption) upon surrender or, (in the case of part payment of Distribution only) endorsement, of the relevant Certificates at the Specified Office of any Paying Agent.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (c) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and



Distribution payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered, or, (in the case of part payment of Principal or Distribution only) endorsed, at the Specified Office of a Paying Agent and (ii) (in the case of payments of Distribution payable other than on redemption) on the due date for payment. A Holder of a Security shall not be entitled to any Distribution or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day, other than a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

- (d) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Security, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.
- (e) *Record date:* Each payment in respect of a Security will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Security is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

## 7. **Taxation**

All payments of principal, premium and Distribution, Arrears of Distribution and Additional Distribution Amounts in respect of the Securities by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction, unless the withholding or deduction of Taxes is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts (the “**Additional Amounts**”) as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and Distribution, Arrears of Distribution and Additional Distribution Amounts which would otherwise have been receivable in respect of the Securities in the absence of the withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Security:

- (i) presented for payment by or on behalf of a Holder who is liable for the Taxes in respect of such Security by reason of his having some connection with such Tax Jurisdiction other than the mere holding of such Security;
- (ii) presented for payment by or on behalf of a Holder who is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim; or
- (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a Holder thereof would have been entitled to an Additional Amount on presenting the same for payment on the thirtieth day assuming that day to have been a Business Day.



For the purposes of these Conditions:

- (a) “**Tax Jurisdiction**” means the Cayman Islands, Hong Kong and the People’s Republic of China, or any political subdivision or any authority thereof or therein having power to tax; and
- (b) “**Relevant Date**” means the date on which the payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee, the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Securityholders by the Issuer in accordance with Condition 15 (*Notices*).

Each of the Issuer and the Guarantor or any of the Issuer’s agents making a payment on its behalf shall be permitted to withhold or deduct from any payment of principal or Distribution any amounts (i) required by the rules of U.S. Internal Revenue Code of 1986 (the “**Code**”) Sections 1471 through 1474 (or any amended or successor provisions), any regulations or agreements thereunder, any official interpretation thereof, or (without prejudice to the provisions of this Condition 7) any law implementing an inter-governmental approach thereto, (ii) pursuant to any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions, or (iii) pursuant to any agreement with the U.S. Internal Revenue Service (the “**FATCA withholding**”), as a result of a Holder, beneficial owner or an intermediary that is not an agent of the Issuer not being entitled to receive such payment free of FATCA withholding. Each of the Issuer and the Guarantor or any of the Issuer’s agents will have no liability for or have any obligation to pay Additional Amounts in respect of any such FATCA withholding deducted or withheld by the Issuer, the Guarantor (as the case may be) or any of the Issuer’s agents or any other party.

References in these Conditions to principal, Distribution, premium, Arrears of Distribution and/or Additional Distribution Amounts shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the Cayman Islands or Hong Kong, respectively, references in these Conditions to the Cayman Islands or Hong Kong shall be construed as references to the Cayman Islands or (as the case may be) Hong Kong and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Holder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), Distribution, Arrears of Distribution and Additional Distribution Amounts in respect of the Securities without deduction or withholding for or on account of any tax, duty, charges, withholding or other payment imposed by or in any jurisdiction.

## 8. Non-payment

- (a) *Non-payment when due:* Notwithstanding any of the provisions below in this Condition 8, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Guarantor has elected to, or is required to, defer that Distribution in accordance with Condition 4(c) (*Distribution – Distribution Deferral*).

In addition, nothing in this Condition 8, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee, the Agents or any of their respective directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer or the Guarantor, as the case may be, in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed, the Agency Agreement or the Securities.

- (b) *Proceedings for Winding-Up:* If (i) there is a Winding-Up of the Issuer or the Guarantor, or (ii) the Issuer or the Guarantor shall not make payment in respect of the Securities or the Guarantee of the Securities, as the case may be, for a period of 14 days or more after the date on which such payment is due, the Issuer and the Guarantor shall be deemed to be in default under the Securities (in the case of the Issuer) and the Guarantee of the Securities (in the case of the Guarantor) and the Trustee may, subject to the provisions of Condition 8(d) (*Non-payment – Entitlement of Trustee*), institute proceedings for the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or prove in the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or claim in the liquidation of the Issuer, the Guarantor or both of them (as applicable) for the principal amount of the Securities and any Distribution accrued but unpaid, together with all outstanding Arrears of Distribution and Additional Distribution Amounts.
- (c) *Enforcement:* Without prejudice to Condition 8(b) (*Non-payment – Proceedings for Winding-Up*), but subject to the provisions of Condition 8(d) (*Non-payment – Entitlement of Trustee*), the Trustee may without further notice to the Issuer and/or the Guarantor institute such proceedings against the Issuer, the Guarantor or both of them (as applicable) as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor under the Trust Deed, the Securities or the Guarantee of the Securities (other than any payment obligation of the Issuer or the Guarantor under or arising from the Securities or the Guarantee of the Securities, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities or the Guarantee of the Securities, including any damages awarded for breach of any obligations) but in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

Nothing in this Condition 8(c) shall, however, prevent the Trustee from instituting proceedings for the Winding-Up of the Issuer, the Guarantor or both of them (as applicable), proving in any Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or claiming in any liquidation of the Issuer, the Guarantor or both of them (as applicable) in respect of any payment obligations of the Issuer arising from the Securities or the Trust Deed (including any damages awarded for breach of any obligations) or, as the case may be, the Guarantor in respect of the Guarantee of the Securities.

- (d) *Entitlement of Trustee*: The Trustee shall not be obliged to take any of the actions referred to in Condition 8(b) (*Non-payment – Proceedings for Winding-Up*) or 8(c) (*Non-payment – Enforcement*) against the Issuer or, as the case may be, the Guarantor, to enforce the terms of the Trust Deed or the Securities unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least 25 per cent. in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction and *provided that* the Trustee shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Securityholders.
- (e) *Right of Holders*: No Securityholder shall be entitled to proceed directly against the Issuer, the Guarantor or both of them (as applicable) or to institute proceedings for the winding-up or claim in the liquidation of the Issuer, the Guarantor or both of them (as applicable) or to prove in such winding-up unless the Trustee, having become so bound to proceed or to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholder shall have only such rights against the Issuer, the Guarantor or both of them (as applicable) as those which the Trustee is entitled to exercise as set out in this Condition 8.
- (f) *Extent of Holders' remedy*: No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 8, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee of the Securities, under the Trust Deed or in respect of any breach by each of the Issuer and the Guarantor of any of their respective other obligations under or in respect of the Securities, the Guarantee of the Securities or under the Trust Deed.
- (g) *Definitions*: In these Conditions, “**Winding-Up**” means, with respect of the Issuer or the Guarantor, a final and effective court order or effective resolution for the winding up, liquidation or similar proceedings (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer or the Guarantor, as the case may be, of a successor in business, or, as the case may be, the terms of which reorganisation, reconstruction, amalgamation or substitution have been previously approved by an Extraordinary Resolution).

## 9. Prescription

Claims for principal and Distribution on redemption shall become void unless the relevant Note Certificates are surrendered for payment within a period of five years after the applicable due date for payment of such amount.

## 10. Meetings of Holders; Modification and Waiver; Interests of and Directions from Holders

- (a) *Meetings of Holders*: The Trust Deed contains provisions for convening meetings of Holders to consider matters relating to their interests, including the sanctioning by Extraordinary Resolution of a modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or the Trustee and shall be convened by the Trustee upon the request in writing of Holders holding not less than 10 per cent. in nominal amount of the Securities for the time being remaining outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Securities for the time being outstanding or, at any adjourned such meeting, one or more persons being or representing Holders whatever the nominal amount of the Securities so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the circumstances in which the Securities may be redeemed or the circumstances in which Distribution (including any Arrears of Distribution or Additional Distribution Amounts) are payable in respect of the Securities, (ii) to amend the subordination provisions in the Trust Deed, (iii) to amend the terms of the Guarantee of the Securities, (iv) to vary the method of calculating the Distribution Rate or reducing the Distribution Rate, (v) to reduce or cancel the amount of principal, premium, Distribution (including any Arrears of Distribution or Additional Distribution Amounts) payable in respect of the Securities (other than as provided under these Conditions), (vi) to change the currency of payment of the Securities, or (vii) to modify the provisions concerning the quorum required at any meeting of the Holders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution is one or more persons holding or representing not less than two-thirds or at any adjourned such meeting not less than one-quarter, in nominal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the Holders of not less than 90 per cent. of the nominal amount of Securities for the time being outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

- (b) *Modification and waiver:* The Trustee, the Issuer and the Guarantor may agree, without the consent of the Securityholders, to:
  - (i) any modification (except such modification in respect of which an increased quorum is required as mentioned above) of the Securities, the Agency Agreement or the Trust Deed which in the Trustee's opinion is not materially prejudicial to the interests of the Securityholders; or
  - (ii) any modification of the Securities, the Agency Agreement or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of law.

The Trustee may agree, at the direction of the Securityholders through an Extraordinary Resolution, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Securities or the Trust Deed, or determine, without any such consent as aforesaid, that any Enforcement Event shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Securityholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification shall be binding on the Securityholders and any such modification shall be notified to the Securityholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

- (c) *Interests of Holders:* In connection with the exercise of its functions, rights, powers and discretions including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Securityholders as a class (but shall not have regard to any interests arising from circumstances particular to

individual Holders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Securityholders be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Securityholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

- (d) *Directions from Holders*: Notwithstanding anything to the contrary, the Securities, the Trust Deed and/or the Agency Agreement, whenever the Trustee is required or entitled by these Conditions, the Trust Deed and/or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Holders by way of an Extraordinary Resolution and shall have been indemnified and/or provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including but not limited to legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

## **11. Indemnification of the Trustee and Trustee Contracting with the Issuer and the Guarantor**

The Trust Deed contains provisions for the indemnification of and/or provision of security to the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction, and for it to be paid or reimbursed for any liabilities incurred by it in priority to the claims of the Holders.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer, the Guarantor and/or any of their respective Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Guarantor and/or any of their respective Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may act on the advice or opinion of or any information obtained from any lawyer, valuer, accountant, banker, broker or other expert whether obtained by the Issuer, the Guarantor, the Trustee or otherwise and shall not be responsible for any loss occasioned by so acting.

Each Holder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, and the Trustee shall not at any time have any responsibility for the same and each Holder shall not rely on the Trustee in respect thereof.

The Trustee shall not be bound to take any steps to ascertain whether any Enforcement Event (as defined in the Trust Deed) has happened and, until it shall have actual knowledge or express notice to the contrary, the Trustee shall be entitled to assume that no Enforcement Event has happened and that the Issuer and the Guarantor is observing and performing all the obligations on its part under these presents.

## **12. Agents**

The names of the initial Agents and their initial specified offices are set out below.

Each of the Issuer and the Guarantor is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Paying Agent and a Registrar: and
- (b) so long as the Securities are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Registrar and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Securityholders in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Agency act solely as agents of the Issuer, the Guarantor and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Securityholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **13. Further Issues**

The Issuer shall be at liberty, from time to time, without the consent of the Securityholders to create and issue further securities having terms and conditions the same as the Securities (or the same in all respects save for the amount and date of the first payment of Distribution thereon) and so that such further issue shall be consolidated and form a single Series with the outstanding Securities. References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single Series with the Securities.



## 14. Notices

All notices regarding the Securities will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong. It is expected that any such publication in a newspaper will be made in the *South China Morning Post* in Hong Kong. The Issuer shall also ensure, or the Guarantor shall procure, that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Securities are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

All notices regarding the Securities in definitive form will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the Holders (or the first named of joint Holders) at their respective addresses recorded in the Register and will be deemed to have been given on the day after mailing and (b) if and for so long as any Securities in definitive form are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Notices to be given by any Securityholder shall be in writing and given by lodging the same, together (in the case of any Security in definitive form) with the relative Security or Securities, with the Registrar.

*So long as the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the Holders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

## 15. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Security under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 16. Governing Law and Jurisdiction

- (a) *Governing law*: The Securities, the Guarantee of the Securities and the Trust Deed and all non-contractual obligations arising out of or in connection with the Securities, the Guarantee of the Securities and the Trust Deed are governed by English law, except that the subordination provisions applicable to (i) the Issuer set out in Condition 2(a) (*Status and Subordination of the Securities and the Guarantee of the Securities – Status of the Securities*), Condition 2(b) (*Status and Subordination of the Securities and the Guarantee of the Securities – Ranking of claims in respect of the Securities*), Condition 2(e) (*Status and Subordination of the Securities and the Guarantee of the Securities – Set-off – Securities*) shall be governed by,



and construed in accordance with, Cayman Islands law and (ii) the Guarantor set out in Condition 2(c) (*Status and Subordination of the Securities and the Guarantee of the Securities – Guarantee of the Securities; Status of the Guarantee of the Securities*), Condition 2(d) (*Status and Subordination of the Securities and the Guarantee of the Securities – Ranking of claims in respect of the Guarantee of the Securities*), Condition 2(f) (*Status and Subordination of the Securities and the Guarantee of the Securities – Set-off – Guarantee of the Securities*) and Clauses 5.5 and 5.10 of the Trust Deed shall be governed by, and construed in accordance with, Hong Kong law.

- (b) *Jurisdiction*: Each of the Issuer and the Guarantor irrevocably agrees, for the benefit of the Trustee, the Agents and the Securityholders that the courts of England shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Agency Agreement and/or the Securities and accordingly submit to the exclusive jurisdiction of the English courts (including a dispute relating to any non-contractual obligations arising out of or in connection with the Securities) and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Securities (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Securities) may be brought in such courts.

Each of the Issuer and the Guarantor waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum and further agrees that a final judgment in any Proceedings brought in the English courts shall be conclusive and binding upon it.

The Trustee, the Agents and the Securityholders may take any Proceedings against the Issuer or the Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

- (c) *Appointment of Process Agent*: Each of the Issuer and the Guarantor appoints Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process, and undertakes that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings and notify the Trustee, the Agents and the Securityholders of such appointment. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## ***Replacement Intention***

*The Issuer intends (without thereby assuming any legal obligation to do so), during the period from the Issue Date to and including [●] 2037, that if the Securities are assigned an equity credit (or such similar classification then used by Standard & Poor's) at the time of such redemption or repurchase, it will redeem or repurchase the Securities pursuant to:*

- (a) redemption of the Securities at the option of the Issuer pursuant to the provisions described under Condition 5(b) (Redemption and Purchase – Redemption for tax reasons) or under Condition 5(e) (Redemption and Purchase – Redemption at the option of the Issuer); or*
- (b) a repurchase of the Securities by the Issuer, the Guarantor or their respective affiliates of more than (i) 10 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 12-month period; or (ii) 25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 10 year period,*

*only if the Aggregate Equity Credit (as defined below) of the Securities to be redeemed or repurchased as at the Issue Date does not exceed the Aggregate Equity Credit received by the Issuer, the Guarantor or any other subsidiaries of the Guarantor during the 365 day period prior to the date of such redemption or repurchase from securities offerings involving the sale or issuance, by the Issuer, the Guarantor or any other subsidiaries of the Guarantor of securities to third party purchasers other than the Issuer, the Guarantor or any other subsidiaries of the Guarantor (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities) (the “**Restrictions**”). “**Aggregate Equity Credit**” means the “**equity credit**” (expressed as a percentage) assigned by Standard & Poor's to the relevant securities multiplied by the aggregate principal amount of such securities.*

*The Restrictions shall not apply if on the date of such redemption or repurchase:*

- (a) the Guarantor has a corporate credit rating from Standard & Poor's that is equal to or greater than the rating assigned to the Guarantor by Standard & Poor's as at the Issue Date, and to the best knowledge of the Guarantor, after giving effect to such redemption or repurchase, such rating will not be revised downward, withdrawn or placed on review or “credit watch” with negative implications (or other similar review or change of outlook) by Standard & Poor's to levels below the rating assigned to the Guarantor as at the Issue Date as a result of such redemption or repurchase; or*
- (b) the Guarantor no longer has a corporate credit rating by Standard & Poor's; or*
- (c) a Ratings Event, an Accounting Event or a combination of the foregoing has occurred; or*
- (d) the Issuer, the Guarantor or any subsidiary of the Guarantor has individually or in the aggregate, redeemed, cancelled or purchased the Securities equal to or in excess of 80 per cent. of the aggregate principal amount of the Securities issued on the Issue Date; or*
- (e) the statements made in the Restrictions set forth hereunder are no longer required for the Securities to be assigned an equity credit that is equal to or greater than the equity credit assigned by Standard & Poor's on the Issue Date; or*

- (f) *there shall have occurred a general moratorium on, or disruption in, commercial banking activities in the Cayman Islands, Hong Kong, the United Kingdom, the European Economic Area or the United States by any Cayman Islands, Hong Kong, United Kingdom, European Economic Area, New York State or United States Federal authorities, which would be likely to materially prejudice dealings in the Securities in the secondary market.*

*Capitalised terms used but not defined in the preceding italicised paragraphs shall have the meanings set out in the Conditions.*

## SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Securities in respect of which the Global Certificate is issued, some of which modify the effect of the “Terms and Conditions of the Securities” set out in this Offering Circular. Terms defined in the “Terms and Conditions of the Securities” have the same meaning in the paragraphs below. The following is a summary of those provisions:*

The Securities will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, promises to pay to the holder of the Securities represented by the Global Certificate upon presentation and (when no further payment is due in respect of the Securities represented by the Global Certificate) surrender of the Global Certificate on a redemption date for the Securities (or on such earlier date as the amount payable upon redemption under the “*Terms and Conditions of the Securities*” may become repayable in accordance with the “*Terms and Conditions of the Securities*”) the amount payable upon redemption under the “*Terms and Conditions of the Securities*” in respect of the Securities represented by the Global Certificate or on a Winding-Up of the Issuer, the principal amount of the Securities represented by the Global Certificate and to pay Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of such Securities in accordance with the “*Terms and Conditions of the Securities*”.

Transfers of interests in the Securities will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System (as defined below)) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Transfers of the holding of Securities represented by the Global Certificate may only be made:

- (i) in whole but not in part, if the Securities represented by the Global Certificate are held on behalf of Euroclear or Clearstream or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) upon or following any failure to pay principal in respect of any Securities when it is due and payable; or
- (iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the holder of the Securities represented by the Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such transfer. Where the holding of Securities represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Euroclear and/or an Alternative Clearing System.

In addition, the Global Certificate will contain provisions that modify the “*Terms and Conditions of the Securities*” as they apply to the Securities evidenced by the Global Certificate. The following is a summary of certain of those provisions:

### **Payment Record Date**

Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

### **Notices**

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an Alternative Clearing System, notices to Holders may be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to accountholders entitled to an interest in the Securities in substitution for notification as required by the “*Terms and Conditions of the Securities*”.

## DESCRIPTION OF THE GROUP

### Overview

The Group is one of China's leading innovative financial services companies specialising in providing customised financing solutions through equipment-based financial leasing, as well as providing extended value-added services to customers in targeted major industries in China. The Group currently primarily operates its business in nine focused industries which it believes to have sustainable growth potential, including healthcare, education, infrastructure construction, electronic information, transportation, urban utilities, packaging, industrial machinery and comprehensive development industries. It has accumulated years of industry expertise and has expanded its customer base in each of its target industries by organising and operating its financial leasing services, sales and marketing, and risk management systems through an industry-focused approach.

The Group's typical leasing business model provides its customers with a commercial arrangement whereby: (i) its customer, as the lessee, will select an asset (such as equipment); (ii) the Group, as lessor, will then purchase that asset; (iii) the lessee will have use of that asset for the duration of the lease; (iv) the lessee will make a series of rental payments for the use of that asset; (v) the Group will recover a majority or the entire cost of the asset and earn interest from the rental payments made by the lessee; and (vi) the lessee has the option to acquire ownership of the asset from the Group upon expiry of the lease term.

By leveraging its understanding of the customers' specific needs in each target industry, the Group also provides extended value-added services primarily comprising advisory, engineering, trading and brokerage services to its customers. This has enabled the Group to develop a distinctive business model through which it provides an integrated range of tailor-made financial services, develops deeper customer relationships, enhances the effectiveness of its risk management systems, and leverages its accumulated industry and management expertise to expand into other target industries in China with promising growth potential.

Far Eastern, the Group's major operating subsidiary for its leasing business, has 26 years of operating history since its establishment. In 2000, Sinochem Group and its subsidiaries acquired control of the Group and in 2001, the Group's operating centre was relocated from Shenyang to Shanghai to establish its market position and enhance its business contacts within China's financial, trade and transportation hub.

Between 2011 and 2012, the Group further expanded its business operations into the textile (now part of the Group's comprehensive development business unit) and electronic information industries (having first consolidated and incorporated the electronic information business in the machinery business into other industries), increasing its focus from six business segments to eight. In April 2013, the Group resolved to build up a whole-packaging industry chain to expand the scope of its printing business and enhance its operating capabilities by renaming the printing sector as the packaging sector. Further, in order to get involved in areas of railway transportation, pipeline transportation and smart logistics, the Group also renamed its shipping sector as the transportation sector in July 2013. Through the years, the Group has been focusing on developing a sustainable track record and a diversified and balanced portfolio of target industries. In March 2015, the Group established a new business sector, namely the urban utility business unit, which would focus on providing a wide range of financial products and professional consulting services to China's urban utilities industry, increasing its portfolio of focused business segments from eight to nine. In 2015, amidst slow macroeconomic growth, intensified competition in the financial market and downturn

of industries, the Group continued to integrate its finance business and industrial operation business, focused on healthcare, infrastructure construction and education business sectors, and maintained stable business growth. In 2016 and 2017, the Group continued to face a complex and changing environment. It innovated products and services, strengthened market penetration and customer coverage and vigorously promoted the integrated and investment banking-like service method to serve the real economy and continue to provide customers with differentiated services according to their development needs.

In terms of healthcare services, the Group's expanding and leading hospital operational and management business covers, as of 30 June 2017, more than 26 hospitals with more than 10,000 beds, featuring major specialties combined with small-scale general consultation service. The Group has also explored high-end maternity and rehabilitation services.

In terms of high-end education services, the Group has focused on high-end early childhood education and international high school education, operating two full-time high-end international high schools and five high-end international kindergartens.

In terms of construction engineering services, the Group's equipment operation and operating leasing services company has initially established a national operation network, supplemented by the Group's financial leasing, Public-Private-Partnership (PPP) and other financial business channels.

In July 2016, the Group was listed as one of the "Top 500 Chinese Enterprises in 2016" by Fortune Magazine (Chinese version), which marked the Group's business scale officially entering the ranks of large-size enterprises in China. In August 2017, the Group was also listed as one of the "Top 500 Chinese Enterprises in 2017" by Fortune Magazine (Chinese version).

In respect of the industrial operation of the Group, the overall income of the Group's healthcare, infrastructure construction and education business sectors for the year ended 31 December 2016 increased by approximately 24.5%, 13.3% and 37.1%, respectively, as compared to the previous year, while for the six months ended 30 June 2017, the overall income of the above business sectors increased by approximately 29.8%, 21.1%, and 21.8%, respectively, as compared to the same period in the previous year.

As of the six months ended 30 June 2017, the Group's total assets increased to approximately RMB197.0 billion (with total assets under management of approximately RMB230.9 billion), increasing approximately 18.3% from the end of 2016. The revenue in 2016 and in the six months ended 30 June 2017 amounted to approximately RMB13.9 billion and RMB9.0 billion, respectively, representing a year-on-year increase of approximately 18% and a six month increase of 23.23%, respectively; the net profit attributable to shareholders of ordinary shares in 2016 and in the six months ended 30 June 2017 amounted to RMB2.88 billion and RMB1.62 billion, respectively, representing a year-on-year increase of approximately 15% and a six month increase of 12.47%, respectively. Meanwhile, the Group has generally maintained stable asset quality throughout 2016 and for the first half of 2017. As of the end of 2016 and as of 30 June 2016 and 2017, the non-performing asset ratio was 0.99%, 1.01% and 0.95%, respectively, while the ratio of overdue interest-bearing assets past 30 days was approximately 0.98%, 1.08% and 0.84%, respectively, which was better than the industrial level.



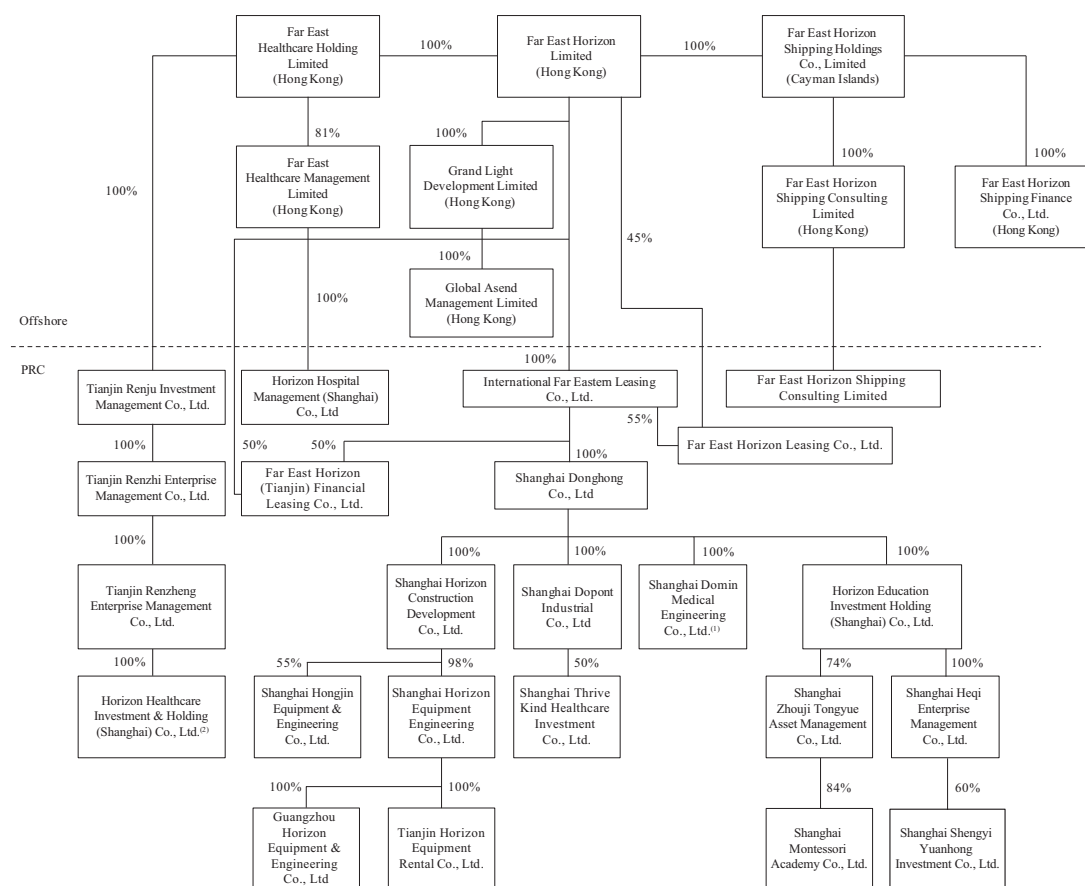
For the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017, the Group's consolidated revenues were approximately RMB10,060.7 million, RMB11,796.0 million, RMB13,928.4 million, RMB7,280.7 million, and RMB8,972.2 million, respectively. And the Group's net lease receivables as of 31 December 2014, 2015 and 2016 and as of the six months ended 30 June 2016 and 2017 were RMB97,059.2 million, RMB110,334.1 million, RMB116,865.7 million, RMB110,717.4 million and RMB144,009.1 million, respectively.

## **Group History and Structure**

The Guarantor is a company listed on the HKSE (Stock Code: 3360). It is also the ultimate holding company of the Group's principal operating subsidiaries, Far Eastern, Far East Horizon Shipping Holdings Co., Limited ("**FEH Shipping**"), Shanghai Donghong, Shanghai Domin Medical Engineering Co., Ltd. ("**Shanghai Domin**") and Far East Horizon (Tianjin) Financial Co., Ltd. ("**Far East Tianjin**").

Far Eastern, one of the Group's principal operating subsidiaries, was established in 1991 as an equity joint venture enterprise in Shenyang, China. The registered office of Far Eastern was relocated to Shanghai in 2001, which was an important step in the commencement of the Group's strategy to focus on China's major industries with sustainable growth potential through its operations in the healthcare industry. In the following few years, the Group gradually entered into the other key industries. In 2008, the Guarantor was incorporated in Hong Kong. In 2009, three strategic investors, KKR Future Investment (an affiliate of KKR Asian Fund L.P.), Techlink (an affiliate of Government of Singapore Investment Corporation (Ventures) Pte. Ltd.) and Target Magic Limited (an affiliate of CICC fund) became shareholders of the Guarantor. In 2006, the Group established Shanghai Donghong, through which it conducts its trading business. In 2009, FEH Shipping (formerly named Sino Advance Limited) was established for the development of the offshore ship leasing and ship brokerage business of the Group. In 2010, Shanghai Domin was established for the Group's expansion in the healthcare industry. On 30 March 2011, the Guarantor became listed on the HKSE. In July 2011, Shanghai Horizon Equipment Engineering Co., Ltd. was established in the PRC to carry on the business of operating lease of construction machinery and related equipment. In December 2013, Far East Tianjin was established in the PRC, focusing on the provision of financial services. The company mainly caters to the needs of clients in North China, and with finance leasing as its core business, it helps clients solve financial and capital problems that they encounter during the development process. As of 31 October 2017, the market capitalisation of the Guarantor was HK\$30.624 billion.

The following sets out the Group's corporate structure as of 31 October 2017:



*Notes:*

- (1) The remaining shareholders of Shanghai Domin comprised Shanghai Yijia Construction and Development Co., Ltd. 上海藝佳建設發展有限公司 (as to 8.35%), which is an independent third party.
- (2) As of the end of 2016, the Group entered into agreements to invest in or gained control over 11 hospitals, namely Nayong Xinli Hospital, Chongqing Yudong Hospital, Deyang Fifth Hospital, Fengyang Gulou Hospital, Zhoushan Cunde Hospital (renamed as Putuo Guanghua Hospital), Siyang Xiehe Hospital, Meizhou Tieluqiao Hospital, Zhengzhou Renji Hospital and Shenzhen Zhonghai Hospital Group (including Shenzhen Zhonghai), Shenzhen Cihai and Dongguan Guanhua through investment, merger and acquisition, as well as reorganisation. During the first half of 2017, the Group entered into agreements to invest in or gain control over four hospitals, namely Daishan Guanghua Hospital (岱山廣華), WuChang Chinese Medicine Hospital (五常中醫), Zhaotong Renan Hospital (昭通仁安) and Qiaojia Renan Hospital (巧家仁安). The Group has thus invested in or gained control over 26 hospitals in total with over 10,000 beds available.

## Business Segments

The Group categorises its business operations into two major business segments: (i) financial and advisory segment and (ii) industrial operation segment. The Group's financial and advisory segment relates to the provision of financial leasing services and advisory services. Its industrial and operation segment primarily relates to the provision of trading and brokerage services. The following table sets forth the contribution (before business taxes and surcharges) of each of (i) financial services (interest income), (ii) advisory services (fee income), and (iii) industrial operation to the total revenue of the Group (before business taxes and surcharges) for the years or periods indicated:

	Years ended 31 December						Six months ended 30 June			
	2014		2015		2016		2016		2017	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
<b>Financial and advisory segment</b>										
Financial services										
(interest income) . . . . .	6,457,748	63.5%	6,849,330	57.5%	8,139,285	57.8%	3,967,770	53.63%	4,816,021	53.37%
Advisory services										
(fee income) . . . . .	2,709,366	26.6%	3,850,659	32.4%	3,820,487	27.2%	2,639,020	35.68%	2,872,184	31.83%
<b>Industrial operation segment</b>										
Industrial operation . . . . .	1,009,959	9.9%	1,206,807	10.1%	2,113,804	15.0%	790,587	10.69%	1,335,449	14.80%
<b>Total . . . . .</b>	<b>10,177,073</b>	<b>100%</b>	<b>11,906,796</b>	<b>100%</b>	<b>14,073,576</b>	<b>100%</b>	<b>7,397,377</b>	<b>100%</b>	<b>9,023,654</b>	<b>100%</b>

## Financial and Advisory Segment

### Financial Leasing and Factoring

Financial leasing is the principal business activity of the Group. It primarily provides two types of equipment-based leasing services: (i) direct financial leasing and (ii) sale-leaseback. The Group's leasing operations cover primarily nine selected industries, namely healthcare, education, infrastructure construction, electronic information, transportation, urban utilities, packaging, machinery and comprehensive development industries. The Group also has some leasing transactions in other industries, such as public transportation, urban utilities and media and broadcasting. However, none of these industries is individually significant or representative of the category as a whole except that the Group has started to develop its business in the urban utilities industries as a distinct sector in 2015. As of 31 December 2016, the Group has not entered the markets for these industries to the same extent it has for its current nine key industries. Its lease contracts are generally priced at a floating interest rate, which floats at a preset margin above a base interest rate, thereby allowing it to transfer the impact of interest rate fluctuations to its customers to a significant extent. The base interest rate references the PBOC benchmark interest rates, and the preset margin is a commercial term in the lease contract which the Group negotiates on a case-by-case basis with the individual customer based on its industry. Based on this floating mechanism, the interest rates it charges its customers for most of its lease contracts are re-adjusted periodically at every payment date, if necessary. The majority of all of the Group's lease contracts have monthly payment dates; the interest rates it charges to leasing customers can be adjusted at each subsequent month should the PBOC benchmark interest rates fluctuate. The remaining lease contracts have quarterly or semi-annual payment dates as necessary. For these reasons, the interest

rates that are charged on the Group's lease contracts vary depending on its commercial arrangements with the individual customers based on the relevant industry, and it does not set a defined range for interest rates charged to its leasing customers.

There are no regulatory restrictions relating to the maximum or minimum interest rates charged by the Group to its customers of lease contracts under the relevant PRC laws and regulations. The Group understands that its practice of adjusting the interest rates which it charges to customers with reference to the PBOC benchmark interest rates fully complies with the relevant PRC laws and regulations as of 31 October 2017. The revenue generated from the Group's financial and advisory business (before business taxes and surcharges) amounted to RMB9,167.1 million, RMB10,700.0 million, RMB11,959.8 million, RMB6,606.8 million and RMB7,688.2 million for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017, representing approximately 90.1%, 89.9%, 85.0%, 89.3% and 85.2% of the Group's total revenue, respectively.

The SAOT promulgated the *Notice of the State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* (國家稅務總局關於融資租賃業務徵收流轉稅問題的通知) on 7 July 2000. According to this notice, the financial leasing business conducted by entities approved by the PBOC shall be levied business tax according to the *Provisional Regulations of the People's Republic of China on Business Tax* (中華人民共和國營業稅暫行條例) and no value-added tax ("VAT") shall be levied, whether or not the ownership of the leased goods has been transferred to the lessee. For the same business conducted by other entities, VAT rather than business tax shall be levied if the ownership of the leased goods has been transferred to the lessee, while business tax rather than VAT shall be levied if the ownership of the leased goods has not been transferred to the lessee. The SAOT promulgated the *Supplemental Notice of the State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* (國家稅務總局關於融資租賃業務徵收流轉稅問題的補充通知) on 15 November 2000, which stipulates that the *Notice of the State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* shall be applicable to the financial leasing business conducted by foreign-invested enterprises and foreign enterprises approved by Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部, the predecessor of MOFCOM).

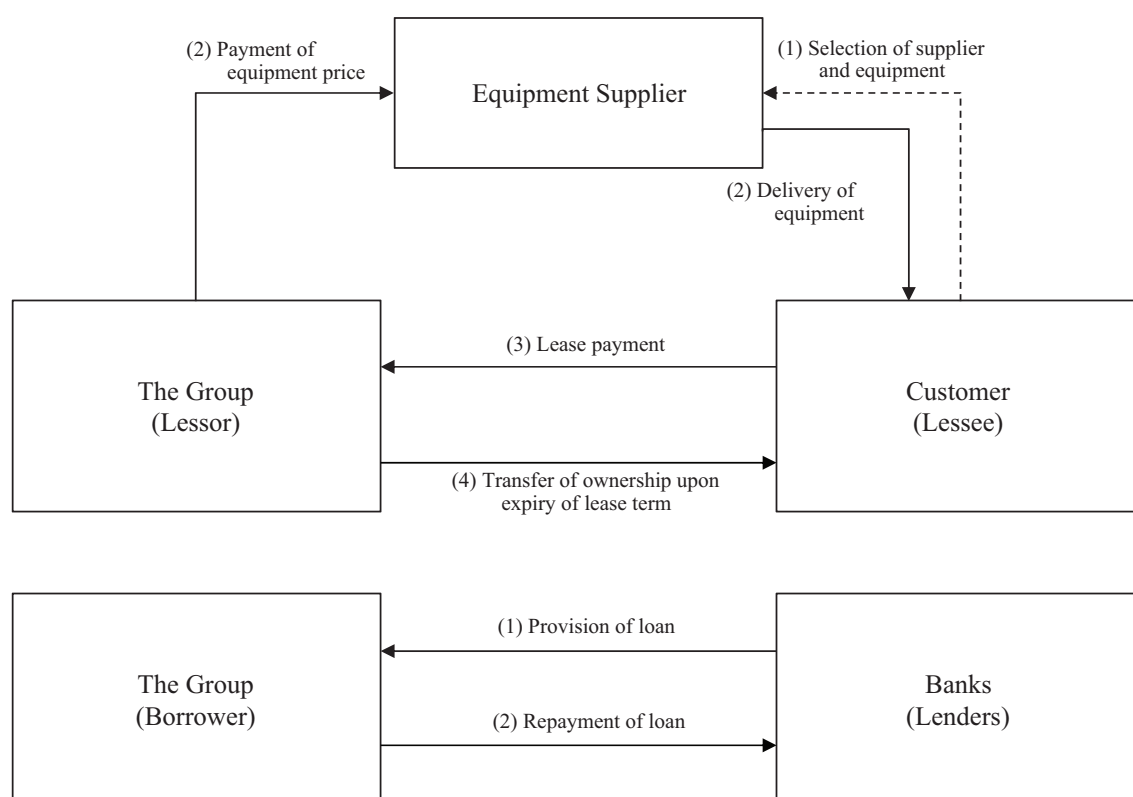
On 16 November 2011, the Ministry of Finance and the SAOT promulgated the *Notice of the Ministry of Finance and the State Administration of Taxation on Carrying out the Pilot Practice of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries in Shanghai* (財政部國家稅務總局關於在上海市開展交通運輸業和部份現代服務業營業稅改徵增值稅試點的通知), which became effective on 1 January 2012 and was discontinued on 1 August 2013. According to this notice, Shanghai is the pilot city approved by the State Council for levying VAT in lieu of business tax on the transportation industry and some modern service industries. This notice stipulates that all entities and individuals providing services in the transportation industry and some modern service industries (including tangible movables leasing) (hereinafter referred to as "**taxable services**") within the territory of the PRC are VAT taxpayers and shall pay VAT and shall no longer pay the business tax, and the tax rate shall be 17% for the tangible movables leasing service. This notice indicates that for financial leasing services of tangible movables provided by general taxpayers among the pilot taxpayers who engage in financial leasing business upon approval by the PBOC, CBRC and the MOFCOM, the policy on VAT refund upon collection shall be applicable to the part in excess of 3% of their actual burden of VAT. On 24 May 2013, the Ministry of Finance and the SAOT promulgated the *Notice of the Ministry of Finance and the State Administration of Taxation on Carrying out the Pilot Practice of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern*

*Service Industries Nationwide* (財政部國家稅務總局關於在全國開展交通運輸業和部分現代服務業營業稅改徵增值稅試點稅收政策的通知), which became effective on 1 August 2013 and was discontinued on 1 January 2014. This notice expands the pilot practice of levying value-added tax in lieu of business tax on the transportation industry and some modern service industries from the pilot provinces and cities to a nationwide scope and adopts substantially the same policies as those adopted in the *Notice of the Ministry of Finance and the State Administration of Taxation on Carrying out the Pilot Practice of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries in Shanghai* (財政部國家稅務總局關於在上海市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知). The *Notice of the Ministry of Finance and the State Administration of Taxation on Including Railway Transport and Postal Services under the Pilot Program of Replacing Business Tax with Value-Added Tax* (財政部、國家稅務總局關於將鐵路運輸和郵政業納入營業稅改徵增值稅試點的通知 (including its attachments)), which became effective on 1 January 2014 and was discontinued on 1 May 2016, stipulates that the policy that VAT refund upon collection shall be applicable to the portion in excess of 3% of the actual burden of VAT for taxpayers who provide financial leasing services of tangible movables until 31 December 2015. On 23 March 2016, the Ministry of Finance and the SAOT promulgated the *Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax* (財政部國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), which became effective on 1 May 2016 and partly revised on 1 July 2017. This notice stipulates that for financial leasing services of tangible movables provided by general taxpayers among the pilot taxpayers who engage in financial leasing business upon approval by the PBOC, CBRC and the MOFCOM, the policy on VAT refund upon collection shall be applicable to the part in excess of 3% of their actual burden of VAT. As a financial leasing company engaging in tangible movables, Far Eastern shall be governed by these notices. However, Far Eastern may not be granted any refund for the year 2017 if its actual burden of VAT did not exceed 3%.

### (A) Direct Financial Leasing

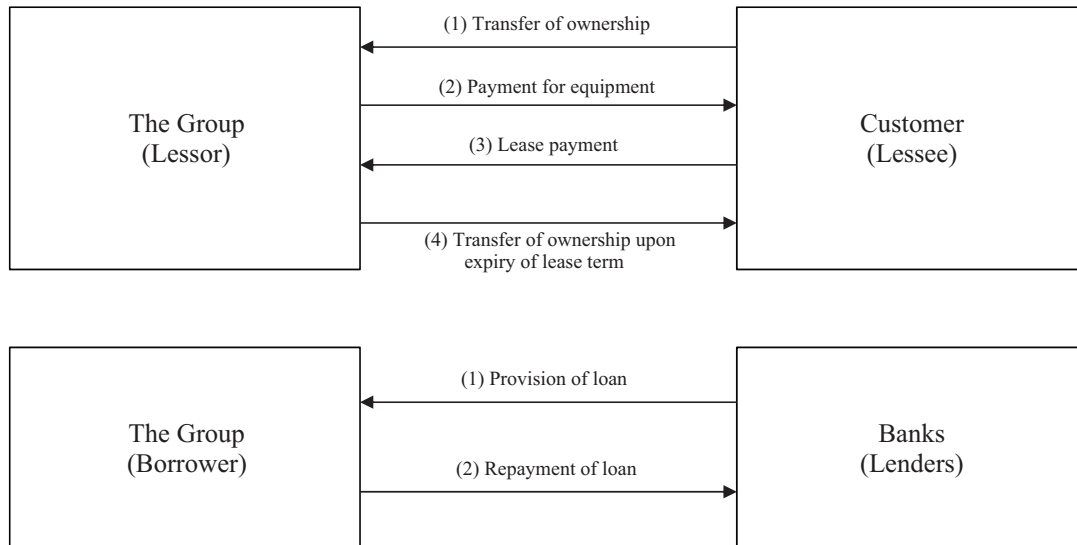
A direct financial lease is typically for one specific user, with financial terms designed to recoup most, if not all, of the initial cost of the asset being leased during the initial contractual lease term. Around 80% of all of the lease contracts of the Group have monthly payment dates. A typical direct financial lease cannot be terminated without the Group's consent during its term and typically ranges from three to five years. Upon expiry of the lease term, the Group usually provides the lessee with an option to purchase the asset underlying the lease at a nominal value so as to incentivise the lessee to purchase such asset.

A typical direct financial leasing transaction usually involves three parties, namely the lessor, the lessee and the equipment supplier. The relationships among the three parties are illustrated in the following diagram. The Group funds its financial leasing transactions as a whole primarily through bank loans.



## (B) Sale-leaseback

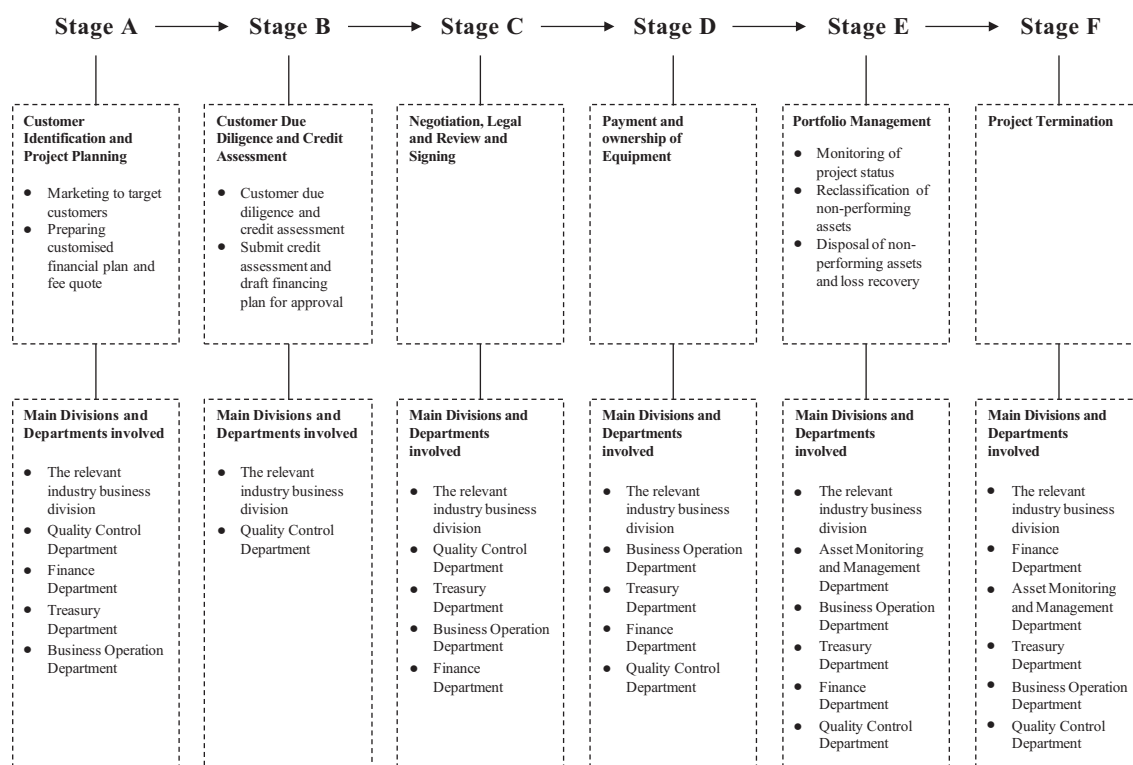
Sale-leaseback is a form of financial leasing where the lessor purchases the asset from the lessee who originally owned such asset but subsequently sells it to the lessor to satisfy its financing needs. The lessee then leases the asset back from the lessor for a relatively long term, such that the lessee can continue to use the asset as a lessee (and not as an owner). The majority of the Group's lease contracts have monthly payment dates. A typical sale-leaseback contract cannot be terminated without the Group's consent during its term and typically ranges from three to five years. Upon expiry of the lease term, the Group usually provides the lessee with an option to purchase the asset underlying the lease at a nominal value so as to incentivise the lessee to purchase such asset.





## Financial Leasing Operational Workflow

The Group has designed a systematic operational workflow from Stage A to Stage F, which applies to financial leasing projects in each of its target industries. Under this workflow, various risk control measures and procedures are consistently applied to every lease project, which involves the active participation of different departments in the Group. The chart below sets out the workflow process of the Group's leasing business operations:



### Stage A: Customer Identification and Project Planning

The Group commences a leasing project in Stage A, during which target customers are carefully identified, appropriate projects are selected and tailored financing plans and price quotes are duly prepared. Each project is initiated by the relevant industry business division and reviewed and assisted by other relevant departments, such as the Quality Control Department, Finance Department, Business Operation Department and Treasury Department.

### Stage B: Customer Due Diligence and Credit Assessment

Once the customer identification and project planning process under Stage A has been completed, Stage B procedures are entered into where more detailed research into the background and creditworthiness of the customer is conducted. This stage is mainly driven by the relevant industry business division, which is in charge of preparing customer due diligence and credit assessment reports and the finalised financing plan to be approved by the Quality Control Department. Depending on the customer's creditworthiness, the Group will determine down payment amounts, interest rates and other key terms in Stage B.

### *Stage C: Negotiation, Legal Review and Signing*

Upon obtaining approval from the Quality Control Department, the relevant industry business division takes the lead in participating in contract negotiations and reviewing legal documents (with the support of the Legal Centre of the Quality Control Department). The leasing contract must be individually approved by various departments before it is signed. Other departments such as the Treasury Department, Finance Department and Business Operation Department also assist at Stage C.

### *Stage D: Payment and Ownership of Equipment*

After the leasing contract is signed, the Business Operation Department, Treasury Department and Finance Department are jointly responsible for ensuring the satisfaction of the contractual conditions precedent prior to approving payment for the leased equipment, while the Business Operation Department is also in charge of monitoring logistics, insurance coverage, delivery of goods, equipment installation and inspection procedures during Stage D. The relevant industry business division and the Quality Control Department continue to assist at Stage D.

### *Stage E: Portfolio Management*

The Group's Asset Monitoring and Management Department and the relevant industry business division is principally responsible for portfolio management through timely collection of lease payments, monitoring of project status and preparation of regular project reports. When there are "negative signals" (such as missed lease payments which may lead to potential lease defaults), certain risk control procedures will be initiated to claim outstanding lease receivables in order to mitigate potential losses. The Asset Monitoring and Management Department will review the classification of non-performing assets and closely monitor the loss recovery procedures (including restructuring of lease receivables repayment terms or the repossession and subsequent disposal of the assets underlying the lease). The restructuring of repayment terms primarily comprises acceleration of lease receivables payments and the extension of the repayment term depending on the circumstances for each case. Under its financial leasing contracts, the Group is usually entitled to several remedies including, among other things, acceleration of lease receivables repayment when there is a default of the customer. It may decide whether to exercise this remedy by primarily considering (i) the credit record of the customer; (ii) its relationship with the customer; (iii) the current status and the prospects of the customer's financial condition; and (iv) the difficulty of repossessing the assets underlying its leases and realising their value. Before the Group decides whether to grant a customer extension of a repayment term, it conducts stringent due diligence and determines whether an extension of the repayment term is the optimal option for mitigating risks according to the customer's credit record and financial condition. The term to be extended does not exceed half of the initial lease term and the total lease term after extension does not exceed five years. The Group usually does not extend the repayment term as this may increase its risk exposure. The Group's Treasury Department and Finance Department also actively assist in controlling the risk of overdue lease receivables and repayment difficulties. The Group's Asset Management Expert System is utilised through the entire asset management process. Other departments such as the Quality Control Department and the Business Operation Department also help manage the portfolio at this stage.

### *Stage F: Project Termination*

The lease project is terminated upon full performance of the leasing contract. During the termination procedure, the Finance Department is responsible for ensuring due receipt of lease payments and the timely despatch of lease receipts, while the Asset Monitoring and Management Department is in charge of completing the transfer of ownership of lease equipment to the Group's customer. The relevant industry business division, Quality Control Department, Treasury Department and Business Operation Department cooperate closely with the Finance Department and Asset Monitoring and Management Department for project termination.

In June 2012, Far Eastern obtained approval from MOFCOM to expand its scope of business to include commercial factoring and related advisory services. The Group realised revenue in factoring business of RMB215.2 million in total for the year ended 31 December 2016 and RMB110.3 million and RMB142.7 million in total for the six months ended 30 June 2016 and 2017, respectively, as it promoted factoring business among its existing customer base in the industries.

### *Advisory Services*

The Group's business is operated with an industry focus approach and its respective business departments are staffed with professional personnel who are organised around and focused on nine key target industries. The opportunity to provide financial leasing services to its prospective customers has enabled the Group to better understand their needs and the various types of customised value-added services that they may require. Accordingly, the Group also provides advisory services in addition to financial leasing in line with its strategy to provide its customers with an integrated range of services. The provision of advisory services is optional to the Group's leasing customers, who are free to decide whether or not to enter into an advisory contract with the Group. As of 30 June 2017, approximately 90% of the customers of the Group used both financial leasing services and the advisory services provided by the Group.

The Group believes that its business model allows it to generate fee income that is complementary to the financial leasing services provided to its financial leasing customers. The advisory services are normally provided in conjunction with the provision of its financial leasing services to the same customer. However, the level of advisory services required by such customers differs in accordance with their specific needs and sophistication, and hence the service component varies significantly from customer to customer and has to be specifically agreed with each customer. As such, the fees for the advisory service component are distinct from the financial leasing arrangements and are clearly set out in the advisory contracts with its customers which are separate from the financial leasing agreements.

Based on the specific needs and requirements of the Group's existing and prospective financial leasing customers from different industries, the Group has focused on the development of various value-added businesses such as its advisory services to better serve those customers. The Group constantly and closely interacts with its advisory customers to determine the service content and scope in order to provide optimal solutions in relation to financing options, cash management and operation of the leased assets appropriate for their businesses, which the Group believes are unique from its peers and competitors. The Group's comprehensive industry expertise accumulated through its provision of financial leasing services, advanced financial analysis and risk management capabilities, and its deep understanding of customers' specific needs, have enabled the Group to provide its customers with professional and customised advisory services, which has led to a significant contribution to the Group's revenue. For example, in the packaging industry, the Group

assists customers in analysing competitive products by leveraging the market information that it has accumulated from its financial leasing business and formulating marketing plans accordingly. The Group provides advice as to how to manage inventory and optimise manufacturing processes. The Group also provides training to customers on how to manage their inventory stock, how to establish an operating centre for product material and how to utilise excess capacity. These advisory services primarily include the selection of equipment suppliers, advice in respect of various forms of financing, assisting customers with cash flow management and analysis, and the provision of financing solutions typical to the respective target industries. The fees that the Group charges for the provision of advisory services vary according to the actual services provided to individual customers in the respective target industries and are agreed with each customer on a case-by-case basis. The Group's fees are determined primarily based on (i) the nature and estimated term of services; (ii) the importance of the advisory services to the customers; (iii) the Group's relationship with the customers; and (iv) the importance of the customers to the Group's overall business. Therefore, the Group does not have a fixed fee rate for charging its customers in relation to the advisory services.

Revenue generated from the Group's advisory services (before business taxes and surcharges) amounted to RMB2,709.4 million, RMB3,850.7 million, RMB3,820.5 million, RMB2,639.0 million, and RMB2,872.2 million for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017, representing approximately 26.6%, 32.3%, 27.2%, 35.68% and 31.83% of its total revenue (before business taxes and surcharges), respectively.

#### *Industrial Operation*

Along with the provision of leasing services to its customers, the Group has explored and identified business opportunities in other business segments in accordance with its customers' specific needs, such as trading and brokerage services, financial services, industrial investment and operation services, operational leasing, management consulting and construction services in multiple fields including health, packaging, transportation, construction, machinery, education, textiles, electronic information and urban utilities. The Group believes that the provision of value-added services in addition to its leasing business will help enhance its competitive strength and customer loyalty, and diversify its operational risk. By matching up the organisational operation of financial resources with the discovery and cultivation of industrial resources, the Group creates an operational advantage with the characteristics of joint development finance and industry. The Group established Shanghai Donghong in 2006, through which it conducts its trading business. The Group engages in import and export trade and domestic trade of medical equipment and spare parts, paper, ink, cardboard and paper goods primarily within the healthcare and packaging industries, as well as trade agency services primarily within the machinery industry. The Group is able to leverage its established customer relationships and business contacts within target industries so as to procure collective sales and purchases of equipment, thereby achieving economies of scale and lowering transaction costs and expenses.

The Group also provides ship brokerage services in the form of broker sales and purchases of new and used vessels within the transportation industry. It acts as broker and liaises with vendors and purchasers within the transportation industry to match purchase orders and sales information. The Group usually charges approximately one per cent. of the transaction consideration as brokerage fee for the provision of its brokerage services. The target customers for its ship brokerage business are primarily small-to-medium sized enterprises seeking to acquire ships, and the large-scale ship manufacturers which are seeking to sell their ships to suitable purchasers.

The Group does not undertake material inventory risks in its industrial and operation segment. Its inventory stock within the trading business is derived primarily from the procurement of products required by its customers, such as the supply of paper products to printing companies. In respect of its ship brokerage business, the Group acts as an intermediary for the sale and purchase of vessels for a brokerage fee and does not undertake any inventory risks as its brokerage contracts do not require it to hold vessels as part of its inventory.

Revenue generated from the Group's industrial and operation segment (before business taxes and surcharges) amounted to RMB1,010.0 million, RMB1,206.8 million, RMB2,113.8 million, RMB790.6 million and RMB1,335.4 million for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017, representing approximately 9.9%, 10.1%, 15.0%, 10.7% and 14.8% of its total revenue (before business taxes and surcharges), respectively.

### **The Group's Target Industries**

In view of China's economic growth, developing urbanisation and the Group's customer base, the Group has developed its business operations primarily within a portfolio of nine focused industries with sustainable growth potential and which, it believes, will continue to benefit from China's economic growth, namely the healthcare, education, infrastructure construction, transportation, urban utilities, packaging, machinery, electronic information and comprehensive development industries. In April 2012, the Group consolidated the electronic information business and incorporated the electronic business in the machinery industry into other industries. The Group commenced its new business in the electronic information industry and established the electronic information segment in December 2012. In April 2013, the Group resolved to build up a whole-packaging industry chain to expand the scope of its printing business and enhance its operating capabilities and the printing sector was renamed as the packaging sector. Further, in July 2013, the Group renamed its shipping sector as the transportation sector to get involved in areas of railway transportation, pipeline transportation and smart logistics. In 2014, the Group enhanced the expansion in the niche market and new customers of several industries, such as the pharmaceutical and distribution segments of the healthcare industry, the owners and high-end construction material market in the infrastructure construction industry, the cultural tourism market in the education industry, the non-woven and fiber material areas in the textiles industry and the chemical area of the machinery industry. In March 2015, the Group established a new business sector, namely the urban utility business unit, adding another industry to its portfolio of eight focused business segments. Through this new sector, the Group aims to seize the opportunities arising from the development of China's urban utilities by providing a wide range of financial products and professional consulting services to three main urban utility industries namely urban environmental protection, urban public transportation and urban energy. In January 2016, the Group carried out continuous in-depth expansion in textiles, light industry, living consumption services and other relevant sectors, expanded the business scale, improved the operation ability in the industry, and renamed its textiles department as comprehensive development department. In 2016, with the promulgation of national macro-control policies and the further promotion of the industrial operation of the Group, the overall income of the Group's healthcare, infrastructure construction and education business sectors increased by approximately 24.5%, 13.3% and 37.1%, respectively, as compared to the previous year. In the first half of 2017, the Group continued to demonstrate mutual synergy added differentiation advantages between its industry and financial businesses and sped up the promotion of the three major industries, namely healthcare, infrastructure construction and education. In the six months ended 30 June 2017, the overall income of the Group's healthcare, infrastructure construction and education business sectors increased by approximately 29.8%, 21.1% and 21.8%, respectively, as compared to the previous period.

The Group has strong and extensive relationships with equipment vendors in each target industry so as to meet specific demands for its customers.

The Group's industry selection process consists of six steps which take approximately one and a half years to two years: (i) firstly the Group conducts a search in the new industry assessing the feasibility of that new industry based on the Group's domestic and overseas industry experience; (ii) the Group then takes a preliminary industry test with a controlled volume; (iii) at the initial evaluation stage, the Group develops comprehensive business plans considering entry feasibility, growth potential, market capacity, capital needs, equipment, staff and other resources required for entry into such new industry; (iv) if the initial evaluation results of the new industry is positive, the Group tests the market extensively through conducting more comprehensive evaluations; (v) after the extensive market test, the Group finalises business plans and evaluation processes for the new industry; and (vi) the Group formally enters into the new target industry and scales up its operations in that industry appropriately.

The table below sets forth the contribution by the healthcare industry, education industry, infrastructure construction industry, transportation industry, urban utilities industry, packaging industry, machinery industry, comprehensive development industry and electronic information industry to the Group's total revenue respectively (before business taxes and surcharges) and net lease receivables by its financing leasing services for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017:

	For the years ended 31 December						Six months ended 30 June			
	2014		2015		2016		2016		2017	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Healthcare . . . . .	2,344,946	23.0%	3,026,497	25.4%	3,766,582	26.8%	2,018,800	27.3%	2,621,200	29.1%
Education . . . . .	1,398,583	13.7%	1,697,344	14.2%	2,326,356	16.6%	1,312,509	17.7%	1,598,228	17.7%
Infrastructure construction . . . . .	1,996,457	19.6%	2,543,229	21.4%	2,882,294	20.5%	1,341,124	18.1%	1,624,167	18.0%
Transportation . . . . .	1,247,585	12.3%	926,967	7.8%	1,013,900	7.2%	536,561	7.3%	612,449	6.8%
Packaging . . . . .	1,220,990	12.0%	977,589	8.2%	929,889	6.6%	496,980	6.7%	548,244	6.1%
Industrial machinery . . . . .	811,959	8.0%	1,055,890	8.9%	1,198,857	8.5%	641,392	8.7%	671,646	7.4%
Comprehensive development (formerly textiles) . . . . .	261,069	2.6%	367,125	3.1%	522,897	3.7%	276,569	3.7%	388,286	4.3%
Electronic information . . . . .	514,107	5.1%	774,200	6.5%	806,628	5.7%	452,648	6.1%	564,745	6.3%
Urban utilities . . . . .	366,814	3.6%	533,033	4.5%	597,118	4.2%	316,690	4.3%	378,962	4.2%
Others . . . . .	14,563	0.1%	4,922	0.0%	29,055	0.2%	4,104	0.1%	15,727	0.2%
Total . . . . .	<u>10,177,073</u>	<u>100.0%</u>	<u>11,906,796</u>	<u>100.0%</u>	<u>14,073,576</u>	<u>100.0%</u>	<u>7,397,377</u>	<u>100%</u>	<u>9,023,654</u>	<u>100%</u>



### *The Group's Business in the Healthcare Industry*

The healthcare industry was the first target industry which the Group entered into in 2001, and it remains the Group's largest target industry among the nine target industries in which it is primarily involved. The Group is committed to providing comprehensive financial solutions to its healthcare customers, namely public and private hospitals throughout China, comprising financial leasing, advisory and trading services. In 2014, the Group continued to expand its healthcare industry layout by investing in two hospitals, marking a significant step towards its objective of building a healthcare group featuring major specialties (focusing on orthopedics, oncology, gynaecology and pediatrics) combining with small-scale general consultation service, with wide network. In 2015, the Group made a rapid breakthrough in hospital investment operation and acquired or invested in six hospitals (among which two are under control of a joint venture of the Group). As of the end of 2015, the Group had gained control over or acquired equity interest in eight hospitals in total with over 3,000 beds under control. As of the end of 2016, the Group has invested in or gained control over 20 hospitals in total with over 7,000 beds available. During the first half of 2017, the Group entered into agreements to invest in or gain control over four hospitals, namely Daishan Guanghua Hospital (岱山廣華), WuChang Chinese Medicine Hospital (五常中醫), Zhaotong Renan Hospital (昭通仁安) and Qiaojia Renan Hospital (巧家仁安). The Group was one of the leading market players in 2016 in the healthcare industry based on market information. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the healthcare industry was RMB3,766.6 million, as compared to RMB3,026.5 million and RMB2,344.9 million for the year ended 31 December 2015 and 2014, respectively. The revenue (before business taxes and surcharges) from the healthcare industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 23.0%, 25.4% and 26.8% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. The revenue (before business taxes and surcharges) from the healthcare industry for the six months ended 30 June 2016 and 2017 represented approximately, 27.3% and 29.1% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the healthcare industry was RMB2,621.2 million, as compared to RMB2,018.8 million for the six months ended 30 June 2016.

The Group has developed strong industry expertise in the healthcare industry and is able to customise its services and enhance its sales and marketing capabilities primarily through the following:

- the establishment of a dedicated sales team comprising mostly former healthcare industry professionals with substantial industry knowledge and experience as well as sales and marketing skills which have been honed within the context of the healthcare industry;
- the establishment of its business network which is in close proximity to its customers' operations throughout China;
- the maintenance of close and regular contact with its customers by organising industry exhibitions and forums to create platforms for market information exchange among industry players and participating in industry specific associations to gain first-hand market information on the latest market trends within the healthcare industry;
- leveraging its established relationships with sales agents of healthcare equipment in order to source suitable healthcare equipment to better serve its customers and enhance its competitiveness; and



- forming its operating pattern integrated by finance, hospital, management and engineering through continuously improving its professionalism in those aspects.

For its healthcare equipment financial leasing customers, the Group provides both direct financial leasing and sale-leaseback services. Direct financial leasing is adopted mainly to finance the purchase of new healthcare equipment. Sale-leasebacks are more frequently adopted by the Group's healthcare customers to satisfy their financing needs for the construction of basic hospital facilities. The leased equipment consists of a wide variety of healthcare equipment, such as tomography, magnetic resonance imaging, ultrasound imaging, life support machines and operating room disinfectant systems.

According to the *Regulations on Supervision and Control of Medical Equipment* (醫療器械監督管理條例) (“**Regulations on Medical Equipment**”) promulgated by the State Council and amended on 7 March 2014 and 4 May 2017 and the *Measures on the Supervision and Administration of the Business Operations of Medical Devices* (醫療器械經營監督管理辦法) promulgated by the State Food and Drug Administration (“**SFDA**”) (國家食品藥品監督管理總局) on 30 July 2014, there are three levels of regulatory oversight: (i) the establishment of a business operation in category one medical device does not require any approval or filing; (ii) the establishment of a business operation in category two medical device shall be filed for record with the drug regulatory bureaus in charge at the municipal level; and (iii) the establishment of a business operation in category three medical device shall be registered for review and approval with the drug regulatory bureaus in charge at the municipal level. SFDA promulgated the *Official Replies to Relevant Issues about Medical Equipment Leasing* (關於租賃醫療器械有關問題的批覆) and *Comments in Response to Some Regulatory Issues about Medical Equipment Financial Leasing* (關於融資租賃醫療器械監管問題的答覆意見) on 15 April 2004 and 1 June 2005, respectively. Accordingly, medical equipment financial leasing conducted by financial leasing companies shall be categorised as business dealings in medical equipment and a licence for business dealings in medical equipment shall be obtained in accordance with the Regulations on Medical Equipment. Far Eastern, Shanghai Donghong and Shanghai Domin have all been issued with licences for business dealings in certain categories of medical equipment.

Along with its in-depth understanding of the healthcare industry and continuing penetration into the healthcare market during its operating history, the Group has extended its services to include diversified, value-added services, such as advisory and trading services. The Group's trading services for healthcare industry customers focus mainly on the trading of equipment used for disinfecting. There has been high demand for this equipment in the Chinese healthcare market since 2005 due to the promulgation of more stringent sanitation standards by the Chinese regulatory authorities in response to the outbreak of severe acute respiratory syndrome (SARS) in 2003. As a result, the Group believes that the trading of equipment for disinfecting has significant growth potential. In addition to a trading services business, the Group also provides various advisory services which include:

- industry analysis, including analysis of policies and development strategies in healthcare industries by cooperating with universities and research institutions;
- equipment operation analysis, including advisory services in relation to selection, installment and operation of equipment;
- management consulting, including providing customers with research reports, management training and business development strategies based on the competition in the local market;

- financial consulting services, including providing management staff of healthcare institutions with financial management plans and training, plus innovative financing plans, optimal finance planning analysis, cost cutting and applying for governmental subsidies for fixed asset investment;
- internal management optimisation, including proposals for business and management process optimisation; and
- fixed asset investment analysis, including comprehensive fixed asset investment strategies, feasibility studies of investment plans, information regarding market prices, management of investment projects and providing financing support for the investment.

The Group also intends to develop its engineering services capability in connection with the engineering, construction and management of healthcare infrastructure facilities in the future so as to enhance and further develop its vertical integration within the healthcare leasing industry.

In 2015, the Group made a rapid breakthrough in hospital investment operation and completed the acquisition of Siping Cancer Institute & Hospital, Binhai Xinrenci Hospital, Anda Jiren Hospital and Zhoushan Dinghai Guanghua Hospital. In addition, the Group successfully invested in Kunming Broad Healthcare Investment Limited in 2015, which therefore became a joint venture of the Group. Yunnan Boya Hospital and Yunnan Kidney Hospital are under the control of Kunming Broad Healthcare Investment Limited. The investment and acquisition of the above hospitals are important to the hospital operation segment of the Group.

As of the end of 2015, the Group had gained control over or acquired equity interest in eight hospitals in total including Huakang Hospital, Siping Cancer Hospital, Weihai Haida Hospital, Binhai Xinrenci Hospital, Anda Jiren Hospital, Zhoushan Dinghai Guanghua Hospital, as well as Kunming Boya Hospital and Yunnan Kidney Hospital under Kunming Broadhealthcare, with over 3,000 beds under control. In 2016, the Group completed the acquisition of Siyang Chinese Medicine Hospital (泗陽中醫), Xinli Hospital (納雍新立), Chongqing Yudong Hospital (重慶渝東), Deyang Fifth Hospital (德陽五院) and Zhoushan Cunde Hospital (舟山存德) (renamed Putuo Guanghua Hospital (普陀慶華)) which then became under the control of the Group. Furthermore, the Group entered into contracts with Fengyang Gulou Hospital (鳳陽鼓樓), Siyang Xiehe Hospital (泗陽協和), Meizhou Tieluqiao Hospital (梅州鐵爐橋), Zhengzhou Renji Hospital (鄭州仁濟) and Shenzhen Zhonghai Hospital Group (深圳中海醫院集團) in 2016. During the first half of 2017, the Group entered into agreements to invest or gain control over four hospitals, namely Daishan Guanghua Hospital (岱山廣華), WuChang Chinese Medicine Hospital (五常中醫), Zhaotong Renan Hospital (昭通仁安) and Qiaojia Renan Hospital (巧家仁安). As of 30 June 2017, the Group has signed contracts to control or hold equity interest in a total of 26 hospitals.

The Group is now facilitating its expansion in medical industry layout, and gradually establishing a hospital group with advanced technology and quality service. As the hospitals effectively enhanced their operational capabilities and management efficiency, it will be a firm step for the Group to become a hospital operation and management corporation perched on a leading position in China. The Group's revenue from healthcare service as part of the industrial operation segment (before taxes and surcharges) was RMB626.0 million for the year ended 31 December 2016 and RMB590.7 million for the six months ended 30 June 2017.

### *The Group's Business in the Education Industry*

The Group commenced its operations in the educational equipment financial leasing business in 2002. It provides financial leasing services and advisory services for diverse types of educational institutions within China, such as colleges, universities, high schools and professional educational institutions. The Group believes that it commands the dominant market share within China's universities and colleges, and has achieved strong growth momentum over recent years. In 2015, the Group completed the acquisition of a Confucius International School and three Montessori International Kindergartens. In 2016, the Group entered into agreements in respect of 12 new high-end kindergarten sites in Shanghai, Hangzhou, Xiamen, Wuhan and Chongqing. In the first half of 2017, the Group opened one new kindergarten in Chongqing and entered into agreement regarding three high-end kindergarten venues in Shanghai, Qingdao and Tianjin. As of 30 June 2017, the Group operated five high-end kindergartens and two high schools with more than 970 students, representing an increase of approximately 20.68% as compared to the first half of 2016. This continues to be a significant breakthrough in the education operating segment of the Group, and in turn has profound strategic implications for further improvement of its operating capability in education industry. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the education industry was RMB2,326.4 million, as compared to RMB1,697.3 million and RMB1,398.6 million for the year ended 31 December 2015 and 2014, respectively. The Group's revenue (before business taxes and surcharges) from the education industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 13.7%, 14.2% and 16.5% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the education industry was RMB1,312.5 million, as compared to RMB1,598.2 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the education industry for the six months ended 30 June 2016 and 2017 represented approximately 17.7% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

Educational institutions are geographically dispersed across China. In order to identify and reach its potential customers in the education industry, the Group has established a strong sales and marketing team which is effective in promoting its products and services to educational institutions through various sales and marketing activities and the establishment of education professional alliances and forums to further penetrate the education market and further deepen the Group's industry expertise and customer relationships.

The leased educational equipment mainly comprises information technology equipment, laboratory equipment and practical training equipment. Based on its deep understanding of the specific needs of educational institutions and its close relationship with customers, the Group has extended its services to include value-added services such as (i) financial advisory services, including working capital and cash flow management consulting based on an analysis of a customer's financial statements and operational status as well as financing policy training for education institutions; and (ii) management consulting services which include national policy analysis and consulting on the structure of an internal financial system.

As customers of the Group in the education industry are generally high quality customers with stable cash flow, they represent high asset quality and are able to make timely and regular lease payments. Their payments schedules are also customised to appropriately match their fund allocation capabilities. The Group maintains a low risk profile within the education industry.

### *The Group's Business in the Infrastructure Construction Industry*

The Group entered the infrastructure construction industry in 2004 primarily to provide infrastructure construction equipment financial leasing services to mid-to-high-end construction companies within China. In light of China's rapidly developing urbanisation and increasing demand for the construction of basic infrastructure, the Group extended its services to three major sectors of the construction industry, namely road and bridge construction, municipal facilities and infrastructure, and hoisting construction. The Group systematically promoted its operating leasing business for the infrastructure construction and has become a leading industrial enterprise in the market segments of road equipment, industrial equipment and mould bases. In 2015, the Group continued to promote comprehensive services such as operation of machinery and scaffolding equipment and effective linkage with the financial business in an orderly manner to lay out a framework of an industry service corporation, and the network of the Group's operation services has gradually spread nation-wide and created relevant advantages in related sub-markets. In 2016, in order to adapt to the market environment, the Group made strategic moves to reduce the allocation of resources to certain sluggish industries, which led to a lower growth rate for its infrastructure construction business sector. In the first half of 2017, the capabilities in the resources integration and the whole industrial chain layout of the construction industry of the Group preliminarily formed with synergy between its businesses. The Group's production capacity and capabilities in operation maintenance also gradually appeared in the fields where it operated, forming differentiated competitive advantages. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the infrastructure construction industry was RMB2,882.3 million, as compared to RMB2,543.2 million and RMB1,996.5 million for the year ended 31 December 2015 and 2014, respectively. The Group's revenue (before business taxes and surcharges) from the infrastructure construction industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 19.6%, 21.4% and 20.5% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the infrastructure construction industry was RMB1,624.2 million, as compared to RMB1,341.1 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the infrastructure construction industry for the six months ended 30 June 2016 and 2017 represented approximately 18.13% and 18.0% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

Capitalising on the rapid growth of the industry and its deep understanding of the sector, the Group has achieved strong growth over recent years. It maintains a competitive sales team with significant industry understanding and finance expertise to provide customised services to its customers in the infrastructure construction industry.

The Group frequently liaises with industry experts and retains an external expert as its regular adviser. It maintains frequent and close contact with major construction equipment manufacturers and trading companies domestically and overseas in order to gain first-hand information on industry and regulatory trends. Active involvement in industry associations and customer forums are also considered key sales and marketing activities to help the Group strengthen industry penetration and promote its services. Its leased construction equipment is mainly comprised of excavating machines, earthmoving machines, road maintaining machines, pavement equipment, pile machines, concrete machines, drilling machines and hoisting construction equipment.

The Group's advisory services in the infrastructure construction industry include (i) sharing of market information and statistics, and providing customers with regulatory trend analysis and market data based on industry expertise and accumulated market information; and (ii) financial consulting services such as working capital and cash flow management consulting based on analysis of the customers' financial statements and operational status as well as financial policy.

### ***The Group's Business in the Transportation Industry***

The Group began to provide its services within the ship financial leasing industry in 2003. It primarily provides ship leasing services to shipping companies established in China, or ultimately owned by Chinese entities, in the form of direct financial leases whereby its shipping customers purchase vessels with its financing support. In addition, it also provides ship brokerage services for the sales and purchases of new and used vessels. In July 2013, the Group renamed its shipping sector as the transportation sector to expand its business to include railway transportation, pipeline transportation and smart logistics industries. In 2016, the growth of demand in the shipping industry remained sluggish, and the problem of over-capacity could not be fundamentally resolved in the short term with the downturn and volatility of the shipping market expected to continue for a certain period. The Group undertook measures such as writing off bad debts and monitoring assets in this business sector. In the first half of 2017, the shipping industry gradually showed sign of recovery. However, the problem of insufficient long-term demand and over-capacity in the industry remains. The Group continued to monitor assets in this business sector and keep close attention to its systemic risk. For the year ended 31 December 2016, the Group's revenue (before taxes and surcharges) from the transportation industry was RMB1,013.9 million, as compared to RMB927.0 million and RMB1,247.6 million for the year ended 31 December 2015 and 2014, respectively. Its revenue (before business taxes and surcharges) from the transportation industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 12.3%, 7.8% and 7.2% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the transportation industry was RMB612.4 million, as compared to RMB536.6 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the transportation industry for the six months ended 30 June 2016 and 2017 represented approximately 7.3% and 6.8% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

The Group leverages its industry expertise within the transportation industry and provides transportation financing services which are specially customised to provide reliable funding support for its transport customers. The Group's specialised sales team is capable of providing comprehensive financing solutions and professional advisory services for its customers, who request essential, industry-specific financing advice at the time they purchase vessels. The Group believes that its provision of an integrated and customised range of financial services to its transport customers has enhanced its customers' trust and reliance on its services and enabled it to establish its market position within the transportation financing market. Its extensive network with ship builders, sellers and purchasers allows it to continue its expansion into ship brokerage service.

The Group's operations in the transportation financial leasing market are divided into the U.S. dollar financing business and the Renminbi financing business. Its U.S. dollar financing services are provided primarily to shipping companies operating on international shipping lines, while its Renminbi financing services are provided principally to shipping companies operating on domestic shipping lines. The Group also provides various advisory services to its transportation industry customers, which include (i) vessel operation advisory services such as ship selection and purchase



timing analysis; (ii) industry competition analysis based on its cumulative industry expertise and market information; and (iii) financial consulting services, such as working capital and cash flow management consulting based on an analysis of the customer's financial statements and operational status, profit projection and vessel value assessment.

On 28 March 2008, the Ministry of Communications (交通運輸) issued the *Notice of the General Office of the Ministry of Communications on Improving Administration of Ship Financial Leasing* (交通運輸部辦公廳關於規範國內船舶融資租賃管理的通知) in the PRC (the “**Notice**”), which became effective on the same date. According to the Notice, where a lessor conducts ship financial leasing in China in the form of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures or wholly foreign-owned enterprises, the foreign shareholding shall not exceed 50% of the total investment. To comply with the Notice, Far Eastern, a wholly foreign-owned enterprise, has, since March 2008, ceased to provide ship financial leasing services in China. Instead, the Group continues to conduct its ship financial leasing business in China by way of entrusted loans whereby the Group entrusts local financial institutions qualified for the lending business (such as banks and trust companies) to lend the Group's money to domestic enterprises to provide financing for their ship construction or purchasing. The constructed or purchased ships will then be mortgaged to the Group as a guarantee for the repayment of the entrusted loans. In addition, the Group also conducts its ship financial leasing business outside China through the offshore subsidiaries wholly-owned by FEH Shipping. Therefore, the Group's lease receivables relating to the transportation industry currently include entrusted loans granted for ship leasing and offshore ship leasing receivables.

The Group understands its provision of entrusted loans within the transportation industry (after the Notice became effective) does not contravene PRC laws and regulations. In addition, the performance of those ship leasing contracts that the Group had previously entered into was completed before the effective date of the Notice, and the receipt of related interest income after the effective date will not be deemed by the relevant PRC authorities to be a breach of the Notice.

In addition, the Group, as the general partner, established a shipping fund in the Cayman Islands with the total capital of U.S.\$40 million on 18 March 2015 through which the Group explored a brand new model for the asset management business to leverage the potential industry risks and enhance the operational capability of the Group over the control of the shipping assets.

### ***The Group's Business in the Urban Utilities Industry***

In March 2015, the Group established a new business sector, namely the urban utility business unit, increasing its portfolio of focused business segments from eight to nine. Through this new sector, the Group aims to seize the opportunities arising from the development of China's urban utilities by providing a wide range of financial products and professional consulting services to three main urban utility industries namely urban environmental protection, urban public transportation and urban energy.

The business scope of this business sector mainly comprises: (i) financing services, including providing financing for equipment purchase, sale-leaseback of current assets, operating lease, factoring and commercial paper financing; (ii) capital services, including making equity investments as strategic investors, acting as financial advisor in mergers and acquisitions and providing consulting services; and (iii) industrial services, including investing in public-private partnership projects, cooperating with government authorities on industrial investment funds and providing value-added services. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the urban utilities industry was RMB597.1 million, as

compared to RMB533.0 million and RMB366.8 million for the year ended 31 December 2015 and 2014, respectively. Its revenue (before business taxes and surcharges) from the urban utilities industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 3.6%, 4.5% and 4.2% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the urban utilities industry was RMB379.0 million, as compared to RMB316.7 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the urban utilities industry for the six months ended 30 June 2016 and 2017 represented approximately 4.3% and 4.2% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

Through its long-term efforts, the Group has established extensive cooperative relations with domestic and overseas renowned manufacturers, agencies, associations, research institutions, government authorities and other business partners and built a nationwide service network with a mature business process management system.

### ***The Group's Business in the Packaging Industry***

The Group initiated its financial leasing business in the packaging industry (which was then named and focused on the printing segment) in 2004, and it believes that it is among the first financial leasing companies in China to provide financial leasing services for printing enterprises, as there was a very limited number of competitors in the packaging industry when the Group entered the market in 2004. On 9 April 2013, the Group's printing segment was renamed as the packaging segment so as to build up a complete-packaging industry chain, expand the scope of business and enhance its operating abilities. The Group provides diversified services to its packaging customers, which mainly include financial leasing services and extended value-added services comprising consultancy services, purchase order services, and raw materials procurement services. The Group was one of the leading market players in 2017 in the packaging industry based on market information; nevertheless, in order to adapt to the market environment, the Group made strategic moves to reduce the allocation of resources to the packaging business sector, leading to a slower growth rate, as the packaging industry was sluggish. For the year ended 31 December 2016, the Group's revenue (before taxes and surcharges) from the packaging industry was RMB929.9 million, as compared to RMB977.6 million and RMB1,221.0 million for the year ended 31 December 2015 and 2014, respectively. Its revenue (before business taxes and surcharges) from the packaging industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 12.0%, 8.2% and 6.6% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the packaging industry was RMB497.0 million, as compared to RMB548.2 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the packaging industry for the six months ended 30 June 2016 and 2017 represented approximately 6.7% and 6.1% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

The Group has established itself within the packaging industry by targeting three major regional markets, namely the Pearl River Delta, Yangtze River Delta and Bohai Rim. Most participants in the packaging industry are small-to-medium-sized enterprises operating primarily in their respective sub-divided local markets. Due to the characteristics of the industry, the Group focuses its sales and marketing efforts on such local markets by closely liaising and establishing strategic alliances with local market participants such as local distributors, suppliers and manufacturers, prudently conducting due diligence by collecting customer information regarding the local market



and regularly analysing the local competitive environment. As such, the Group is able to provide customised products and services to its packaging customers and enhance customer loyalty. Its leased printing equipment primarily consists of plate making machines, printing machines and binding machines.

In line with the provision of an integrated and customised range of financial services to its packaging customers, the Group also provides a full range of extended value-added services. It matches downstream printing companies with upstream newsprint providers and other suppliers to provide ongoing after-sales support services. The Group provides import and export trade and domestic trade for paper, ink, cardboard and paper goods. Its tailor-made advisory services in the packaging industry mainly include financing and management consultancy services.

On 9 April 2013, the Group's printing segment was renamed as the packaging segment so as to build up a complete-packaging industry chain, expand the scope of business and enhance its operating abilities.

### ***The Group's Business in the Industrial Machinery Industry***

The Group formed its machinery business division in 2005. The Group provides machinery equipment financial leasing services for various manufacturing companies in China, primarily focusing on automobile parts producers, with the aim of achieving sustainable growth and technology enhancement in the Chinese manufacturing industry. The Group successfully penetrated into different customer areas and was one of the leading market players in 2017 in the machinery industry based on market information. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the machinery industry was RMB1,198.9 million, as compared to RMB1,055.9 million and RMB812.0 million for the year ended 31 December 2015 and 2014, respectively. The Group's revenue (before business taxes and surcharges) from the machinery industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 8.0%, 8.9% and 8.5% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the industrial machinery industry was RMB671.7 million, as compared to RMB641.4 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the industrial machinery industry for the six months ended 30 June 2016 and 2017 represented approximately 8.7% and 7.4% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

As its financing services are extended to a number of sectors within the machinery industry such as machine tools, automotive, public transportation, energy and electronic devices, the Group's sales and marketing strategy focuses on active involvement and liaison with various industry associations, such as automobile industry associations and mechanical bearing industry associations, to collect the latest industry information and, more importantly, machinery purchase and financing demand information to facilitate its marketing efforts. The Group also organises machinery exhibitions regularly and involves its key customers, various manufacturing companies and machinery equipment purchasers to promote its services. Its sales staff make regular visits to a number of key government industrial parks to develop business relationships with various manufacturing companies. As the financial leasing business of the machinery industry involves mostly small-ticket machine tool leasing, and requires industry-specific financing expertise and an extended sales network to reach customers which are spread across China, the Group has established a specialised sales team equipped with the necessary industry expertise and marketing capability to maintain sufficient coverage of a diverse customer base and to provide customised small-ticket financial leasing services for machinery equipment.

The advisory services provided in the machinery industry include (i) management consulting, such as assisting customers in negotiations with their suppliers; (ii) market information exchange and policy trends analysis; (iii) industry competition analysis based on the Group's accumulated industry expertise and market information; and (iv) financial consulting services, such as working capital and cash flow management consulting based on an analysis of the customer's financial statements and operational status. Apart from the provision of integrated financial services, the Group also provides trade agency services for clients in the machinery industry.

### ***The Group's Business in the Comprehensive Development Industry***

The comprehensive development (formerly known as textiles) business division of the Guarantor was formed in November 2011. In line with the rapid development and upgrading of the Chinese comprehensive development industry, the Group is dedicated to becoming the leading provider of comprehensive services for the companies in the relevant industries by attending to its customers' needs and innovating its business practice. Thus, the division was renamed as comprehensive development department (from the textile department) in 2016. The Group targets the textile, light, mining, chemical and consumer services industries in China through this business division and provides its customers with a wide variety of financing solutions, including financial leasing and other related value-added services such as trade and management consulting.

The Group has rich experience, resources and expertise in the textile, light, mining, chemical and consumer services industries. It has formed extensive partnerships with well-known Chinese and foreign equipment makers, distributors, manufacturing companies and trade associations. It has been cooperating in a wide range of segments within the abovementioned industries, such as cotton spinning, weaving, dyeing and synthetic fibre production in the textile industry, furniture and wood, cosmetics, lighting and sporting goods in the light industry, oil and gas exploitation, coal mining, mining of non-metallic minerals and exploitation support activities in the mining industry and wholesale trade, retail trade, catering and life services in the consumer services industry. The Group has also formed a complete business management system for these industries and a Shanghai-centered customer services network in China. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the comprehensive development industry was RMB522.9 million, as compared to RMB367.1 million and RMB261.1 million for the year ended 31 December 2015 and 2014, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the comprehensive development industry was RMB388.3 million, as compared to RMB276.6 million for the six months ended 30 June 2016. The Group's revenue (before business taxes and surcharges) from the comprehensive development industry for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017 represented approximately 2.6%, 3.1%, 3.7%, 3.7% and 4.3% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

In line with the rapid development and upgrading of the Chinese comprehensive development industry, the Group is dedicated to becoming the leading provider of comprehensive services for the companies in the relevant industries by attending to its customers' needs and innovating its business practice. Thus, the division was renamed as comprehensive development department (from the textile department) in 2016.

### ***The Group's Business in the Electronic Information Industry***

The electronic information industry is the most recent focus of the Group. In April 2012, the Group consolidated the electronic information business and incorporated the electronic business in the machinery industry into other industries. The Group commenced its new business in the electronic information industry and established the electronic information segment in December 2012.

The electronic information segment targets the information industry in the PRC and is an integrated financial services institution providing diversified financial solutions to upstream and downstream customers of various industry chains.

The electronic information segment is currently involved in fields such as electronic information manufacturing and information technology application. Relying on vast industry experience and resource-coordination skills, and through the dedicated corporation of corporate customers, well-known domestic and overseas manufacturers, agents, associations, government and business partners, the electronic information segment has built up a national customer service network with Shanghai as its centre. For the year ended 31 December 2016, the Group's revenue (before business taxes and surcharges) from the electronic information industry was RMB806.6 million, as compared to RMB774.2 million and RMB514.1 million for the year ended 31 December 2015 and 2014, respectively. The Group's revenue (before business taxes and surcharges) from the electronic information industry for the years ended 31 December 2014, 2015 and 2016 represented approximately 5.1%, 6.5% and 5.7% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively. For the six months ended 30 June 2017, the Group's revenue (before business taxes and surcharges) from the electronic information industry was RMB564.7 million, as compared to RMB452.6 million for the six months ended 30 June 2016. The revenue (before business taxes and surcharges) from the electronic information industry for the six months ended 30 June 2016 and 2017 represented approximately 6.1% and 6.3% of the Group's total revenue (before business taxes and surcharges) for the same periods, respectively.

Through continued in-depth research and pioneering in the electronic information manufacturing and information technology application fields, the electronic information segment is committed to providing the industry chain with quality and professional financial services, operational services and investment services.

### **Competitive Strengths**

The Group believes that it has the following competitive strengths:

***The Group has capitalised on China's robust economic growth by strategically focusing on selected industries which have been expanding as China's economy grows.***

Over the past three decades, China's economy has grown significantly, in large part due to the Chinese government's extensive economic reforms. According to the National Bureau of Statistics of China, the nominal GDP of China grew from RMB21.8 trillion to RMB74.4 trillion between 2006 and 2016. In addition, China's urban fixed assets investment grew from RMB9.34 trillion to RMB55.16 trillion between 2006 and 2016. Based on data from the World Bank, China was the second largest economy in the world in terms of GDP in 2016.

The Group's target industries have also enjoyed rapid growth along with the Chinese economy and the Chinese financial leasing industry. In particular, the total expenditure or total output value of its target industries has increased in the recent three years.

The Group currently operates its business within its nine target industries, which have each experienced continued growth despite the global financial crisis.

***The Group has developed a distinctive business model providing customised and integrated financial services to target industries by leveraging its established industry expertise and thorough understanding of its customers' specific needs.***

The Group's distinctive business model enables it to provide a customised and integrated range of financial services primarily across a portfolio comprising its target industries, so as to support the growth of its customers' businesses along with the growth of the Chinese economy. In addition, the Group is also able to leverage its accumulated industry and management expertise derived from its business model to expand into other target industries in China with promising growth potential. The Group believes that its business model is distinctive for the following reasons:

- it provides an integrated and customised range of financial services;
- it has effective operational and project execution capabilities in step with its business growth;
- it maintains strong asset and customer quality through effective risk management systems; and
- it has industry-specific sales and marketing initiatives.

***The Group is a market leader in China's financial leasing industry and has an extensive customer base.***

The Group enjoys a leading market share in a majority of its target industries and is one of the top performers among China's financial leasing companies in terms of revenue and net profit. Based on the market information, as of 30 June 2017, the Group has a leading position among the top 10 financial leasing companies in China in terms of net profit and total assets and achieved a leading market share in terms of the aggregate value of new lease contracts in revenue terms in the provision of financial leasing services to public hospitals, printing firms, universities and colleges and automobile part manufacturers.

The Group's leading market position in the majority of its target industries is bolstered by a growing customer base with whom it has well established long-term relationships. Its customers primarily comprise of small-to-medium-sized enterprises, large corporations and public institutions within its target industries, each of which has been selected under stringent risk management procedures based on factors such as the stability of their cash flows and/or asset values, industry reputation and track record. As of 30 June 2017, the Group's customer base consisted of around 13,000 customers located in nearly every province of China and was located primarily within the regions which are growing along with China's economy, such as the Bohai Rim (comprising Beijing Tianjin, Shandong, Liaoning and Hebei), the Yangtze River Delta (comprising Jiangsu, Zhejiang, Shanghai and Anhui), the Pearl River Delta (comprising Guangdong, Guangxi and Hainan) and central China (comprising Hunan, Hubei, Chongqing, Sichuan and Henan). As testimony to its customers' loyalty and reliance on its services, the Group also has a large number of repeat customers. The Group has further successfully tapped into its financial leasing customer base to provide extended value-added services, in addition to providing its integrated financial services to new customers.

***The Group has an experienced, stable and cohesive management team and qualified staff with proven track record and a performance-based corporate culture.***

The Group's management team has successfully developed its business into a leading financial services company in China. The executive Directors and key senior management have been with the Group since 2002 and have contributed their management expertise and business acumen to lead the Group since the relocation of the Group's operating centre to Shanghai in 2001. Most of the Group's senior management members have an average of around 15 years of experience in China's financial services industry. The Group has a highly capable, committed and motivated management team, whose strong entrepreneurship has led to the successful development of its businesses within its target industries. The Group's management team also shares a vision of loyalty, teamwork, cohesiveness, continuous learning and excellence with its employees. As of 30 June 2017, approximately 57.60% of the Group's employees have a bachelor's degree and above and approximately 19.35% have a master's degree and above. Due to the employees' diversified education background, work experience and internal training, the employees of the Group possess the necessary professional and specialised expertise within the relevant target industry division in which they operate.

The Group is committed to motivating its employees and creating a meritocratic system under which compensation is dependent on the satisfaction of attainable performance targets. It has fostered a distinct culture and core set of values which it seeks to reinforce with its Directors, senior management and employees.

***The Group has diversified and sustainable funding sources to support its business growth and has strong capabilities in managing its funding risks.***

The Group's business growth and working capital requirements are primarily supported by interest-bearing bank and other borrowings and equity. Since 2002, the Group has developed strong relationships with approximately 200 domestic and foreign financial institutions from which it has obtained loan financing (including syndicated loans). As of 31 October 2017, these financial institutions included, among others, the big four commercial banks in China, national joint stock commercial banks, China Development Bank, The Export Import Bank of China, city and rural commercial banks and foreign-invested banks. In December 2016, Far Eastern finalised a strategic cooperation agreement of RMB40.0 billion with China Development Bank for 2016 to 2021. In December 2014, Far Eastern finalised a strategic cooperation agreement of RMB20.0 billion with China Construction Bank Corporation for 2017 to 2020. These relationships have allowed the Group to secure the sustainable sources of financing to support its business growth and working capital requirements. The Group also encourages foreign syndicated facility renewal to further developed foreign facilities markets such as Hong Kong and Taiwan.

The Group has also diversified its funding sources to include private banking, trusts, third-party wealth management and the employment of financial instruments, such as asset backed securitisation, perpetual securities and medium term notes so as to expand its funding sources and maintain a capital-adequate and cost-efficient funding base. Since its first issuance of offshore Renminbi bonds in a principal amount of RMB1,250 million in May 2011, the Guarantor has been very active in the bond market. The Guarantor issued senior perpetual securities in June 2014 and June 2017, further achieving diversification in fund raising. In July 2017, Far Eastern issued renewable corporate bonds in the PRC domestic market.

Other members of the Group also have a variety of financial instruments for funding purposes. Having previously issued two asset-backed securities products, Far East issued a third asset-backed securities project, namely Far Eastern Third Leasing Asset Backed Security Management Programme in July 2014. In August 2014, Far Eastern received a notice of acceptance of registration (the “**Registration Notice**”) issued by National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue domestic medium term notes with registered amount of RMB3 billion within two years commencing from the date of issue of the Registration Notice. It was the only domestic leasing company that was given a rating of investment grade internationally recognised and had diverse financing methods with an improved liability structure, enabling it to further reduce its reliance on a single product and a single market and in turn to achieve diversity of financing products, decentralization of financing regions and the long term finance. In September 2014, Far Eastern completed the issuance of 5-year domestic medium term notes with a coupon rate of 5.6% per annum in a principal amount of RMB1.5 billion pursuant to the Registration Notice. Far Eastern was the first finance leasing company in the PRC being approved to issue medium term notes in the inter-bank market publicly.

In 2015, the Group proactively adjusted its financing strategies and increased its financing ratio in China due to the more loose domestic monetary market and lowering financing costs. In 2016, the Group further enriched bond portfolios at home. With respect to direct financing, there were 14 issuances in the year, with the cumulative amount of RMB26 billion, including RMB13 billion of corporate bonds, RMB8 billion of private placement notes, RMB2 billion of ultra-short financing bills, RMB2 billion of short financing bills and RMB1 billion of other bonds. In respect of indirect financing, the Group maintained its current financing channel and strengthened its cooperative relationships with key bank channels at the same time. In terms of off-balance sheet financing, the financing amount accumulated by the asset securitisation business was RMB27.7 billion, 1.8 times of that of 2015, which enabled the Guarantor to be the most active financial leasing company with the issue of asset-backed securities products in China. Off-balance sheet financing diversified funding sources optimised the Group’s liability structure and improved the management of financial statements.

In the first half of 2017, the Group continued to make progress in both indirect financing and direct financing with an enhanced liability structure, thus allowing it to enjoy lower financial cost over its peers. In respect of direct financing, the Group further enriched its bond portfolios, and it issued various bond portfolios including corporate bonds and private placement notes. 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 continued to strengthen its co-operation relationship with key bank channels.

Currently the Group is fully equipped with continuous and effective ability to issue securities, enabling it to set up the image of being a mature issuer in the capital markets.

In summary, the Group has diverse financing methods with an improved liability structure, thus further reducing its reliance on a single product or a single market, and in turn achieving diversity of financing products, decentralisation of financing regions and acquisition of long term finance resources.

The Group is also able to match effectively its funding with its asset growth on an ongoing basis through regular review and adjustment of its funding sources and structure in view of the changes in its internal and external business environments.



The Group manages its liquidity risks by regularly monitoring the relative maturities between its assets and liabilities and taking the necessary steps to maintain an appropriate and prudent balance of long-term and short-term funding sources. The Group manages its interest rate exposure by regularly assessing potential changes in interest rates using gap analysis. It further strengthens research capabilities to determine interest rate fluctuations and trends by formulating regular tracking and reporting systems.

## **Business Strategies**

The Group intends to implement the following principal strategies to grow its business:

### ***Capitalising on growth opportunities of China's financial leasing market.***

The Group believes China's financial leasing industry is still underdeveloped, and that its target industries still enjoy sustainable growth potential. Hence, there are promising opportunities to explore the attractive growth potential of China's financial leasing industry and its target industries. Furthermore, the Group intends to continue exploring growth opportunities within other target industries in China with growth potential and in which it believes its services can be competitive, so as to complement its existing business. The Group is currently exploring business opportunities in other industries, such as the public transportation industry, urban utilities and the media and broadcast equipment leasing industry and may penetrate into these new industries when suitable opportunities arise. However, the Group does not have any existing timetable to expand into these new industries. The Group believes that its track record and experience in China's financial leasing industry has provided it with sufficient insights into industry trends, customer needs and market potential, which will equip it with the required capabilities to pursue suitable expansion and penetration into these new industries.

In addition, the Group believes that there is substantial growth potential in the market demand for its financial leasing services arising from the growth of private sector enterprises and public institutions. In addition to conventional bank lending, the Group's ability to understand the value of the assets underlying the leases as well as its customers' needs provides a differentiated and effective competitive advantage. For close to 26 years, the Group has been successfully developing its business by taking advantage of the rapid growth of China's economy and the continuing opening up of China's financial market. The Group intends to continue to capitalise on growth opportunities of China's financial leasing market by leveraging its industrial expertise, established presence in its target industries and extensive customer network.

### ***Expanding the Group's customer base and achieving deeper market penetration within its existing target industries through focused sales and marketing efforts and the expansion of its existing services.***

The Group is constantly evaluating opportunities to leverage its significant industry expertise and extend its services to additional customer segments within each of its existing target industries. In this respect, the Group plans to devote more attention, manpower and resources to expanding its customer base and strengthening its customer relationships through focused sales and marketing efforts and further segmentation of China's economic areas in which it operates. These sales and marketing efforts will include the regular organisation of, and participation in, more industry exhibitions and trade associations so as to maintain industry presence and promote its specialised industry knowledge among key industry players. The Group believes that such focused sales and marketing efforts will strengthen market demand for its integrated financial services and enable it to further capture larger market share and more customer segments ahead of its competitors.



The Group has also adopted the operational philosophy of “finance + industry”. The Group endeavours to realise its vision of “Integrating global resources and promoting China’s industries” by making innovations in products and services to provide its customers with tailor-made integrated operations services. For instances, the Group has integrated the high quality resources of its healthcare business unit and ventured into high-end maternity and rehabilitation services, further expanding the Group’s influence in the healthcare industry.

Within its existing services, the Group increased the introduction and cultivation of medical personnel, strengthened the quality of medical care and service management, promoted the development and construction of disciplines and greatly increased the medical service capability and management level of the Group’s hospitals.

***Diversifying services portfolio in China to enhance the Group’s value-adding capabilities.***

The Group believes innovation is key to the continuing growth of its business. It intends to continue to develop a differentiated services portfolio targeting specific customers’ needs so that it can differentiate itself from its competitors and enhance its market competitiveness. Going forward, when suitable opportunities arise, the Group intends to expand its services portfolio to explore the medical engineering business in the healthcare industry, to extend its services across the packaging industry value chain, and to provide operating leases in the infrastructure construction industry.

Through the diversification of its services portfolio and expanded scope of integrated value-added services, the Group intends to continue to broaden its customer base, develop a greater understanding of its customers’ needs, cultivate long-lasting relationships and secure more repeat business. The Group intends to extend the reach of its new services within China by leveraging its brand equity, business network, established customer base, expertise within the industry value chain, sales and marketing expertise, and management expertise to set strategic directions pertaining to its service portfolio diversification and, where required, acquire suitable management and technical expertise.

***Continue to optimise funding sources, minimise funding cost and effectively manage funding risks.***

The Group will continue to seek to minimise its costs of funding and expand its funding sources on a sustainable basis to maintain the liquidity necessary to manage its business growth and to provide competitive pricing to its customers. The Group intends to leverage its previous experience in the issuance of three Far Eastern asset-backed security management program and domestic medium term notes in the PRC inter-bank market and use similar financing channels under appropriate market conditions. The Group will leverage the opening up of China’s financial markets to explore further financing options where suitable opportunities arise and under appropriate market conditions. In addition, the Group intends to increase its participation in the capital markets (including both equity and debt financing) as additional funding sources. The Group also seeks to enhance its strategic cooperation with both domestic and foreign financial institutions to facilitate timely funding at competitive rates for its business operations, and will continue to adhere to its stringent processes to effectively manage its liquidity and interest rate risks.

***Continue to strengthen risk management capabilities.***

The Group intends to continue to enhance its risk management capabilities by continuing to implement an integrated and dynamic risk management system and optimising its prudent risk management systems to protect the long-term interests of its shareholders, customers and employees. The Group also intends to proactively streamline its procedures to enhance its stringent selection process of suitable fundamental and sustainable industries, the segmentation of suitable target customers, its customer credit assessment and approval procedures, and its portfolio monitoring and management. In addition, the Group intends to upgrade its information technology system, and to more closely monitor and control the status of assets, its financing project management and overall asset monitoring of the Guarantor.

***Continue to select, develop, motivate and retain a talented and professional workforce.***

The Group believes that part of its success is greatly attributable to its ability to select, develop, motivate and retain its talented and professional workforce. The Group plans to further strengthen its workforce to meet its strategic goals. The Group will continue to focus on recruiting and cultivating the technical expertise and industrial knowledge of its workforce, and training and development programs to enhance its employees' professional knowledge and capability. The Group is dedicated to the creation of a supportive culture promoting personal and professional development. The Group will continue to rely on an incentive-based compensation structure to better align employees' compensation with their contribution to its business. The Group will also continue to improve its human resources policies to attract, train, incentivise and retain employees.

**Sales and Marketing**

The Group organises its sales and marketing activities by industry divisions, and its sales and marketing network has been developed along with the development of its industry divisions. Each industry division has its own sales and marketing strategies and plans, conducts market and consumer research, coordinates marketing activities for the particular industry, promotes partnership and cooperation relationships with customers, and conducts sales and marketing activities with personnel having substantial industry expertise. As of 31 October 2017, the Group has established a nationwide sales and marketing network throughout its operation centers in Shanghai and Tianjin, and 16 regional offices which are strategically located in Shenyang, Beijing, Jinan, Changsha, Wuhan, Zhengzhou, Chengdu, Chongqing, Shenzhen, Xi'an, Xiamen, Harbin, Kunming, Hefei, Nanning and Urumqi in close proximity to the principal offices of its key target customers. In addition, it intends to establish more regional offices as its client base grows. The Group provides its services directly through its sales staff. It sends its sales staff directly to the customers to understand their requests and needs, and to establish close relationships with them. The industry expertise and background of the staff bring better sales and marketing achievements.

The Group promotes customer awareness of its brands and products through its advertising and promotional activities. It has combined its sales and marketing efforts with various activities, including the following:

- organisation of interactive meetings and regular industry exhibitions involving its customers, industry professionals, suppliers and manufacturers, and representatives of regulatory authorities of each of the nine target industries;
- frequent liaison with various industry associations;
- organisation and sponsorship of a number of customer forums;
- regular visits made by its sales staff to its existing and potential customers (at, for example, industrial parks); and
- advertisement in a variety of media such as journals, magazines and television networks with specific industry focus.

These activities have enabled the Group to (i) establish strong relationships with its customers as well as other key participants within the relevant industry, (ii) collect the latest industry information as well as demand and supply trends to facilitate its marketing efforts, and (iii) maintain a stable customer base and achieve comprehensive market coverage in its reach to potential customers.

## **Customers**

The main customer base of the Group consists of small-to-medium-sized enterprises, large corporations and public institutions. As of 30 June 2017, the Group had around 13,000 customers across its nine target industries. The Group has established comprehensive systems adopting certain criteria for its customer-selection process, including proven track record and business scale factors such as the target customer's total assets, revenue, stability of cash flow, competitive advantages, customer base, industry qualifications and ranking, operating and credit histories and main customer characteristics. The Group aims to select high-quality customers with strong profitability potential, long-term financing demands, stable cash flows and a sound financial base.

The Group's five largest customers contributed in aggregate less than 5% of the Group's total revenue for each of the years ended 31 December 2014, 2015, 2016 and for the six months ended 2017. There was no single customer who contributed 5% or more to the total revenue of the Group during 2016 and during the six months ended 2017.

## Funding Capabilities

The Group has established strong and effective funding capabilities and has prudently managed its balance sheet by maintaining gearing ratios at a level that the Group considers reasonable. The Group aims to make full use of capital leverage for its operations to keep its gearing ratio relatively high but at the same time closely managing the levels of gearing ratio to avoid any potential liquidity risk. By reference to the gearing ratios of commercial banks and main competitors in China, the Group believes that its gearing ratio was maintained at reasonable levels for the three years ended 31 December 2014, 2015, 2016 and for the six months ended 2017. It has been able to secure sufficient equity and debt financing to match the expansion of its business operations and working capital requirements. It has achieved stable funding while diversifying its funding sources by implementing the following funding strategies:

- steady and effective management of its funding through stringent and dynamic capital budgeting systems to optimise funding continuity and maturity profiles, and to mitigate liquidity risks;
- operating through streamlined capital management workflows to enhance capital efficiency;
- diversifying funding channels to ensure capital supply and balanced funding mix; and
- strategic selection of multiple domestic and overseas financial instruments to effectively manage funding costs.

Through these funding strategies, the Group is able to:

- effectively match its funding with its asset growth on an ongoing basis through regular review, adjustment and structuring of its funding sources and instruments while closely monitoring changes in its internal and external business environments;
- manage its liquidity risks by regularly monitoring the relative maturities between its assets and liabilities and taking the necessary steps to maintain an appropriate and prudent balance of long-term and short-term funding sources;
- manage its interest rate exposure arising from its interest payments on its loans and financing obligations by regularly assessing potential changes in interest rates using gap analysis and further strengthening research capabilities to forecast interest rate fluctuations and trends by formulating regular tracking and reporting systems; and
- maintain diversified funding channels through various types of banks and non-bank financial institutions, and has established a well-balanced portfolio of funding sources such as loans and syndicated loans, trust financing, private banking, third-party wealth management and other financial instruments such as asset-backed securitisation perpetual securities and medium term notes so as to vary its funding sources and maintain a capital-adequate and cost-efficient funding base.

Moreover, by adhering to its funding strategies, the Group has successfully increased the proportion of long-term interest-bearing bank and other borrowings to more adequately match the maturity profile of its assets.

## Competition

The opening up of the financial leasing industry in China has resulted in increased competition. The Group's competitors are mainly non-bank financial service providers, in particular bank-affiliated leasing companies, captive leasing companies and independent leasing companies which operate either on a similar or larger scale than the Group. Benefiting from China's supportive policies, China's financial leasing industry doubled its participants from 2014 to 2015. Based on market information, as of 30 June 2017, there were over 8,000 financial leasing entities including domestic, foreign and foreign-invested enterprises operating in China, as compared with over 4,500 financial leasing entities operating in China as of 31 December 2015. The financial leasing industry erects high entry barriers, which include operational qualifications, initial starting capital, strong and sustainable capital funding capabilities, professional and industrialised risk management and sales and marketing strengths.

Bank-affiliated leasing companies typically focus on big ticket leasing and have a customer base largely built on the banks' network. Captive leasing companies (which refers to the internal leasing division or the subsidiary leasing arm owned by a manufacturer or a dealer for the purposes of offering alternative financing options to the parent company's customers) typically focus on supporting their equipment sales and planning their business expansions in line with their equipment sale demand. Independent leasing companies utilise diversified capital sources and provide services to a relatively broader customer base characterised by greater flexibility, independence and discretion.

The Group's ability to compete against these competitors is, to a significant extent, dependent on its ability to distinguish its services from those of the Group's competitors through the following factors:

- provision of integrated, customised and supplemental value-added services that are competitive in terms of quality and effectiveness;
- extensive market coverage in China by leveraging on its sales and marketing capabilities;
- specific industry focus and professional expertise;
- diversified capital sourcing capabilities; and
- strong brand equity and established customer relationships.

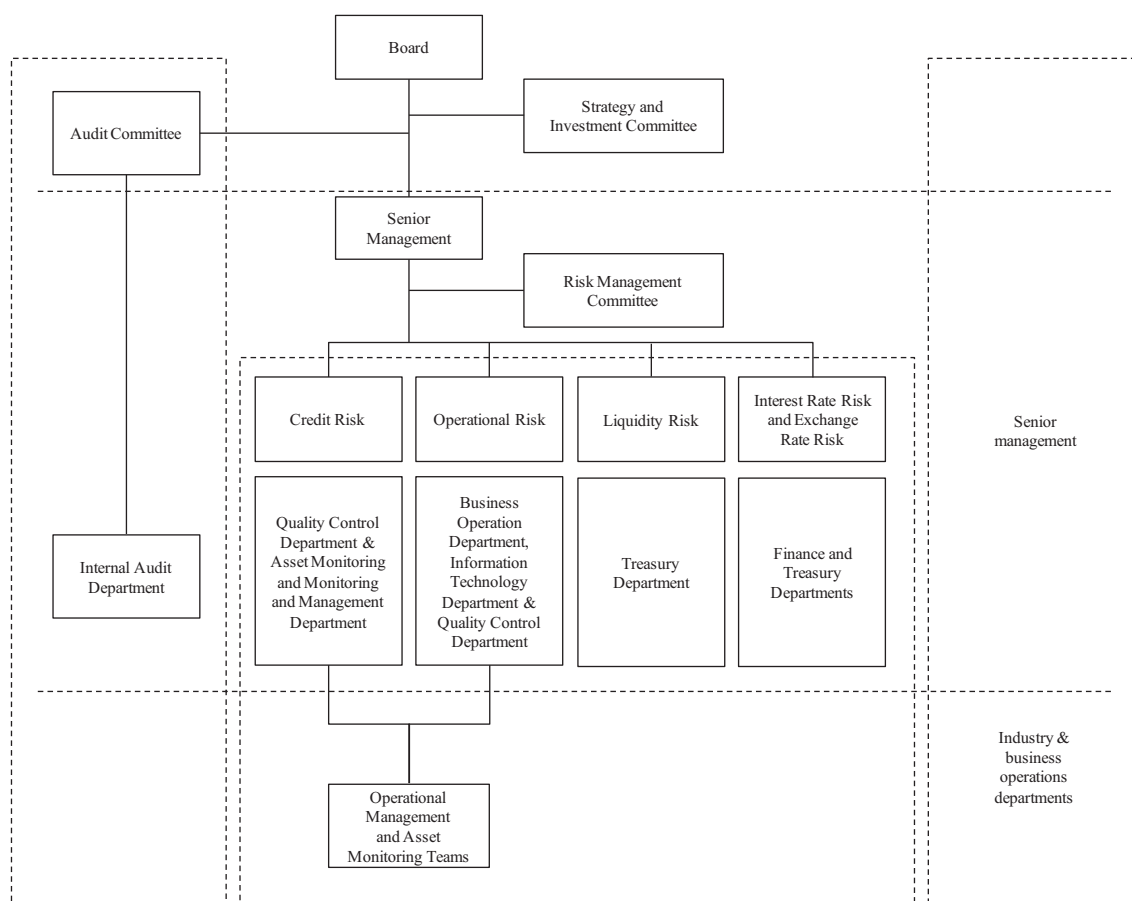
The Group intends to continue to implement its strategies to differentiate itself from its competitors and to enable it to compete effectively in China's financial services industry.

## Risk Management

As a financial services provider, the Group is subject to substantial liquidity risk, credit risk and interest rate risk in its business operations while it is exposed to relatively limited operational risk and exchange rate risk. The Group's risk management principle is to implement an integrated and dynamic risk management system, and continue to optimise its prudent risk management system to protect the long-term interests of its shareholders, customers and employees.

The Guarantor has established the Audit and Risk Management Committee and Internal Audit Department which report to the board of directors. Owing to the prudent risk management system the Group has established, the Group's non-performing asset ratio as of 31 December 2014, 2015, 2016 and as of 30 June 2017 was 0.91%, 0.97%, 0.99% and 0.95% respectively. The assets are interest-earning.

The chart below sets forth the Group's organisation structure and reporting system for its internal risk management.



The Group has adopted the following strategies to achieve its risk management objectives:

- continue to optimise its business model, integrating it with the Group's enhanced corporate governance structure to strategically reduce systematic risks, including strategic selection of industries and sub-sectors within each industry;
- continue to remain selective in the screening of customers, based on the Group's thorough industry understanding. In 2016, the Group endeavoured to minimise risk by addressing information asymmetry regarding its customers by obtaining further information of the relevant market and the customers themselves;
- continue to strengthen the Group's risk management capabilities by taking advantage of a layered and independent risk management structure. In 2016, the Group established a collective management system covering four levels, namely the Group headquarters level, industrial group level, platform companies level and enterprise level, which strengthened collective management and control. This mitigates the increasing risks that the Group faces with its active adoption of its "finance + industry" strategy, which involves the rapid development into its main target industries such as hospital, education and engineering equipment sectors;
- continue to optimise the Group's customer evaluation model based on its extensive customer base and its deep understanding of the customers' common characteristics. The Group has implemented differentiation risk management for different industries;
- continue to utilise the Group's broad customer base and industry contacts to effectively dispose of repossessed assets due to events of default, thereby mitigating potential losses;
- continue to cultivate a strong risk management culture through rigorous implementation of the Group's risk management policies and measures, as well as company-wide senior employee training;
- continue to optimise the asset allocation and comprehensively control the asset introduction risks;
- continue to construct a strict asset monitoring system, including putting in place asset management localisation systems and enhancing internet monitoring systems, which has helped strengthened the risk prevention and mitigation; and
- continue to optimise its risk assets disposal capabilities by forming special teams to provide collective litigation support, establishing and implementing various supporting mechanisms, enhancing the efficiency of cross-department collaboration and rapidly developing the regional disposal resources.



## *Risk Management Procedures*

The following table below sets forth the risk management measures adopted by the Group in the healthcare industry category, the education industry category, the infrastructure construction industry category, the electronic information industry category, the transportation industry category, the packaging industry category, the machinery industry category and the comprehensive development industry category:

<b>Healthcare</b>	The Group's healthcare customers generally include hospitals with a proven track record and of a satisfactory business scale. The Group controls its risk in the healthcare industry mainly by (i) stringent internal standards in selecting its healthcare customers with the aim of retaining high-quality customers with stable cash flow and strong credit ratings, and (ii) efficient process management of leased healthcare equipment through its well-developed customer management capabilities.
<b>Education</b>	<p>As the Group's educational industry customers are generally high-quality customers with stable cash flow, they maintain good asset quality and are able to make timely and regular lease payments.</p> <p>The Group controls its risk in the education industry by stringent selection of clients from the educational institutions that (i) have diversified funding sources other than financial leasing, such as government subsidies the bank loans; and (ii) are able to maintain stable cash flow.</p>
<b>Infrastructure construction</b>	The Group controls its risk in the infrastructure construction industry by (i) stringent selection of clients from reputable construction companies which must have an operating history or management history amounting to a stipulated number of years, and with asset value reaching a required threshold; (ii) equipment management and control characterised by conducting detailed audits on customer credit diligence; and (iii) adopting strict tracking techniques to ensure asset safety.
<b>Electronic information</b>	The Group controls its risk in the electronic information industry by (i) conducting in-depth research on the industry; (ii) stringent internal standards in selecting customers and projects; and (iii) conducting careful and continual testing of the technologies and/or products.
<b>Transportation</b>	The Group controls its risk in the transportation industry by (i) stringent selection of clients from companies within China that have long-term contract relationships with their customers; (ii) stringent controls on lease amounts, which generally represent 50%-60% loan-to-value; and (iii) engaging independent firms to evaluate the remaining market value of all of the used vessels. These strategies and initiative allow the Group to maintain a consistently low non-performing assets ratio while achieving strong growth during the three financial years ended 31 December 2014, 2015 and 2016.

**Urban Utilities**

Customers in the urban utilities sector are usually of good quality and are businesses of a large scale and are able to make timely repayment. The Group controls its risk in the urban utilities industry by (i) stringent selection of customers according to the Group's strict internal standards and targeting highly qualified urban public companies as customers (mainly comprise urban utilities companies in the capital cities and also the ones in the cities with GDP over RMB200 billion); (ii) selecting customers that have business stability, large income and a monopoly position in the located city, provide indispensable services for the operation of the cities and continually to receive persistent large amounts of government subsidies; and (iii) ensuring customers have stable cash flow, diversified financing sources, good repayment records of their financings in the past.

**Packaging**

Most of the Group's customers within the packaging industry are small-to-medium-sized enterprises. It controls its risk in the packaging industry by the establishment of rigorous internal rules governing the stringent selection of customers. These rules require each customer to have at least two full years of operational history. In addition, customers in different sub-divided markets have to satisfy different revenue or production value thresholds, depending on the extent of economic development of the specific market in which the customer is located. Accordingly, the Group puts substantial emphasis on its risk management capability in its business operations within the packaging industry, particularly in relation to the management of leased printing equipment. The Group's familiarity and deep understanding of local markets greatly facilitates its customer credit assessment and selection process, and further enhances its asset management efficiency in the packaging industry. In recognition of its established risk management system, the Group has been able to secure credit insurance coverage for its lease receivables within the packaging industry against any risk of lease default. As currently there are a very limited number of insurers in China that can provide credit insurance coverage for lease receivables, the Group believes that it is a pioneer in securing these insurance policies.

**Machinery**

The Group controls its risk in the machinery industry by (i) stringent equipment selection and controls characterised by conducting customer credit diligence; and (ii) matching the specific demands for its customers in relation to deal structure.

**Comprehensive  
Development**

The Group controls its risk in the comprehensive development industry through (i) prudently expanding its business scope and strictly verifying sub-sectors. Projects in such sub-sectors will only commence after clear verification; (ii) seeking customers who are competitive within the industry and who are aligned with industry trends; (iii) using detailed and comprehensive due diligence to gauge customers' true financial positions; (iv) being committed to maintaining close communication with the Guarantor's frontline so as to enhance frontline staff's risk awareness and ability to identify and control risk; (v) ensuring there is a secondary means of collecting outstanding lease receivables, such as by creating a mortgage, pledge or other security interest in favour of the Group in circumstances where outstanding lease receivables cannot be collected. Further, equipment is only incubated after strict verification by a professional department which assesses the equipment's residual value in order to determine equipment leasing terms and ratio and (vi) implementing a multi-level risk prevention system.

The Group has implemented its prudent risk management system across three dimensions:

*Business Model Dimension*

The Group's business is organised and operated with an industry-focus approach. Such a business model helps manage systematic risk through established procedures, primarily comprising (i) a stringent selection process of suitable fundamental and sustainable industries, (ii) segmentation of suitable targeted customers, (iii) customer credit assessment and approval procedures, and (iv) portfolio monitoring and management. The Group believes these established procedures enable it to maintain relatively low overall risk.

*Strategic Dimension*

The Group's risk management initiatives at the strategic level are led by its CEO and senior management under the supervision of its Audit and Risk Management Committee, with the management focusing on risks arising from its strategic planning, business operations, corporate credit environment, finance and accounting, and the financial markets. The Group has established a vertical reporting procedure involving relevant functional departments in its strategic risk management system, and a monthly risk reporting framework has been established to monitor the overall risk balance at the corporate level and to regularly oversee its risk management system at strategic level.

### *Operational Dimension*

The Group's risk management initiatives at the operational level primarily focus on the management of its credit risk (which includes risks arising from new industry selection, new customer selection and customer credit assessment and approval, as well as portfolio monitoring and management), operational risk, liquidity risk and interest rate risk. The Group has established "three lines of defence" at the operational level, mainly:

- in terms of credit risk and operational risk management, the Group has been (i) controlling project risks by ensuring strict adherence to internal credit facility standards and preliminary screening guidelines, (ii) assessing credit risks of new customers and projects through standardised credit evaluation procedures before entering into any business contract, (iii) strengthening its internal authorisation and approval policies and procedures, and (iv) instituting effective supervision and monitoring measures during post-transaction portfolio management;
- in terms of liquidity risk management, the Group has been prudently managing its balance sheet to match the maturity periods of its assets and liabilities; and
- in terms of interest rate risk management, the Group has been hedging its interest rate risk by matching its lease pricing mechanisms with interest on its borrowings.

In addition, the Group has established an independent internal audit department which oversees its risk management system. It reports directly to the audit committee of the Group on a regular basis and performs independent audits of the reasonableness, completeness and effectiveness of its operational management and risk controls.

### **Information Technology**

The Group's information technology ("IT") systems are integral to many aspects of its business operations, including transaction processing, quality control, risk management, customer services and financial management. The Group has adopted a number of advanced IT systems to improve the efficiency and quality of its services and to further strengthen its risk and financial management capabilities.

The Group may face IT risks arising from the malfunction of its IT systems on which its operations significantly rely. The Information Management Department is responsible for managing and controlling its IT risks. The Group manages its IT risks in terms of information technology governance, information system formulation, system maintenance and information security. The Group has established an IT team, consisting of approximately 30 employees as of 30 June 2017 with extensive IT knowledge and experience, to design its IT systems and to supervise implementation of IT related rules and measures. The Group has also formulated and implemented a series of internal rules to regulate information system governance measures, procedures and tools, inspection of its internet environment and equipment maintenance, and information safety strategies, anti-virus protection and internet controls. The Group has also established an internal back-up IT system at its operation centre in Shanghai.

## **Insurance**

As of 31 October 2017, the Group maintains a range of insurance coverage on its fixed assets underlying its leases. The Group maintains asset insurance for the assets underlying its leases to cover any loss or damage to such assets during the leasing period. In line with common market practice, the Group usually does not maintain asset insurance for assets from hospitals and universities. The insurance payments are generally paid by its customers in line with leasing industry practice and the Guarantor is usually the beneficiary of such insurance. Currently there are a very limited number of insurance companies in China that can provide credit insurance coverage for lease receivables and as of 31 October 2017 the credit insurance products available in the market can only cover lease receivables in the printing industry.

The Group also carries property insurance and cargo transportation insurance coverage for its trade business. In addition, the Group maintains directors, and officers' liability insurance coverage. The Group provides social security insurance for its employees as required by PRC social security regulations, such as pension insurance, unemployment insurance, work injury insurance and medical insurance. The Group does not have any business interruption insurance, which is not required under PRC laws and regulations.

## **Intellectual Property**

The Guarantor conducts its business under the "Far East Horizon" and "遠東宏信" brand names. It is the registered owner of the domain name of its website: [www.fehorizon.com](http://www.fehorizon.com). It does not license any of its intellectual property rights to any third parties.

## **Employees**

As of 30 June 2017, the Group had 9,595 full-time employees. The Group believes that it has a high-quality workforce with specialised industry expertise, with approximately 57.60% of its employees having bachelor's degrees and above, and approximately 19.35% having master's degrees and above as of 30 June 2017. More than half of the Group's key employees have an average experience of over eight years within the relevant target industry.

The Group has established effective employee incentive schemes to correlate the remuneration of its employees with their overall performance and contribution to the Guarantor rather than operational results, and has 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. The senior employees of the Group 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 supervision.

### *Training and Development*

The Group places great emphasis on the training and development of its employees. The Group has developed a series of training courses with individualised emphasis and focus based on its accumulated industry experience over the ten years since the Group entered the financial leasing market. The Group invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrading their skills and knowledge. The Group has arranged for internal and external professional training programs to develop its employees' skills and knowledge. These programs include further educational studies, fundamental economics and finance knowledge and skills training and professional development courses for its management personnel. New employees are required to attend induction training courses to ensure that they are equipped with the necessary skills to perform their duties, and they are also required to participate in a one-year mentoring program to learn closely from other experienced employees with outstanding performance.

### *Employee Relations*

Neither of the Guarantor nor the Group has experienced any strikes or significant labour disputes which have materially affected its operations, and it considers its relations with the employees to be good.

In accordance with PRC regulations, the Group has established an employee labour union, in which all of its employees are eligible for participation. The labour union organises various activities for its employees, such as charity fund raising activities to help employees in poor economic condition due to serious illnesses. The Group also provides financial assistance to its new college graduate employees who need funds for renting apartments in Shanghai. The labour union has established a labour dispute committee to assist its employees in dealing with their potential labour disputes with the Guarantor.

### *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 compensation for maternity leave) and housing funds for its employees. The Group also provides supplemental commercial medical insurance, property insurance and safety insurance in addition to those required under PRC regulations. As of 31 December 2016, the Group has complied with all statutory social insurance and housing fund obligations applicable to it under PRC laws in all material aspects.

In 2014, the Guarantor established a shareholding incentive plan, including the adoption of a restricted share award scheme on 11 June 2014 (the “**Award Scheme**”) and the adoption of a share option plan (“**Share Option Scheme**”) for a period of 10 years commencing on 7 July 2014, to recognise the contributions by certain employees and as an incentive to retain them for the Group's continuing operation and development as well as to attract suitable personnel for further development of the Group. As of 30 June 2017, the Guarantor had 93,005,871 share options outstanding under the Share Option Scheme and 119,436,630 restricted shares outstanding under the Award Scheme. The senior and middle management personnel, as well as other key employees of the Guarantor or any subsidiary of the Guarantor (the “**Selected Participant(s)**”) are persons eligible to participate the Award Scheme and the Share Option Scheme. The eligibility of the Selected Participant will be decided by the Board or the administration committee of the Award

Scheme and the Share Option Scheme, at its respective absolute discretion, based on his contribution to the Guarantor or any of its Subsidiaries. The maximum number of new shares in respect of which options may be granted under the Share Option Scheme would not exceed 4% of the Guarantor's issued share capital as of the date of adoption of the Share Option Scheme by the Shareholders, which is 131,696,000 shares.

## **Properties**

In 2012, the Group purchased three office units with a total gross floor area of approximately 1,128 square meters for its regional offices in Jinan, Zhengzhou and Chengdu cities, respectively. It has obtained the building ownership certificates for these three properties. In 2013, the Group purchased a piece of land in Shanghai totalling 20,732.30 square metres and two properties in Shenyang (496.68 square metres) and Kunming (423.69 square metres), respectively.

As of 31 December 2016, the Group has not obtained the property ownership certificates for one building with a net book value of RMB9,254,000 and was in the process of applying for the property ownership certificates for the above building.

## **Environmental Compliance**

As a financial service provider, the Group is not subject to any significant environmental regulation. It does not currently have any environmental liabilities and does not expect to incur any environmental liabilities that could have any material impact on its financial condition or business operations in the future.

## **Legal Proceedings**

The Group is involved, from time to time, in legal proceedings arising in the ordinary course of its operations. A majority of these legal proceedings involve claims initiated by it to recover payment of leasing receivables from its customers.

As of 31 October 2017, no legal proceeding was initiated by any third party against the Group as a defendant which could have a material adverse effect on the financial condition, prospects or results of operations of the Guarantor or the Group, or which are otherwise material in the context of the issue of the Securities.



## **DESCRIPTION OF THE ISSUER**

### **FORMATION**

The Issuer is an exempted company incorporated with limited liability under the Companies Law (2016 Revision) of the Cayman Islands. It was incorporated in the Cayman Islands on 29 October 2015 with Osiris International Cayman Limited as its sole shareholder holding one share of a par value of U.S.\$1.00, and such share was transferred to Grand Light Development Limited on the same date. The Issuer is indirectly wholly-owned by the Guarantor. Its registered office is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman KY1-1209, Cayman Islands.

### **BUSINESS ACTIVITIES**

The Issuer has not undertaken any business activities since the date of its incorporation, other than those incidental to its incorporation and establishment as an indirect wholly-owned subsidiary of the Guarantor and those incidental to the issue of the Securities and the on-lending of the proceeds thereof to the Guarantor and/or other subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer does not have any debt outstanding.

### **FINANCIAL STATEMENTS**

Under Cayman Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

### **SOLE DIRECTOR**

The sole director of the Issuer is Mr. Wei Jianmin and he does not hold any shares or options to acquire shares of the Issuer.

The Issuer does not have any employees and has no subsidiaries.

### **Share Capital**

The authorised share capital of the Issuer is U.S.\$50,000 divided into 50,000 shares of a par value of U.S.\$1.00 each and one share has been issued to, and is held by, Grand Light Development Limited. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

### **LEGAL PROCEEDINGS**

As at the date of this Offering Circular, the Issuer is not involved in any litigation or arbitration proceedings, and it is not aware of any pending or threatened action against it.

## SUBSTANTIAL SHAREHOLDERS

Based on the information available to the Directors as of 30 June 2017, the persons (other than a Director or Chief Executive of the Guarantor) who had, or were deemed or taken to have interests or short positions in the ordinary shares in the capital of the Guarantor (the “**Shares**”) or underlying shares which would fall to be disclosed to the Guarantor under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Guarantor required to be kept under section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Guarantor were as follows:

<u>Name of shareholder</u>	<u>Capacity/nature of interest</u>	<u>Number of ordinary Shares<sup>(1)</sup></u>	<u>Approximate percentage of interest</u>
Sinochem Group <sup>(2)</sup> . . . . .	Interest in a controlled corporation	919,914,440 (L)	23.28%
Greatpart Limited <sup>(2)</sup> . . . . .	Beneficial owner	919,914,440 (L)	23.28%
Prime Capital Management (Cayman) Limited . . . . .	Investment manager	205,911,000 (L)	5.21%
JPMorgan Chase & Co. . . . .	Beneficial owner	2,641,997 (L)	0.07%
	Investment manager	15,000 (L)	0.00%
	Custodian	411,225,745 (P)	10.41%
Cathay Life Insurance Co., Ltd. . .	Beneficial owner	296,316,000 (L)	7.50%
China Minsheng Investment Corp., Ltd. . . . .	Interest in a controlled corporation	528,600,000 (L)	13.38%
Kong Fanxing . . . . .	Beneficial owner	25,266,684 (L)	0.64%
	Interest in a controlled corporation	265,552,000 (L) <sup>(3)</sup>	6.72%
Aim Future Limited. . . . .	Beneficial owner	265,552,000 (L) <sup>(3)</sup>	6.72%
FMR LLC. . . . .	Interest in a controlled corporation	197,921,396 (L) <sup>(4)</sup>	5.01%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the Shares of the Guarantor. The letter “S” denotes the person’s short position in the Shares of the Guarantor. The letter “P” denotes the person’s Shares of the Guarantor in lending pool.
- (2) Sinochem Group is the beneficial owner of 100% of the issued share capital of Greatpart Limited and is deemed to be interested in the number of shares of the Guarantor held by Greatpart Limited.
- (3) Kong Fanxing holds 70% of the issued share capital of Aim Future Limited and is therefore deemed to be interested in the shares held by Aim Future Limited.
- (4) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 19 May 2017 for further details of the shareholding structure.

Based on the information available to the Directors as of 30 June 2017, the interests or short positions of the Directors and the Chief Executive of the Guarantor in the Shares, underlying shares and debentures of the Guarantor and its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Guarantor and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she has taken or is deemed to have taken 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 to be notified to the Guarantor and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the HKSE Rules were detailed as follows:

Name of shareholder	Total number of ordinary shares <sup>(1)</sup>	Approximate percentage of interest in the Guarantor
KONG Fanxing . . . . .	25,266,684 (L) <sup>(2)</sup>	0.64%
	265,552,000 (L) <sup>(3)</sup>	6.72%
WANG Mingzhe . . . . .	8,350,556 (L) <sup>(4)</sup>	0.21%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the shares of the Issuer.
- (2) The interest includes 9,758,673 underlying shares in respect of the share options granted pursuant to the Guarantor’s 2014 Share Option Scheme and 14,638,011 underlying shares in respect of the awarded shares granted pursuant to the Guarantor’s 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 enquires, Kong Fanxing is interested in 870,000 ordinary shares of the Guarantor as of 30 June 2017.
- (3) The interest is Kong Fanxing’s indirect beneficial interest in 265,552,000 shares through his 70% shareholding in Aim Future Limited.
- (4) The interest includes 3,145,822 underlying shares in respect of the share options granted pursuant to the Guarantor’s 2014 Share Option Scheme and 4,818,734 underlying shares in respect of the awarded shares granted pursuant to the Guarantor’s 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 enquires, Wang Mingzhe is interested in 386,000 ordinary shares of the Guarantor as of 30 June 2017.

Save as disclosed above, as of 30 June 2017, none of the Directors or the Chief Executive of the Guarantor had any interests or short positions in the shares, underlying shares or debentures of the Guarantor or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Guarantor and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she had taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Guarantor pursuant to Section 352 of the SFO or which were required to be notified to the Guarantor and HKSE pursuant to the Model Code.

## DIRECTORS

The Board of the Guarantor currently consists of 12 Directors, comprising two executive Directors, six non-executive Directors and four independent non-executive Directors. The Board is responsible for leadership and control of the Guarantor and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Guarantor by directing and supervising its affairs. Other duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating the Guarantor's annual budget and final accounts, and formulating its proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association of the Guarantor.

Name	Position
<b>Executive Directors</b>	
NING Gaoning . . . . .	Chairman and Non-executive Director
KONG Fanxing . . . . .	Vice Chairman and Executive Director
WANG Mingzhe . . . . .	Executive Director
YANG Lin . . . . .	Non-executive Director
CHEN Guogang . . . . .	Non-executive Director
LIU Haifeng David . . . . .	Non-executive Director
John LAW . . . . .	Non-executive Director
KUO Ming-Jian . . . . .	Non-executive Director
HAN Xiaojing . . . . .	Independent Non-executive Director
LIU Jialin . . . . .	Independent Non-executive Director
CAI Cunqiang . . . . .	Independent Non-executive Director
YIP Wai Ming . . . . .	Independent Non-executive Director

### Directors

**Mr. NING Gaoning (寧高寧)**, aged 58, was appointed as non-executive Director and Chairman of the Board in March 2016. Mr. Ning obtained a Bachelor's degree in Economics from Shandong University in China in 1983 and a Master of Business Administration degree from University of Pittsburgh in the United States in 1985. Mr. Ning is currently the chairman of the board of directors of Sinochem Group. Prior to this, 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. Mr. Ning was a non-executive director of China Agri-Industries Holdings Limited, a non-executive director of China Foods Limited ("China Foods"), a non-executive director of CPMC Holdings Limited, the chairman of the board of directors and a non-executive director of China Mengniu Dairy Company Limited until February 2016, all of which are companies listed in Hong Kong.

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 in Hong Kong) until October 2014. Mr. Ning was also an independent director of Huayuan Property Co., Ltd. (a company listed on the Shanghai Stock Exchange) until November 2014 and an executive director of China Foods until November 2013.

Mr. Ning is currently the chairman of the board of directors of Sinofert Holdings Limited.

Mr. Ning has extensive business management experience and knowledge about capital markets.

**Mr. KONG Fanxing (孔繁星)**, aged 53, is an executive Director, Chief Executive Officer and Vice Chairman of the Guarantor. He is a member of the Strategy and Investment Committee. Mr. Kong is responsible for the overall strategic growth and management of the Guarantor. 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 the 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 and worked there until December 1993. From December 1993 to April 1998, Mr. Kong worked at Sinochem International Industrial Company (中化國際實業公司) (a company mainly conducting petrochemical storage and logistics). In April 1998, he became the general manager of Sinochem International Engineering Trade Company (中化國際工程貿易公司) and served there until July 1998. In July 1998, Mr. Kong rejoined Sinochem International Industrial Company (中化國際實業公司) as the deputy general manager. In January 1999, he joined Sinochem International Tendering Co., Ltd. (中化國際招標有限責任公司) (a company mainly conducting tendering, bidding and trading business) as the deputy general manager and was promoted to the role of general manager in August 1999. In November 2000, Mr. Kong returned to Sinochem Group, where he held the position of the deputy chief of the fertilizer division. At the same time, Mr. Kong was also the executive deputy general manager of Sinochem International Fertilizer Trading Company (中化國際化肥貿易公司) (a company mainly conducting the production, trading and distribution of fertilizer). He held both positions until April 2001, when he joined Far Eastern, where he has served as the general manager ever since. Mr. Kong has been the President and Chief Executive Officer of the Guarantor since September 2009. Currently, Mr. Kong is also an executive director and general manager of Shanghai Donghong Co., Ltd. (上海東泓實業發展有限公司). Mr. Kong has over 22 years of experience in enterprise management.

**Mr. WANG Mingzhe (王明哲)**, aged 46, is an executive Director and Chief Financial Officer of the Guarantor. Mr. Wang is also responsible for the strategic operations and management of the Guarantor's operations centre, Financial Department, Financing Department and Assets Management Department. Mr. Wang obtained a bachelor's degree in economics from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in China in July 1993 and an MBA degree from North-eastern University (東北大學) in China in March 2003. He joined Far Eastern in October 1995 and has worked there since then. With 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 the assistant general manager of the quality control department and the chief financial officer. In September 2009, Mr. Wang was appointed as the Guarantor's Chief Financial Officer and he has held the position ever since. Mr. Wang has over 21 years of experience in finance management.

**Mr. YANG Lin (楊林)**, aged 53, is a non-executive Director of the Guarantor since October 2009. Mr. Yang is responsible for determining significant matters of the Guarantor jointly with other Directors. Mr. Yang obtained a bachelor's degree in economics from Tianjin Commerce College (天津商學院) in China in July 1985. In 1990, Mr. Yang enrolled at University of Stuttgart in Germany (德國思圖加特大學) for an enterprise management course and completed the course in 1993. He 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 from August 1998 to January 2002, the general manager of the treasury department from January 2002 to July 2010 and the

deputy general manager of the investment & development department from May 2009 to January 2010. 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 and Sinochem Finance Co., Ltd. Mr. Yang has approximately 21 years of experience in finance and treasury management.

**Dr. CHEN Guogang (陳國綱)**, aged 56, was appointed as a non-executive Director of the Guarantor in December 2015. He obtained a doctorate degree in economics from Xiamen University in 1988. Dr. Chen is currently the vice-president of China Minsheng Investment Corp., Ltd.. From February 1999 to April 2010, Dr. Chen subsequently served as the deputy chief accountant, general manager of the finance department, and chief accountant of Sinochem Group. He was a director of Sinofert Holdings Limited and Sinochem International Corporation prior to 2010. Since 2010, Dr. Chen has joined New China Life Insurance Company Ltd., and holds several roles such as vice president and chief financial officer.

Dr. Chen is currently the first vice chairman and executive director of China Minsheng Financial Holding Corporation Limited (a company listed on the HKSE), an independent non-executive director of China Dongxiang (Group) Co., Ltd. (a company listed on the HKSE) and Guotai Junan Securities Co. Ltd. (a company listed on the Shanghai Stock Exchange) and an executive director of Link Holdings Limited (a company listed on the HKSE). Dr. Chen is also the vice president of China Minsheng Investment Corp., Ltd. and the chairman of CMI Capital Co., Ltd..

Other than a doctorate degree in economics, Dr. Chen holds the titles of Senior Accountant granted by the Ministry of Foreign Trade and Economic Cooperation of China, and Certified Public Accountant granted by the Chinese Institute of Certified Public Accountants.

**Mr. LIU Haifeng David (劉海峰)**, aged 47, is a non-executive Director of the Guarantor. He is the Chairman of the Strategy and Investment Committee. Mr. Liu is responsible for determining significant matters of the Guarantor jointly with other Directors. Mr. Liu is currently the chairman of DCP Ltd. 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 in 2006, Mr. Liu had been with Morgan Stanley Private Equity (an entity with its main business as private equity investment) since 1993 and was lastly a managing director and co-head of Morgan Stanley Private Equity Asia. Mr. Liu has 21 years of experience in direct investment. He has established one of the leading investment track records in Greater China and was responsible for a number of successful and innovative investments such as Mengniu Dairy, Ping An Insurance, Belle International, Far East Horizon, Nanfu Battery, China Modern Dairy, United Envirotech Ltd, China Cord Blood Corporation, Qingdao Haier., Ltd, Paradise Retail, Hengan International, Shanshui Cement, Rundong Auto, etc. Mr. Liu graduated from Columbia University as Class Salutatorian with a B.S. in Electrical Engineering in May 1993. 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.

Mr. Liu also serves as a non-executive director for China International Capital Corporation Limited which is a listed company in Hong Kong, and Qingdao Haier which is an A-share listed company.

**Mr. John LAW (羅強)**, aged 66, was appointed as a non-executive director of the Guarantor on 25 October 2012.



From 1995 to 2000, Mr. Law worked for J.P. Morgan & Co. as training head of the Asia Pacific Region, as risk manager for the Greater China Region and as senior credit officer for the Asia Pacific Region, Euroclear respectively. He then worked for Citibank/Citigroup from 2000 to 2003 as the regional credit officer for Asia Pacific Financial Markets. Prior to joining the Issuer, he worked for International Finance Corporation from 2004 to 2012 as the principal banking specialist for global financial markets.

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

**Mr. KUO Ming-Jian (郭明鑑)**, aged 55, was appointed as a non-executive Director of the Issuer in March 2013. Mr. Kuo is currently the chairman of Cathay United Bank and serves as a director of Cathay Financial Holding Co. Ltd. (a company listed on the Taiwan Stock Exchange).

Mr. Kuo 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 Country Head and 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 director of Cathay Financial Holdings Co., Ltd., Cathay Life Insurance Co., Ltd.. Mr. Kuo is currently 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 the City University of New York.

**Mr. HAN Xiaojing (韓小京)**, aged 62, is an independent, non-executive Director of the Issuer. Mr. Han is responsible for supervising the operation of the Issuer and is a member of the Audit and Risk Management Committee and the Remuneration and Nomination Committee. Mr. Han obtained a bachelor's degree in law from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Hubei Finance College (湖北財經學院) in China in 1982 and a master's degree in law from China University of Political Science and Law (中國政法大學) in China in July 1985. 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 (齊默爾曼律師事務所) in Canada and Livasiri & Co. 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 practising law in the PRC and has 30 years of experience in the legal profession.

Currently, Mr. Han is an independent non-executive director of Sino-Ocean Land Holdings (遠洋地產控股有限公司) and Sinotrans Limited (中國外運股份有限公司). He also serves as independent director of Ping An Bank Company Limited (平安銀行股份有限公司), and Beijing Sanju Environmental Protection Company Limited (北京三聚環保新材料股份有限公司).

**Mr. LIU Jialin (劉嘉凌)**, aged 54, is an independent, non-executive Director of the Issuer. Mr. Liu is responsible for supervising the operation of the Issuer and is the Chairman of the Remuneration and Nomination Committee. Mr. Liu obtained a bachelor's degree in science from Peking University in 1982 and a degree of master of science in physics from Massachusetts Institute of Technology in 1989. From 1992 to 2007, Mr. Liu worked for the Morgan Stanley group of



companies and once served as a managing director in the fixed income division in Hong Kong, as well as a member of the management committee and Asia executive committee. In March 2008, Mr. Liu became the managing director of Shelter Cove Capital Limited (now known as Voras Capital Management (HK) Limited) (an entity conducting investment management business). Mr. Liu has 28 years of experience in the finance and securities industry. Mr. Liu Jialin did not provide any service to the Group during his appointment with Morgan Stanley.

Mr. Liu also serves as the independent non-executive director of China Merchants Securities Co., Ltd.

**Mr. CAI Cunqiang (蔡存強)**, aged 67, is an independent, non-executive Director of the Guarantor. Mr. Cai is responsible for supervising the operation of the Guarantor and is a member of the Strategy and Investment Committee. Mr. Cai majored in sea vessel steering and graduated from Shanghai Maritime College (上海海運學院) (now known as Shanghai Maritime University (上海海事大學)) in China in 1977. Mr. Cai has worked for Shanghai Maritime College (上海海運學院) (now known as Shanghai Maritime University (上海海事大學)) since 1977. 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 (上海海運學院) (now known as Shanghai Maritime University (上海海事大學)) 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 practise law in the PRC. Mr. Cai has 40 years of experience in the shipping industry.

**Mr. YIP Wai Ming (葉偉明)**, aged 52, is an independent, non-executive Director of the Guarantor. He is responsible for supervising the operation of the Guarantor and is the Chairman of the Audit and Risk Management Committee. Mr. Yip graduated from the University of Hong Kong with a bachelor of social sciences degree in November 1987. He also obtained a degree of bachelor of laws from the University of London 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. In 1996, Mr. Yip joined ING Bank N.V. and departed there as an associate director in 1998. In 1999, Mr. Yip joined Fulbond Holdings Limited (福邦控股有限公司) as the chief financial officer and worked there until 2001. He served as the vice president of Hi Sun Technology (China) Limited (高陽科技(中國)有限公司) from 2001 to 2003, the chief financial officer of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司) from 2004 to 2009, and the deputy general manager of Yuzhou Properties Company Limited (禹洲地產股份有限公司) from February 2010 to September 2010. 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. He has over 26 years of experience in accounting and finance.

## PRC CURRENCY CONTROLS

*The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Securities. Prospective holders of the Securities who are in any doubt as to PRC currency controls are advised to consult their own professional advisers.*

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

### Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers. Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. In July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, 24 August 2011 and 3 February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知) (together as “**Circulars**”). Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, but the relevant provincial government maintains with PBOC and five other PRC authorities (the “**Six Authorities**”) a list of key enterprises subject to supervision (the “**Supervision List**”).

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the “**2013 PBOC Circular**”), which, in particular, simplifies the procedures for cross border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank’s verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross border remittance).

On 1 November 2014, PBOC promulgated the Circular on Matters concerning Centralized Cross-Border Renminbi Fund Operation Conducted by Multinational Enterprise Groups (關於跨國企業集團開展跨境人民幣資金集中運營業務有關事宜的通知) (the “**2014 PBOC Circular**”). According to the 2014 PBOC Circular, a qualified multinational enterprise group can process

cross-border Renminbi payments and receipts for current account items on a collective basis for the entire group (without such cash pooling arrangements, the relevant payments and receipts would generally need to be processed individually and cannot be netted off against one another). The 2014 PBOC Circular also provides that enterprises in the China (Shanghai) Free Trade Pilot Zone (“**Shanghai FTZ**”) may irrevocably opt to participate in the local scheme in the Shanghai FTZ and file with the Shanghai Head Office of PBOC. On 5 September 2015, PBOC promulgated the Circular on Further Facilitating the Cross-Border Bi-directional Renminbi Cash Pooling Business by Multinational Enterprise Groups (中國人民銀行關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知) (the “**2015 PBOC Circular**”), which, among others, have lowered the eligibility requirements for multinational enterprise groups and increased the cap for net cash inflow.

As new regulations, the Circulars, the 2013 PBOC Circular, the 2014 PBOC Circular and the 2015 PBOC Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

### **Capital Account Items**

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities. Until recently, settlement of capital account items were generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties were also generally required to make capital account payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

In respect of Renminbi foreign direct investments (“**FDI**”), PBOC promulgated the Administrative Measures on Renminbi Settlement of Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the “**PBOC FDI Measures**”) on 13 October 2011 as part of PBOC’s detailed Renminbi FDI accounts administration system which was revised by the PBOC Announcement [2015] No. 12 dated 5 June 2015. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On 14 June 2012, PBOC issued a circular setting out the operational guidelines for FDI. PBOC further issued the Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors (關於境外投資者投資境內金融機構人民幣結算有關事項的通知) on 23 September 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in the PRC. Under the PBOC FDI Measures, the investors may process certain FDI-related matters and Renminbi loan-related matters with the bank directly, without obtaining prior approvals from PBOC, including, among others, the injection of registered capital in Renminbi by offshore investors, the remittance of Renminbi profits out of PRC by offshore investors, the remittance of Renminbi funds acquired from reduction of registered capital, equity interest transfer, liquidation or early recovery of investments out of PRC by offshore investors as well as the repayment of the principal and interest under offshore Renminbi loan by foreign invested enterprises. In some cases however, post-event filing with PBOC is still necessary.

On 3 December 2013, MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) (the “**MOFCOM Circular**”), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify “Renminbi Foreign Direct Investment” and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

On 11 May 2013, the State Administration of Foreign Exchange of the PRC (國家外匯管理局) (“**SAFE**”) promulgated the Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors (外國投資者境內直接投資外匯管理規定) (the “**SAFE Provisions**”), which became effective on 13 May 2013. The SAFE Provisions removed previous approval requirements for foreign investors and foreign invested enterprises in opening of, and capital injections into, foreign exchange accounts, although registration for foreign exchange administration is still required. On 13 February 2015, SAFE issued the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), which delegated the foreign exchange registration function in respect of domestic direct investment and overseas direct investment to banks. Moreover, foreign investors are now permitted to use cross-border Renminbi (including Renminbi inside and outside the PRC held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make a payment for the transfer of an equity interest of an onshore enterprise by a PRC resident within the total investment amount filed with the competent authorities (for example, MOFCOM and/or its local counterparts, as well as financial regulators).

To support the development of the Shanghai FTZ, the Shanghai Head Office of PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知) (the “**PBOC Shanghai FTZ Circular**”) on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor’s instruction. In respect of FDI in industries that are not on the “negative list” of the Shanghai FTZ, the MOFCOM approval which was previously required has been replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to enterprises in the Shanghai FTZ.

PRC entities are also allowed to borrow Renminbi loans from foreign lenders (which are referred to as “foreign debt”) and lend Renminbi loans to foreign borrowers (which are referred to as “outbound loans”), as long as such PRC entities have the necessary quota or approval, and use Renminbi to denominate, or make payments under, security/guarantee with the relevant parties being in the PRC and the other jurisdiction(s) respectively (which is referred to as “cross-border security”). Under current rules promulgated by SAFE, foreign debts borrowed, outbound loans extended, and the cross-border security provided by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. However, there remain potential inconsistencies between the provisions of the SAFE rules and the provisions of the 2013 PBOC Circular in terms of cross-border security, outbound loans, etc. and it is unclear how regulators will deal with such inconsistencies in practice.

According to the 2014 PBOC Circular and the 2015 PBOC Circular, qualified multinational enterprise groups can extend loans in Renminbi to, or borrow loans in Renminbi from, offshore group entities within the same group by leveraging the cash pooling arrangements (which features a sponsoring enterprise and a settlement bank with international settlement capacity). The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may irrevocably opt to utilise Renminbi cash pooling arrangements to extend inter-company loans pursuant to the PBOC Shanghai FTZ Circular as discussed above. Renminbi funds obtained from financing activities may not be pooled under this arrangement. In addition, according to the PBOC Shanghai FTZ Circular, enterprises in the Shanghai FTZ can borrow Renminbi from offshore lenders within the prescribed limit, while there is no numerical limit for banks in the Shanghai FTZ to borrow offshore Renminbi, although the utilisation has geographic restriction, the interpretation of which is still unclear. The PBOC Shanghai FTZ Circular also allows, in principle, the China Foreign Exchange Trading System to offer trading facility relating to financial instrument denominated in Renminbi to offshore investors, and the Shanghai Gold Exchange to offer trading facility relating to precious metal transactions to offshore investors.

Pilot schemes relating to cross-border Renminbi loans, bonds, or equity investments have also been launched for, among others, enterprises in Shenzhen Qianhai, Jiangsu Kunshan, Jiangsu Suzhou Industrial Park. The PBOC FDI Measures, the MOFCOM Circular, the SAFE Provisions, the 2014 PBOC Circular, the 2015 PBOC Circular and the Shanghai PBOC FTZ Circular, which are relatively new regulations, have been promulgated to control the remittance of Renminbi for payment of transactions categorised as capital account items and such new regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

## TAXATION

The following is a general description of certain tax considerations relating to the Securities and is based on law, published practice and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change (which could be made on a retroactive basis), and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations which may be relevant to a decision to purchase, own or dispose of any Securities. Prospective holders of the Securities who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

### **Cayman Islands**

Payments of distribution and principal on the Securities will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of distribution and principal to any holder of the Securities, nor will gains derived from the disposal of the Securities be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Securities. An instrument of transfer in respect of the Securities is stampable if executed in or brought into the Cayman Islands.

### **Hong Kong**

#### ***Withholding Tax***

No withholding tax is payable in Hong Kong in respect of payments of principal or distribution on the Securities or in respect of any capital gains arising from the sale of the Securities.

#### ***Profits Tax***

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**Inland Revenue Ordinance**”) as it is currently applied by the Inland Revenue Department, distribution on the Securities, to the extent treated as interest, may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried in Hong Kong in the following circumstances:

- (i) distribution on the Securities is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (ii) distribution on the Securities is derived from Hong Kong and is received by or accrues to a corporation (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or
- (iii) distribution on the Securities is derived from Hong Kong and is received by or accrues to a person (other than a corporation) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business.



Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains from the sale or disposal of the Securities if such gains are received by or accrued to a financial institution and arise through or from the carrying on by the financial institution of its business in Hong Kong. Where such gains are received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong, such gains may be subject to Hong Kong profits tax if the gain has a Hong Kong source.

### ***Stamp Duty***

Stamp duty will not be payable on any transfer of the Registered Securities if the relevant transfer is not required to be registered in Hong Kong, or provided that either:

- (a) such Securities constitute debentures, loan stocks, funds, bonds or notes that are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstance in the currency of Hong Kong; or
- (b) such Securities constitute loan capital,

in each case as defined in the Stamp Duty Ordinance (Cap. 117) of the Laws of Hong Kong.

If stamp duty is payable in respect of the transfer of Registered Securities it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Securities if the relevant transfer is required to be registered in Hong Kong.

### **PRC**

*The following summary accurately describes the principal PRC tax consequences of ownership of the Securities by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as (a) non-PRC Holders, or (b) beneficial owners who are entities or individuals located outside of the PRC in this “Taxation-PRC” section. In considering whether to invest in the Securities, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.*

Pursuant to the New Enterprise Income Tax Law (the “**New EIT Law**”) and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “de facto management body” is within the territory of China shall be treated as PRC tax resident enterprises for the purpose of the New EIT Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC.



As confirmed by the Issuer and the Guarantor, as of the date of this Offering Circular, both the Issuer and the Guarantor have not been notified or informed by the PRC tax authorities that it is considered a PRC tax resident enterprise for the purpose of the New EIT Law. However, there is no assurance that the Issuer or the Guarantor will not be treated as a PRC tax resident enterprise under the New EIT Law and related implementation regulations in the future.

Pursuant to the New EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into, on the income sourced inside the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of distribution in respect of the Securities for any non-PRC enterprise Holder. Similarly, if the Guarantor is deemed a PRC resident enterprise for tax purposes, and has to make payment pursuant to the Guarantee of the Securities where the Issuer fails to make the relevant payment, the payment made by it to any non-PRC enterprise Holder may be subject to PRC withholding tax at the rate of up to 10 per cent.. However, despite the potential withholding of PRC tax by the Issuer or, as the case may be, the Guarantor, the Issuer or, as the case may be, the Guarantor, has agreed to pay additional amounts to holders of the Securities so that holders of the Securities would receive the full amount of the scheduled payment, as further set out in the Conditions.

Non-PRC Holders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of the Securities consummated outside mainland China between non-PRC Holders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New EIT Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Holders from the transfer of the Securities may be regarded as being derived from sources within the PRC and accordingly would be subject to PRC withholding tax at a rate of up to 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into.

No PRC stamp duty will be imposed on non-PRC Holders either upon issuance of the Securities or upon a subsequent transfer of Securities to the extent that the register of holders of the Securities is maintained outside the PRC. The Issuer intends to maintain the register of holders of the Securities outside the PRC.

## **The European Union**

### ***The Proposed Financial Transactions Tax (FTT)***

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Managers dated [●] 2017 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Managers, and the Managers have agreed to, subscribe and pay for or to procure subscribers to subscribe and pay for all the Securities.

	<b>Principal Amount of the Securities to be subscribed (U.S.\$)</b>
<b>Managers</b>	
The Hongkong and Shanghai Banking Corporation Limited . . . . .	U.S.\$[●]
Standard Chartered Bank . . . . .	U.S.\$[●]
UBS AG Hong Kong Branch . . . . .	U.S.\$[●]
Haitong Bank, S.A. . . . .	U.S.\$[●]
<b>TOTAL . . . . .</b>	<b>U.S.\$[●]</b>

The Subscription Agreement provides that the Managers and their respective affiliates, and their respective directors, officers and employees will be indemnified against certain liabilities in connection with the offer and sale of the Securities. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer (failing which the Guarantor) has agreed to pay, through the Managers, a commission to certain private banks based on the principal amount of the Securities purchased by the clients of such private banks.

The Managers and certain of their respective subsidiaries or affiliates may have in the past perform and may in the future perform certain investment banking and advisory services for, and enter into certain commercial banking transactions with, the Issuer, the Guarantor and/or their respective subsidiaries, from time to time, for which they have received customary fees and expenses. The Managers and their respective subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor and/or their respective subsidiaries in the ordinary course of business.

In connection with the offering of the Securities, the Managers and/or their respective affiliate(s) may act as an investor for its own account and may take up Securities in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer and/or the Guarantor and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Securities being offered should be read as including any offering of the Securities to the Managers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Managers or their respective affiliates may purchase the Securities for its own account or for the accounts of their customers and enter into transactions, including credit derivative, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Issuer, the Guarantor and/or their respective subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities).

In connection with the issue of the Securities, the Stabilisation Manager(s) may over-allot Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

## **General**

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Securities, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Securities or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Securities may be distributed or published, by the Issuer, the Guarantor or the Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer, the Guarantor or the Managers. If a jurisdiction requires that an offering of Securities be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Managers or such affiliate on behalf of each of the Issuer and the Guarantor in such jurisdiction.

## **United States**

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell, any Securities constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of such Managers or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Securities.

Terms used in the paragraph above have the meanings given to them by Regulation S under the Securities Act.

## European Economic Area

From 1 January 2018, each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities which are the subject of the offering contemplated by this Offering Circular as completed by the Conditions in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive (as defined below); and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities.

Prior to 1 January 2018, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Securities to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Managers; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities referred to in (a) to (c) above shall require the Issuer, the Guarantor or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this provision, the expression “an offer of Securities to the public” in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## **United Kingdom**

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

## **The Netherlands**

The Managers have represented and agreed that Securities will only be offered in the Netherlands to Qualified Investors (as defined in the Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

## **The People’s Republic of China**

The Managers have represented, warranted and undertaken that the Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

## **Hong Kong**

Each Manager has represented, warranted and undertaken that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to “professional investors” as defined in Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

## Singapore

The Managers have acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and undertaken that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase, and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments), (Shares and Debentures) Regulations 2005 of Singapore.

## Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the “**Financial Instruments and Exchange Act**”) and, accordingly, each Manager has represented, warranted and undertaken that it



has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan.

## **Taiwan**

The Securities have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan, the Republic of China (“**Taiwan**”) and/or other regulatory authority pursuant to relevant securities laws and regulations and may not be offered, issued or sold in Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission and/or other regulatory authority of Taiwan.

## **Macau**

The Managers have represented, warranted and agreed that the Securities may not be promoted, distributed, sold or delivered in the Macau Special Administrative Region of the People’s Republic of China (“**Macau**”), or any document relating to the Securities be distributed or circulated in Macau, except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Securities in Macau. The Securities are not registered or otherwise authorised for public offer under the Financial System Act of Macau and thus may not be offered or sold in Macau, unless such offer is made by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Macau Monetary Authority, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

## **Italy**

Each of the Managers has agreed and acknowledged that no application has been made or will be made by any person to obtain an authorisation from the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) for the public offering (*offerta al pubblico*) of the Securities in the Republic of Italy and that no Securities may be offered, sold, delivered or distributed nor any copy of this Offering Circular or any other document relating to the Securities may be distributed in the Republic of Italy. Accordingly, each Manager has represented and agreed that it has not offered, sold, delivered, distributed or made available, and will not offer, sell, deliver, distribute or make available in the Republic of Italy any of the Securities nor any copy of the Offering Circular or any other documents relating to the Securities other than:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of the Italian Legislative Decree No.58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter b) CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (Regulation No.11971); or

- (b) in any other circumstances where an express exemption from compliance with the rules relating to public offers of financial products (*offerta al pubblico di prodotti finanziari*) provided for by the Financial Services Act and the relevant implementing regulations (including Regulation No. 11971) applies.

Each Lead Manager has further agreed that any offer, sale or delivery of the Securities or distribution of any copy of the Offering Circular or any other documents relating to the Securities in the Republic of Italy under the preceding paragraphs (a) and (b) shall be made:

- (i) only by banks, investment firms (*imprese di investimento*) or financial institutions in each case to the extent duly authorised to engage in the placement and/or underwriting (*sottoscrizione e/o collocamento*) of financial instruments (*strumenti finanziari*) in the Republic of Italy in accordance with the Italian Legislative Decree No.385 of 1 September 1993 (as subsequently amended from time to time), the Financial Services Act and the relevant implementing regulations;
- (ii) only to qualified investors (*investitori qualificati*) as set out under paragraph (a) above; and
- (iii) in accordance with all applicable Italian laws and regulations, including all relevant Italian securities and tax laws and regulations and any limitations as may be imposed from time to time by CONSOB, the Bank of Italy or other Italian authority.

### **Cayman Islands**

Each Manager has represented and agreed that it has not made and will not make (on behalf of the Issuer) any invitation directly or indirectly to the public in the Cayman Islands to subscribe for any Securities.

## GENERAL INFORMATION

1. **Clearing Systems:** The Securities have been accepted for clearance through Euroclear and Clearstream under Common Code number 172093078 and the International Securities Identification Number for the Securities is XS1720930780.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Securities, the Trust Deed and the Agency Agreement. The issue of the Securities and the entry into the transaction documents in connection with the Securities were authorised by resolutions of the Board of Directors of the Issuer on 17 November 2017. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Securities, the Trust Deed and the Agency Agreement. The issue of the Securities and the entry into the transaction documents in connection with the Securities were authorised by resolutions of the Board of Directors of the Guarantor on 17 November 2017.
3. The Securities will be issued within the quota granted pursuant to the NDRC Circular and other applicable implementation rules, regulations, certificates, circulars, notices or policies thereof as issued by the NDRC from time to time. After the issuance of the Securities, the Guarantor intends to provide the requisite information on the issuance of the Securities to the NDRC within the time period as required by the NDRC.
4. **No Material Adverse Change:** There has been no material adverse change in the financial or trading position, of the Guarantor or of the Group since 30 June 2017.
5. **Litigation:** None of the Issuer, the Guarantor or the Group is involved in any litigation, arbitration or administrative proceedings relating to claims which are material in the context of the issue of the Securities and, so far as the Issuer, the Guarantor or any member of the Group is aware, no such litigation, arbitration or administrative proceedings are pending or threatened.
6. **Available Documents:** Copies of the following documents will, when published, be available during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the head office of the Guarantor at Suite 6305, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and at the specified office of the Paying Agents:
  - (i) the Trust Deed (which includes the form of the Global Certificate and the Definitive Certificate);
  - (ii) the Agency Agreement;
  - (iii) the Articles of Association of the Issuer and the Guarantor;
  - (iv) the published annual report of the Group and audited consolidated financial statements of the Group for the years ended 31 December 2015 and 2016 and the unaudited reviewed interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017; and

- (v) a copy of this Offering Circular together with any supplement to this Offering Circular.

Copies of the documents referred to in sub-paragraphs (i) to (v) above will also be available free of charge during the hours referred to above at the following address of The Hongkong and Shanghai Banking Corporation Limited: Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong, so long as any of the Securities is outstanding.

- 7. **Consent of Ernst & Young:** Ernst & Young have given and not withdrawn their written consent to the inclusion in this Offering Circular of their reports in relation to the Group in the form and context in which they are included.
- 8. **Listing:** An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Securities by way of debt issues to Professional Investors only. It is expected that dealing in, and listing of, the Securities on the Hong Kong Stock Exchange will commence on or around [●] 2017.

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## Independent Auditors' Report



To the members of Far East Horizon Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Far East Horizon Limited (the "Company") and its subsidiaries set out on pages 105 to 236, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditors' Report

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

#### **Ernst & Young**

*Certified Public Accountants*

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

30 March 2016



## Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>CONTINUING OPERATIONS</b>			
REVENUE	5	11,795,983	10,060,717
Cost of sales	7	(4,771,610)	(4,106,547)
Gross profit		7,024,373	5,954,170
Other income and gains	5	510,032	523,689
Selling and distribution costs		(1,452,611)	(1,356,023)
Administrative expenses		(1,925,049)	(1,659,885)
Other expenses		(454,489)	(249,400)
Finance costs	6	(122,221)	(14,667)
Share of net profit of:			
An associate		–	13,511
Share of net losses of:			
Joint ventures		(310)	(195)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	3,579,725	3,211,200
Income tax expense	10	(999,734)	(869,026)
PROFIT FOR THE YEAR		2,579,991	2,342,174
Attributable to:			
Ordinary shareholders of the parent		2,503,109	2,295,954
Holders of perpetual securities	37	73,080	36,036
Non-controlling interests		3,802	10,184
		2,579,991	2,342,174
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE PARENT	12	RMB	RMB
Basic and diluted			
– Earnings per share		0.70	0.70

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	2,579,991	2,342,174
OTHER COMPREHENSIVE INCOME		
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	742,402	111,377
Reclassification to the consolidated statement of profit or loss	(849,733)	380,966
Income tax effect	17,710	(81,237)
	(89,621)	411,106
Exchange differences on translation of foreign operations	(30,629)	(599)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(120,250)	410,507
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(120,250)	410,507
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,459,741	2,752,681
Attributable to:		
Ordinary shareholders of the parent	2,382,859	2,706,461
Holders of perpetual securities	73,080	36,036
Non-controlling interests	3,802	10,184
	2,459,741	2,752,681

## Consolidated Statement of Financial Position

31 December 2015

		31 December 2015 RMB'000	31 December 2014 RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,357,879	1,733,169
Prepaid land lease payments	14	1,150,026	987,878
Goodwill	15	359,452	64,164
Other assets	16	666,407	54,283
Investments in joint ventures	18	1,187,975	80,985
Investment in an associate	19	–	94,154
Available-for-sale investments	20	427,142	394,253
Equity investments at fair value through profit or loss	21	244,132	–
Derivative financial instruments	22	696,858	227,033
Loans and accounts receivables	23	73,856,030	60,156,452
Prepayments, deposits and other receivables	24	579,575	95,647
Deferred tax assets	25	1,300,724	904,331
Restricted deposits	26	96,137	123,694
Total non-current assets		83,922,337	64,916,043
CURRENT ASSETS			
Inventories	27	114,793	78,708
Construction contracts	28	42,387	82,339
Derivative financial instruments	22	420,376	63,244
Loans and accounts receivables	23	46,710,279	39,284,977
Prepayments, deposits and other receivables	24	3,057,298	2,152,852
Restricted deposits	26	2,544,754	830,111
Cash and cash equivalents	26	2,500,665	3,317,850
Total current assets		55,390,552	45,810,081
CURRENT LIABILITIES			
Trade and bills payables	29	8,337,635	3,489,071
Other payables and accruals	30	6,431,179	4,204,755
Derivative financial instruments	22	–	8,773
Interest-bearing bank and other borrowings	31	41,699,533	30,272,870
Deferred revenue	32	–	7,577
Taxes payable		644,112	840,356
Total current liabilities		57,112,459	38,823,402
NET CURRENT (LIABILITIES)/ASSETS		(1,721,907)	6,986,679

## Consolidated Statement of Financial Position

31 December 2015

		31 December 2015 RMB'000	31 December 2014 RMB'000
	Notes		
TOTAL ASSETS LESS CURRENT LIABILITIES		82,200,430	71,902,722
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	41,729,268	41,504,967
Derivative financial instruments	22	288,114	215,174
Deferred tax liabilities	25	129,392	137,556
Other payables and accruals	30	16,262,396	12,306,828
Deferred revenue	32	260,778	288,304
Other liabilities	47	569,062	–
Total non-current liabilities		59,239,010	54,452,829
Net assets		22,961,420	17,449,893
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	33	10,210,572	6,683,751
Other reserves	36	11,180,465	9,429,201
		21,391,037	16,112,952
Holders of perpetual securities	37	1,227,203	1,258,170
Non-controlling interests		343,180	78,771
Total equity		22,961,420	17,449,893

Kong Fanxing  
Director

Wang Mingzhe  
Director

## Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to ordinary shareholders of the parent											
	Shares held for share											
	Share capital RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Share-based award scheme RMB'000 (Note 35)	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Senior securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	6,683,751	2,096,823	(136,260)	1,065	121,913	411,106	638,299	6,278,261	16,112,952	1,258,170	78,771	17,449,893
Profit for the year	-	-	-	-	-	-	-	2,503,109	2,503,109	73,080	3,802	2,579,991
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedges, net of tax	-	-	-	-	-	(89,621)	-	-	(89,621)	-	-	(89,621)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(30,629)	-	(30,629)	-	-	(30,629)
Total comprehensive income for the year	-	-	-	-	-	(89,621)	(30,629)	2,503,109	2,382,859	73,080	3,802	2,459,741
Issue of shares	3,580,765	-	-	-	-	-	-	-	3,580,765	-	-	3,580,765
Share issue expenses	(53,944)	-	-	-	-	-	-	-	(53,944)	-	-	(53,944)
Purchase of shares under share award scheme	-	-	(116,245)	-	-	-	-	-	(116,245)	-	-	(116,245)
Final 2014 dividend declared (net of dividends received from shares held for share award scheme)	-	-	-	-	-	-	-	(592,476)	(592,476)	-	-	(592,476)
Distribution paid to holders of senior perpetual securities	-	-	-	-	-	-	-	-	-	(104,047)	-	(104,047)

## Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to ordinary shareholders of the parent												
	Shares held												
	Share capital RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Share-based award scheme RMB'000 (Note 35)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Senior Perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
Recognition of equity-settled share-based payments	-	-	-	58,971	-	-	-	-	-	58,971	-	-	58,971
Special reserve – safety fund appropriation	-	-	-	-	835	-	-	-	(835)	-	-	-	-
Special reserve – safety fund utilization	-	-	-	-	(685)	-	-	-	685	-	-	-	-
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	154,484	154,484
Decrease in ownership interests in subsidiaries without loss of control	-	17,342	-	-	-	-	-	-	-	17,342	-	6,978	24,320
Waiver of debt by non-controlling shareholders	-	813	-	-	-	-	-	-	-	813	-	1,447	2,260
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	97,698	97,698
At 31 December 2015	10,210,572	2,114,978*	(252,505)*	76,965*	1,215*	121,913*	321,485*	607,670*	8,186,744*	21,391,037	1,227,203	343,180	22,961,420

\* These reserve accounts comprise the consolidated reserves of RMB11,180,465,000 (2014: RMB9,429,201,000) in the consolidated statement of financial position.

## Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to ordinary shareholders of the parent									
	Shares held									
	Share capital	Share premium	Capital reserve	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 33)	(Note 33)	(Note 36)	(Note 35)	(Note 36)	(Note 36)			(Note 37)	
At 1 January 2014	27,570	7,067,502	2,403,345	-	671	121,913	-	(100,283)	4,604,624	14,125,342
Profit for the year	-	-	-	-	-	-	-	-	36,036	2,342,174
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Cash flow hedges, net of tax	-	-	-	-	-	-	411,106	-	-	411,106
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(599)	-	(599)
Total comprehensive income for the year	-	-	-	-	-	-	411,106	(599)	36,036	2,752,681
Effect of change in functional currency during the year	(1,798)	(409,523)	(306,786)	-	-	-	-	739,181	(21,074)	-
Transition to no-par value regime	6,657,979	(6,657,979)	-	-	-	-	-	-	-	-
Purchase of shares under share award scheme	-	-	-	(136,260)	-	-	-	-	-	(136,260)
Issue of senior perpetual securities (Note 37)	-	-	-	-	-	-	-	-	1,222,134	1,222,134
Final 2013 dividend declared	-	-	-	-	-	-	-	-	(600,849)	(600,849)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	-
	-	-	-	17,994	-	-	-	-	-	17,994



## Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to ordinary shareholders of the parent											
	Shares held										Non-controlling interests RMB'000	
	Share capital RMB'000 (Note 33)	Share premium account RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	for share award scheme RMB'000 (Note 35)	Share-based compensation reserve RMB'000 (Note 36)	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000		Total RMB'000
Special reserve – safety fund appropriation	-	-	-	-	-	835	-	-	-	(835)	-	-
Special reserve – safety fund utilization	-	-	-	-	-	(441)	-	-	-	441	-	-
Capital injection by non-controlling shareholders	-	-	264	-	-	-	-	-	-	264	-	6,500
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(150)	(150)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	28,216	28,216
Dividends paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	(5,243)	(5,243)
At 31 December 2014	6,683,751	-	2,096,823*	(136,260)*	17,994*	1,065*	121,913*	411,106*	638,299*	6,278,261*	16,112,952	17,449,893

## Consolidated Statement of Cash Flows

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		3,579,725	3,211,200
Adjustments for:			
Finance costs and bank charges		4,085,503	3,461,692
Interest income		(56,163)	(51,981)
Share of net profit of an associate		–	(13,511)
Share of net losses of joint ventures		310	195
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	5	(12,570)	(20,772)
Realised fair value (gains)/losses, net	5	(35,665)	37,611
Fair value loss on a call option		12,006	–
Gain on disposal of available-for-sale investment	5	(11,898)	–
Gain on structured financial products	5	(6,597)	(7,798)
Gain on disposal of property, plant and equipment, net		(843)	(198)
Depreciation	13	228,147	166,232
Provision for impairment of loans and accounts receivables	23	821,103	750,009
Provision for impairment of other assets		25,320	–
Amortisation of intangible assets and other assets		47,498	26,609
Equity-settled share-based payment expenses	7	58,971	17,994
Foreign exchange loss, net		16,487	88,977
		8,751,334	7,666,259
Increase in derivative instruments – transactions qualifying as hedges		(19,823)	–
Increase in inventories		(25,928)	(49,176)
Decrease/(increase) in construction contracts		39,952	(28,388)
Increase in loans and accounts receivables		(21,819,428)	(20,496,758)
Increase in prepayments, deposits and other receivables		(1,337,568)	(1,171,155)
Increase in restricted cash related to asset-backed securitisations	26	(1,049,420)	–
Increase in other assets		(580,410)	(5,070)
Increase in trade and bills payables		4,810,286	1,132,024
Increase in other payables and accrued liabilities		5,841,442	3,738,171
Increase in other liabilities		531,882	112,789
Net cash flows used in operating activities before tax		(4,857,681)	(9,101,304)
Interest paid		(3,898,775)	(3,267,697)
Interest received		56,163	51,981
Income tax paid		(1,589,416)	(1,030,016)
Net cash flows used in operating activities		(10,289,709)	(13,347,036)

## Consolidated Statement of Cash Flows

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Gain on structured financial products	5	6,597	7,798
Realised gain on derivative financial instruments not qualifying as hedges		48,227	–
Proceeds from disposal of property, plant and equipment		14,386	20,401
Acquisition of subsidiaries	38	(193,742)	(48,197)
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(1,876,373)	(926,284)
Purchase of shareholding for joint ventures		(1,071,180)	(81,180)
Dividend received from joint ventures		1,751	–
Proceeds from disposal of joint ventures		5,403	–
Increase in time deposits		–	(490,994)
Purchase of available-for-sale investments		(103,556)	(394,253)
Proceeds from disposal of available-for-sale investments		204,999	–
Purchase of equity investments at fair value through profit or loss		(244,132)	–
Net cash flows used in investing activities		(3,207,620)	(1,912,709)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of senior perpetual securities		–	1,222,134
Proceeds from issue of new shares		3,580,765	–
Share issue expenses		(53,944)	–
Capital injection from non-controlling shareholders		154,484	6,500
Purchase of non-controlling shareholders		–	(150)
Decrease in ownership interests in subsidiaries without loss of control		24,320	–
Cash received from borrowings		80,704,161	78,696,702
Repayments of borrowings		(70,310,149)	(63,291,624)
Dividends paid		(592,476)	(600,795)
(Increase)/decrease in pledged deposits		(637,666)	318
Dividend paid to non-controlling shareholders		–	(5,243)
Realised fair value gains/(losses) from derivative financial instruments		83,778	(37,611)
Purchase of shares held for share award scheme	35	(116,245)	(136,260)
Distribution paid to holders of senior perpetual securities	37	(104,047)	–
Cash received/(paid) for other financing activities		5,759	(24,694)
Net cash flows from financing activities		12,738,740	15,829,277
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(758,589)	569,532
Cash and cash equivalents at beginning of year		3,317,850	2,673,476
Effect of exchange rate changes on cash and cash equivalents		(58,596)	74,842
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,500,665	3,317,850

## Notes to Financial Statements

31 December 2015

### 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 Room 4701, Office Tower, Convention Plaza, 1 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, 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 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

## Notes to Financial Statements

31 December 2015

### 2.1 BASIS OF PREPARATION (continued)

#### Basis of consolidation (continued)

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

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

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

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

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19

*Defined Benefit Plans: Employee Contributions*

*Annual Improvements to HKFRSs 2010-2012 Cycle*

*Annual Improvements to HKFRSs 2011-2013 Cycle*

The adoption of the above revised standards has had no significant financial effect on these financial statements.

## Notes to Financial Statements

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### 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.

HKFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>1</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to HKAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of HKFRSs</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those HKFRSs that may significantly affect the consolidated financial statements of the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification, measurement and impairment of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

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 standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

## Notes to Financial Statements

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### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Investments in associates and joint ventures

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

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

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

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

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

#### Business combinations and goodwill

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

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



## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations and goodwill (continued)

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

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

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 as at 31 December. 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 2015

### 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 2015

### 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;

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### 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 2015

### 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	2.00-19.40%
Equipment, tools and moulds	9.00-20.00%
Office equipment and computers	10.00-32.33%
Motor vehicles	9.70-24.25%

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 2015

### 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 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets

##### Initial recognition and measurement

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

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, available-for-sale investments, equity investments at fair value through profit or loss, and derivative financial instruments.

##### Subsequent measurement

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

##### Financial assets at fair value through profit or loss

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

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

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

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



## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (continued)

##### Loans and receivables

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

##### Held-to-maturity investments

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

##### Available-for-sale financial investments

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

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

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

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (continued)

##### Available-for-sale financial investments (continued)

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

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

#### Derecognition of financial assets

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

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

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

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

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets

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

#### Financial assets carried at amortised cost

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

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

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

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

#### Assets carried at cost

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

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (continued)

##### Available-for-sale financial investments

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

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

#### Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

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

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities (continued)

##### Subsequent measurement

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

##### Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

##### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in cost of sales in the statement of profit or loss.

##### Derecognition of financial liabilities

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

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

##### Offsetting of financial instruments

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

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting

##### Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting (continued)

##### Initial recognition and subsequent measurement (continued)

Hedges which meet the strict criteria for cash flow hedge accounting are accounted for as follows:

##### Cash flow hedges

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

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

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

##### 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.

##### Inventories

Inventories are goods valued at the lower of cost and net realisable value at the end of the reporting period. The cost of inventories issued is determined on the specific identification basis. The difference between the cost and the lower net realisable value is stated as a provision. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sale.



## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash and cash equivalents

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

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

#### Provisions

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

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

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

#### Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

## Notes to Financial Statements

31 December 2015

### 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate or is deducted in reporting the related expense.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease;
- (b) from the rendering of services, where income is recognised when the services have been rendered and the revenue can be reasonably estimated and deferred revenue is recorded as liability when the payments have been made in advance by customers for services yet to be rendered as at each reporting date and recognised as income when the services have been rendered and the revenue can be reasonably estimated;
- (c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (d) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (f) rental income, on a time proportion basis over the lease terms; and
- (g) dividend income, when the shareholders' right to receive payment has been established.

## Notes to Financial Statements

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

#### Share-based payments

The Company operates a share option scheme and a restricted share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in Note 34 and Note 35 to the financial statements.

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

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

## Notes to Financial Statements

31 December 2015

### 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.

#### 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 2015

### 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. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

#### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries whose functional currency is other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with 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 2015

### 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 2015 was RMB359,452,000 (2014: RMB64,164,000). Further details are given in Note 16.

#### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### Deferred tax assets and liabilities

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and liabilities and income tax charge in the period in which such estimate has been changed.



## Notes to Financial Statements

31 December 2015

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of loans and receivables. The identification of doubtful receivables requires management's judgement and estimates. The management measures and monitors the asset quality of the lease receivable portfolio by classifying the lease receivables using the 5-category classification system by referring to guidelines promulgated by the China Banking Regulatory Commission relating to asset quality for financial institutions under its regulation. Based on the guidelines, lease receivables classified in the first two categories of the five categories, i.e., Pass and Special Mention are regarded as performing assets as no objective evidence of impairment exists individually and they are collectively assessed for impairment; while lease receivables in the remaining three categories, i.e., Substandard, Doubtful and Loss, are regarded as non-performing assets and are measured for impairment individually since objective evidence of impairment exists individually for such lease receivables. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the receivables and doubtful debt expenses/write-back of in the period in which such estimate is made.

##### Fair value of financial instruments

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

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

##### Share-based payments

Estimating fair value for share-based payment transactions requires determination of appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including volatility, expected exercise behaviour and dividend yield, etc, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 34 and Note 35.

##### Judgements

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

## Notes to Financial Statements

31 December 2015

### 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;
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two operating segments, namely the financial and advisory business and the industrial operation business, based on internal organisational structure, management requirement and internal reporting system:

- The financial and advisory business comprises (a) direct finance leasing; (b) sale-leaseback; (c) factoring; (d) entrusted loans; and (e) advisory services.
- The industrial operation 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) equipment operation; (e) hospital and healthcare management and (f) 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 2015

**4. OPERATING SEGMENT INFORMATION** (continued)

Segment revenue, results, assets and liabilities 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 2015

	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	10,571,802	1,224,181	–	11,795,983
Intersegment sales	102,534	16,294	(118,828)	–
Cost of sales	(4,066,663)	(808,387)	103,440	(4,771,610)
Other income and gains	498,471	15,128	(3,567)	510,032
Selling and distribution costs and administrative expenses	(3,105,272)	(290,333)	17,945	(3,377,660)
Other expenses	(455,742)	1,253	–	(454,489)
Finance costs	–	(122,221)	–	(122,221)
Share of profits or losses of joint ventures	(6,133)	5,823	–	(310)
Profit before tax	3,538,997	41,738	(1,010)	3,579,725
Income tax expense	(984,131)	(15,603)	–	(999,734)
Profit after tax	2,554,866	26,135	(1,010)	2,579,991
<b>Segment assets</b>	136,517,966	7,813,466	(5,018,543)	139,312,889
<b>Segment liabilities</b>	(115,772,841)	(5,156,501)	4,577,873	(116,351,469)
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	830,360	16,063	–	846,423
Depreciation and amortisation	56,575	219,071	–	275,646
Capital expenditure	1,280,164	2,208,819	–	3,488,983

## Notes to Financial Statements

31 December 2015

## 4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2014

	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	9,053,889	1,006,828	–	10,060,717
Intersegment sales	59,257	6,086	(65,343)	–
Cost of sales	(3,427,730)	(683,948)	5,131	(4,106,547)
Other income and gains	521,524	7,296	(5,131)	523,689
Selling and distribution costs and administrative expenses	(2,852,984)	(169,010)	6,086	(3,015,908)
Other expenses	(248,460)	(940)	–	(249,400)
Finance costs	–	(73,924)	59,257	(14,667)
Share of net profit of an associate	–	13,511	–	13,511
Share of net losses of joint ventures	(97)	(98)	–	(195)
Profit before tax	3,105,399	105,801	–	3,211,200
Income tax expense	(851,588)	(17,438)	–	(869,026)
Profit after tax	2,253,811	88,363	–	2,342,174
<b>Segment assets</b>	111,030,781	3,829,928	(4,134,585)	110,726,124
<b>Segment liabilities</b>	(93,792,884)	(3,187,206)	3,703,859	(93,276,231)
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	739,811	10,198	–	750,009
Depreciation and amortisation	55,398	137,443	–	192,841
Capital expenditure	644,376	805,538	–	1,449,914

## Notes to Financial Statements

31 December 2015

**4. OPERATING SEGMENT INFORMATION** (continued)**Geographical information****(a) Revenue from external customers**

	2015 RMB'000	2014 RMB'000
Mainland China	11,579,614	9,908,385
Hong Kong	184,884	94,145
Other countries or regions	31,485	58,187
	11,795,983	10,060,717

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

**(b) Non-current assets**

	2015 RMB'000	2014 RMB'000
Mainland China	6,281,776	2,832,488
Hong Kong	439,963	182,145
	6,721,739	3,014,633

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 was derived has amounted to 10% or more of the total revenue of the Group during the year.

## Notes to Financial Statements

31 December 2015

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts, and the value of services rendered and gross leasing income received, net of value-added tax or business tax, during the year.

An analysis of revenue, other income and gains is as follows:

	Note	2015 RMB'000	2014 RMB'000
<b>Revenue</b>			
Finance lease income		6,603,955	6,283,269
Service fee income		3,850,659	2,709,366
Factoring income		245,375	174,479
Sale of goods		120,356	135,931
Chartering and brokerage income		166,225	322,538
Construction contract revenue		96,620	85,639
Equipment operation income		601,200	390,090
Healthcare service income		194,477	60,458
Other income		27,929	15,303
Business tax and surcharges		(110,813)	(116,356)
		11,795,983	10,060,717
<b>Other income and gains</b>			
Bank interest income		56,163	51,981
Gain on structured financial products		6,597	7,798
Gain on disposal of available-for-sale investments		11,898	–
Derivative instruments – transactions not qualifying as hedges		48,235	20,772
Gain on disposal of property, plant, and equipment		1,163	1,225
Government grants	5a	130,508	326,187
Tax benefits from intra-group borrowings		188,114	85,483
Gain on transfers of loans and accounts receivables		67,203	15,638
Others		151	14,605
		510,032	523,689

## Notes to Financial Statements

31 December 2015

**5. REVENUE, OTHER INCOME AND GAINS** (continued)**5a. Government grants**

	2015 RMB'000	2014 RMB'000
Transitional financial support for implementing VAT reform	–	309,532
Government special subsidy	130,508	16,655
	130,508	326,187

**6. FINANCE COSTS**

An analysis of finance costs from continuing operations is as follows:

	2015 RMB'000	2014 RMB'000
Interest on bank loans, overdrafts and other loans	120,346	14,667
Interest on finance leases	1,875	–
Total interest expense on financial liabilities not at fair value through profit or loss	122,221	14,667



## Notes to Financial Statements

31 December 2015

## 7. PROFIT BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Cost of borrowings included in cost of sales	3,963,282	3,422,599
Cost of inventories sold	114,263	130,520
Cost of construction contracts	55,973	56,299
Cost of equipment operation	343,584	176,591
Cost of chartering	149,332	282,360
Cost of healthcare service	132,362	32,144
Cost of others	12,814	6,034
Depreciation	24,355	33,556
Amortisation of intangible assets and other assets:		
Current year expenditure	46,827	32,433
Less: Government grants released*	(1,378)	(5,824)
	45,449	26,609
Rental expenses	114,470	96,749
Auditors' remuneration		
– audit services	4,380	3,050
– other services	1,919	1,211
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
– Current year expenditure	1,758,053	1,338,101
– Less: Government grants released*	(277,330)	–
	1,480,723	1,338,101
– Equity-settled share-based payment expense	58,971	17,994
– Pension scheme contributions	68,378	65,679
– Other employee benefits	215,635	189,744
	1,823,707	1,611,518
Impairment of loans and accounts receivables (Note 23)	821,103	750,009
Impairment of other receivables	4,855	–
Impairment of inventories	33	–
Impairment of property, plant and equipment	20,432	–

## Notes to Financial Statements

31 December 2015

## 7. PROFIT BEFORE TAX (continued)

	2015 RMB'000	2014 RMB'000
Entertainment expenses	55,481	66,786
Business travelling expenses	167,359	174,906
Consultancy fees	68,117	35,950
Office expenses:		
Current year expenditure	38,073	50,511
Less: Government grants released*	–	(3,949)
	38,073	46,562
Advertising and promotional expenses	11,419	4,451
Transportation expenses	11,077	11,032
Communication expenses	21,457	15,812
Other miscellaneous expenses:		
Current year expenditure	131,314	141,297
Less: Government grants released*	(16,190)	(22,486)
	115,124	118,811
Litigation expense	28,850	18,896
Loss on disposal of property, plant and equipment	320	1,028
Donation	4,500	4,013
Bank commission expenses	120,366	64,436
Derivative instruments-fair value loss on a call option	12,006	–
Foreign exchange losses, net		
Cash flow hedges (transfer from equity to foreign exchange losses)	(849,733)	360,035
Others	866,220	(271,058)
Derivative instruments – transactions not qualifying as hedges	–	37,611
Loss on transfers of loans and accounts receivables	300,810	52,175
Other expenditure	–	1,160

\* Government grants have been received by a subsidiary of the Company from the local government for improvement of technology, staff training and development, etc. The government grants received have been deducted from the expenses to which they related. Government grants received for which related expenditure has not yet been undertaken are included in deferred revenue in the statement of financial position (Note 32).

## Notes to Financial Statements

31 December 2015

**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:

	2015 RMB'000	2014 RMB'000
Fees	2,052	1,986
Other emoluments:		
Salaries, allowances and benefits in kind	6,116	5,842
Performance related bonuses*	3,500	3,100
Pension scheme contributions	657	604
	10,273	9,546
	12,325	11,532

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

During 2015, certain directors were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 34 and Note 35 to the financial statements, respectively.

**(a) Independent non-executive directors**

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

	2015 RMB'000	2014 RMB'000
Mr. Cai Cunqiang	—	—
Mr. Han Xiaojing	342	331
Mr. Liu Jialing	342	331
Mr. Yip Wai Ming	342	331
	1,026	993

## Notes to Financial Statements

31 December 2015

**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:

	2015 RMB'000	2014 RMB'000
Mr. Liu Deshu	–	–
Mr. Yang Lin	–	–
Mr. Liu Haifeng	342	331
Mr. Luo Qiang	342	331
Mr. Guo Mingjian	342	331
	1,026	993

**(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 2015					
Executive directors:					
Mr. Kong Fanxing	–	3,876	2,000	423	6,299
Mr. Wang Mingzhe	–	2,240	1,500	234	3,974
	–	6,116	3,500	657	10,273
Year ended 31 December 2014					
Executive directors:					
Mr. Kong Fanxing	–	3,739	1,800	383	5,922
Mr. Wang Mingzhe	–	2,103	1,300	221	3,624
	–	5,842	3,100	604	9,546

Mr. Liu Deshu, Mr. Yang Lin and Mr. Cai Cunqiang agreed to waive their remuneration during the year.

## Notes to Financial Statements

31 December 2015

## 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	
	2015	2014
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2014: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2014: three) non-directors, highest paid employees for the year are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	5,751	5,761
Performance related bonuses	3,900	3,550
Pension scheme contributions	442	580
	10,093	9,891

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

	Number of employees	
	2015	2014
HK\$3,500,001 to HK\$4,000,000 (Equivalent to RMB2,794,891 to RMB3,194,160)	2	1
HK\$4,000,001 to HK\$4,500,000 (Equivalent to RMB3,194,161 to RMB3,593,430)	–	1
HK\$4,500,001 to HK\$5,000,000 (Equivalent to RMB3,593,431 to RMB3,992,700)	1	1
	3	3

During the year ended 31 December 2015, certain highest paid employees were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 34 and Note 35 to the financial statements, respectively.

## Notes to Financial Statements

31 December 2015

**9. FIVE HIGHEST PAID EMPLOYEES** (continued)

The Group adopted collective economic-gain bonus schemes (the "Schemes") since 2014. According to the Schemes, the Group paid a portion of employee bonus to separate funds (the "Employees' Collectively Owned Funds"). The Employees' Collectively Owned Funds are collectively owned by employees participating the Scheme until distributed to individual employees. A committee (the "Committee"), elected by the general meeting of employee representatives, is established to be in charge of the management, operation of the Scheme and the determination and distribution of the Employees' Collectively Owned Funds to all individual participating employees. In the view of the directors, the Employees' Collectively Owned Funds are not property of the Company or any of its subsidiaries, and the Group has no rights and obligations in respect of the management and operation of the Employees' Collectively Owned Funds. The Company has not been notified of any distribution of Employees' Collectively Owned Funds to individual employees. As at 31 December 2015, the above information of the five highest paid employees has not taken into employees' potential entitlement under the Schemes.

**10. INCOME TAX**

	2015 RMB'000	2014 RMB'000
Current – Hong Kong		
Charge for the year	168,937	139,050
Current – Mainland China		
Charge for the year	1,227,458	1,086,484
Deferred tax (Note 25)	(396,661)	(356,508)
Total tax charge for the year	999,734	869,026

**Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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 applicable tax rate on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

Prior to 1 January 2008, Far Eastern Leasing was entitled to a preferential CIT rate of 15% and all other subsidiaries in Mainland China were subject to CIT at the statutory rate of 33%. For each of the subsidiaries of the Group in Mainland China, CIT is provided at the applicable rate of the profits for the purpose of Mainland China statutory financial reporting, adjusted for those items which are not assessable or deductible.

## Notes to Financial Statements

31 December 2015

**10. INCOME TAX** (continued)**Corporate Income Tax ("CIT")** (continued)

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%. Pursuant to relevant recognition by the local tax authorities, Far Eastern Leasing and Shanghai Donghong Co., Ltd. were entitled to transitional CIT rates of 18% in 2008, 20% in 2009, 22% in 2010 and 24% in 2011 and the applicable CIT rate of 25% from 2012 onwards.

On 18 November 2012, Domin Medical Engineering was recognised as a high-technology enterprise by Shanghai Science and Technology Commission. Since then, Domin Medical Engineering has enjoyed a preferential tax rate of 15%.

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:

	2015 RMB'000	2014 RMB'000
Profit before tax	3,579,725	3,211,200
Tax at the statutory income tax rates	876,612	805,649
Effect of lower tax rate enacted by local authority	(559)	(120)
Expenses not deductible for tax	42,472	69,711
Income not subject to tax	(25,837)	(80,117)
Adjustment on current income tax in respect of prior years	(371)	(10)
Utilisation of previously unrecognised tax losses	(9,542)	(12,763)
Unrecognised tax losses	2,135	2,349
Effect of recognition of deductible temporary differences that were not recognised in prior years	–	(30)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	31,149	(12,000)
Effect of withholding tax on interest on intra-group balances	83,675	96,357
Income tax expense as reported in the consolidated statement of profit or loss	999,734	869,026

## Notes to Financial Statements

31 December 2015

## 11. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Proposed final dividend – HK\$0.23 (2014: HK\$0.23) per ordinary share	752,096	592,755

A final dividend for the year 2015 of HK\$0.23 per share was proposed at the meeting of the Board of Directors held on 30 March 2016. Based on the total number of outstanding ordinary shares of 3,903,149,860 (2014:3,266,944,000) (excluding the 47,250,140 (2014:25,456,000) shares held for share award scheme (note 35)), the proposed final dividend amounted to approximately HK\$897,724,000 (2014:HK\$751,397,000) (equivalent to RMB752,096,000 (2014: RMB592,755,000)). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the financial statements.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the year is based on the consolidated net profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,562,109,103 (2014: 3,287,307,315) outstanding during the year.

The calculation of basic earnings per share is based on:

## Earnings

	2015 RMB'000	2014 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	2,503,109	2,295,954

## Shares

	Number of shares	
	2015	2014
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	3,562,109,103	3,287,307,315

For the year ended 31 December 2015, the Share Option Scheme (Note 34) and the Restricted Share Award Scheme (Note 35) have no dilutive effect on earnings per share yet. 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.



## Notes to Financial Statements

31 December 2015

## 13. PROPERTY, PLANT AND EQUIPMENT

31 December 2015

	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	Total RMB'000
At 31 December 2014 and at 1 January 2015:								
Cost	49,978	159,635	1,457,156	59,379	26,400	130,868	91,324	1,974,740
Accumulated depreciation	(47,686)	(24,923)	(112,852)	(36,985)	(12,957)	–	(6,168)	(241,571)
Net carrying amount	2,292	134,712	1,344,304	22,394	13,443	130,868	85,156	1,733,169
At 1 January 2015, net of accumulated depreciation	2,292	134,712	1,344,304	22,394	13,443	130,868	85,156	1,733,169
Acquisition of subsidiaries	–	110,621	46,222	17,428	3,502	–	–	177,773
Additions	7,847	103,272	1,058,762	10,101	8,923	226,595	275,299	1,690,799
Depreciation provided during the year	(3,790)	(6,712)	(186,526)	(10,973)	(4,759)	–	(15,387)	(228,147)
Transfers	–	695	–	–	–	(60,731)	60,036	–
Disposals	–	–	(10,417)	(3,061)	(65)	–	–	(13,543)
Exchange realignment	–	–	–	–	–	4,151	14,109	18,260
Impairment	–	–	–	–	–	–	(20,432)	(20,432)
At 31 December 2015, net of accumulated depreciation and impairment	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	3,357,879
At 31 December 2015:								
Cost	57,734	384,594	2,618,128	102,491	41,135	300,883	442,208	3,947,173
Accumulated depreciation and impairment	(51,385)	(42,006)	(365,783)	(66,602)	(20,091)	–	(43,427)	(589,294)
Net carrying amount	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	3,357,879

## Notes to Financial Statements

31 December 2015

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2014

	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	Total RMB'000
At 31 December 2013 and at 1 January 2014:								
Cost	45,009	23,105	916,770	56,612	16,554	26,826	–	1,084,876
Accumulated depreciation	(28,332)	(2,393)	(48,774)	(34,166)	(7,158)	–	–	(120,823)
Net carrying amount	16,677	20,712	867,996	22,446	9,396	26,826	–	964,053
At 1 January 2014, net of accumulated depreciation	16,677	20,712	867,996	22,446	9,396	26,826	–	964,053
Acquisition of a subsidiary	–	114,865	11,198	821	477	–	–	127,361
Additions	33,218	38,163	595,610	17,158	8,096	130,693	61,741	884,679
Depreciation provided during the year	(47,603)	(5,858)	(89,949)	(12,687)	(3,967)	–	(6,168)	(166,232)
Transfers	–	–	–	–	–	(26,875)	26,875	–
Disposal	–	(33,170)	(40,550)	(5,343)	(560)	–	–	(79,623)
Exchange realignment	–	–	–	–	–	223	2,708	2,931
At 31 December 2014, net of accumulated depreciation	2,292	134,712	1,344,305	22,395	13,442	130,867	85,156	1,733,169
At 31 December 2014:								
Cost	49,978	159,635	1,457,157	59,380	26,399	130,867	91,324	1,974,740
Accumulated depreciation	(47,686)	(24,923)	(112,852)	(36,985)	(12,957)	–	(6,168)	(241,571)
Net carrying amount	2,292	134,712	1,344,305	22,395	13,442	130,867	85,156	1,733,169

As at 31 December 2015, the Group has not obtained the property ownership certificates for five buildings (31 December 2014: nil) with a net book value of RMB58,242,000 (31 December 2014: nil).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 31 December 2015.

## Notes to Financial Statements

31 December 2015

## 14. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Cost:		
At the beginning of the year	1,023,060	987,716
Additions	167,604	35,344
Acquisition of subsidiaries	19,919	–
At the end of the year	1,210,583	1,023,060
Accumulated amortisation:		
At the beginning of the year	(35,182)	(13,869)
Addition	(25,025)	(21,313)
Acquisition of subsidiaries	(350)	–
At the end of the year	(60,557)	(35,182)
Net carrying amount:		
At the end of the year	1,150,026	987,878
At the beginning of the year	987,878	973,847

As at 31 December 2015, the Group has not obtained the land ownership certificate for one parcel (31 December 2014: nil) of land with a net book value of RMB2,479,000 (31 December 2014: nil).

The Group was in the process of applying for the land ownership certificate for the above parcel of land as at 31 December 2015.

## Notes to Financial Statements

31 December 2015

## 15. GOODWILL

	RMB'000
At 1 January 2014:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2014, net of accumulated impairment	–
Acquisition of a subsidiary	64,164
Impairment during the year	–
At 31 December 2014	64,164
At 31 December 2014:	
Cost	64,164
Accumulated impairment	–
Net carrying amount	64,164
Cost at 1 January 2015, net of accumulated impairment	64,164
Acquisition of subsidiaries (Note 38)	295,288
Impairment during the year	–
Cost and net carrying amount at 31 December 2015	359,452
At 31 December 2015:	
Cost	359,452
Accumulated impairment	–
Net carrying amount	359,452

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Medical service cash-generating units; and
- Education service cash-generating units.

## Notes to Financial Statements

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### 15. GOODWILL (continued)

#### Medical service cash-generating units

The recoverable amount of the medical service cash-generating units 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 13% (2014: 15%). The implied pre-tax discount rates for the cash flow projections are 16.7% to 17.8% (2014: 18.5%).

#### Education service cash-generating units

The recoverable amount of the education service cash-generating units 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 cash flow projections is 14% (2014: nil). The implied pre-tax discount rates for the cash flow projections are 16.5% to 17.5% (2014: nil).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Medical service		Education service		Total	
	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of goodwill	237,161	64,164	122,291	–	359,452	64,164

Assumptions were used in the value in use calculation of the medical service cash-generating units and education service cash-generating units for 31 December 2015 and 31 December 2014. 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 rate – the discount rate used reflect specific risks relating to the units.

The values assigned to the key assumptions on market development of medical industry and education industry, discount rates are comparable to external information sources.

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## 16. OTHER ASSETS

	2015 RMB'000	2014 RMB'000
Software (Note 16a)	19,558	23,870
Continuing involvement in transferred assets (Note 47)	569,062	–
Others	77,787	30,413
	666,407	54,283

## 16a. SOFTWARE

	2015 RMB'000	2014 RMB'000
Cost:		
At the beginning of the year	65,628	35,396
Acquisition of subsidiaries	1,022	8,723
Additions	7,033	21,509
Disposals	(7,342)	–
Exchange differences	45	–
At the end of the year	66,386	65,628
Accumulated amortisation:		
At the beginning of the year	(41,758)	(17,170)
Acquisition of subsidiaries	(404)	(18,408)
Additions	(5,575)	(6,180)
Disposals	922	–
Exchange differences	(13)	–
At the end of the year	(46,828)	(41,758)
Net carrying amount:		
At the end of the year	19,558	23,870
At the beginning of the year	23,870	18,226

## Notes to Financial Statements

31 December 2015

## 17. INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) (Note ii)	PRC/Mainland China 13 September 1991	US\$1,816,710,922	100	–	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	RMB430,000,000	–	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	–	88.31	Engineering and trading
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	RMB210,526,316	–	97.03	Operating leasing
Shanghai Dopont Industrial Co., Ltd. (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB10,000,000	–	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

## Notes to Financial Statements

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## 17. INFORMATION ABOUT SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tianjin Horizon Equipment Rental Co., Ltd. (天津宏信設備租賃有限公司) (Note ii)	PRC/Mainland China 27 July 2012	RMB100,000,000	–	97.03	Operating leasing
Grand Light Development Limited (宏明發展有限公司) (Note i)	Hong Kong 23 June 2011	HK\$1	100	–	Trading
Far East Horizon Shipping Holdings Co., Ltd (遠東宏信航運控股有限公司) (Note i)	Cayman Islands 2 October 2009	US\$1,000	100	–	Investment holding
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
Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司) (Note ii)	PRC/Mainland China 26 April 2013	RMB500,000,000/ RMB361,500,000	–	100	Investment holding
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司) (Note ii)	PRC/Mainland China 2 August 2013	RMB380,000,000/ RMB292,410,000	–	55	Operating leasing
Shanghai Doyi Industrial Co., Ltd. (上海德藝實業發展有限公司) (Note ii)	RPC/Mainland China 12 July 2013	RMB5,000,000	–	52.99	Manufacturing and trading
Huakang Orthopaedics Hospital (惠州華康骨傷醫院有限公司) (Note ii)	PRC/Mainland China 20 Feb 2004	RMB200,000,000/ RMB35,130,000	–	69.30	Medical service
Horizon Education Investment Holding (Shanghai) Co., Ltd. (上海宏信教育投資控股有限公司) (Note ii)	PRC/Mainland China 17 July 2014	RMB100,000,000	–	100	Investment holding



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## 17. INFORMATION ABOUT SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries 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 Horizon Construction Development Co., Ltd. (上海宏信建設發展有限公司) (Note ii)	PRC/Mainland China 14 April 2014	RMB400,000,000/ RMB373,330,000	–	100	Construction
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 Dec 2013	RMB3,500,000,000	60	40	Finance leasing
Grand Flight Investment Management Co., Ltd. (宏翔投資管理有限公司) (Note i)	British Virgin Islands 12 August 2014	US\$1	–	100	Investment holding
Shanghai Thrive Kind Healthcare Investment Co., Ltd. (上海臻慈醫療投資有限公司) (Note ii)	PRC/Mainland China 10 Feb 2015	RMB100,000,000/ RMB81,050,000	–	51	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 Jan 2015	US\$300,000,000/ US\$60,000,000	–	100	Investment holding
Tianjin Renzhi Enterprise Management Co., Ltd. (天津仁摯企業管理有限公司) (Note ii)	PRC/Mainland China 11 March 2015	RMB1,800,000,000/ RMB365,916,150	–	100	Investment holding
Tianjin Renzheng Enterprise Management Co., Ltd. (天津仁正企業管理有限公司) (Note ii)	PRC/Mainland China 13 April 2015	RMB1,800,000,000/ RMB363,674,350	–	100	Investment holding

## Notes to Financial Statements

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## 17. INFORMATION ABOUT SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries 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	
Guangzhou Horizon Equipment & Engineering Co., Ltd. (廣州宏途設備工程有限公司) (Note ii)	PRC/Mainland China 23 March 2015	RMB200,000,000	–	97.03	Operating leasing
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 Jan 2015	RMB1,612,900	–	69	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	–	58	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
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	RMB24,062,500	–	60	Investment holding
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 Nov 2012	RMB4,000,000	–	36	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 Oct 2014	RMB2,000,000	–	36	Education service
Shanghai Sunflower Language Co., Ltd. (上海太陽花語言培訓有限公司) (Note ii)	PRC/Mainland China 7 March 2002	RMB1,000,000	–	60	Education service

## Notes to Financial Statements

31 December 2015

## 17. INFORMATION ABOUT SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries 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	
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	–	60	Investment holding
Shanghai Heqi 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

The above table lists the subsidiaries 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

## Notes to Financial Statements

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## 18. INVESTMENTS IN JOINT VENTURES

	2015 RMB'000	2014 RMB'000
Share of net assets	1,108,023	80,985
Excess of consideration over share of net assets acquired	79,952	—
	1,187,975	80,985

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of		Principal activities
			Ownership interest	Profit sharing	
Shanghai Dongling investment, LLP (上海東翎投資合夥企業(有限合夥)) ("Dongling")	Registered capital of RMB55,717,310	PRC/Mainland China	49.2	49.2	Investment holding
Shanghai Dongsong investment, LLP (上海東松投資合夥企業(有限合夥)) ("Dongsong")	Registered capital of RMB140,100,000	PRC/ Mainland China	19.04	*	Investment holding
Weihai Haida hospital Co., Ltd (威海海大醫院有限公司) ("Haida")	Registered capital of RMB4,000,000	PRC/ Mainland China	50	50	Medical Service
Kunming Broadhealthcare Investment Co., Ltd. (昆明博健醫療投資有限公司) ("Broadhealthcare")	Registered capital of RMB14,333,328	PRC/ Mainland China	33.3837	33.3837	Healthcare investment and management
Guangzhou Kangda Industrial Technology Co., Ltd. (廣州康大工業科技產業有限公司) ("Kangda")	Registered capital of HKD200,000,000	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) ("Skycity")	Registered capital of RMB1,000,000	PRC/ Mainland China	50	50	Electronic products

\* The voting powers are equally shared by four joint venture partners (a subsidiary of the Group and three third party investors), with all decisions about the activities that significantly affect the its returns require unanimous consent of all joint venture partners, and the Group holds 2/3 subordinated interest, which entitles the Group to 2/3 of profit or loss after deducting profit attributable to holders of preference interests (71.38% of registered capital).

## Notes to Financial Statements

31 December 2015

**18. INVESTMENTS IN JOINT VENTURES** (continued)

The Group's trade receivable balances due from the joint ventures are disclosed in Note 23 to the financial statements.

Kangda, which is considered a material joint venture of the Group, is mainly engaged in development and construction business in Mainland China and is accounted for using the equity method.

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.

	2015 RMB'000
Cash and cash equivalents	112,427
Other current assets	1,618,325
Current assets	1,730,752
Non-current assets	3,906
Trade and other payables	(151,112)
Current liabilities	(151,112)
Net assets	1,583,546
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	60%
Carrying amount of the investment	950,128
Administrative expenses	(13,900)
Other expenses	(170)
Loss and total comprehensive income for the year	(14,070)

## Notes to Financial Statements

31 December 2015

**18. INVESTMENTS IN JOINT VENTURES** (continued)

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

	2015 RMB'000	2014 RMB'000
Share of the joint ventures' gains/(losses) for the year	8,132	(195)
Aggregate carrying amount of the Group's investments in the joint ventures	237,847	80,985

**19. INVESTMENT IN AN ASSOCIATE**

	2015 RMB'000	2014 RMB'000
Share of net assets	—	94,154

During the year, the associate of the Group was restructured, and the directors of the Group are of the opinion that the Group no longer has the power to exercise significant influence over this company. As a result, the investment was transferred to available-for-sale investments.

**20. AVAILABLE-FOR-SALE INVESTMENTS**

	2015 RMB'000	2014 RMB'000
Unlisted equity investments, at cost	427,142	394,253

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

As at 31 December 2015, unlisted equity investments with a carrying amount of RMB427,142,000 (2014: RMB394,253,000) were stated at cost because the directors are of the opinion that their fair value cannot be measured reliably.

## Notes to Financial Statements

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## 21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 RMB'000	2014 RMB'000
Unlisted equity investments, at fair value	244,132	–

The above equity investments were designated by the Group, upon initial recognition, as financial assets at fair value through profit or loss.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

	2015		2014	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross-currency interest rate swaps	844,702	(4,989)	204,770	(56,978)
Forward currency contracts	272,532	(283,125)	73,501	(166,969)
Call options	–	–	12,006	–
	1,117,234	(288,114)	290,277	(223,947)
Portion classified as non-current:				
Cross-currency interest rate swaps	491,078	(4,989)	145,166	(48,280)
Forward currency contracts	205,780	(283,125)	69,861	(166,894)
Call options	–	–	12,006	–
	696,858	(288,114)	227,033	(215,174)
Current portion	420,376	–	63,244	(8,773)
	1,117,234	(288,114)	290,277	(223,947)

## Notes to Financial Statements

31 December 2015

**22. DERIVATIVE FINANCIAL INSTRUMENTS** (continued)**Cross-currency interest rate swap contracts and forward currency contracts – cash flow hedges**

During the year, the Group designated 36 (2014: 21) cross-currency interest rate swap contracts and 29 (2014: 29) forward currency contracts designated as hedges in respect of future repayments of borrowings which will be settled in US Dollar, Singapore Dollar, Japanese Yen, Hong Kong Dollar or Australian Dollar, and some of which bear floating interest rates.

The terms of the cross-currency interest rate swap contracts and forward currency contracts substantially match the terms of the borrowing contracts. The cash flow hedges relating to expected future repayments were assessed to be highly effective and a net loss of RMB89,621,000 (2014: a net gain of RMB411,106,000) was included in the hedging reserve as follows:

	2015 RMB'000	2014 RMB'000
Total fair value gains included in the hedging reserve	742,402	111,377
Deferred tax impact on fair value gains	(122,496)	(18,378)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	(849,733)	380,966
Deferred tax on reclassifications to profit or loss	140,206	(62,859)
Net (loss)/gain included in hedging reserve	(89,621)	411,106

- (a) As at 31 December 2015, the Group has only entered into 1 (2014: 11) cross-currency interest rate swap contract to manage its exchange rate exposures and interest rate exposures which were not designed for hedge accounting. Fair value gains of non-hedging financial derivatives amounting to RMB12,570,000 (2014: RMB9,735,000) were credited to the statement of profit or loss during the year.
- (b) Cross-currency interest rate swaps, with a total net fair value of RMB828,017,000 (2014: RMB204,770,000) as at 31 December 2015, were designated as hedging instruments in cash flow hedges of cash flow interest rate risks and currency risks arising from floating rate loans (with remaining maturity from 1 years to 3 years) denominated in US\$ and other foreign currencies. Forward currency contracts, with a total negative net fair value of RMB10,593,000 (2014: RMB93,393,000) as of 31 December 2015, were designated as hedging instruments in cash flow hedges of currency risks arising from loans (with remaining maturity from 1 year to 4 years) denominated in US\$ and other foreign currencies.



## Notes to Financial Statements

31 December 2015

## 23. LOANS AND ACCOUNTS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Loans and accounts receivables due within 1 year	46,710,279	39,284,977
Loans and accounts receivables due after 1 year	73,856,030	60,156,452
	120,566,309	99,441,429

## 23a. Loans and Accounts Receivables by Nature

	2015 RMB'000	2014 RMB'000
Lease receivables (Note 23b)	121,510,395	108,061,474
Less: Unearned finance income	(11,176,329)	(11,002,267)
Net lease receivables (Note 23b)	110,334,066	97,059,207
Lease interest receivables*	499,516	445,803
Notes receivable	273,136	132,877
Accounts receivable (Note 23d)*	721,736	503,586
Factoring receivable (Note 23f)	2,865,765	2,692,583
Entrusted loans (Note 23h)*	7,764,446	214,573
Long term receivables	82,014	6,883
Secured loans	424,671	409,523
Subtotal of loans and accounts receivables	122,965,350	101,465,035
Less:		
Provision for lease receivables (Note 23c)	(2,196,194)	(1,963,443)
Provision for accounts receivable (Note 23e)	(18,290)	(11,213)
Provision for factoring receivable (Note 23g)	(48,526)	(40,654)
Provision for entrusted loans (Note 23h)	(126,726)	(2,236)
Provision for long term receivables (Note 23i)	(17)	(26)
Provision for secured loans (Note 23j)	(9,288)	(6,034)
	120,566,309	99,441,429

\* These balances included balances with related parties which are disclosed in Note 23(k).

## Notes to Financial Statements

31 December 2015

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)

23b(1). An aged analysis of lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period, is as follows:

	2015 RMB'000	2014 RMB'000
Lease receivables:		
Within 1 year	64,529,387	58,484,542
1 to 2 years	33,383,755	32,158,492
2 to 3 years	16,727,905	11,080,172
3 to 5 years	6,869,348	6,338,268
Total	121,510,395	108,061,474

	2015 RMB'000	2014 RMB'000
Net lease receivables:		
Within 1 year	57,461,542	52,162,646
1 to 2 years	30,760,089	29,278,065
2 to 3 years	15,668,454	10,064,580
3 to 5 years	6,443,981	5,553,916
Total	110,334,066	97,059,207

## Notes to Financial Statements

31 December 2015

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)

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

	2015 RMB'000	2014 RMB'000
Lease receivables:		
Due within 1 year	48,144,680	43,171,525
Due in 1 to 2 years	35,367,796	32,400,660
Due in 2 to 3 years	21,503,262	18,829,129
Due in 3 to 5 years	16,494,657	13,660,160
Total	121,510,395	108,061,474

	2015 RMB'000	2014 RMB'000
Net lease receivables:		
Due within 1 year	42,517,720	37,413,399
Due in 1 to 2 years	32,149,451	29,202,653
Due in 2 to 3 years	19,930,297	17,415,795
Due in 3 to 5 years	15,736,598	13,027,360
Total	110,334,066	97,059,207

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that needed to be recorded as at the end of the reporting period.

## Notes to Financial Statements

31 December 2015

## 23. LOANS AND ACCOUNTS RECEIVABLES (continued)

## 23c. Change in provision for lease receivables

	Individually assessed		Collectively assessed		Total	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
At beginning of year	320,104	308,874	1,643,339	1,081,756	1,963,443	1,390,630
Charge for the year	194,362	131,087	472,823	583,053	667,185	714,140
Disposal	–	–	(189,331)	(21,772)	(189,331)	(21,772)
Write-off	(252,062)	(119,924)	–	–	(252,062)	(119,924)
Exchange difference	277	67	6,682	302	6,959	369
At end of year	262,681	320,104	1,933,513	1,643,339	2,196,194	1,963,443

	2015 RMB'000	2014 RMB'000
Lease receivables:		
Individually assessed (Note (i))	1,165,083	1,002,592
Collectively assessed	120,345,312	107,058,882
Total	121,510,395	108,061,474

	2015 RMB'000	2014 RMB'000
Net lease receivables:		
Individually assessed (Note (i))	1,094,651	909,168
Collectively assessed	109,239,415	96,150,039
Total	110,334,066	97,059,207

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

Note (ii) As at 31 December 2015, the carrying value of the lease receivables pledged or charged as security for the Group's borrowings amounted to RMB13,793,514,000 (2014: RMB19,688,387,000) (Note 31).

## Notes to Financial Statements

31 December 2015

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23d. An aged 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 90 days.

	2015 RMB'000	2014 RMB'000
Within 1 year	640,135	488,531
More than 1 year	81,601	15,055
Total	721,736	503,586

**23e. Change in Provision for Accounts Receivable**

	2015 RMB'000	2014 RMB'000
At beginning of year	11,213	6,020
Acquisition of subsidiaries	4,583	203
Charge for the year	8,169	10,198
Write-off	(5,936)	(5,218)
Exchange difference	261	10
At end of year	18,290	11,213

## Notes to Financial Statements

31 December 2015

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)

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

	2015 RMB'000	2014 RMB'000
Within 1 year	1,990,549	2,104,827
More than 1 year	875,216	587,756
	2,865,765	2,692,583

23g. Change in provision for the factoring receivable

	2015 RMB'000	2014 RMB'000
At beginning of year	40,654	21,435
Charge for the year	18,442	22,219
Write-off	–	(3,000)
Disposal	(10,570)	–
At end of year	48,526	40,654

23h(1). An aged 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:

	2015 RMB'000	2014 RMB'000
Entrusted loans:		
Within 1 year	7,625,066	134,611
1 to 2 years	109,661	22,512
2 to 3 years	–	–
After 3 years	29,719	57,450
Total	7,764,446	214,573

## Notes to Financial Statements

31 December 2015

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)

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

	2015 RMB'000	2014 RMB'000
Lease receivables:		
Due within 1 year	2,078,171	81,359
Due in 1 to 2 years	2,050,040	89,169
Due in 2 to 3 years	1,629,375	44,045
Due in 3 to 5 years	2,006,860	–
Total	7,764,446	214,573

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

	2015 RMB'000	2014 RMB'000
At beginning of year	2,236	3,645
Charge/(reversal) for the year	124,490	(1,409)
At end of year	126,726	2,236

23i. Change in provision for long term receivables

	2015 RMB'000	2014 RMB'000
At beginning of year	26	48
Reversal for the year	(9)	(22)
At end of year	17	26

## Notes to Financial Statements

31 December 2015

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23j. Change in provision for mortgage loans**

	2015 RMB'000	2014 RMB'000
At beginning of year	6,034	1,138
Charge for the year	2,826	4,883
Exchange difference	428	13
At end of year	9,288	6,034

**23k. Balances with related parties**

	Note	2015 RMB'000	2014 RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	75,000	–
Interest receivables		3,533	–
– Weihai Haida hospital Co., Ltd.			
Entrusted loan		30,000	–
Interest receivables	(i)	1,519	–
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan		50,000	–
Interest receivables	(i)	86	–
		160,138	–

(i) Balances of entrusted loans were interest-bearing at annual interest rates ranging from 5.655% to 6.955%.



## Notes to Financial Statements

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## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2015 RMB'000	2014 RMB'000
Current assets:			
Prepayments		339,896	252,035
Leased assets*		2,246,183	1,592,954
Other receivables		192,323	140,919
Input VAT		259,107	149,972
Due from related parties	(24a)	19,789	16,972
		3,057,298	2,152,852
Non-current assets:			
Rental deposit due after 1 year		25,282	5,157
Deduction of output VAT		17,289	89,957
Subordinated tranches of asset-backed securities (Note 48)		520,726	–
Project quality guarantee deposit		533	533
Others		15,745	–
		579,575	95,647
		3,636,873	2,248,499

\* 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, DEPOSITS AND OTHER RECEIVABLES** (continued)**24a. Balances With Related Parties**

	Note	2015 RMB'000	2014 RMB'000
Due from related parties:			
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
China Jin Mao Group Co., Ltd.	(i)	16,337	14,041
Beijing Chemsunny Property Co., Ltd.	(i)	2,668	2,493
Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")	(i)	602	438
Jin Mao (Shanghai) Property Management Service Co., Ltd.	(i)	7	–
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	–
		19,789	16,972

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

## Notes to Financial Statements

31 December 2015

## 25. DEFERRED TAX

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

## Deferred tax assets

	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	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2015	73,430	2,699	497,148	351,921	3,170	350	928,718
Credited to the statement of profit or loss during the year	54,774	14,743	140,291	154,109	7,008	4,960	375,885
Exchange differences	–	–	(2,158)	(11)	(1,710)	–	(3,879)
Gross deferred tax assets at 31 December 2015	128,204	17,442	635,281	506,019	8,468	5,310	1,300,724
Gross deferred tax assets at 1 January 2014	49,952	–	328,737	222,609	3,872	168	605,338
Credited/(charged) to the statement of profit or loss during the year	23,478	2,699	168,348	129,312	(705)	182	323,314
Exchange differences	–	–	63	–	3	–	66
Gross deferred tax assets at 31 December 2014	73,430	2,699	497,148	351,921	3,170	350	928,718

## Notes to Financial Statements

31 December 2015

## 25. DEFERRED TAX (continued)

## Deferred tax liabilities

	Fair value adjustments					Total
	Asset	Cash flow	arising from a	Lease	Withholding	
	revaluation	hedge	call option	deposits	income tax	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross deferred tax liabilities at 1 January 2015	9,315	81,236	3,002	21,385	47,005	161,943
(Credited)/charged to the statement of profit or loss during the year	(668)	–	(3,002)	(21,385)	4,279	(20,776)
Arising from acquisition of subsidiaries	5,935	–	–	–	–	5,935
Credited to reserve	–	(17,710)	–	–	–	(17,710)
Gross deferred tax liabilities at 31 December 2015	14,582	63,526	–	–	51,284	129,392

	Fair value adjustments						Total
	Asset	Cash flow	arising from a	Lease	Withholding	Withholding	
	revaluation	hedge	call option	deposits	income tax	Interest tax	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross deferred tax liabilities at 1 January 2014	–	–	–	21,385	83,026	41,456	145,867
(Credited)/charged to the statement of profit or loss during the year	(175)	–	3,002	–	(36,021)	–	(33,194)
Settled with interest receivables	–	–	–	–	–	(41,456)	(41,456)
Arising from acquisition of a subsidiary	9,490	–	–	–	–	–	9,490
Charge to reserve	–	81,236	–	–	–	–	81,236
Gross deferred tax liabilities at 31 December 2014	9,315	81,236	3,002	21,385	47,005	–	161,943

## Notes to Financial Statements

31 December 2015

**25. DEFERRED TAX** (continued)

For the purpose of the presentation of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2015 RMB'000	2014 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,300,724	904,331
Net deferred tax liabilities recognised in the consolidated statement of financial position	129,392	137,556

As at 31 December 2015, the Group had tax losses arising in Hong Kong of RMB48,807,000 (31 December 2014: RMB2,171,000) 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 RMB11,771,000 (31 December 2014: RMB18,743,000) 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. Apart from this, as at 31 December 2015, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB56,702,000 (31 December 2014: RMB6,976,000) and RMB1,691,000 (31 December 2014: RMB74,335,000), 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 2015, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB285,115,000 (2014: RMB206,880,000).

## Notes to Financial Statements

31 December 2015

## 26. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	4,257,953	3,861,561
Time deposits	883,603	410,094
	5,141,556	4,271,655
Less:		
Pledged deposits	1,591,471	953,805
Restricted bank deposits related to asset-backed securitisations	1,049,420	–
Cash and cash equivalents	2,500,665	3,317,850

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB4,506,478,000 (2014: RMB2,457,253,000). 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 2015, cash of RMB331,907,000 (2014: RMB478,557,000) was pledged for bank and other borrowings (Note 31(b)).

As at 31 December 2015, cash of RMB1,259,564,000 (2014: RMB475,248,000) was pledged for bank acceptances, letter of credit and etc.

As at 31 December 2015, cash of RMB500,351,000 (2014: RMB325,833,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

## 27. INVENTORIES

	2015 RMB'000	2014 RMB'000
Commodity goods	114,793	78,708

## Notes to Financial Statements

31 December 2015

## 28. CONSTRUCTION CONTRACTS

	2015 RMB'000	2014 RMB'000
Gross amount due from contract customers	42,387	82,339
Contract costs incurred plus recognised profits less recognised losses to date	227,542	208,300
Less: Progress billings	(185,155)	(125,961)
	42,387	82,339

## 29. TRADE AND BILLS PAYABLES

	2015 RMB'000	2014 RMB'000
Bills payable	7,086,325	2,632,580
Trade payables	1,251,310	856,491
	8,337,635	3,489,071

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

	2015 RMB'000	2014 RMB'000
Within 1 year	8,169,543	3,338,978
1 to 2 years	92,102	102,991
2 to 3 years	52,157	24,310
3 years and beyond	23,833	22,792
	8,337,635	3,489,071

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

## Notes to Financial Statements

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## 30. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Current:		
Lease deposits, entrusted loan deposits and factoring deposits due within 1 year	2,736,728	1,775,765
Salary payables	664,812	889,304
Welfare payables	49,657	26,178
Advances from customers	546,443	470,996
Due to related parties (Note (30a))	6,719	8,956
Other taxes payable	442,191	169,667
Interest payable	515,457	512,884
Other payables	1,469,115	350,951
Dividend payables	57	54
	6,431,179	4,204,755
Non-current:		
Lease deposits, entrusted loan deposits and factoring deposits due after 1 year	16,072,919	12,289,594
Interest payable	143,579	2,048
Due to related parties (Note (30a))	–	9,271
Other payables	45,781	1,400
Quality guarantee deposit	117	4,515
	16,262,396	12,306,828
	22,693,575	16,511,583



## Notes to Financial Statements

31 December 2015

**30. OTHER PAYABLES AND ACCRUALS** (continued)**30a. Balances With Related Parties**

	2015 RMB'000	2014 RMB'000
Due to related parties:		
Subsidiaries of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	6,719	284
Sinochem Corporation	–	685
	6,719	969

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

## Notes to Financial Statements

31 December 2015

## 31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Current portion of long term bank loans – secured	2.78~6.46	2016	8,127,439	3.38~7.00	2015	7,086,848
Bank loans – unsecured	1.57~6.55	2016	10,735,668	2.23~7.50	2015	9,191,888
Current portion of long term bank loans – unsecured	1.39~7.04	2016	15,623,723	2.58~8.30	2015	10,762,241
Other loans – secured	4.75~5.08	2016	440,000	6.30~6.42	2015	280,000
Other loans – unsecured	4.75~8.50	2016	2,030,000	6.46	2015	2,080,672
Bonds – unsecured	3.40~6.95	2016	4,742,703	4.00~5.50	2015	871,221
			41,699,533			30,272,870
Non-current						
Bank loans – secured	2.78~6.46	2017~2023	4,288,312	3.38~7.00	2016~2021	5,948,731
Bank loans – unsecured	2.08~7.04	2017~2021	18,933,042	2.58~8.30	2016~2021	22,957,211
Other loans- secured	4.75~5.08	2017~2018	200,000	6.30~6.42	2016~2017	415,000
Other loans- unsecured	4.75~7.00	2017~2018	1,000,397	3.23~8.30	2016	304,058
Bonds – unsecured	3.80~6.13	2017~2022	17,307,517	3.70~6.95	2016~2022	11,879,967
			41,729,268			41,504,967
			83,428,801			71,777,837

## Notes to Financial Statements

31 December 2015

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

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	34,486,830	27,040,977
In the second year	16,780,262	19,190,570
In the third to fifth years, inclusive	6,192,611	9,359,370
Beyond five years	248,481	356,002
	57,708,184	55,946,919
Other borrowings repayable:		
Within one year or on demand	7,212,703	3,231,893
In the second year	8,036,476	3,484,230
In the third to fifth years, inclusive	9,996,455	8,750,973
Beyond five years	474,983	363,822
	25,720,617	15,830,918
	83,428,801	71,777,837

- (a) As at 31 December 2015, the Group's bank and other borrowings secured by the pledge of or the transfer of certain of the Group's lease receivables amounting to RMB12,461,793,000 (2014: RMB17,651,132,000). As at 31 December 2015, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB13,793,514,000 (2014: RMB19,688,387,000).
- (b) As at 31 December 2015, the Group's bank borrowings amounting to RMB2,776,663,000 (2014: RMB1,475,835,000) were pledged by cash.
- (c) As at 31 December 2015, no property, plant and equipment of the Group were provided as collateral for borrowings nor had the Group provided any guarantees for other entities.

## Notes to Financial Statements

31 December 2015

## 32. DEFERRED REVENUE

	Service fee		Government special subsidy	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
At the beginning of year	1,617	4,184	294,264	199,807
Additions during the year	14,844	–	247,359	126,716
Amortised to the statement of profit or loss	(2,408)	(2,567)	(294,898)	(32,259)
At the end of year	14,053	1,617	246,725	294,264

## (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 2015, the Group received a government special subsidy of RMB247,359,000 (2014: RMB126,716,000), which was mainly granted in accordance with the policies on Shanghai Pudong New Area government financial subsidy of the 12th five-year plan. The special subsidy is required to be used for certain purposes. The amortisation of the special subsidy reduced the expense to which it related or reduced the amortisation charges of the related assets.

## Notes to Financial Statements

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## 33. SHARE CAPITAL

	Number of shares	Amounts HK\$
Issued and fully paid ordinary shares:		
At 31 December 2014	3,292,400,000	8,531,380,000
At 31 December 2015 (note(ii))	3,950,400,000	13,003,080,000

Note:

- (i) The Company purchased its own shares through a trust under a share award scheme (Note 35), which were presented as shares held for the share award scheme.

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

	Number of shares in issue	Share capital HK\$'000	Equivalent share capital RMB'000
At 1 January 2015 and 31 December 2014	3,292,400,000	8,531,380	6,683,751
Issue of new shares	658,000,000	4,540,200	3,580,765
Share issue expense	–	(68,500)	(53,944)
As at 31 December 2015	3,950,400,000	13,003,080	10,210,572

## Notes to Financial Statements

31 December 2015

### 34. SHARE OPTION SCHEME

Pursuant to a resolution in writing passed on 7 July 2014 by the shareholders of the Company, a share option scheme ("Share Option Scheme") has been adopted by the Company.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants certain qualified participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include senior and middle management personnel, as well as other key employees of the Company or any Subsidiary (the "Grantees"). The total number of new shares in respect of which options may be granted under the Share Option Scheme shall not exceed 4% of the Company's issued share capital as at the date of approval of the Share Option Scheme by the shareholders at the General Meeting, which is 131,696,000 shares and which 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 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 achieving specified level in annual personal performance evaluations.

The exercise price in respect of any option shall be such price as determined by the Board or the Administration Committee of the Share Option Scheme and notified to the Grantees and which shall not be less than the highest of: (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average of the closing prices of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the shares as at the offer date. The exercise price of the share options is subject to adjustment in the case of rights or other similar changes in the Company's share capital.

On 3 July 2015, the Board of directors ("the Board") announced that, the Company has resolved to the offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 18,569,020 ordinary shares in the capital of the Company.

## Notes to Financial Statements

31 December 2015

**34. SHARE OPTION SCHEME** (continued)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price* per share option	Number of share options	
	HK\$	2015	2014
11 July 2024	5.86	11,589,253	13,123,512
3 July 2025	7.17	17,275,048	–
		28,864,301	13,123,512

\* 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	Granted during the year ended 31 December	Forfeited during the year ended 31 December	Outstanding as at 31 December	Granted during the year ended 31 December	Forfeited during the year ended 31 December	Outstanding as at 31 December
		2014	2014	2014	2014	2015	2015	2015
5.86	11 July 2014	–	13,169,600	(46,088)	13,123,512	–	(1,534,259)	11,589,253
7.17	3 July 2015	–	–	–	–	18,569,020	(1,293,972)	17,275,048
Exercisable at the end of the year		–	13,169,600	(46,088)	13,123,512	18,569,020	(2,828,231)	28,864,301
Weighted average exercise price (HK\$)		N/A	5.86	5.86	5.86	7.17	6.46	6.64

No share options were vested, expired or exercised during the year (2014: Nil).

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**34. SHARE OPTION SCHEME** (continued)

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2015 was RMB43,795,000 (2014: RMB17,799,000) (RMB1.59, RMB1.63 and RMB1.66) (2014: RMB1.32, RMB1.36 and RMB1.38) each for three tranches with two-year, three-year and four-year vesting periods, respectively), of which the Group recognised a share option expense of RMB10,317,000 (2014: RMB3,198,000) during the year ended 31 December 2015 in employee benefit expense.

The fair value of the Share Options 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:

	2015	2014
Expected dividend yield (%)	3.40	4.00
Expected volatility (%)	37.91	38.34
Risk-free interest rate (%)	1.92	2.02
Share price (HK\$ per share)	6.88	5.86
Expected exercise trigger multiple	2.00	2.00

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 value of the share options granted in the year were incorporated into such measurement.

At 31 December 2015, the Company had 28,864,301 (2014: 13,123,512) non-vested share options (including 4,229,021 (2014: 1,777,896) non-vested share options granted to certain executive directors, 6,681,989 (2014: 3,094,856) non-vested share options granted to certain employees among five highest paid employees and 8,913,839 (2014: 4,082,576) 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 28,864,301 (2014: 13,123,512) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 28,864,301 (2014: 13,123,512) share options outstanding under the Share Option Scheme, which represented approximately 0.74% (2014: 0.40%) of the Company's shares in issue as at that date.



## Notes to Financial Statements

31 December 2015

### 35. RESTRICTED SHARE AWARD SCHEME

On 11 June 2014, the Board announced that it has adopted a share award scheme (the "Share Award Scheme"), under which some restricted shares (the "Restricted Shares") will be held on trust for the relevant selected grantees (the "Selected Grantees") until such Restricted Shares are vested with the relevant Selected Grantees in accordance with the Share Award Scheme rules. The number of Restricted Shares under the Share Award Scheme shall not exceed 197,544,000, accounting for 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 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 achieving 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 2014	–
Granted	19,754,400
Forfeited	(69,146)
At 1 January 2015	
and 31 December 2014	19,685,254
Granted	29,113,740
Forfeited	(4,242,365)
At 31 December 2015	44,556,629

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**35. RESTRICTED SHARE AWARD SCHEME** (continued)

No restricted shares were vested or expired during the year. The vesting periods of the restricted shares outstanding as at the end of the reporting period are as follows:

**2015**

Number of restricted shares	Vesting period
5,794,608	11 July 2014 to 11 July 2016
5,794,608	11 July 2014 to 11 July 2017
5,794,651	11 July 2014 to 11 July 2018
9,057,489	3 July 2015 to 3 July 2017
9,057,489	3 July 2015 to 3 July 2018
9,057,784	3 July 2015 to 3 July 2019
44,556,629	

**2014**

Number of restricted shares	Vesting period
6,561,736	11 July 2014 to 11 July 2016
6,561,736	11 July 2014 to 11 July 2017
6,561,782	11 July 2014 to 11 July 2018
19,685,254	

At 31 December 2015, the Company had 44,556,629 (2014: 19,685,254) non-vested restricted shares (including 6,443,534 (2014: 2,666,844) non-vested restricted shares granted to certain executive directors, 10,422,991 (2014: 4,642,284) non-vested restricted shares granted to certain employees among five highest paid employees and 13,970,772 (2014: 6,123,864) non-vested restricted shares granted to certain key management personnel) outstanding under the Share Award Scheme.

## Notes to Financial Statements

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**35. RESTRICTED SHARE AWARD SCHEME** (continued)

Under the Share Award Scheme, there were total non-vested shares of 47,250,140 (2014: 25,456,000) amounting to RMB252,505,000 (2014: RMB136,260,000), i.e. at a weighted average price of RMB5.34 (2014: RMB5.35), held by the trust at 31 December 2015. The movement of the shares held for the Share Award Scheme is as follows:

	Number of shares	Amount RMB'000
At 1 January 2014	–	–
Purchase of shares under the Share Award Scheme	25,456,000	136,260
At 31 December 2014 and 1 January 2015	25,456,000	136,260
Purchase of shares under the Share Award Scheme	21,794,140	116,245
At 31 December 2015	47,250,140	252,505

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2015 was RMB204,972,000 (2014: RMB81,189,000) (RMB5.07, RMB4.90 and RMB4.74 (2014: RMB4.29, RMB4.12 and RMB3.96) each for three tranches with two-year, three-year and four-year vesting periods, respectively), of which the Group recognised of RMB48,654,000 (2014: RMB14,796,000) in employee benefit expense during the year ended 31 December 2015.

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:

	2015	2014
Expected dividend yield (%)	3.40	4.00
Share price (HK\$ per share)	6.88	5.86

## Notes to Financial Statements

31 December 2015

### 36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity of the financial statements.

The Group's capital reserve represents the excess of the carrying amounts of capital and capital reserve of the subsidiaries acquired pursuant to the reorganisation as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalised in excess of the nominal value of shares issued.

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as are required to transfer no less than 10% of their profits after taxation, as determined under PRC Company Law, to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to this statutory reserve fund must be made before the distribution of dividend to shareholders.

Special reserve mainly represents funds set aside for the purpose of certain safety production activities. Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the subsidiaries, Shanghai Horizon Construction Engineering Equipment Co., Ltd. and Tianjin Horizon Equipment & Engineering 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.

## Notes to Financial Statements

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### 37. PERPETUAL SECURITIES

On 23 June 2014, the Company issued US\$200,000,000 senior perpetual capital securities ("Perpetual Securities") at an initial distribution rate of 5.55%. Perpetual Securities are unsecured.

The direct transaction costs attributable to the Perpetual Securities amounted to RMB8,426,000.

Distributions of the Perpetual Securities may be paid semi-annually in arrears on 23 June and 23 December in each year with the exception of the first distribution payment date which is 23 January 2015 ("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 Securities have no fixed maturity date and are callable at the Company's option in whole on 23 June 2017 ("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 4.606%, the treasury rate and a step-up margin of 5.00% per annum.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of Perpetual Securities other than an unforeseen liquidation of the Company.

For the year ended 31 December 2015, the profit attributable to holders of Perpetual Securities, based on the applicable distribution rate, was RMB73,080,000 (2014: RMB36,036,000) and the distribution made by the Group to the holders of Perpetual Securities was RMB104,047,000 (2014: Nil).

### 38. BUSINESS COMBINATIONS

In February 2015, the Group acquired 60% of the voting shares of Siping Cancer Institute & Hospital Co., Ltd. ("Siping Hospital") and 69% of the voting shares of Binhai Xinrenci Hospital Co., Ltd. ("Xinrenci Hospital"). In June 2015, the Group acquired 60% of the voting shares of Shanghai Montessori Academy Co., Ltd. ("Montessori Academy"). In August 2015, the Group acquired 58% of the voting shares of Anda Jiren Hospital Co., Ltd. ("Anda Hospital"). In September 2015, the Group acquired 100% of the voting shares of Shanghai Sunflower Language Co., Ltd. ("Sun Flower") and 100% of the voting shares of Kunshan Yi Ze Education Consulting Co., Ltd. ("Kunshan Yi Ze"). In October 2015, the Group acquired 51% of the voting shares of Zhoushan Dinghai Guanghua Hospital Co., Ltd. ("Zhoushan Hospital"). In December 2015, the Group acquired 60% of the voting shares of Shanghai Shengyi Yuanhong Investment Co., Ltd. ("Shengyi Yuanhong").

All these acquisitions have been accounted for using the acquisition method. The consolidated financial statements include the results of those acquired subsidiaries since their respective acquisition dates.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Siping Cancer Institute & Hospital Co., Ltd.**

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

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	18,278
Cash	26,306
Trade receivables	138
Prepayments, deposits and other receivables	52,653
Inventories	2,447
	99,822
<b>Liabilities</b>	
Trade payables	(4,504)
Other payables and accruals	(1,886)
Deferred tax liabilities	(208)
	(6,598)
Total identifiable net assets at fair value	93,224
Non-controlling interests	(33,731)
Goodwill arising on acquisition	15,507
Purchase Consideration transferred	75,000
Including: Consideration paid upon acquisition	22,500
Consideration paid as additional capital injection to the subsidiary	30,000
Consideration to be paid as additional capital injection to the subsidiary	22,500
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	26,306
Cash paid	(22,500)
Net inflow of cash and cash equivalents included in cash flows from investing activities	3,806
Transaction costs of the acquisition included in cash flows from operating activities	(56)
	3,750

Since the acquisition, Siping Hospital has contributed RMB46,049,000 to the Group's revenue and a net profit of RMB619,000 to the consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Binhai Xinrenci Hospital Co., Ltd.**

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

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	60,084
Prepaid land lease payments	10,510
Cash	91
Trade receivables	2,008
Prepayments, deposits and other receivables	32,318
Inventories	873
	105,884
<b>Liabilities</b>	
Trade payables	(9,992)
Other payables and accruals	(28,157)
Interest-bearing bank and other borrowings	(64,227)
Deferred tax liabilities	(3,115)
	(105,491)
Total identifiable net assets at fair value	393
Non-controlling interests	(122)
Goodwill arising on acquisition	27,729
Purchase consideration transferred	28,000
Including: Consideration paid upon acquisition	–
Consideration paid as additional capital injection to the subsidiary	28,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	91
Cash paid	–
Net inflow of cash and cash equivalents included in cash flows from investing activities	91
Transaction costs of the acquisition included in cash flows from operating activities	(125)
	(34)

Since the acquisition, Xinrenci Hospital has contributed RMB33,360,000 to the Group's revenue and a net loss of RMB5,586,000 to the consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Shanghai Montessori Academy Co., Ltd.**

The fair values of the identifiable assets and liabilities of Montessori Academy as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	436
Cash	9,111
Prepayments, deposits and other receivables	7,804
Other assets	3,960
	21,311
<b>Liabilities</b>	
Trade payables	(1,690)
Other payables and accruals	(6,814)
	(8,504)
Total identifiable net assets at fair value	12,807
Non-controlling interests	(9,330)
Goodwill arising on acquisition	10,961
Purchase consideration transferred	14,438
Including: Consideration paid upon acquisition	14,438
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	9,111
Cash paid	(14,438)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(5,327)

Since the acquisition, Montessori Academy has contributed RMB5,955,000 to the Group's revenue and a net loss of RMB998,000 to the consolidated profit for the year ended 31 December 2015.



## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Anda Jiren Hospital Co., Ltd.**

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

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	8,871
Cash	18,724
Trade receivables	1,914
Prepayments, deposits and other receivables	46,327
Inventories	3,468
Other assets	1,205
	80,509
<b>Liabilities</b>	
Other payables and accruals	(17,352)
Deferred tax liabilities	(31)
	(17,383)
Total identifiable net assets at fair value	63,126
Non-controlling interests	(26,513)
Goodwill arising on acquisition	33,387
Purchase consideration transferred	70,000
Including: Consideration paid upon acquisition	35,000
Consideration to be paid as additional capital	
Injection to the subsidiary	35,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	18,724
Cash paid	(35,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(16,276)

Since the acquisition, Anda Hospital has contributed RMB28,997,000 to the Group's revenue and a net profit of RMB4,378,000 to the consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Shanghai Sunflower Language Co., Ltd.**

The fair values of the identifiable assets and liabilities of Sun Flower as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Cash	4,813
Prepayments, deposits and other receivables	729
	5,542
<b>Liabilities</b>	
Other payables and accruals	(5,098)
	(5,098)
Total identifiable net assets at fair value	444
Non-controlling interests	–
Goodwill arising on acquisition	14,782
Purchase consideration transferred	15,226
Including: consideration paid upon acquisition	15,226
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	4,813
Cash paid	(15,226)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(10,413)
Transaction costs of the acquisition included in cash flows from operating activities	(110)
	(10,523)

Since the acquisition, Sun Flower has contributed RMB4,002,000 to the Group's revenue and a net profit of RMB2,234,000 to the consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Kunshan Yi Ze Education Consulting Co., Ltd.**

The fair values of the identifiable assets and liabilities of Kunshan Yi Ze as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	448
	448
<b>Liabilities</b>	
Other payables and accruals	(729)
	(729)
Total identifiable net assets at fair value	(281)
Non-controlling interests	–
Goodwill arising on acquisition	1,042
Purchase consideration transferred	761
Including: consideration paid upon acquisition	761
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	–
Cash paid	(761)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(761)

Since the acquisition, Kunshan Yi Ze has had no contribution to the Group's revenue and contributed a net loss of RMB31,000 to the consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Zhoushan Dinghaiguanghua Hospital Co., Ltd.**

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

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	81,437
Prepaid land lease payments	9,059
Cash	2,058
Trade receivables	2,566
Prepayments, deposits and other receivables	26,183
Inventories	3,012
Other assets	566
	124,881
<b>Liabilities</b>	
Trade payables	(14,391)
Other payables and accruals	(31,878)
Interest-bearing bank and other borrowings	(25,000)
Deferred tax liabilities	(2,580)
	(73,849)
Total identifiable net assets at fair value	51,032
Non-controlling interests	(25,006)
Goodwill arising on acquisition	96,374
Purchase consideration transferred	122,400
Including: Consideration paid upon acquisition	97,080
Consideration paid as additional capital injection to the subsidiary	22,320
Consideration to be paid as additional capital injection to the subsidiary	3,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,058
Cash paid	(97,080)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(95,022)
Transaction costs of the acquisition included in cash flows from operating activities	(827)
	(95,849)

Since the acquisition, Zhoushan Hospital has contributed RMB18,506,000 to the Group's revenue and a net profit of RMB2,600,000 to the consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Shanghai Shengyi Yuanhong Investment Co., Ltd.**

The fair values of the identifiable assets and liabilities of Shengyi Yuanhong as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	8,219
Cash	30,160
Prepayments, deposits and other receivables	30,470
Inventories	392
Other assets	48,748
	117,989
<b>Liabilities</b>	
Trade payables	(7,703)
Other payables and accruals	(102,796)
	(110,499)
Total identifiable net assets at fair value	7,490
Non-controlling interests	(2,996)
Goodwill arising on acquisition	95,506
Purchase consideration transferred	100,000
Including: consideration paid upon acquisition	100,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	30,160
Cash paid	(100,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(69,840)
Transaction costs of the acquisition included in cash flows from operating activities	(1,300)
	(71,140)

Since the acquisition, Shengyi Yuanhong has had no contribution to the Group's revenue and consolidated profit for the year ended 31 December 2015.

## Notes to Financial Statements

31 December 2015

### 38. BUSINESS COMBINATIONS (continued)

If the acquisitions had taken place at the beginning of the period, revenue of the Group would have been RMB12,040,630,000 and net profit of the Group for the year would have been RMB2,563,451,000.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Siping Hospital, Xinreng Hospital, Montessori Academy, Anda Hospital, Zhoushan Hospital, Sun Flower, Kunshan Yi Ze and Shengyi Yuanhong with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of RMB2,418,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The Group acquired Huizhou Huakang Orthopaedics and Traumatology Hospital Co., Ltd. during the year ended 31 December 2014.

### 39. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities that are not provided for in the financial statements were as follows:

	2015 RMB'000	2014 RMB'000
Claimed amounts	2,103	–

### 40. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 23, 26 and 31 to the financial statements.

## Notes to Financial Statements

31 December 2015

## 41. 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 four 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 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	292,762	43,135
In the second to fifth years, inclusive	227,648	–
	520,410	43,135

## (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 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	119,395	71,035
In the second to fifth years, inclusive	135,611	117,264
More than five years	20,362	3,004
	275,368	191,303

## Notes to Financial Statements

31 December 2015

## 42. COMMITMENTS

## (a) Capital commitments

In addition to the operating lease commitments detailed in Note 41 above, the Group had the following capital commitments at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	370,454	63,826
Purchase of shareholding	103,593	120,000
	474,047	183,826

## (b) Credit commitments

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

	2015 RMB'000	2014 RMB'000
Irrevocable credit commitments:	4,840,547	3,693,206

At any given time, the Group also has outstanding commitments to extend credit, which are included in irrevocable credit commitments. These commitments are in the form of approved lease contracts, which have yet to be provided at the end of each reporting period.



## Notes to Financial Statements

31 December 2015

## 43. RELATED PARTY TRANSACTIONS

Relationship between the Group and its related parties:

**Ultimate holding company of a shareholder with significant influence**

Sinochem Group

**A shareholder with significant influence**

Greatpart Limited

**Subsidiaries of the ultimate holding company of a shareholder with significant influence**

Sinochem Hong Kong

Sinochem Finance Co., Ltd.

China Jin Mao Group Co., Ltd.

Beijing Chemsunny Property Co., Ltd.

Jin Mao (Shanghai) Property Management Service Co., Ltd.

Sinochem Jinmao Property Management (Beijing) Co., Ltd.

Sinochem Corporation

Sinochem International (Overseas) Pte. Ltd.

Sinochem International Tendering Co., Ltd. ("Sinochem Tendering")

**Joint ventures**

Weihai Haida hospital Co., Ltd

Guangzhou Kangda Industrial Technology Co., Ltd.

Kunming Broadhealthcare Investment Co., Ltd.

In addition to the transactions and balances in Notes 23, 24, 26, 30 and 31 to the financial statements, the Group had the following material transactions with related parties during the year.

## (i) Interest income from cash at banks:

	2015 RMB'000	2014 RMB'000
Sinochem Finance Co., Ltd.	4,522	–

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

## Notes to Financial Statements

31 December 2015

## 43. RELATED PARTY TRANSACTIONS (continued)

## (ii) Service fee income:

	2015 RMB'000	2014 RMB'000
Sinochem International (Overseas) Pte. Ltd.	10,435	25,182
	10,435	25,182

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

## (iii) Interest expense on borrowings:

	2015 RMB'000	2014 RMB'000
Sinochem Finance Co., Ltd.	11,036	17,695

The interest expenses were charged at a rate of 6.15% per annum.

## (iv) Commission fee:

	2015 RMB'000	2014 RMB'000
Sinochem Finance Co., Ltd.	7,264	5,946

## (v) Rental expenses:

	2015 RMB'000	2014 RMB'000
China Jin Mao Group Co., Ltd.	50,462	43,333
Beijing Chemsunny Property Co., Ltd.	8,192	7,766
Jin Mao (Shanghai) Property Management Services Co., Ltd.	2,265	2,022
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	596	578
Sinochem Hong Kong	2,810	1,617
	64,325	55,316

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

## Notes to Financial Statements

31 December 2015

## 43. RELATED PARTY TRANSACTIONS (continued)

## (vi) Information and technology services:

	2015 RMB'000	2014 RMB'000
Sinochem Corporation	165	850

The information and technology service expenses were charged based on prices mutually agreed between the parties.

## (vii) Lease interest income

	2015 RMB'000	2014 RMB'000
Weihai Haida hospital Co., Ltd	1,519	–
Guangzhou Kangda Industrial Technology Co., Ltd.	3,533	–
Kunming Broadhealthcare Investment Co., Ltd	878	–
	5,930	–

## (viii) Non-cancellable operating leases:

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 RMB'000	2014 RMB'000
China Jin Mao Group Co., Ltd.	101,244	145,834
Beijing Chemsunny Property Co., Ltd.	15,353	–
Sinochem Hong Kong	2,562	–
	119,159	145,834

## Notes to Financial Statements

31 December 2015

## 43. RELATED PARTY TRANSACTIONS (continued)

## (ix) Tendering service fee:

	2015 RMB'000	2014 RMB'000
Sinochem International Tendering Co., Ltd.	703	367

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

## (x) Finance lease with CSR Qingdao Sifang Locomotive &amp; Rolling Stock Co., Ltd. ("CSR Sifang") and Sinochem Tendering

On 10 June 2015, the Group entered into (i) the Lease Contract with CSR Sifang and (ii) the Supplementary Agreement with CSR Sifang and Sinochem Tendering. Pursuant to the Supplementary Agreement, upon the completion of the performance by CSR Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB11,738,000 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

In the opinion of the directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

## (xi) Compensation of key management personnel of the Group:

	2015 RMB'000	2014 RMB'000
Short term employee benefits	47,952	29,224

During 2015, certain key management personnel of the Group were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, further details of which are set out in Note 34 and Note 35 to the financial statements.

Further details of directors' emoluments are set out in Note 8 to the financial statements.

The related party transactions disclosed in notes (i) to notes (v) 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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## 44. 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 2015

Financial assets

	Loans and receivables RMB'000	Available for sale financial assets RMB'000	Financial instruments at fair value through profit or loss RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Total RMB'000
Loans and accounts receivables	120,566,309	–	–	–	120,566,309
Deposits and other receivables	794,629	–	–	–	794,629
Restricted deposits	2,640,891	–	–	–	2,640,891
Derivative instruments					
– cash flow hedges	–	–	–	1,105,539	1,105,539
Derivatives not designated as hedges	–	–	11,695	–	11,695
Available-for-sale investments	–	427,142	–	–	427,142
Equity investments at fair value through profit or loss	–	–	244,132	–	244,132
Cash and cash equivalents	2,500,665	–	–	–	2,500,665
	126,502,494	427,142	255,827	1,105,539	128,291,002

## Notes to Financial Statements

31 December 2015

## 44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2015 (continued)

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	8,337,635	–	–	8,337,635
Other payables and accruals	20,903,452	–	–	20,903,452
Interest-bearing bank and other borrowings	83,428,801	–	–	83,428,801
Derivative instruments – cash flow hedges	–	288,114	–	288,114
	112,669,888	288,114	–	112,958,002

As at 31 December 2014

Financial assets

	Loans and receivables RMB'000	Available for sale financial Assets RMB'000	Financial instruments at fair value through profit or loss RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Total RMB'000
Loans and accounts receivables	99,441,429	–	–	–	99,441,429
Deposits and other receivables	147,615	–	–	–	147,615
Restricted deposits	953,805	–	–	–	953,805
Derivative instruments-cash flow hedges	–	–	–	278,271	278,271
Derivative financial instruments	–	–	12,006	–	12,006
Available-for-sale investments	–	394,253	–	–	394,253
Cash and cash equivalents	3,317,850	–	–	–	3,317,850
	103,860,699	394,253	12,006	278,271	104,545,229

## Notes to Financial Statements

31 December 2015

**44. FINANCIAL INSTRUMENTS BY CATEGORY** (continued)

As at 31 December 2014 (continued)

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	3,489,071	–	–	3,489,071
Other payables and accruals	14,822,781	–	–	14,822,781
Interest-bearing bank and other borrowings	71,777,837	–	–	71,777,837
Derivative instruments – cash flow hedges	–	166,894	–	166,894
Derivatives not designated as hedges	–	–	57,053	57,053
	90,089,689	166,894	57,053	90,313,636

## Notes to Financial Statements

31 December 2015

### 45. 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, available-for-sale investments, financial assets included in deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and borrowings.

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

#### Cash and cash balances, current portion of financial assets included in deposits and other receivables, trade and bills payables, short term borrowings and current portion of financial liabilities included in other payables and accruals

Substantially all of the financial assets and liabilities mature within one year from the end of each reporting period and their carrying values approximate their fair value.

#### 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, bear interest at prevailing market interest rates and their carrying values approximate to their fair values.

#### Available-for-sale investments

Available-for-sale investments are measured at cost less any impairment other than fair value, since they do not have a quoted market price in an active market and their fair value cannot be measured reliably. The reason why the fair value cannot be measured reliably is because that the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

#### 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.



## Notes to Financial Statements

31 December 2015

**45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS** (continued)

Financial instruments not measured at fair value (continued)

Bonds issued (continued)

	Carrying amounts		Fair values	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial liabilities</b>				
Bonds issued	22,050,220	12,751,188	22,409,695	12,972,462

**Non-current portion of financial assets included in prepayments deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals**

The fair values of the non-current portion of financial assets included in prepayment deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The difference between the carrying amounts and the fair values of those financial assets and liabilities are not significant.

Financial instruments measured at fair value

Non-deliverable cross-currency swaps

Non-deliverable cross-currency swaps are measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Equity investments at fair value through profit or loss

The valuations of the equity investments 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; making reference to the current market value of another instrument that is substantially the same and net assets making as much use of available and supportable market data as possible.

## Notes to Financial Statements

31 December 2015

**45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS** (continued)**Fair value hierarchy**

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

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

**Assets and Liabilities measured at fair value**

As at 31 December 2015

	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	–	844,702	–	844,702
Cross-currency interest rate swaps – liabilities	–	(4,989)	–	(4,989)
Forward currency contracts – assets	–	272,532	–	272,532
Forward currency contracts – liabilities	–	(283,125)	–	(283,125)
Equity investments at fair value through profit or loss	–	244,132	–	244,132

## Notes to Financial Statements

31 December 2015

**45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS** (continued)

Fair value hierarchy (continued)

Assets and Liabilities measured at fair value (continued)

As at 31 December 2014

	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	–	204,770	–	204,770
Cross-currency interest rate swaps – liabilities	–	(56,978)	–	(56,978)
Forward currency contracts – assets	–	73,501	–	73,501
Forward currency contracts – liabilities	–	(166,969)	–	(166,969)
Call options – assets	–	–	12,006	12,006

The movements in fair value measurements in Level 3 during the year were as follows (see Note 22 for further details):

	RMB'000
Call option:	
At 31 December 2014 and 1 January 2015	12,006
Addition	–
Total losses recognised in the statement of profit or loss	(12,006)
Exchange difference	–
At 31 December 2015	
At 31 December 2013 and 1 January 2014	968
Addition	12,006
Total losses recognised in the statement of profit or loss	(969)
Exchange difference	1
At 31 December 2014	12,006

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil).

## Notes to Financial Statements

31 December 2015

**45. 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 2015

	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	–	22,409,695	–	22,409,695

As at 31 December 2014

	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	–	12,972,462	–	12,972,462

## Notes to Financial Statements

31 December 2015

### 46. 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 and forward currency contracts. 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, foreign 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.

A principal objective 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 mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such risk mitigation measure. For example, the Group enters into cross currency interest rate swaps to mitigate the interest rate risk as well as currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 22).

The table below demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, to the Group's profit before tax.

The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of the reporting period subject to repricing within the coming year.

## Notes to Financial Statements

31 December 2015

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Interest rate risk (continued)

	Increase/(decrease) in profit before tax	
	As at 31 December	
	2015 RMB'000	2014 RMB'000
Change in basis points		
+100 basis points	277,617	512,555
- 100 basis points	(277,617)	(512,555)

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).

The exchange rate of RMB to US\$ is managed under a floating exchange rate system. The 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.

## Notes to Financial Statements

31 December 2015

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Currency risk (continued)****Group**

Currency	Change in currency rate	Increase in profit before tax	
		As at 31 December	
		2015 RMB'000	2014 RMB'000
US\$	+/-1%	(2,391)/2,391	10,564/(10,564)
HK\$	+/-1%	(5,996)/5,996	(19,501)/19,501

**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, and entrusted loans. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk is equal to the carrying amounts of these assets.

## Notes to Financial Statements

31 December 2015

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Credit risk (continued)

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 2015		As at 31 December 2014	
	RMB'000	%	RMB'000	%
<b>Net lease receivables</b>				
Healthcare	27,207,144	25	22,811,933	24
Packaging	11,003,910	10	11,556,067	12
Transportation	8,993,212	8	9,400,843	10
Infrastructure construction	17,275,090	16	15,034,584	15
Machinery	10,759,272	10	9,987,989	10
Education	19,324,385	18	15,065,680	16
Textile	3,699,584	3	3,185,635	3
Electronic information	6,717,174	6	5,734,543	6
Others	5,354,295	4	4,281,933	4
	110,334,066	100	97,059,207	100
Less: Impairment provision of lease receivables	(2,196,194)		(1,963,443)	
<b>Net</b>	<b>108,137,872</b>		<b>95,095,764</b>	

As the customers of the Group are widely dispersed and are engaged in different industries, 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.



## Notes to Financial Statements

31 December 2015

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Credit risk (continued)

The analysis of financial assets which are neither past due nor impaired is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Lease receivables	107,555,743	95,242,583
Notes receivable	267,874	132,877
Accounts receivable	657,037	224,591
Factoring receivable	2,837,201	2,679,601
Entrusted loans	7,699,011	214,573
Secured loans	422,627	409,523
Lease interest receivables	495,378	445,803
Derivative financial instruments	1,117,234	290,277
Deposits and other receivables	794,629	147,615
Long term receivables	82,014	6,883

As 31 December 2015, the assets which were past due but were not considered impaired amounted to RMB1,738,203,000 (2014: RMB910,681,000). The aging analysis is as below:

2015	Less than	90 days	1 year	Over	Total
	90 days	to 1 year	to 3 years	3 years	
	RMB'000	RMB'000	RMB'000	RMB'000	
Loans and accounts receivables	1,738,203	–	–	–	1,738,203

2014	Less than	90 days	1 year	Over	Total
	90 days	to 1 year	to 3 years	3 years	
	RMB'000	RMB'000	RMB'000	RMB'000	
Loans and account receivables	910,681	–	–	–	910,681

## Notes to Financial Statements

31 December 2015

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk**

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

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

The tables below summarise the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows:

	As at 31 December 2015					Total RMB'000
	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	
<b>FINANCIAL ASSETS:</b>						
Loans and accounts receivables	449,219	13,959,650	39,277,560	81,075,930	173,954	134,936,313
Deposits and other receivables	–	231,003	630	562,996	–	794,629
Restricted deposits	–	1,814,321	776,607	105,090	–	2,696,018
Derivative financial instruments	–	96,808	323,568	696,858	–	1,117,234
Available-for-sale investments	–	–	–	427,142	–	427,142
Equity investments at fair value through profit or loss	–	–	–	244,132	–	244,132
Cash and cash equivalents	2,000,665	500,594	–	–	–	2,501,259
<b>Total financial assets</b>	<b>2,449,884</b>	<b>16,602,376</b>	<b>40,378,365</b>	<b>83,112,148</b>	<b>173,954</b>	<b>142,716,727</b>
<b>FINANCIAL LIABILITIES:</b>						
Trade and bills payables	19,055	4,379,821	3,934,944	3,815	–	8,337,635
Other payables and accruals	31,671	1,726,485	2,882,901	16,151,094	111,301	20,903,452
Interest-bearing bank and other borrowings	–	12,252,937	32,332,618	43,068,666	755,779	88,410,000
Derivative financial instruments	–	–	–	288,114	–	288,114
<b>Total financial liabilities</b>	<b>50,726</b>	<b>18,359,243</b>	<b>39,150,463</b>	<b>59,511,689</b>	<b>867,080</b>	<b>117,939,201</b>
<b>Net liquidity gap</b>	<b>2,399,158</b>	<b>(1,756,867)</b>	<b>1,227,902</b>	<b>23,600,459</b>	<b>(693,126)</b>	<b>24,777,526</b>

## Notes to Financial Statements

31 December 2015

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Liquidity risk (continued)

	As at 31 December 2014					Total RMB'000
	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	
FINANCIAL ASSETS:						
Loans and accounts receivables	416,076	12,039,475	33,578,634	66,198,299	557,005	112,789,489
Deposits and other receivables	-	30,515	112,564	4,536	-	147,615
Restricted deposits	-	314,894	527,845	134,977	-	977,716
Derivative financial instruments	-	-	63,244	227,033	-	290,277
Available-for-sale investments	-	-	-	394,253	-	394,253
Cash and cash equivalents	3,317,850	-	-	-	-	3,317,850
Total financial assets	3,733,926	12,384,884	34,282,287	66,959,098	557,005	117,917,200
FINANCIAL LIABILITIES:						
Trade and bills payables	317,899	1,211,739	1,642,602	305,805	11,026	3,489,071
Other payables and accruals	61,164	416,087	2,037,604	12,223,866	84,060	14,822,781
Interest-bearing bank and other borrowings	-	10,942,707	21,520,300	42,219,020	747,784	75,429,811
Derivative financial instruments	-	-	8,773	215,174	-	223,947
Total financial liabilities	379,063	12,570,533	25,209,279	54,963,865	842,870	93,965,610
Net liquidity gap	3,354,863	(185,649)	9,073,008	11,995,233	(285,865)	23,951,590

## Notes to Financial Statements

31 December 2015

**46. 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 each of the reporting dates are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Bank and other borrowings	83,428,801	71,777,837
Total equity	22,961,420	17,449,893
Total equity and net debt	106,390,221	89,227,730
Gearing ratio	78%	80%

## Notes to Financial Statements

31 December 2015

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Capital management** (continued)**Far Eastern Leasing**

The primary objectives of the capital management of Far Eastern Leasing, a principal subsidiary of the Group located in Mainland China, are to ensure that it complies with the regulatory requirements of MOFCOM in addition to the aforementioned general requirements that are relevant to the Group. In accordance with the Administration of Foreign Investment in the Leasing Industry promulgated by MOFCOM on 3 February 2005 and other relevant laws and regulations, Far Eastern Leasing has set up appropriate program of business development and capital management and established a comprehensive evaluation system. It actively adjusts the capital structure in light of changes in the market and the risks being confronted by adjusting its dividend policy or financing channels in light of risks confronted. During the year, there were no significant changes in the policies or processes for managing the capital of Far Eastern Leasing.

In accordance with the aforementioned requirements of MOFCOM, Far Eastern Leasing should maintain its assets at risk within 10 times of its equity. The ratios of assets at risk to equity as at each of the reporting dates are as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Total assets	119,918,073	102,816,856
Less: Cash	(2,721,314)	(2,796,205)
Total assets at risk	117,196,759	100,020,651
Equity	19,263,095	15,195,810
Ratio of assets at risk to equity	6.08	6.58

## Notes to Financial Statements

31 December 2015

### 47. TRANSFERS OF FINANCIAL ASSETS AND INTEREST IN THE UNCONSOLIDATED STRUCTURED ENTITIES

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

During the year ended 31 December 2015, the Group transferred an aggregate carrying amount of RMB1,688,391,000 (2014: nil) of loans and accounts receivable to some unconsolidated structured entities, which qualified for full derecognition. Hence, the Group derecognized those assets. However, the Group provided limited liquidity support to some unconsolidated structured entities, up to RMB235,322,000 (31 December 2014: nil), which approximates the maximum exposure to losses.

During the year ended 31 December 2015, the Group also transferred an aggregate carrying amount of RMB13,709,872,000 (2014: nil) of loans and accounts receivable to other unconsolidated structured entities, whereby the Group retained continuing involvement in the transferred assets. As a result, as at 31 December 2015, in addition to recognition of its acquisition of subordinated tranches of asset-backed securities issued by the structured entities of amounting to RMB520,726,000, in other receivables (31 December 2014: nil), the Group recognized the transferred assets to the extent of its continuing involvement, amounting to RMB569,062,000 as other assets (31 December 2014: nil), and also recognized associated liabilities amounting to RMB569,062,000 as other liabilities (31 December 2014: nil), which approximate the maximum exposure to losses from its involvement in such securitization arrangements and the unconsolidated structured entities.

As a result of the above securitization transactions, the Group recognized gains of RMB67,203,000 and losses of RMB300,810,000 (2014: gains of RMB15,638,000 and losses of RMB52,175,000) from transfers of loans and accounts receivable.

### 48. EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 31 December 2015.

### 49. COMPARATIVE AMOUNTS

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

## Notes to Financial Statements

31 December 2015

## 50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	40	64
Investments in subsidiaries	13,928,711	9,345,504
Deferred tax assets	10,177	6,382
Loans and accounts receivables	26,873,721	26,901,264
Derivative financial instruments	696,858	215,027
<b>Total non-current assets</b>	<b>41,509,507</b>	<b>36,468,241</b>
<b>CURRENT ASSETS</b>		
Loans and accounts receivables	1,567,487	2,128,933
Prepayments, deposits and other receivables	1,709,492	629,179
Dividend receivable from subsidiaries	1,112,926	777,506
Restricted deposits	16,555	–
Cash and cash equivalents	918,147	1,040,058
Derivative financial instruments	420,376	63,244
<b>Total current assets</b>	<b>5,744,983</b>	<b>4,638,920</b>

## Notes to Financial Statements

31 December 2015

**50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY** (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows (continued):

	31 December 2015 RMB'000	31 December 2014 RMB'000
<b>CURRENT LIABILITIES</b>		
Trade and bills payables	1,218	2,553
Other payables and accruals	418,555	437,237
Derivative financial instruments	–	8,773
Tax payable	(24,279)	(4,073)
Interest-bearing bank and other borrowings	13,736,802	6,967,086
<b>Total current liabilities</b>	<b>14,132,296</b>	<b>7,411,576</b>
<b>NET CURRENT LIABILITIES</b>	<b>(8,387,313)</b>	<b>(2,772,656)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>33,122,194</b>	<b>33,695,585</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	17,688,909	21,955,135
Derivative financial instruments	288,114	215,174
Other payables and accruals	–	3,157
Deferred tax liabilities	63,527	81,237
<b>Total non-current liabilities</b>	<b>18,040,550</b>	<b>22,254,703</b>
<b>Net assets</b>	<b>15,081,644</b>	<b>11,440,882</b>
<b>EQUITY</b>		
Share capital and other statutory capital reserves	10,210,572	6,683,751
Other reserves	3,643,869	3,498,961
Holders of perpetual securities	1,227,203	1,258,170
<b>Total equity</b>	<b>15,081,644</b>	<b>11,440,882</b>

Kong Fanxing  
Director

Wang Mingzhe  
Director



## Notes to Financial Statements

31 December 2015

## 50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2014	9,982,129	–	–	(739,181)	616,448	9,859,396
Profit for the year	–	–	–	–	603,755	603,755
Other comprehensive income	411,106	–	–	–	–	411,106
Effect of change in functional currency during the year	(716,309)	–	–	739,181	(21,074)	1,798
Purchase of shares under share award scheme	–	(136,260)	–	–	–	(136,260)
Transition to no-par value regime	(6,657,979)	–	–	–	–	(6,657,979)
Recognition of equity settled share-based payments	–	–	17,994	–	–	17,994
Final 2013 dividend declared	–	–	–	–	(600,849)	(600,849)
At 31 December 2014 and 1 January 2015	3,018,947	(136,260)	17,994	–	598,280	3,498,961
Profit for the year	–	–	–	–	884,279	884,279
Other comprehensive income	(89,621)	–	–	–	–	(89,621)
Purchase of shares under share award scheme	–	(116,245)	–	–	–	(116,245)
Recognition of equity settled share-based payments	–	–	58,971	–	–	58,971
Final 2014 dividend declared (net of dividends received from shares held for share award scheme)	–	–	–	–	(592,476)	(592,476)
At 31 December 2015	2,929,326	(252,505)	76,965	–	890,083	3,643,869

## Notes to Financial Statements

31 December 2015

### **50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY** (continued)

The reserve of the Company comprises the recognition of the equity-settled share-based payment under the Share Options and the Share Award Scheme which are yet to be exercised. The amount will either be transferred to the share premium 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.

### **51. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 30 March 2016.

## Independent Auditor's Report



Ernst & Young  
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Central, Hong Kong

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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 116 to 245, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### Basis for opinion

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

### Key audit matters

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

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

## Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
<i>Allowance for impairment of loans and accounts receivable</i>	
<p>The Group's loans and accounts receivable consists of lease receivables, lease interest receivables, notes receivable, accounts receivable, factoring receivables, entrusted loans, long-term receivables and secured loans, and accounted for 83.33% of the Group's total assets. The assessment of impairment of loans and receivables is considered to be a matter of most significance as it requires the application of judgement and use of subjective assumptions by management. The Group assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant and then recognises both collective and individual impairment allowances of loans and receivables based comprehensively on historical loss data, current financial conditions of the debtors, external market information and other relevant factors.</p> <p>The accounting policies, disclosures of the allowance for impairment of loans and receivables and the related credit risk are included in notes 2.4, 23 and 46 to the consolidated financial statements.</p>	<p>We evaluated and tested the effectiveness of the design and implementation of key controls relating to approval, post approval monitoring, the credit grading management, and loan impairment assessment, etc. We adopted a risk-based sampling approach in our tests of the allowances for impairment of loans and receivables. We selected samples of performing loans considering size, risk factors, industry trends for our tests on the reasonableness of loan grading and measurement of impairment. For a sample of non-performing loans, we assessed management's forecast of future repayments and current financial conditions of the debtors, based on historical experience, value of collaterals (if any) and observable external data, etc. We also evaluated the parameters and assumptions used in the collective impairment measurement, based on historical data, observable economic data, market information and industry trends.</p> <p>We also assessed the adequacy of the Group's disclosure of the allowance for impairment of loans and receivables and the related credit risk in note 23 and note 46 to the consolidated financial statements.</p>
<i>Business combinations</i>	
<p>During the year ended 31 December 2016, the Group acquired several hospitals and educational institutions for a total purchase consideration of RMB606 million and resulted in recognition of significant amount of goodwill of RMB385 million. The management used significant judgements and estimates in accounting for those acquisitions, especially preparation of the necessary purchase price allocations.</p> <p>The accounting policies and disclosures of the business combination are included in notes 2.4 and 38 to the consolidated financial statements.</p>	<p>In our audit of the accounting for those acquisitions, we reviewed the sales/purchase agreements and other related documents to assess management's judgement that the controls over such companies are acquired in the transactions. We also tested the estimated fair values of acquired assets and liabilities used in purchase price allocations based on common valuation methods, and we involved our valuation specialists in such tests.</p> <p>We have also assessed the adequacy of the Group's disclosure on the business combinations in note 38 to the consolidated financial statements.</p>
<i>Impairment assessment of goodwill</i>	
<p>As at 31 December 2016, goodwill amounted to RMB749 million, representing 0.45% of total assets, and 3.01% 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, etc.</p> <p>The accounting policies and disclosures of the Impairment assessment of goodwill are included in notes 2.4 and 15 to the consolidated financial statements.</p>	<p>Our audit procedures included, amongst others, assessing and testing the assumptions, methodologies, and data used by the Group in performing the impairment assessment. 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.</p> <p>We also assessed the adequacy of the Group's disclosures included in note 15 to the consolidated financial statements about the key assumptions.</p>

## 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 HKSAAs 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  
29 March 2017

## Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	13,928,369	11,795,983
Cost of sales	7	(5,735,538)	(4,771,610)
Gross profit		8,192,831	7,024,373
Other income and gains	5	477,443	510,032
Selling and distribution costs		(1,545,606)	(1,452,611)
Administrative expenses		(2,588,544)	(1,925,049)
Other expenses		(306,790)	(454,489)
Finance costs	6	(157,755)	(122,221)
Share of net profit of:			
Associates		300	–
Share of net profit/(losses) of:			
Joint ventures		591	(310)
PROFIT BEFORE TAX	7	4,072,470	3,579,725
Income tax expense	10	(1,130,683)	(999,734)
PROFIT FOR THE YEAR		2,941,787	2,579,991
Attributable to:			
Ordinary shareholders of the parent		2,882,208	2,503,109
Holders of perpetual securities	37	78,284	73,080
Non-controlling interests		(18,705)	3,802
		2,941,787	2,579,991
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE PARENT	12	RMB	RMB
Basic and diluted			
– Earnings per share		0.74	0.70



## Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	2,941,787	2,579,991
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	83,860	–
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	866,887	742,402
Reclassification to the consolidated statement of profit or loss	(1,072,484)	(849,733)
Income tax effect	34,099	17,710
	(87,638)	(89,621)
Exchange differences on translation of foreign operations	9,113	(30,629)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(78,525)	(120,250)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(78,525)	(120,250)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,863,262	2,459,741
Attributable to:		
Ordinary shareholders of the parent	2,803,683	2,382,859
Holders of perpetual securities	78,284	73,080
Non-controlling interests	(18,705)	3,802
	2,863,262	2,459,741

## Consolidated Statement of Financial Position

31 December 2016

		31 December 2016 RMB'000	31 December 2015 RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	13	4,995,714	3,357,879
Prepaid land lease payments	14	1,215,828	1,150,026
Goodwill	15	748,821	359,452
Other assets	16	2,434,148	666,407
Investments in joint ventures	18	1,404,870	1,187,975
Investment in associates	19	263,700	–
Available-for-sale investments	20	289,889	427,142
Equity investments at fair value through profit or loss	21	721,239	244,132
Derivative financial instruments	22	478,789	696,858
Loans and accounts receivables	23	84,721,981	73,856,030
Prepayments, deposits and other receivables	24	2,431,140	579,575
Deferred tax assets	25	1,907,364	1,300,724
Restricted deposits	26	12,600	96,137
Total non-current assets		101,626,083	83,922,337
CURRENT ASSETS			
Inventories	27	246,057	114,793
Construction contracts	28	44,129	42,387
Derivative financial instruments	22	904,087	420,376
Loans and accounts receivables	23	54,079,396	46,710,279
Prepayments, deposits and other receivables	24	5,161,098	3,057,298
Restricted deposits	26	2,448,764	2,544,754
Cash and cash equivalents	26	2,051,307	2,500,665
Total current assets		64,934,838	55,390,552
CURRENT LIABILITIES			
Trade and bills payables	29	2,887,266	8,337,635
Other payables and accruals	30	8,378,115	6,431,179
Derivative financial instruments	22	61,059	–
Interest-bearing bank and other borrowings	31	53,545,549	41,699,533
Taxes payable		1,002,600	644,112
Total current liabilities		65,874,589	57,112,459
NET CURRENT LIABILITIES		(939,751)	(1,721,907)

## Consolidated Statement of Financial Position

31 December 2016

		31 December 2016 RMB'000	31 December 2015 RMB'000
	Notes		
TOTAL ASSETS LESS CURRENT LIABILITIES		100,686,332	82,200,430
NON-CURRENT LIABILITIES			
Trade and bills payables	29	55	–
Interest-bearing bank and other borrowings	31	53,392,039	41,729,268
Derivative financial instruments	22	31,158	288,114
Deferred tax liabilities	25	70,850	129,392
Other payables and accruals	30	19,729,080	16,262,396
Deferred revenue	32	148,068	260,778
Other liabilities	47	2,468,981	569,062
Total non-current liabilities		75,840,231	59,239,010
Net assets		24,846,101	22,961,420
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	33	10,213,017	10,210,572
Reserves	36	12,746,213	11,180,465
		22,959,230	21,391,037
Holders of perpetual securities	37	1,231,881	1,227,203
Non-controlling interests		654,990	343,180
Total equity		24,846,101	22,961,420

Kong Fanxing  
Director

Wang Mingzhe  
Director

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## Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to ordinary shareholders of the parent													
	Share capital RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Shares held for share award scheme RMB'000 (Note 35)	Share-based compensation reserve RMB'000	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Senior perpetual securities RMB'000 (Note 37)	Non-controlling interests RMB'000	Total equity RMB'000
Transfer of share option reserve upon exercise of share options	2,445	-	-	(508)	-	-	-	-	-	-	1,937	-	-	1,937
Recognition of equity – settled share-based payments	-	-	-	166,320	-	-	-	-	-	-	166,320	-	-	166,320
Special reserve – safety fund appropriation	-	-	-	-	521	-	-	-	-	(578)	(57)	-	57	-
Special reserve – safety fund utilisation	-	-	-	-	(1,080)	-	-	-	-	1,115	35	-	(35)	-
Capital injection by non-controlling shareholders	-	26	-	-	-	-	-	-	-	-	26	-	146,161	146,187
Waiver of debt by shareholders	-	-	-	-	-	-	-	-	-	-	-	-	2,802	2,802
Increase in non-controlling interests in net assets of subsidiaries without loss of control, net	-	3,074	-	-	-	-	-	-	-	-	3,074	-	9,312	12,386
Purchase of non-controlling interests	-	(3,976)	-	-	-	-	-	-	-	-	(3,976)	-	(2,704)	(6,680)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	174,922	174,922
At 31 December 2016	10,213,017	2,114,102*	(852,459)*	218,130*	656*	121,913*	149,987*	83,860*	616,783*	10,293,241*	22,959,230	1,231,881	654,990	24,846,101

\* These reserve accounts comprise the consolidated reserves of RMB12,746,213,000 (2015: RMB11,180,465,000) in the consolidated statement of financial position.

## Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 33)	Capital reserve RMB'000 (Note 36)	Shares held for share award scheme RMB'000 (Note 35)	Share-based compensation reserve RMB'000 (Note 36)	Special reserve RMB'000 (Note 36)	Reserve fund RMB'000 (Note 36)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Senior perpetual securities RMB'000 (Note 37)	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	6,683,751	2,096,823	(136,260)	17,994	1,065	121,913	411,106	638,299	6,278,261	16,112,952	1,258,170	78,771	17,449,893
Profit for the year	-	-	-	-	-	-	-	-	2,503,109	2,503,109	73,080	3,802	2,579,991
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedges, net of tax	-	-	-	-	-	-	(89,621)	-	-	(89,621)	-	-	(89,621)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(30,629)	-	(30,629)	-	-	(30,629)
Total comprehensive income for the year	-	-	-	-	-	-	(89,621)	(30,629)	2,503,109	2,382,859	73,080	3,802	2,459,741
Issue of shares	3,580,765	-	-	-	-	-	-	-	-	3,580,765	-	-	3,580,765
Share issue expenses	(53,944)	-	-	-	-	-	-	-	-	(53,944)	-	-	(53,944)
Purchase of shares under share award scheme	-	-	(116,245)	-	-	-	-	-	-	(116,245)	-	-	(116,245)
Final 2014 dividend declared (net of dividends received from shares held for share award scheme)	-	-	-	-	-	-	-	-	(592,476)	(592,476)	-	-	(592,476)

## Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to ordinary shareholders of the parent												
	Shares held for share	Capital reserve	Share-based award scheme	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total	Senior perpetual securities	Non- controlling interests	Total equity
	RMB'000 (Note 33)	RMB'000 (Note 36)	RMB'000 (Note 35)	RMB'000	RMB'000 (Note 36)	RMB'000 (Note 36)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 37)	RMB'000	RMB'000
Distribution paid to holders of senior perpetual securities	-	-	-	-	-	-	-	-	-	-	(104,047)	-	(104,047)
Recognition of equity-settled share-based payments	-	-	-	58,971	-	-	-	-	-	58,971	-	-	58,971
Special reserve – safety fund appropriation	-	-	-	-	835	-	-	-	(835)	-	-	-	-
Special reserve – safety fund utilisation	-	-	-	-	(685)	-	-	-	685	-	-	-	-
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	154,484	154,484
Decrease in ownership interests in subsidiaries without loss of control	-	17,342	-	-	-	-	-	-	-	17,342	-	6,978	24,320
Waiver of debt by non-controlling shareholders	-	813	-	-	-	-	-	-	-	813	-	1,447	2,260
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	97,698	97,698
At 31 December 2015	10,210,572	2,114,978*	(252,505)*	76,965*	1,215*	121,913*	321,485*	607,670*	8,188,744*	21,391,037	1,227,203	343,180	22,961,420

## Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		4,072,470	3,579,725
Adjustments for:			
Finance costs and bank charges		4,289,354	4,085,503
Interest income		(41,183)	(56,163)
Share of net profit of an associate		(300)	–
Share of net (gains)/losses of joint ventures		(591)	310
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	5	(13,293)	(12,570)
Realised fair value losses/(gains), net	7	41,402	(35,665)
Fair value loss on a call option		–	12,006
Gain on disposal of available-for-sale investment	5	(30,648)	(11,898)
Gain on structured financial products	5	(18,871)	(6,597)
Loss/(gain) on disposal of property, plant and equipment, net		41,167	(843)
Depreciation		355,664	228,147
Provision for impairment of loans and accounts receivables	23	1,258,528	821,103
Provision for impairment of other assets		2,734	25,320
Amortisation of intangible assets and other assets		51,747	47,498
Equity-settled share-based payment expenses	7	166,320	58,971
Foreign exchange loss, net		61,268	16,487
Impairment of goodwill	7	700	–
Waiver of debt by shareholders		2,802	–
Dividend income from available-for-sale investments	5	(4,153)	–
Fair value gains, net:			
equity investments at fair value through profit or loss	5	(107,016)	–
Interest income from subordinated tranches of asset-backed securities	5	(81,424)	–
		10,046,677	8,751,334
Increase in derivative instruments – transactions qualifying as hedges		–	(19,823)
Increase in inventories		(115,434)	(25,928)
(Increase)/decrease in construction contracts		(1,742)	39,952
Increase in loans and accounts receivables		(19,356,949)	(21,819,428)
Increase in prepayments, deposits and other receivables		(3,920,063)	(1,337,568)
Increase in restricted cash related to asset securitisations		(1,080,325)	(1,049,420)
Increase in other assets		(1,702,444)	(580,410)
(Decrease)/increase in trade and bills payables		(5,531,718)	4,810,286
Increase in other payables and accrued liabilities		4,873,383	5,841,442
Increase in other liabilities		1,634,018	531,882
Net cash flows used in operating activities before tax		(15,154,597)	(4,857,681)
Interest paid		(4,482,880)	(3,898,775)
Interest received		41,183	56,163
Income tax paid		(1,412,910)	(1,589,416)



## Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows used in operating activities		(21,009,204)	(10,289,709)
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains on structured financial products	5	18,871	6,597
Realised gain on derivative financial instruments not qualifying as hedges		3,119	48,227
Proceeds from disposal of property, plant and equipment		166,652	14,386
Acquisition of subsidiaries	38	(252,869)	(193,742)
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(1,884,923)	(1,876,373)
Purchase of shareholding for joint ventures		(263,400)	(1,071,180)
Purchase of shareholding for associates		(219,358)	–
Dividend received from joint ventures		878	1,751
Dividend income from available-for-sale investments	5	4,153	–
Proceeds from disposal of joint ventures		2,040	5,403
Purchase of available-for-sale investments		–	(103,556)
Proceeds from disposal of available-for-sale investments		258,589	204,999
Purchase of equity investments at fair value through profit or loss		(367,545)	(244,132)
Net cash flows used in investing activities		(2,533,793)	(3,207,620)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received upon exercise of share options		1,937	–
Proceeds from issue of new shares		–	3,580,765
Share issue expenses		–	(53,944)
Capital injection from non-controlling shareholders		146,187	154,484
Purchase of non-controlling shareholders		(6,680)	–
Cash received as a result of increase in non-controlling interests in subsidiaries without loss of control		15,594	24,320
Cash received from borrowings		97,000,177	80,704,161
Repayments of borrowings		(74,108,878)	(70,310,149)
Dividends paid		(769,673)	(592,476)
Decrease/(increase) in pledged deposits		1,259,852	(637,666)
Realised fair value gains from derivative financial instruments in hedges for borrowings		347,012	83,778
Purchase of shares held for the share award scheme	35	(633,176)	(116,245)
Distribution paid to holders of senior perpetual securities	37	(73,606)	(104,047)
Cash received for other financing activities		–	5,759
Net cash flows from financing activities		23,178,746	12,738,740
NET DECREASE IN CASH AND CASH EQUIVALENTS		(364,251)	(758,589)
Cash and cash equivalents at beginning of year		2,500,665	3,317,850
Effect of exchange rate changes on cash and cash equivalents		(85,107)	(58,596)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,051,307	2,500,665

## Notes to Financial Statements

31 December 2016

### 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 Room 6305, 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 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

## Notes to Financial Statements

31 December 2016

### 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.

## Notes to Financial Statements

31 December 2016

### 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 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant effect on the consolidated financial statements of the Group. The Company changed its accounting policy for investments in subsidiaries upon adoption of the Amendments to HKAS 27 in its separate financial statements as detailed below:

The Amendments to HKAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. For the year ended 31 December 2016, the Company changed its accounting for investments in subsidiaries from cost method to equity method in its separate financial statements, and apply the change retrospectively according to the Amendments to HKAS 27. Such a change only impacted the separate financial statements (see note 50) and did not affect Group's consolidated financial statements as investments in subsidiaries are eliminated upon consolidation.

## Notes to Financial Statements

31 December 2016

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>2</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>2</sup></i>
HKFRS 9	<i>Financial Instruments<sup>2</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers<sup>2</sup></i>
HKFRS 16	<i>Leases<sup>3</sup></i>
Amendments to HKAS 7	<i>Disclosure Initiative<sup>1</sup></i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that may significantly affect the consolidated financial statements of the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects that the adoption of HKFRS 9 may have an impact on the classification, measurement and impairment of the Group's financial assets. The Group expects to adopt HKFRS 9 on 1 January 2018 and is currently assessing the impact of HKFRS 9 upon adoption.

## Notes to Financial Statements

31 December 2016

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

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 standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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 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. 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. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

## Notes to Financial Statements

31 December 2016

### 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 2016

### 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 2016

### 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 2016

### 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 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### 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 2016

### 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	9.00-33.33%
Office equipment and computers	9.50-33.33%
Motor vehicles	9.00-32.33%
Vessels	3.20-16.72%
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 2016

### 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 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets

##### Initial recognition and measurement

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

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, available-for-sale investments, equity investments at fair value through profit or loss, and derivative financial instruments.

##### Subsequent measurement

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

##### Financial assets at fair value through profit or loss

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

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

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

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

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (continued)

##### Loans and receivables

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

##### Held-to-maturity investments

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

##### Available-for-sale financial investments

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

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

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (continued)

##### Available-for-sale financial investments (continued)

If a reliable measure becomes available for available-for-sale financial investments for which such a measure was previously not available, the asset shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.

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

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

#### Derecognition of financial assets

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

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

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

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



## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets

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

#### Financial assets carried at amortised cost

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

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

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

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

#### Assets carried at cost

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (continued)

##### Available-for-sale financial investments

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

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

#### Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities (continued)

##### Subsequent measurement

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

##### Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

##### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in cost of sales in the statement of profit or loss.

##### Derecognition of financial liabilities

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

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

##### Offsetting of financial instruments

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting

##### Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting (continued)

##### Initial recognition and subsequent measurement (continued)

Hedges which meet the strict criteria for cash flow hedge accounting are accounted for as follows:

##### Cash flow hedges

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

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

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

##### Current versus non-current classification

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

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

##### Treasury shares

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### Cash and cash equivalents

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

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

#### Provisions

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

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

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

#### Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

## Notes to Financial Statements

31 December 2016

### 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate or is deducted in reporting the related expense.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease;
- (b) from the rendering of services, where income is recognised when the services have been rendered and the revenue can be reasonably estimated and deferred revenue is recorded as liability when the payments have been made in advance by customers for services yet to be rendered as at each reporting date and recognised as income when the services have been rendered and the revenue can be reasonably estimated;
- (c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (d) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (f) rental income, on a time proportion basis over the lease terms; and
- (g) dividend income, when the shareholders' right to receive payment has been established.



## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

#### Share-based payments

The Company operates a share option scheme and a restricted share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 34 and note 35 to the financial statements.

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

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

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Share-based payments (continued)

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

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

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

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

#### Employee benefits

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

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

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

Contributions to these plans are recognised in the statement of profit or loss as incurred.

## Notes to Financial Statements

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Borrowing costs

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

#### Dividends

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

#### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries whose functional currency is other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with a functional currency other than RMB which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## Notes to Financial Statements

31 December 2016

### 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 2016 was RMB748,821,000 (31 December 2015: RMB359,452,000). Further details are given in note 15.

#### **Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### **Deferred tax assets and liabilities**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and liabilities and income tax charge in the period in which such estimate has been changed.

## Notes to Financial Statements

31 December 2016

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of loans and receivables. The identification of doubtful receivables requires management's judgement and estimates. The management measures and monitors the asset quality of the lease receivable portfolio by classifying the lease receivables using the 5-category classification system by referring to guidelines promulgated by the China Banking Regulatory Commission relating to asset quality for financial institutions under its regulation. Based on the guidelines, lease receivables classified in the first two categories of the five categories, i.e., Pass and Special Mention are regarded as performing assets as no objective evidence of impairment exists individually and they are collectively assessed for impairment; while lease receivables in the remaining three categories, i.e., Substandard, Doubtful and Loss, are regarded as non-performing assets and are measured for impairment individually since objective evidence of impairment exists individually for such lease receivables. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the receivables and doubtful debt expenses/write-back of in the period in which such estimate is made.

##### Fair value of financial instruments

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

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

##### Share-based payments

Estimating fair value for share-based payment transactions requires determination of an appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including volatility, expected exercise behaviour and dividend yield, etc, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 34 and note 35.

##### Judgements

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

## Notes to Financial Statements

31 December 2016

### 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;
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two operating segments, namely the financial and advisory business and the industrial operation business, based on internal organisational structure, management requirement and the internal reporting system:

- The financial and advisory business comprises (a) direct finance leasing; (b) sale-leaseback; (c) factoring; (d) entrusted loans; and (e) advisory services.
- The industrial operation 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) equipment operation; (e) hospital and healthcare management and (f) 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 2016

**4. OPERATING SEGMENT INFORMATION** (continued)

Segment revenue, results, assets and liabilities 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 2016

	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	11,800,744	2,127,625	–	13,928,369
Intersegment sales	137,578	39,846	(177,424)	–
Cost of sales	(4,308,009)	(1,585,071)	157,542	(5,735,538)
Other income and gains	330,369	173,975	(26,901)	477,443
Selling and distribution costs and administrative expenses	(3,655,852)	(516,712)	38,414	(4,134,150)
Other expenses	(233,854)	(72,419)	(517)	(306,790)
Finance costs	–	(157,755)	–	(157,755)
Share of profits or losses of Associates	–	300	–	300
Share of profits or losses of joint ventures	–	591	–	591
Profit before tax	4,070,976	10,380	(8,886)	4,072,470
Income tax expense	(1,140,961)	10,278	–	(1,130,683)
Profit after tax	2,930,015	20,658	(8,886)	2,941,787
<b>Segment assets</b>	163,614,496	12,953,138	(10,006,713)	166,560,921
<b>Segment liabilities</b>	(141,615,753)	(9,664,602)	9,565,535	(141,714,820)
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	1,206,860	54,402	–	1,261,262
Depreciation and amortisation	54,845	352,566	–	407,411
Capital expenditure	1,057,405	1,930,689	–	2,988,094

## Notes to Financial Statements

31 December 2016

## 4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2015

	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	10,571,802	1,224,181	–	11,795,983
Intersegment sales	102,534	16,294	(118,828)	–
Cost of sales	(4,066,663)	(808,387)	103,440	(4,771,610)
Other income and gains	498,471	15,128	(3,567)	510,032
Selling and distribution costs and administrative expenses	(3,105,272)	(290,333)	17,945	(3,377,660)
Other expenses	(455,742)	1,253	–	(454,489)
Finance costs	–	(122,221)	–	(122,221)
Share of profits or losses of joint ventures	(6,133)	5,823	–	(310)
Profit before tax	3,538,997	41,738	(1,010)	3,579,725
Income tax expense	(984,131)	(15,603)	–	(999,734)
Profit after tax	2,554,866	26,135	(1,010)	2,579,991
<b>Segment assets</b>	136,517,966	7,813,466	(5,018,543)	139,312,889
<b>Segment liabilities</b>	(115,772,841)	(5,156,501)	4,577,873	(116,351,469)
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	830,360	16,063	–	846,423
Depreciation and amortisation	56,575	219,071	–	275,646
Capital expenditure	1,280,164	2,208,819	–	3,488,983



## Notes to Financial Statements

31 December 2016

**4. OPERATING SEGMENT INFORMATION** (continued)**Geographical information****(a) Revenue from external customers**

	2016 RMB'000	2015 RMB'000
Mainland China	13,740,931	11,579,614
Hong Kong	166,617	184,884
Other countries or regions	20,821	31,485
	13,928,369	11,795,983

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

**(b) Non-current assets**

	2016 RMB'000	2015 RMB'000
Mainland China	10,505,918	6,281,776
Hong Kong	557,163	439,963
	11,063,081	6,721,739

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 was derived amounted to 10% or more of the total revenue of the Group during the year.

## Notes to Financial Statements

31 December 2016

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts, and the value of services rendered and gross leasing income received, net of value-added tax or business tax, during the year.

An analysis of revenue, other income and gains is as follows:

	Note	2016 RMB'000	2015 RMB'000
<b>Revenue</b>			
Finance lease income		7,924,132	6,603,955
Service fee income		3,820,487	3,850,659
Factoring income		215,153	245,375
Sale of goods		257,472	120,356
Chartering and brokerage income		171,335	166,225
Construction contract revenue		79,058	96,620
Equipment operation income		830,314	601,200
Healthcare service income		626,028	194,477
Education service income		115,898	9,958
Other income		33,699	17,971
Business tax and surcharges		(145,207)	(110,813)
		13,928,369	11,795,983
<b>Other income and gains</b>			
Bank interest income		41,183	56,163
Gains on structured financial products		18,871	6,597
Gains on disposal of available-for-sale investments		30,648	11,898
Fair value gains from derivative instruments - transactions not qualifying as hedges		13,293	48,235
Gains on disposal of property, plant, and equipment		7,271	1,163
Government grants		9,471	130,508
Tax benefits from intra-group borrowings		43,129	188,114
Gains on transfers of loans and accounts receivables		92,907	67,203
Fair value gains from equity investments at fair value through profit or loss		107,016	–
Gains on transfers of subordinated tranches of asset-backed securities		18,855	–
Interest income from subordinated tranches of asset-backed securities		81,424	–
Dividend income from available-for-sale investments		4,153	–
Others		9,222	151
		477,443	510,032

## Notes to Financial Statements

31 December 2016

**6. FINANCE COSTS**

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans, overdrafts and other loans for industrial operation business	153,015	120,506
Interest on finance leases for industrial operation business	6,780	1,875
Total interest expense on financial liabilities not at fair value through profit or loss	159,795	122,381
Less: Interest capitalised	(2,040)	(160)
	157,755	122,221

**7. PROFIT BEFORE TAX**

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

	2016 RMB'000	2015 RMB'000
Cost of borrowings included in cost of sales	4,131,599	3,963,282
Cost of inventories sold	232,015	114,263
Cost of construction contracts	60,314	55,973
Cost of equipment operation	559,180	343,584
Cost of chartering	187,480	149,332
Cost of healthcare service	459,564	132,362
Cost of education service	71,888	5,971
Cost of others	33,498	6,843

## Notes to Financial Statements

31 December 2016

**7. PROFIT BEFORE TAX** (continued)

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

	2016 RMB'000	2015 RMB'000
Depreciation	28,370	24,355
Amortisation of intangible assets and other assets:		
Current year expenditure	52,575	46,827
Less: Government grants released*	(1,378)	(1,378)
	51,197	45,449
Rental expenses	129,804	114,470
Auditors' remuneration		
– audit services	4,230	4,380
– other services	3,927	1,919
Employee benefit expense (including directors' remuneration (Note 8))		
– Wages and salaries		
Current year expenditure	2,592,698	1,758,053
Less: Government grants released*	(933,123)	(277,330)
	1,659,575	1,480,723
– Equity-settled share-based payment expense	166,320	58,971
– Pension scheme contributions	82,816	68,378
– Other employee benefits	196,304	215,635
	2,105,015	1,823,707
Impairment of loans and accounts receivable (Note 23)	1,258,528	821,103
Impairment of other receivables	1,608	4,855
Impairment of inventories	1,126	33
Impairment of property, plant and equipment	–	20,432
Entertainment expenses	66,195	55,481
Business travelling expenses	179,847	167,359
Consultancy fees	54,159	68,117

## Notes to Financial Statements

31 December 2016

**7. PROFIT BEFORE TAX** (continued)

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

	2016 RMB'000	2015 RMB'000
Office expenses	33,595	38,073
Advertising and promotional expenses	18,621	11,419
Transportation expenses	10,968	11,077
Communication expenses	22,690	21,457
Other miscellaneous expenses:		
Current year expenditure	150,806	131,314
Less: Government grants released*	(194)	(16,190)
	150,612	115,124
Litigation expenses	13,658	28,850
Impairment of goodwill**	700	–
Losses on disposal of property, plant and equipment	48,438	320
Donation	4,160	4,500
Bank commission expenses	99,239	120,366
Derivative instruments – fair value loss on a call option	–	12,006
Foreign exchange losses/(gains), net:		
Cash flow hedges (transfer from equity to offset foreign exchange losses)	(1,072,484)	(849,733)
Others	1,133,752	866,220
Derivative instruments – transactions not qualifying as hedges	41,402	–
Losses on transfers of loans and accounts receivables	45,744	300,810
Other expenditure	5,839	–

\* Government grants have been received by a subsidiary of the Company from the local government for improvement of technology, staff training and development, etc. The government grants received have been deducted from the expenses to which they related. Government grants received for which related expenditure has not yet been undertaken are included in deferred revenue in the statement of financial position (Note 32).

\*\* The impairment of goodwill is included in "Other expenses" in the consolidated statement of profit or loss.

## Notes to Financial Statements

31 December 2016

**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:

	2016 RMB'000	2015 RMB'000
Fees	2,632	2,052
Other emoluments:		
Salaries, allowances and benefits in kind	6,110	6,116
Performance related bonuses*	4,300	3,500
Pension scheme contributions	661	657
	11,071	10,273
	13,703	12,325

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

During 2016, certain directors were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 34 and Note 35 to the financial statements, respectively.

**(a) Independent non-executive directors**

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

	2016 RMB'000	2015 RMB'000
Mr. Cai Cunqiang	–	–
Mr. Han Xiaojing	376	342
Mr. Liu Jialing	376	342
Mr. Yip Wai Ming	376	342
	1,128	1,026

## Notes to Financial Statements

31 December 2016

**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:

	2016 RMB'000	2015 RMB'000
Mr. Ning Gaoning	–	–
Mr. Yang Lin	–	–
Mr. Chen Guogang	376	–
Mr. Liu Haifeng	376	342
Mr. Luo Qiang	376	342
Mr. Guo Mingjian	376	342
	1,504	1,026

**(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 2016					
Executive directors:					
Mr. Kong Fanxing	–	3,873	2,500	425	6,798
Mr. Wang Mingzhe	–	2,237	1,800	236	4,273
	–	6,110	4,300	661	11,071
Year ended 31 December 2015					
Executive directors:					
Mr. Kong Fanxing	–	3,876	2,000	423	6,299
Mr. Wang Mingzhe	–	2,240	1,500	234	3,974
	–	6,116	3,500	657	10,273

## Notes to Financial Statements

31 December 2016

## 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	
	2016	2015
Directors	2	2
Non-directors	3	3
	5	5

The five highest paid employees during the year included two (2015: two) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2015: three) non-directors, highest paid employees for the year are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	5,766	5,751
Performance related bonuses	3,900	3,900
Pension scheme contributions	446	442
	10,112	10,093

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

	Number of employees	
	2016	2015
HK\$3,500,001 to HK\$4,000,000 (Equivalent to RMB3,031,526 to RMB3,464,600)	2	2
HK\$4,000,001 to HK\$4,500,000 (Equivalent to RMB3,464,601 to RMB3,897,675)	–	–
HK\$4,500,001 to HK\$5,000,000 (Equivalent to RMB3,897,676 to RMB4,330,750)	1	1
	3	3

During the year ended 31 December 2016, certain highest paid employees were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, details of which are set out in Note 34 and Note 35 to the financial statements, respectively.



## Notes to Financial Statements

31 December 2016

### 9. FIVE HIGHEST PAID EMPLOYEES (continued)

The Group adopted collective economic-gain bonus schemes (the “Schemes”) since 2014. According to the Schemes, the Group paid a portion of employee bonus to separate funds (the “Employees’ Collectively Owned Funds”). The Employees’ Collectively Owned Funds are collectively owned by employees participating the Scheme until distributed to individual employees. A committee (the “Committee”), elected by the general meeting of employee representatives, is established to be in charge of the management, operation of the Scheme and the determination and distribution of the Employees’ Collectively Owned Funds to all individual participating employees. In the view of the directors, the Employees’ Collectively Owned Funds are not property of the Company or any of its subsidiaries, and the Group has no rights and obligations in respect of the management and operation of the Employees’ Collectively Owned Funds. As at 31 December 2016, the above information of the five highest paid employees has not taken into employees’ potential entitlement under the Schemes.

### 10. INCOME TAX

	2016 RMB'000	2015 RMB'000
Current – Hong Kong		
Charge for the year	141,093	168,937
Current – Mainland China		
Charge for the year	1,622,626	1,227,458
Deferred tax (Note 25)	(633,036)	(396,661)
Total tax charge for the year	1,130,683	999,734

#### Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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% (2015: 25%) on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

On 18 November 2012, Domin Medical Engineering was recognised as a high-technology enterprise by Shanghai Science and Technology Commission. Since then, Domin Medical Engineering has enjoyed a preferential tax rate of 15%.

On 30 October 2015, Shanghai Horizon Equipment & Engineering Co., Ltd. was recognised as a high-technology enterprise by the Shanghai Science and Technology Commission. Since then, Shanghai Horizon Equipment & Engineering Co., Ltd. has enjoyed a preferential tax rate of 15%.

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:

## Notes to Financial Statements

31 December 2016

## 10. INCOME TAX (continued)

## Corporate Income Tax ("CIT") (continued)

	2016 RMB'000	2015 RMB'000
Profit before tax	4,072,470	3,579,725
Tax at the statutory income tax rates	1,025,268	876,612
Effect of lower tax rate enacted by local authority	(2,927)	(559)
Expenses not deductible for tax	31,808	42,472
Income not subject to tax	(9,276)	(25,837)
Adjustment on current income tax in respect of prior years	(1,483)	(371)
Utilisation of previously unrecognised tax losses	(2,915)	(9,542)
Unrecognised tax losses	9,708	2,135
Effect of recognition of deductible temporary differences that were not recognised in prior years	(5,346)	–
Effect of withholding tax on the distributable profits of the Group's subsidiaries in Mainland China	–	31,149
Effect of withholding tax on interest on intra-group balances	85,846	83,675
Income tax expense as reported in the consolidated statement of profit or loss	1,130,683	999,734

## 11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final dividend – HK\$0.23 (2015: HK\$0.23) per ordinary share	783,990	752,096

A final dividend for the year 2016 of HK\$0.23 per share was proposed at the meeting of the Board of directors ("the Board") held on 29 March 2017. As at 31 December 2016, based on the total number of outstanding ordinary shares of 3,810,634,899 (2015: 3,903,149,860) (excluding the 140,148,918 (2015: 47,250,140) shares held for share award scheme (note 35)), the proposed final dividend amounted to approximately HK\$876,446,000 (2015: HK\$897,724,000) (equivalent to RMB783,990,000 (2015: RMB752,096,000)). 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.

## Notes to Financial Statements

31 December 2016

### 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 3,879,589,066 (2015: 3,562,109,103) outstanding during the year.

The calculation of the diluted earnings per share amounts is based on the consolidated net profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share option (Note 34). For the share option, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculation of basic and diluted earnings per share is based on:

#### Earnings

	2016 RMB'000	2015 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	2,882,208	2,503,109

#### Shares

	Number of shares	
	2016	2015
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	3,879,589,066	3,562,109,103
Effect of dilution – weighted average number of ordinary shares:		
Share options	255,680	–
Weighted average number of ordinary shares for diluted earnings per share	3,879,844,746	3,562,109,103

For the year ended 31 December 2016, the unvested share options under the Share Option Scheme (Note 34) and the unvested restricted shares under the Restricted Share Award Scheme (Note 35) have 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.

## Notes to Financial Statements

31 December 2016

## 13.PROPERTY, PLANT AND EQUIPMENT

31 December 2016

	Leasehold improvements RMB'000	Buildings RMB'000	Equipment, tools and moulds RMB'000	Office equipment and computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Vessels RMB'000	Others RMB'000	Total RMB'000
At 31 December 2015 and at 1 January 2016									
Cost	57,734	384,594	2,618,128	102,491	41,135	300,883	442,208	–	3,947,173
Accumulated depreciation and impairment	(51,385)	(42,006)	(365,783)	(66,602)	(20,091)	–	(43,427)	–	(589,294)
Net carrying amount	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	–	3,357,879
At 1 January 2016, net of accumulated depreciation	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	–	3,357,879
Acquisition of subsidiaries	345	149,432	94,327	6,031	5,799	45,546	–	6,563	308,043
Additions	99,776	2,515	970,697	23,061	10,361	478,991	265,087	9,996	1,860,484
Depreciation provided during the year	(14,192)	(12,470)	(277,582)	(16,309)	(7,764)	–	(22,326)	(5,021)	(355,664)
Transfers	1,272	23,938	2,265	213	–	(34,673)	–	6,985	–
Disposals	–	–	(37,075)	(552)	(271)	–	(169,922)	–	(207,820)
Exchange realignment	–	–	–	–	–	3,157	29,635	–	32,792
Impairment	–	–	–	–	–	–	–	–	–
At 31 December 2016, net of accumulated depreciation and impairment	93,550	506,003	3,004,977	48,333	29,169	793,904	501,255	18,523	4,995,714
At 31 December 2016:									
Cost	159,587	573,597	3,686,731	135,571	60,127	793,904	533,460	27,425	5,970,402
Accumulated depreciation and impairment	(66,037)	(67,594)	(681,754)	(87,238)	(30,958)	–	(32,205)	(8,902)	(974,688)
Net carrying amount	93,550	506,003	3,004,977	48,333	29,169	793,904	501,255	18,523	4,995,714

As at 31 December 2016, the Group has not obtained the property ownership certificates for one building (31 December 2015: five) with a net book value of RMB9,254,000 (31 December 2015: RMB58,242,000).

The Group was in the process of applying for the property ownership certificates for the above building as at 31 December 2016.

As at 31 December 2016, property, plant and equipment with a net carrying amount of RMB748,439,000 (31 December 2015: Nil), were pledged to secure general banking facilities granted to the Group.

## Notes to Financial Statements

31 December 2016

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2015

	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	Total RMB'000
At 31 December 2014 and at 1 January 2015:								
Cost	49,978	159,635	1,457,156	59,379	26,400	130,868	91,324	1,974,740
Accumulated depreciation	(47,686)	(24,923)	(112,852)	(36,985)	(12,957)	–	(6,168)	(241,571)
Net carrying amount	2,292	134,712	1,344,304	22,394	13,443	130,868	85,156	1,733,169
At 1 January 2015, net of accumulated depreciation	2,292	134,712	1,344,304	22,394	13,443	130,868	85,156	1,733,169
Acquisition of subsidiaries	–	110,621	46,222	17,428	3,502	–	–	177,773
Additions	7,847	103,272	1,058,762	10,101	8,923	226,595	275,299	1,690,799
Depreciation provided during the year	(3,790)	(6,712)	(186,526)	(10,973)	(4,759)	–	(15,387)	(228,147)
Transfers	–	695	–	–	–	(60,731)	60,036	–
Disposals	–	–	(10,417)	(3,061)	(65)	–	–	(13,543)
Exchange realignment	–	–	–	–	–	4,151	14,109	18,260
Impairment	–	–	–	–	–	–	(20,432)	(20,432)
At 31 December 2015, net of accumulated depreciation and impairment	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	3,357,879
At 31 December 2015:								
Cost	57,734	384,594	2,618,128	102,491	41,135	300,883	442,208	3,947,173
Accumulated depreciation and impairment	(51,385)	(42,006)	(365,783)	(66,602)	(20,091)	–	(43,427)	(589,294)
Net carrying amount	6,349	342,588	2,252,345	35,889	21,044	300,883	398,781	3,357,879

## Notes to Financial Statements

31 December 2016

## 14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	1,210,583	1,023,060
Additions	17,333	167,604
Acquisition of subsidiaries	77,118	19,919
At the end of the year	1,305,034	1,210,583
Accumulated amortisation:		
At the beginning of the year	(60,557)	(35,182)
Addition	(26,714)	(25,025)
Acquisition of subsidiaries	(1,935)	(350)
At the end of the year	(89,206)	(60,557)
Net carrying amount:		
At the end of the year	1,215,828	1,150,026
At the beginning of the year	1,150,026	987,878

As at 31 December 2016, the Group has not obtained the land ownership certificate for one parcel (31 December 2015: one) of land with a net book value of RMB22,713,000 (31 December 2015: RMB2,479,000).

The Group was in the process of applying for the land ownership certificate for the above parcel of land as at 31 December 2016.

As at 31 December 2016, the Group's leasehold land of approximately RMB902,756,000 (31 December 2015: Nil) was pledged to secure general banking facilities granted to the Group.

## Notes to Financial Statements

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## 15. GOODWILL

	RMB'000
At 1 January 2015:	
Cost	64,164
Accumulated impairment	–
Net carrying amount	64,164
Cost at 1 January 2015, net of accumulated impairment	64,164
Acquisition of subsidiaries	295,288
Impairment during the year	–
Cost and net carrying amount at 31 December 2015	359,452
At 31 December 2015:	
Cost	359,452
Accumulated impairment	–
Net carrying amount	359,452
Cost at 1 January 2016, net of accumulated impairment	359,452
Acquisition of subsidiaries (Note 38)	385,257
Adjustment during the measurement period	4,812
Impairment during the year	(700)
Cost and net carrying amount at 31 December 2016	748,821
At 31 December 2016:	
Cost	749,521
Accumulated impairment	(700)
Net carrying amount	748,821

During the measurement period, the Group adjusted the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date for Shanghai Shengyi Yuanhong Investment Co., Ltd., which lead to the adjustments of the identifiable assets acquired, liabilities assumed and non-controlling interest and the resulting goodwill increase by RMB4,812,000 in respect of Shanghai Shengyi Yuanhong Investment Co., Ltd..

Goodwill acquired through business combinations is allocated to each acquired subsidiary (Note 38) as the cash-generating units ("CGUs") within medical service industry and educational service industry for impairment testing, which for the purpose of the presentation were grouped as follows:

- Medical service industry; and
- Education service industry.

## Notes to Financial Statements

31 December 2016

### 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 approved by senior management. The post-tax discount rate applied to the cash flow projections is 13%~13.5% (2015: 13%). The implied pre-tax discount rates for the cash flow projections are 15.8% to 17.8% (2015: 16.7% to 17.8%). As at 31 December 2016, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill (RMB102,105,000) arising from the acquisition of Anda Jiren Hospital Co., Ltd. ("Anda Hospital") was higher than its recoverable amount (RMB101,405,000). Considering the fact that the actual healthcare service income was below previously expected financial budget, the management thus estimated that the future cash flows of Anda Hospital that could be generated from its healthcare service would probably be reduced than originally expected, resulting in a decrease in value-in-use calculation. As a result, the Company provided an impairment loss of approximately RMB700,000(2015: Nil) in the Group's consolidated financial statements for the year ended 31 December 2016.

#### For cash-generating units within educational service industry

The recoverable amount of each CGU within the educational service industry has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The post-tax discount rate applied to the cash flow projections is 14% (2015: 14%). The implied pre-tax discount rates for the cash flow projections are 16.5% to 18.3% (2015: 16.5% to 17.5%).

The carrying amounts of goodwill are as follows:

	Medical service industry		Education service industry		Total	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amounts of goodwill	553,538	237,161	195,283	122,291	748,821	359,452

Assumptions were used in the value in use calculation of each CGU within the medical service industry and educational service industry for 31 December 2016 and 31 December 2015. 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.



## Notes to Financial Statements

31 December 2016

## 16. OTHER ASSETS

	2016 RMB'000	2015 RMB'000
Software (Note 16a)	21,322	19,558
Continuing involvement in transferred assets (Note 47a)	2,398,981	569,062
Others	13,845	77,787
	2,434,148	666,407

## 16a. Software

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	66,386	65,628
Acquisition of subsidiaries	2,488	1,022
Additions	7,059	7,033
Disposals	(36)	(7,342)
Exchange differences	53	45
At the end of the year	75,950	66,386
Accumulated amortisation:		
At the beginning of the year	(46,828)	(41,758)
Acquisition of subsidiaries	(712)	(404)
Additions	(7,097)	(5,575)
Disposals	36	922
Exchange differences	(27)	(13)
At the end of the year	(54,628)	(46,828)
Net carrying amount:		
At the end of the year	21,322	19,558
At the beginning of the year	19,558	23,870

## Notes to Financial Statements

31 December 2016

## 17.SCOPE OF CONSOLIDATION

As at 31 December 2016, particulars of the Company's principal subsidiaries and consolidated structured entities are as follows:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) (Note ii)	PRC/Mainland China 13 September 1991	US\$1,816,710,922	100	–	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	RMB700,000,000/ RMB430,000,000	–	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	–	91.65	Engineering and trading
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	RMB210,526,316	–	96.81	Operating leasing
Shanghai Dapont Industrial Co., Ltd. (上海德朋實業有限公司) (Note ii)	PRC/Mainland China 10 November 2011	RMB200,000,000/ RMB10,000,000	–	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
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
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
Horizon Healthcare Investment & Holding (Shanghai) Co., Ltd. (上海宏信醫療投資控股有限公司) (Note ii)	PRC/Mainland China 26 April 2013	RMB500,000,000/ RMB361,500,000	–	100	Investment holding
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司) (Note ii)	PRC/Mainland China 2 August 2013	RMB380,000,000/ RMB292,410,000	–	55	Operating leasing
Yiyang Yuhong Infrastructure Construction & Development Co., Ltd. (益陽市昱宏基礎設施建設發展有限公司) (Note ii)	PRC/Mainland China 26 November 2015	RMB30,000,000	–	100	Construction
Pan Xian Yuhong Infrastructure Investment Co., Ltd. (盤縣昱宏基礎設施投資有限公司) (Note ii)	PRC/Mainland China 7 November 2015	RMB80,000,000/ RMB79,361,698	–	100	Investment holding
Shanghai Doyi Industrial Co., Ltd. (上海德藝實業發展有限公司) (Note ii)	PRC/Mainland China 12 July 2013	RMB5,000,000	–	54.99	Manufacturing and trading
Huakang Orthopaedics Hospital (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
Horizon Education Investment Holding (Shanghai) Co., Ltd. (上海宏信教育投資控股有限公司) (Note ii)	PRC/Mainland China 17 July 2014	RMB100,000,000	–	100	Investment holding

## Notes to Financial Statements

31 December 2016

## 17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2016, 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 Horizon Construction Development Co., Ltd. (上海宏信建設發展有限公司) (Note ii)	PRC/Mainland China 14 April 2014	RMB400,000,000/ RMB373,330,000	–	100	Construction
Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信(天津)融資租賃有限公司) (Note ii)	PRC/Mainland China 10 December 2013	RMB5,000,000,000	46.36	53.64	Finance 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/ RMB81,050,000	–	51	Investment holding
Tianjin Renju Investment Management Co., Ltd. (天津仁聚投資控股有限公司) (Note ii)	PRC/Mainland China 12 January 2015	US\$300,000,000/ US\$60,000,000	–	100	Investment holding
Guangzhou Horizon Equipment & Engineering Co., Ltd. (廣州宏途設備工程有限公司) (Note ii)	PRC/Mainland China 23 March 2015	RMB200,000,000	–	96.81	Operating leasing
Siping Cancer Institute & Hospital (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 (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 (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 (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
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	RMB49,062,500	–	44.18	Investment holding
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	–	26.51	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	–	26.51	Education service
Shanghai Sunflower Language Co., Ltd. (上海太陽花語言培訓有限公司) (Note ii)	PRC/Mainland China 7 March 2002	RMB1,000,000	–	44.18	Education service
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
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

## Notes to Financial Statements

31 December 2016

## 17.SCOPE OF CONSOLIDATION (continued)

As at 31 December 2016, 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	
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
Qingdao Confucian Education Investment Consulting Co., Ltd. (青島孔衛教育投資顧問有限公司) (Note ii)	PRC/Mainland China 28 April 2010	RMB2,600,000	–	70	Advisory 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	–	100	Advisory service
Deyang The Fifth Hospital (德陽第五醫院股份有限公司) (Note ii)	PRC/Mainland China 6 January 2012	RMB39,090,000	–	70	Medical service
Nayong Xinli Hospital (納雍新立醫院有限公司) (Note ii)	PRC/Mainland China 12 May 2016	RMB11,381,469	–	51	Medical service
Zhoushan Putuo Guanghua Hospital (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
Siyang Hospital of Traditional Chinese Medicine (泗陽縣中醫院有限公司) (Note ii)	PRC/Mainland China 6 January 2016	RMB30,000,000	–	50	Medical service
Chongqing Yudong Hospital (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
Grand Flight Investment Management (遠翼投資管理有限公司)(Note ii)	PRC/Mainland China 5 Nov 2015	RMB50,000,000/ RMB10,000,000	–	90	Investment management
Tian Jin Grand Flight Hooyoung Asset Management Co.,Ltd (天津遠翼宏揚資產管理有限公司)(Note ii)	PRC/Mainland China 21 Dec 2015	RMB2,000,000	–	90	Assets Management
Tian Jin Grand Flight Hooyoung Asset Management Centre (Limited Partnership) (天津遠翼開元資產管理(有限合夥)) (Note ii, Note iii)	PRC/Mainland China 31 March 2016	RMB704,510,000/ RMB630,190,200	–	88.89	Assets Management

The above table lists the subsidiaries 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

## Notes to Financial Statements

31 December 2016

## 18. INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	1,324,918	1,108,023
Excess of consideration over share of net assets acquired	79,952	79,952
	1,404,870	1,187,975

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of		Principal activities
			Ownership interest	Profit sharing	
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
Shanghai Dongsong Investment, LLP (上海東松投資合夥企業(有限合夥))	Registered capital of RMB40,100,000	PRC/Mainland China	66.50	#	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. 廣州康大工業科技產業有限公司 ("Kangda")	Registered capital of HK\$200,000,000	PRC/Mainland China	60	60	Development and construction
Skycity (Shanghai) Business Co., Ltd. (天空之城(上海)實業有限公司)	Registered capital of RMB5,230,000	PRC/Mainland China	49.7	49.7	Electronic products
Kunming Boyue Maternal and Infant Care Co., Ltd. (昆明博悅母嬰護理有限責任公司)	Registered capital of RMB5,555,600	PRC/Mainland China	28.36	28.36	Medical 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

## Notes to Financial Statements

31 December 2016

**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		Principal activities
			Ownership interest	Profit sharing	
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\$53,321,241.36	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

\* The voting powers are equally shared by three joint venture partners (a subsidiary of the Group and two third party investors). All decisions about the activities that would significantly affect its returns require unanimous consent of all joint venture partners.

The Group's loan and account receivable balances due from the joint ventures are disclosed in Note 23 to the financial statements.

Kangda, which is considered a material joint venture of the Group, is mainly engaged in the development and construction business in Mainland China and is accounted for using the equity method.

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.

## Notes to Financial Statements

31 December 2016

**18. INVESTMENTS IN JOINT VENTURES** (continued)

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	72,021	112,427
Other current assets	1,903,672	1,618,325
Current assets	1,975,693	1,730,752
Non-current assets	4,066	3,906
Financial liabilities, excluding trade and other payables	(250,000)	–
Trade and other payables	(155,079)	(151,112)
Current liabilities	(405,079)	(151,112)
Net assets	1,574,680	1,583,546
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	60%	60%
Carrying amount of the investment	944,808	950,128

	2016 RMB'000	2015 RMB'000
Administrative expenses	(12,374)	(13,900)
Other expenses	(1,445)	(170)
Loss and total comprehensive income for the year	(13,819)	(14,070)

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

	2016 RMB'000	2015 RMB'000
Share of the joint ventures' profit for the year	8,882	8,132
Aggregate carrying amount of the Group's investments in the joint ventures	460,062	237,847

## Notes to Financial Statements

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## 19. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	263,700	–

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

	2016 RMB'000	2015 RMB'000
Share of the associates' profit for the year	300	–
Aggregate carrying amount of the Group's investments in the associates	263,700	–

## 20. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Listed equity investments, at fair value	186,334	–
Unlisted equity investments, at cost	103,555	427,142
	289,889	427,142

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB83,860,000 (2015: Nil).

As at 31 December 2016, unlisted equity investments with a carrying amount of RMB103,555,000 (31 December 2015: RMB427,142,000) were stated at cost because the directors are of the opinion that their fair value cannot be measured reliably.

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



## Notes to Financial Statements

31 December 2016

## 21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at fair value	597,239	244,132
Unlisted equity investments, at cost	124,000	–
	721,239	244,132

The above equity investments were designated by the Group, upon initial recognition, as financial assets at fair value through profit or loss.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Cross-currency interest rate swaps	1,034,720	–	844,702	(4,989)
Forward currency contracts	348,156	(90,150)	272,532	(283,125)
Interest rate swaps	–	(2,067)	–	–
	1,382,876	(92,217)	1,117,234	(288,114)
Portion classified as non-current:				
Cross-currency interest rate swaps	458,150	–	491,078	(4,989)
Forward currency contracts	20,639	(29,091)	205,780	(283,125)
Interest rate swaps	–	(2,067)	–	–
	478,789	(31,158)	696,858	(288,114)
Current portion	904,087	(61,059)	420,376	–
	1,382,876	(92,217)	1,117,234	(288,114)

## Notes to Financial Statements

31 December 2016

### 22.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

During the year, the Group designated 23 (2015: 36) cross-currency interest rate swap contracts and 24 (2015: 29) forward currency contracts as hedges of future cash flows arising from borrowings which will be settled in US Dollar, Singapore Dollar, Japanese Yen, Hong Kong Dollar or Australian Dollar, and some of which bear floating interest rates; the Group designated 3 (2015: Nil) interest rate swap contracts as hedges of future cash flows arising from finance lease receivables which bear floating interest rates.

The terms of the cross-currency interest rate swap contracts and forward currency contracts substantially match the terms of the borrowing contracts, and the terms of the interest rate swap contracts substantially match the terms of the finance lease contracts. The cash flow hedges relating to expected future payments or receivables were assessed to be highly effective and a net loss of RMB171,498,000 (2015: a net loss of RMB89,621,000) was included in the hedging reserve as follows:

	2016 RMB'000	2015 RMB'000
Total fair value gains included in the hedging reserve	866,887	742,402
Deferred tax impact on fair value gains	(142,861)	(122,496)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	(1,072,484)	(849,733)
Deferred tax on reclassifications to profit or loss	176,960	140,206
Net loss included in the hedging reserve	(171,498)	(89,621)

- (a) As at 31 December 2016, the Group has only entered into 1 (31 December 2015: 1) cross-currency interest rate swap contract to manage its exchange rate exposures and interest rate exposures which were not designed for hedge accounting. Fair value gains of non-hedging financial derivatives amounting to RMB13,293,000 (31 December 2015: RMB12,570,000) were credited to the statement of profit or loss during the year.
- (b) Cross-currency interest rate swaps, with a total net fair value of RMB1,009,732,000 (31 December 2015: RMB828,017,000) as of 31 December 2016, were designated as hedging instruments in cash flow hedges of cash flow interest rate risks and currency risks arising from floating rate loans (with remaining maturity from 3 months to 2 years) denominated in US\$ and other foreign currencies. Forward currency contracts, with a total net fair value of RMB258,006,000 (31 December 2015: a total negative net fair value of RMB10,593,000) as of 31 December 2016, were designated as hedging instruments in cash flow hedges of currency risks arising from loans (with remaining maturity from 3 months to 3 years) denominated in US\$ and other foreign currencies. RMB-denominated interest rate swaps, with a total negative net fair value of RMB2,067,000 (31 December 2015: Nil) as of 31 December 2016, were designated as hedging instruments in cash flow hedges of interest rate risks arising from floating rate lease receivables (with remaining maturity from 2 years to 3 years) denominated in RMB.

## Notes to Financial Statements

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## 23. LOANS AND ACCOUNTS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Loans and accounts receivables due within 1 year	54,079,396	46,710,279
Loans and accounts receivables due after 1 year	84,721,981	73,856,030
	138,801,377	120,566,309

## 23a. Loans and accounts receivables by nature

	2016 RMB'000	2015 RMB'000
Lease receivables (Note 23b)*	129,219,522	121,510,395
Less: Unearned finance income	(12,353,786)	(11,176,329)
Net lease receivables (Note 23b)	116,865,736	110,334,066
Interest receivables*	614,129	499,516
Notes receivable	757,552	273,136
Accounts receivable (Note 23d)	1,274,555	721,736
Factoring receivable (Note 23f)	3,883,666	2,865,765
Entrusted loans (Note 23h)*	17,751,946	7,764,446
Long term receivables	363,394	82,014
Secured loans	319,470	424,671
Subtotal of loans and accounts receivables	141,830,448	122,965,350
Less:		
Provision for lease receivables (Note 23c)	(2,527,157)	(2,196,194)
Provision for accounts receivable (Note 23e)	(82,385)	(18,290)
Provision for factoring receivable (Note 23g)	(81,282)	(48,526)
Provision for entrusted loans (Note 23h)	(326,359)	(126,726)
Provision for long term receivables (Note 23i)	–	(17)
Provision for secured loans (Note 23j)	(11,888)	(9,288)
	138,801,377	120,566,309

\* These balances included balances with related parties which are disclosed in Note 23(k).

## Notes to Financial Statements

31 December 2016

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)

23b(1). An aged analysis of lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period, is as follows:

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Within 1 year	71,561,617	64,529,387
1 to 2 years	34,267,676	33,383,755
2 to 3 years	14,137,570	16,727,905
3 to 5 years	9,252,659	6,869,348
Total	129,219,522	121,510,395

	2016 RMB'000	2015 RMB'000
Net lease receivables:		
Within 1 year	63,929,750	57,461,542
1 to 2 years	31,049,667	30,760,089
2 to 3 years	13,176,400	15,668,454
3 to 5 years	8,709,919	6,443,981
Total	116,865,736	110,334,066

## Notes to Financial Statements

31 December 2016

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)

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

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Due within 1 year	51,465,438	48,144,680
Due in 1 to 2 years	36,723,765	35,367,796
Due in 2 to 3 years	23,387,457	21,503,262
Due in 3 to 5 years	17,642,862	16,494,657
Total	129,219,522	121,510,395

	2016 RMB'000	2015 RMB'000
Net lease receivables:		
Due within 1 year	45,418,293	42,517,720
Due in 1 to 2 years	33,109,052	32,149,451
Due in 2 to 3 years	21,547,706	19,930,297
Due in 3 to 5 years	16,790,685	15,736,598
Total	116,865,736	110,334,066

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that was needed to be recorded as at the end of the reporting period.

## Notes to Financial Statements

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**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23c. Change in provision for lease receivables**

	Individually assessed		Collectively assessed		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
At beginning of year	262,681	320,104	1,933,513	1,643,339	2,196,194	1,963,443
Charge for the year	446,288	194,362	485,462	472,823	931,750	667,185
Disposal	–	–	(277,331)	(189,331)	(277,331)	(189,331)
Write-off	(312,913)	(252,062)	(22,872)	–	(335,785)	(252,062)
Exchange difference	1,904	277	10,425	6,682	12,329	6,959
At end of year	397,960	262,681	2,129,197	1,933,513	2,527,157	2,196,194

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Individually assessed (Note (i))	1,343,183	1,165,083
Collectively assessed	127,876,339	120,345,312
Total	129,219,522	121,510,395

	2016 RMB'000	2015 RMB'000
Net lease receivables:		
Individually assessed (Note (i))	1,253,853	1,094,651
Collectively assessed	115,611,883	109,239,415
Total	116,865,736	110,334,066

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

Note (ii) As at 31 December 2016, the carrying value of the lease receivables pledged or charged as security for the Group's borrowings amounted to RMB12,886,076,000 (31 December 2015: RMB13,793,514,000) (Note 31).

## Notes to Financial Statements

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**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23d. An aged 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.

	2016 RMB'000	2015 RMB'000
Within 1 year	1,057,077	640,135
More than 1 year	217,478	81,601
Total	1,274,555	721,736

**23e. Change in provision for accounts receivable**

	2016 RMB'000	2015 RMB'000
At beginning of year	18,290	11,213
Acquisition of subsidiaries	18,031	4,583
Charge for the year	51,583	8,169
Write-off	(5,626)	(5,936)
Exchange difference	107	261
At end of year	82,385	18,290

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

	2016 RMB'000	2015 RMB'000
Within 1 year	2,720,475	1,990,549
More than 1 year	1,163,191	875,216
	3,883,666	2,865,765

## Notes to Financial Statements

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**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23g. Change in provision for the factoring receivable**

	2016 RMB'000	2015 RMB'000
At beginning of year	48,526	40,654
Charge for the year	49,756	18,442
Disposal	–	(10,570)
Write-off	(17,000)	–
At end of year	81,282	48,526

23h(1). An aged 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:

	2016 RMB'000	2015 RMB'000
Entrusted loans:		
Within 1 year	12,950,500	7,625,066
1 to 2 years	4,725,530	109,661
2 to 3 years	64,416	–
After 3 years	11,500	29,719
Total	17,751,946	7,764,446

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

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Due within 1 year	4,834,857	2,078,171
Due in 1 to 2 years	5,173,124	2,050,040
Due in 2 to 3 years	4,081,715	1,629,375
Due in 3 to 5 years	3,662,250	2,006,860
Total	17,751,946	7,764,446



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**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23h(3). Change in provision for entrusted loans**

	2016 RMB'000	2015 RMB'000
At beginning of year	126,726	2,236
Charge for the year	223,487	124,490
Disposal	(23,854)	–
At end of year	326,359	126,726

**23i. Change in provision for long term receivables**

	2016 RMB'000	2015 RMB'000
At beginning of year	17	26
Reversal for the year	(17)	(9)
At end of year	–	17

**23j. Change in provision for secured loans**

	2016 RMB'000	2015 RMB'000
At beginning of year	9,288	6,034
Charge for the year	1,969	2,826
Exchange difference	631	428
At end of year	11,888	9,288

## Notes to Financial Statements

31 December 2016

**23. LOANS AND ACCOUNTS RECEIVABLES** (continued)**23k. Balances with related parties**

		2016 RMB'000	2015 RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	225,000	75,000
Interest receivables		8,786	3,533
– Weihai Haida hospital Co., Ltd.			
Entrusted loan	(i)	30,000	30,000
Lease receivables	(ii)	10,000	10,000
Interest receivables		525	1,765
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Interest receivables		95	86
		324,406	170,384

(i) Balances of entrusted loans were interest-bearing at annual interest rates ranging from 5.655% to 15% (31 December 2015: from 5.655% to 6.955%).

(ii) Balances of lease receivables were interest-bearing at annual interest rates 12.77% (31 December 2015: 12.77%).

## Notes to Financial Statements

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## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Current assets:			
Prepayments		452,297	339,896
Leased assets*		3,977,861	2,246,183
Rental and Project deposit		235,474	33,016
Other receivables		58,373	143,439
Input VAT		336,125	259,107
Due from related parties	(24a)	100,968	35,657
		5,161,098	3,057,298
Non-current assets:			
Rental deposit due after 1 year		2,784	25,282
Amounts deductible against output VAT		4,146	17,289
Subordinated tranches of Asset-backed securities/notes (Note 47a)		2,350,662	520,726
Others		73,548	16,278
		2,431,140	579,575
		7,592,238	3,636,873

\* The leased assets arise from the situations where the Group had already made payments to vendors or suppliers of machinery and equipment, but the terms of the lease contracts of the said machinery and equipment have not commenced. The Group records these paid amounts under leased assets among its current assets as such assets had already been earmarked for leases to customers. Once the terms of a lease contract commence, the Group ceases to recognise the amount relating to the leased assets and recognise the lease receivables due under the lease contract.

## Notes to Financial Statements

31 December 2016

**24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES** (continued)**24a. Balances with Related Parties**

	Note	2016 RMB'000	2015 RMB'000
Due from related parties:			
Subsidiaries of the ultimate holding company of a shareholder with significant influence:			
China Jin Mao Group Co., Ltd.	(i)	16,337	16,337
Beijing Chemsunny Property Co., Ltd.	(i)	2,493	2,668
Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")	(i)	–	602
Jin Mao (Shanghai) Property Management Service Co., Ltd.	(i)	2	7
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	(i)	175	175
Joint Ventures:			
Gold Chance Shipping Limited	(i)	41,154	7,934
Teamway Shipping Limited	(i)	40,807	7,934
		100,968	35,657

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

## Notes to Financial Statements

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## 25.DEFERRED TAX

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

## Deferred tax assets

	Government special subsidy RMB'000	Share- based payments RMB'000	Allowances for impairment losses RMB'000	Salary and welfare payable RMB'000	Losses available for offsetting against future taxable profits RMB'000	Cash flow hedge RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2016	128,204	17,442	635,281	506,019	8,468	–	5,310	1,300,724
Credited to the statement of profit or loss during the year	179,710	46,079	205,468	146,079	40,806	–	(16,907)	601,235
Credited to reserve	–	–	–	–	–	517	–	517
Exchange differences	–	–	2,893	–	1,995	–	–	4,888
Gross deferred tax assets at 31 December 2016	307,914	63,521	843,642	652,098	51,269	517	(11,597)	1,907,364

	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	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2015	73,430	2,699	497,148	351,921	3,170	350	928,718
Credited to the statement of profit or loss during the year	54,774	14,743	140,291	154,109	7,008	4,960	375,885
Exchange differences	–	–	(2,158)	(11)	(1,710)	–	(3,879)
Gross deferred tax assets at 31 December 2015	128,204	17,442	635,281	506,019	8,468	5,310	1,300,724

## Notes to Financial Statements

31 December 2016

**25.DEFERRED TAX** (continued)**Deferred tax liabilities**

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from a call option RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2016	14,582	63,526	–	51,284	–	129,392
(Credited)/charged to the statement of profit or loss during the year	(794)	–	10,702	(41,899)	190	(31,801)
Arising from acquisition of subsidiaries	6,841	–	–	–	–	6,841
Credited to reserve	–	(33,582)	–	–	–	(33,582)
Gross deferred tax liabilities at 31 December 2016	20,629	29,944	10,702	9,385	190	70,850

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from a call option RMB'000	Lease deposits RMB'000	Withholding income tax RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2015	9,315	81,236	3,002	21,385	47,005	161,943
(Credited)/charged to the statement of profit or loss during the year	(668)	–	(3,002)	(21,385)	4,279	(20,776)
Arising from acquisition of subsidiaries	5,935	–	–	–	–	5,935
Credited to reserve	–	(17,710)	–	–	–	(17,710)
Gross deferred tax liabilities at 31 December 2015	14,582	63,526	–	–	51,284	129,392

## Notes to Financial Statements

31 December 2016

### 25.DEFERRED TAX (continued)

For the purpose of the presentation of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,907,364	1,300,724
Net deferred tax liabilities recognised in the consolidated statement of financial position	70,850	129,392

As at 31 December 2016, the Group had tax losses arising in Hong Kong of RMB106,794,000 (31 December 2015: RMB48,807,000) 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 RMB114,770,000 (31 December 2015: RMB11,771,000) 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. Apart from this, as at 31 December 2016, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB41,471,000 (31 December 2015: RMB56,702,000) and RMB276,000 (31 December 2015: RMB1,691,000), 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 2016, the aggregate amount of unrecognised deferred tax liabilities (i.e., withholding taxes relating to such temporary differences) was approximately RMB387,363,000 (31 December 2015: RMB285,115,000).

## Notes to Financial Statements

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## 26. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	4,426,996	4,257,953
Time deposits	85,675	883,603
	4,512,671	5,141,556
Less:		
Pledged deposits	331,619	1,591,471
Restricted bank deposits related to asset securitisations	2,129,745	1,049,420
Cash and cash equivalents	2,051,307	2,500,665

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB4,095,014,000 (31 December 2015: RMB4,506,478,000). 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 2016, cash of RMB99,542,000 (31 December 2015: RMB331,907,000) was pledged for bank and other borrowings (Note 31(b)).

As at 31 December 2016, cash of RMB232,077,000 (31 December 2015: RMB1,259,564,000) was pledged for bank acceptances, letters of credit and etc.

As at 31 December 2016, cash of RMB245,558,000 (31 December 2015: RMB500,351,000) was deposited with Sinochem Finance Co., a subsidiary of the ultimate holding company of a shareholder with significant influence.

## 27. INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	147,649	54,235
Work in process	14,239	15,768
Raw materials	84,169	44,790
	246,057	114,793



## Notes to Financial Statements

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## 28.CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Gross amount due from contract customers	44,129	42,387
Contract costs incurred plus recognised profits less recognised losses to date	240,890	227,542
Less: Progress billings	(196,761)	(185,155)
	44,129	42,387

## 29.TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Current:		
Bills payable	1,748,770	7,086,325
Trade payables	1,138,496	1,251,310
	2,887,266	8,337,635
Non-current:		
Trade payables	55	–
	2,887,321	8,337,635

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

	2016 RMB'000	2015 RMB'000
Within 1 year	2,682,301	8,169,543
1 to 2 years	115,622	92,102
2 to 3 years	44,090	52,157
3 years and beyond	45,308	23,833
	2,887,321	8,337,635

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

## Notes to Financial Statements

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## 30. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Current:		
Lease deposits, entrusted loan deposits and factoring deposits due within 1 year	3,115,304	2,736,728
Salary payables	134,920	664,812
Welfare payables	37,556	49,657
Advances from customers	879,759	546,443
Due to related parties (Note (30a))	814	6,719
Other taxes payable	684,301	442,191
Interest payable	1,026,974	515,457
Restricted bank deposits to be passed under asset-backed securitizations	2,129,745	1,049,420
Other payables	368,679	419,695
Dividend payables	63	57
	8,378,115	6,431,179
Non-current:		
Lease deposits, entrusted loan deposits and factoring deposits due after 1 year	19,674,329	16,072,919
Interest payable	–	143,579
Other payables	54,736	45,781
Quality guarantee deposit	15	117
	19,729,080	16,262,396
	28,107,195	22,693,575

## 30a. Balances with Related Parties

	2016 RMB'000	2015 RMB'000
Due to related parties:		
Subsidiaries of the ultimate holding company of a shareholder with significant influence: Sinochem Finance Co., Ltd.	814	6,719
	814	6,719

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

## Notes to Financial Statements

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## 31.INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Current portion of long term bank loans – secured	2.78~5.94	2017	6,054,392	2.78~6.46	2016	8,127,439
Bank loans – unsecured	1.85~4.75	2017	14,017,000	1.57~6.55	2016	10,735,668
Current portion of long term bank loans – unsecured	2.08~6.15	2017	19,032,705	1.39~7.04	2016	15,623,723
Other loans – secured	4.00~5.08	2017	370,000	4.75~5.08	2016	440,000
Other loans – unsecured	4.75	2017	315,103	4.75~8.50	2016	2,030,000
Bonds – unsecured	2.79~5.75	2017	13,756,349	3.40~6.95	2016	4,742,703
			53,545,549			41,699,533
Non-current						
Bank loans – secured	2.78~5.94	2018~2023	5,591,411	2.78~6.46	2017~2023	4,288,312
Bank loans – unsecured	2.50~4.28	2018~2026	17,124,488	2.08~7.04	2017~2021	18,933,042
Other loans – secured	5.08~7.00	2018	703,902	4.75~5.08	2017~2018	200,000
Other loans – unsecured	5.64~7.09	2018	38,150	4.75~7.00	2017~2018	1,000,397
Bonds – unsecured	3.00~6.13	2018~2022	29,934,088	3.80~6.13	2017~2022	17,307,517
			53,392,039			41,729,268
			106,937,588			83,428,801

## Notes to Financial Statements

31 December 2016

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

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	39,104,097	34,486,830
In the second year	15,033,642	16,780,262
In the third to fifth years, inclusive	7,579,826	6,192,611
Beyond five years	102,431	248,481
	61,819,996	57,708,184
Other borrowings repayable:		
Within one year or on demand	14,441,452	7,212,703
In the second year	984,467	8,036,476
In the third to fifth years, inclusive	29,356,493	9,996,455
Beyond five years	335,180	474,983
	45,117,592	25,720,617
	106,937,588	83,428,801

- (a) As at 31 December 2016, the Group's bank and other borrowings were secured by the pledge of or the transfer of certain of the Group's lease receivables amounting to RMB12,059,285,000 (31 December 2015: RMB12,461,793,000). As at 31 December 2016, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB12,886,076,000 (31 December 2015: RMB13,793,514,000).
- (b) As at 31 December 2016, the Group's bank borrowings amounting to RMB312,165,000 (31 December 2015: RMB2,776,663,000) were secured by the pledge of cash.
- (c) As at 31 December 2016, the Group's bank and other borrowings, secured by the Group's leasehold land, and property, plant and equipment, amounted to RMB348,255,000 (31 December 2015: Nil). The Group had not provided any guarantees for other entities (31 December 2015: Nil).

## Notes to Financial Statements

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## 32.DEFERRED REVENUE

	Service fee		Government special subsidy	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
At the beginning of year	14,053	1,617	246,725	294,264
Additions during the year	123,732	14,844	740,462	247,359
Amortised to the statement of profit or loss	(42,209)	(2,408)	(934,695)	(294,898)
At the end of year	95,576	14,053	52,492	246,725

## (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 2016, the Group received a government special subsidy of RMB187,113,000 (2015: RMB247,359,000), 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 RMB553,199,000 (2015: Nil) due to policies to support finance lease industry of the Tianjin Dongjiang bonded port area. Those special subsidies are required to be used for certain purposes. The amortisation of those special subsidies reduced the expense to which it related or reduced the amortisation charges of the related assets.

## Notes to Financial Statements

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## 33.SHARE CAPITAL

	Number of shares	Amounts HK\$
Issued and fully paid ordinary shares:		
At 31 December 2015 (note(i))	3,950,400,000	13,003,080,000
At 31 December 2016 (note(ii))	3,950,783,817	13,005,970,000

Note:

- (i) The Company purchased its own shares through a trust under a share award scheme (Note 35), which were presented as shares held for the share award scheme.

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

	Number of shares in issue	Share capital HK\$'000	Equivalent share capital RMB'000
At 1 January 2016 and 31 December 2015	3,950,400,000	13,003,080	10,210,572
Share options exercised (note(ii))	383,817	2,890	2,445
As at 31 December 2016	3,950,783,817	13,005,970	10,213,017

Note:

- (ii) The subscription rights attaching to 383,817 share options were exercised at the subscription price of HK\$5.86 per share (note 34), resulting in the issue of 383,817 shares for a total cash consideration, before expenses, of HK\$2,249,000. An amount of HK\$641,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

## Notes to Financial Statements

31 December 2016

### 34.SHARE OPTION SCHEME

Pursuant to a resolution in writing passed on 7 July 2014 by the shareholders of the Company, a share option scheme (the "Share Option Scheme") has been adopted by the Company.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants certain qualified participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include senior and middle management personnel, as well as other key employees of the Company or any Subsidiary (the "Grantees"). The total number of new shares in respect of which options may be granted under the Share Option Scheme shall not exceed 4% of the Company's issued share capital as at the date of approval of the Share Option Scheme by the shareholders at the General Meeting, which is 131,696,000 shares and which 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 achieving a specified level in annual personal performance evaluations.

The exercise price in respect of any option shall be such price as determined by the Board or the Administration Committee of the Share Option Scheme and notified to the Grantees and which shall not be less than the highest of: (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average of the closing prices of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the shares as at the offer date. The exercise price of the share options is subject to adjustment in the case of rights or other similar changes in the Company's share capital.

On 15 June 2016, the Board announced that, the Company has resolved to the offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 32,924,000 ordinary shares in the capital of the Company.

## Notes to Financial Statements

31 December 2016

**34.SHARE OPTION SCHEME** (continued)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price*	Number of share options	
	per share option HK\$	2016	2015
11 July 2024	5.86	11,034,230	11,589,253
3 July 2025	7.17	16,902,459	17,275,048
15 June 2026	5.714	32,696,824	–
		60,633,513	28,864,301

\* 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 2015	Granted during the year ended 31 December 2015	Forfeited during the year ended 31 December 2015	Outstanding as at 31 December 2015	Granted during the year ended 31 December 2016	Forfeited during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Outstanding as at 31 December 2016
5.86	11 July 2014	13,123,512	–	(1,534,259)	11,589,253	–	(171,206)	(383,817)	11,034,230
7.17	3 July 2015	–	18,569,020	(1,293,972)	17,275,048	–	(372,589)	–	16,902,459
5.714	15 June 2016	–	–	–	–	32,924,000	(227,176)	–	32,696,824
Total number at the end of the year		13,123,512	18,569,020	(2,828,231)	28,864,301	32,924,000	(770,971)	(383,817)	60,633,513
Weighted average exercise price (HK\$)		5.86	7.17	6.46	6.64	5.714	6.45	5.86	6.15

3,446,308 share options which were granted on 11 July 2014 were vested and exercisable, but not yet exercised during the year (2015: Nil).



## Notes to Financial Statements

31 December 2016

### 34.SHARE OPTION SCHEME (continued)

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2016 was RMB83,691,000 (31 December 2015: RMB43,795,000). The weighted average fair values were RMB1.35, RMB1.39 and RMB1.41 per option (31 December 2015: RMB1.48, RMB1.53 and RMB1.55 per option) each for three tranches with two-year, three-year and four-year vesting periods, respectively. And the Group recognised a share option expense of RMB22,577,000 (2015: RMB10,317,000) during the year ended 31 December 2016 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:

	2016	2015
Expected dividend yield (%)	4.11	3.40
Expected volatility (%)	37.34	37.91
Risk-free interest rate (%)	1.13	1.92
Share price (HK\$ per share)	5.60	6.88
Expected exercise trigger multiple	2.00	2.00

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 2016, the Company had 57,202,569 (31 December 2015: 28,864,301) non-vested share options (including 7,982,358 (31 December 2015: 4,229,021) non-vested share options granted to certain executive directors, 12,981,449 (31 December 2015: 6,681,989) non-vested share options granted to certain employees among five highest paid employees and 17,583,827 (31 December 2015: 8,913,839) 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 57,202,569 (31 December 2015: 28,864,301) additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 60,633,513 (2015: 28,864,301) share options outstanding under the Share Option Scheme, which represented approximately 1.59% (2015: 0.74%) of the Company's shares in issue as at that date.

## Notes to Financial Statements

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### 35.RESTRICTED SHARE AWARD SCHEME

On 11 June 2014, the Board announced that it has adopted a share award scheme (the "Share Award Scheme"), under which some restricted shares (the "Restricted Shares") will be held on trust for the relevant selected grantees (the "Selected Grantees") until such Restricted Shares are vested with the relevant Selected Grantees in accordance with the Share Award Scheme rules. The number of Restricted Shares under the Share Award Scheme shall not exceed 197,544,000, representing 6% of the Company's issued share capital as at the date of approval of the Share Award Scheme by the Board. The Share Award Scheme shall be effective from its adoption until it is terminated by the Board or shareholders in a general meeting.

Pursuant to the rules of the Share Award Scheme, the Company has set up a trust, and a third party company acts as the trustee (the "Trustee"). The Company's shares may be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the Selected Grantees until such shares are vested with the Selected Grantees in accordance with the provisions of the Share Award Scheme.

The vesting of the Restricted Shares under the Share Award Scheme is mainly subject to the fulfilment of Company's performance targets, Selected Grantees remaining as an employee of the Group, as well as 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 2015	19,685,254
Granted	29,113,740
Forfeited	(4,242,365)
At 31 December 2015 and 1 January 2016	44,556,629
Granted	49,386,000
Vested	(5,745,222)
Forfeited	(1,306,273)
At 31 December 2016	86,891,134

## Notes to Financial Statements

31 December 2016

### 35.RESTRICTED SHARE AWARD SCHEME (continued)

5,745,222 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:

#### 2016

Number of restricted shares	Vesting period
5,702,422	11 July 2014 to 11 July 2017
5,702,462	11 July 2014 to 11 July 2018
8,871,197	3 July 2015 to 3 July 2017
8,871,197	3 July 2015 to 3 July 2018
8,871,477	3 July 2015 to 3 July 2019
16,290,780	15 June 2016 to 15 June 2017
16,290,780	15 June 2016 to 15 June 2018
16,290,819	15 June 2016 to 15 June 2019
86,891,134	

#### 2015

Number of restricted shares	Vesting period
5,794,608	11 July 2014 to 11 July 2016
5,794,608	11 July 2014 to 11 July 2017
5,794,651	11 July 2014 to 11 July 2018
9,057,489	3 July 2015 to 3 July 2017
9,057,489	3 July 2015 to 3 July 2018
9,057,784	3 July 2015 to 3 July 2019
44,556,629	

At 31 December 2016, the Company had 86,891,134 (31 December 2015: 44,556,629) non-vested restricted shares (including 12,073,538 (31 December 2015: 6,443,534) non-vested restricted shares granted to certain executive directors, 19,872,179 (31 December 2015: 10,422,991) non-vested restricted shares granted to certain employees among five highest paid employees and 26,975,752 (31 December 2015: 13,970,772) non-vested restricted shares granted to certain key management personnel) outstanding under the Share Award Scheme.

## Notes to Financial Statements

31 December 2016

### 35. RESTRICTED SHARE AWARD SCHEME (continued)

Under the Share Award Scheme, there were non-vested shares of 140,148,918 (31 December 2015: 47,250,140) in total amounting to RMB852,459,000 (31 December 2015: RMB252,505,000), i.e. at a weighted average price of RMB6.08 (2015: RMB5.34), held by the trust at 31 December 2016. The movements of the shares held for the Share Award Scheme are as follows:

	Number of shares	Amount RMB'000
At 1 January 2015	25,456,000	136,260
Purchase of shares under the Share Award Scheme	21,794,140	116,245
At 31 December 2015 and 1 January 2016	47,250,140	252,505
Purchase of shares under the Share Award Scheme	98,644,000	633,176
Vested	(5,745,222)	(33,222)
At 31 December 2016	140,148,918	852,459

The fair value (measured as at the grant dates) of the Restricted Shares that were outstanding as at 31 December 2016 was RMB391,066,000 (31 December 2015: RMB204,972,000). The weighted average fair values were RMB4.75, RMB4.49 and RMB4.32 per share (31 December 2015: RMB4.77, RMB4.60 and RMB4.44 per share) each for three tranches with two-year, three-year and four-year vesting periods, respectively. The Group recognised an amount of RMB143,743,000 (2015: RMB48,654,000) in employee benefit expense during the year ended 31 December 2016.

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:

	2016	2015
Expected dividend yield (%)	4.11	3.40
Share price (HK\$ per share)	5.60	6.88

## Notes to Financial Statements

31 December 2016

### 36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity of the financial statements.

The Group's capital reserve represents the excess of the carrying amounts of capital and capital reserve of the subsidiaries acquired pursuant to the reorganisation as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalised in excess of the nominal value of shares issued.

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as are required to transfer no less than 10% of their profits after taxation, as determined under PRC Company Law, to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to this statutory reserve fund must be made before the distribution of dividend to shareholders.

Special reserve mainly represents funds set aside for the purpose of certain safety production activities. Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the subsidiary, Shanghai Horizon Construction Engineering Equipment Co., Ltd. set aside funds mainly for construction service activities at prescribed rates. These funds can be used for maintenance and/or improvements of safety of these activities, and are not available for distribution to shareholders.

Share-based compensation reserve of the Group comprises the recognition of the equity-settled share-based payments under the Share Option Scheme and the Share Award Scheme which are yet to be exercised. The amount will either be transferred to the share capital account when the related share options or awards are exercised, or be transferred to retained profits should the related options or awards expire or be forfeited.

## Notes to Financial Statements

31 December 2016

### 37. PERPETUAL SECURITIES

On 23 June 2014, the Company issued US\$200,000,000 senior perpetual capital securities ("Perpetual Securities") at an initial distribution rate of 5.55%. Perpetual Securities are unsecured.

The direct transaction costs attributable to the Perpetual Securities amounted to RMB8,426,000.

Distributions of the Perpetual Securities may be paid semi-annually in arrears on 23 June and 23 December in each year with the exception of the first distribution payment date which is 23 January 2015 (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 Securities have no fixed maturity date and are callable at the Company's option in whole on 23 June 2017 (the "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 4.606%, the treasury rate and a step-up margin of 5.00% per annum.

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 Securities other than an unforeseen liquidation of the Company.

For the year ended 31 December 2016, the profit attributable to holders of the Perpetual Securities, based on the applicable distribution rate, was RMB78,284,000 (2015: RMB73,080,000) and the distribution made by the Group to the holders of Perpetual Securities was RMB73,606,000 (2015: RMB104,047,000).

### 38. BUSINESS COMBINATIONS

In March 2016, the Group acquired 50% of the voting shares of Siyang Traditional Chinese Medicine Company Limited ("Siyang Hospital") and 70% of the voting shares of Qingdao Confucius Education Investment Consulting Company Limited ("Qingdao Confucius").

In July 2016, the Group acquired 51% of the voting shares of Nayong Xinli Hospital Company Limited ("Nayong Hospital") and 51% of the voting shares of Chongqing Yudong Hospital Company Limited ("Yudong Hospital").

In August 2016, the Group acquired 70% of the voting shares of Deyang Fifth Hospital Company Limited ("Deyang Hospital") and 70% of the voting shares of Zhoushan Putuo Guanghua hospital Company Limited ("Putuo Hospital").

All these acquisitions have been accounted for using the acquisition method. The consolidated financial statements include the results of those acquired subsidiaries since their respective acquisition dates.

## Notes to Financial Statements

31 December 2016

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Siyang Hospital**

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

	Fair value recognised on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	125,734
Prepaid land lease payments	19,783
Cash	22,248
Trade receivables	30,308
Prepayments, deposits and other receivables	125,654
Inventories	8,219
Other assets	945
	332,891
<b>Liabilities</b>	
Trade payables	(48,411)
Other payables and accruals	(54,776)
Interest-bearing bank and other borrowings	(122,230)
Taxes payable	(686)
Deferred tax liabilities	(1,550)
	(227,653)
Total identifiable net assets at fair value	105,238
Non-controlling interests	(52,619)
Goodwill arising on acquisition	97,381
Purchase consideration transferred	150,000
Including: Consideration paid upon acquisition	20,000
Consideration paid after acquisition	26,667
Consideration paid as additional capital injection to the subsidiary	66,667
Consideration to be paid after acquisition	20,000
Consideration to be paid as additional capital injection to the subsidiary	16,666
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	22,248
Cash paid	(46,667)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(24,419)
Transaction costs of the acquisition included in cash flows from operating activities	(748)
	(25,167)

Since the acquisition, Siyang Hospital has contributed RMB129,712,000 to the Group's revenue and a net profit of RMB11,027,000 to the consolidated profit for the year ended 31 December 2016.

## Notes to Financial Statements

31 December 2016

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Qingdao Confucius**

The fair values of the identifiable assets and liabilities of Qingdao Confucius as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	4,171
Cash	2,297
Prepayments, deposits and other receivables	23,916
Inventories	543
	30,927
<b>Liabilities</b>	
Other payables and accruals	(27,538)
Taxes payable	(789)
	(28,327)
Total identifiable net assets at fair value	2,600
Non-controlling interests	(780)
Goodwill arising on acquisition	68,180
Purchase consideration transferred	70,000
Including: Consideration paid upon acquisition	14,000
Consideration paid after acquisition	56,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,297
Cash paid	(70,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(67,703)
Transaction costs of the acquisition included in cash flows from operating activities	(35)
	(67,738)

Since the acquisition, Qingdao Confucius has contributed RMB41,553,000 to the Group's revenue and a net profit of RMB5,282,000 to the consolidated profit for the year ended 31 December 2016.



## Notes to Financial Statements

31 December 2016

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Nayong Hospital**

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

	Fair value recognised on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	46,878
Prepaid land lease payments	2,268
Cash	20,902
Trade receivables	6,705
Prepayments, deposits and other receivables	2,073
Inventories	4,132
	<b>82,958</b>
<b>Liabilities</b>	
Trade payables	(5,235)
Other payables and accruals	(8,408)
Taxes payable	(271)
Deferred tax liabilities	(127)
	<b>(14,041)</b>
Total identifiable net assets at fair value	<b>68,917</b>
Non-controlling interests	<b>(33,769)</b>
Goodwill arising on acquisition	<b>55,403</b>
Purchase consideration transferred	<b>90,551</b>
Including: Consideration paid upon acquisition	<b>59,945</b>
Consideration paid as additional capital injection to the subsidiary	<b>21,551</b>
Consideration to be paid after acquisition	<b>9,055</b>
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	<b>20,902</b>
Cash paid	<b>(59,945)</b>
Net outflow of cash and cash equivalents included in cash flows from investing activities	<b>(39,043)</b>
Transaction costs of the acquisition included in cash flows from operating activities	<b>(926)</b>
	<b>(39,969)</b>

Since the acquisition, Nayong Hospital has contributed RMB34,099,000 to the Group's revenue and a net profit of RMB432,000 to the consolidated profit for the year ended 31 December 2016.

## Notes to Financial Statements

31 December 2016

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Yudong Hospital**

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

	Fair value recognised on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	52,002
Prepaid land lease payments	15,165
Cash	30,948
Trade receivables	13,772
Prepayments, deposits and other receivables	57,227
Inventories	1,361
Deferred tax assets	906
	<b>171,381</b>
<b>Liabilities</b>	
Trade payables	(11,176)
Other payables and accruals	(41,955)
Interest-bearing bank and other borrowings	(846)
Taxes payable	(427)
Deferred tax liabilities	(622)
Other liabilities	(677)
	<b>(55,703)</b>
Total identifiable net assets at fair value	<b>115,678</b>
Non-controlling interests	(56,682)
Goodwill arising on acquisition	<b>45,086</b>
Purchase consideration transferred	<b>104,082</b>
Including: Consideration paid upon acquisition	<b>5,000</b>
Consideration paid as additional capital injection to the subsidiary	<b>89,082</b>
Consideration to be paid as additional capital injection to the subsidiary	<b>10,000</b>
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	<b>30,948</b>
Cash paid	<b>(5,000)</b>
Net inflow of cash and cash equivalents included in cash flows from investing activities	<b>25,948</b>
Transaction costs of the acquisition included in cash flows from operating activities	<b>(775)</b>
	<b>25,173</b>

Since the acquisition, Yudong Hospital has contributed RMB24,755,000 to the Group's revenue and a net profit of RMB1,969,000 to the consolidated profit for the year ended 31 December 2016.

## Notes to Financial Statements

31 December 2016

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Deyang Hospital**

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

	Fair value recognised on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	73,408
Prepaid land lease payments	20,685
Cash	8,480
Trade receivables	21,767
Prepayments, deposits and other receivables	13,308
Inventories	2,163
Other assets	1,362
	141,173
<b>Liabilities</b>	
Trade payables	(15,013)
Other payables and accruals	(37,289)
Interest-bearing bank and other borrowings	(2,079)
Taxes payable	(619)
Deferred tax liabilities	(4,527)
Other liabilities	(1,089)
	(60,616)
Total identifiable net assets at fair value	80,557
Non-controlling interests	(24,167)
Goodwill arising on acquisition	118,610
Purchase consideration transferred	175,000
Including: Consideration paid upon acquisition	52,500
Consideration paid after acquisition	87,500
Consideration to be paid after acquisition	35,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	8,480
Cash paid	(140,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(131,520)
Transaction costs of the acquisition included in cash flows from operating activities	(556)
	(132,076)

Since the acquisition, Deyang Hospital has contributed RMB44,445,000 to the Group's revenue and a net profit of RMB2,482,000 to the consolidated profit for the year ended 31 December 2016.

## Notes to Financial Statements

31 December 2016

**38. BUSINESS COMBINATIONS** (continued)**Acquisition of Putuo Hospital**

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

	Fair value recognised on acquisition RMB'000
<b>Assets</b>	
Property, plant and equipment	5,850
Prepaid land lease payments	17,282
Cash	451
Trade receivables	677
Prepayments, deposits and other receivables	16
Inventories	539
	<b>24,815</b>
<b>Liabilities</b>	
Trade payables	(1,513)
Other payables and accruals	(269)
Taxes payable	(1)
Deferred tax liabilities	(15)
	<b>(1,798)</b>
Total identifiable net assets at fair value	<b>23,017</b>
Non-controlling interests	<b>(6,905)</b>
Goodwill arising on acquisition	<b>597</b>
Purchase consideration transferred	<b>16,709</b>
Including: Consideration paid upon acquisition	<b>8,400</b>
Consideration paid after acquisition	<b>8,183</b>
Consideration to be paid after acquisition	<b>126</b>
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	<b>451</b>
Cash paid	<b>(16,583)</b>
Net outflow of cash and cash equivalents included in cash flows from investing activities	<b>(16,132)</b>
Transaction costs of the acquisition included in cash flows from operating activities	<b>(55)</b>
	<b>(16,187)</b>

Since the acquisition, Putuo Hospital has contributed RMB2,894,000 to the Group's revenue and a net profit of RMB277,000 to the consolidated profit for the year ended 31 December 2016.

## Notes to Financial Statements

31 December 2016

### 38. BUSINESS COMBINATIONS (continued)

If the acquisitions had taken place at the beginning of the period, revenue of the Group would have been RMB14,110,245,000 and net profit of the Group for the year would have been RMB2,931,650,000.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Siyang Hospital, Qingdao Confucius, Nayong Hospital, Yudong Hospital, Deyang Hospital and Putuo Hospital with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of RMB3,095,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The Group acquired Siping Cancer Institute & Hospital Co., Ltd., Binhai Xinrenci Hospital Co., Ltd., Shanghai Montessori Academy Co., Ltd., Anda Jiren Hospital Co., Ltd., Shanghai Sunflower Language Co., Ltd., Kunshan Yi Ze Education Consulting Co., Ltd., Zhoushan Dinghai Guanghua Hospital Co., Ltd. and Shanghai Shengyi Yuanhong Investment Co., Ltd. during the year ended 31 December 2015.

### 39. CONTINGENT LIABILITIES

At 31 December 2016, contingent liabilities that are not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Claimed amounts	4,257	2,103

### 40. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 13, 14, 23, 26 and 31 to the financial statements.

## Notes to Financial Statements

31 December 2016

## 41. 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	671,916	292,762
In the second to fifth years, inclusive	420,871	227,648
	1,092,787	520,410

## (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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	154,533	119,395
In the second to fifth years, inclusive	192,695	135,611
More than five years	99,669	20,362
	446,897	275,368

## Notes to Financial Statements

31 December 2016

## 42.COMMITMENTS

## (a) Capital commitments

In addition to the operating lease commitments detailed in Note 41 above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and machinery	535,261	370,454
Purchase of shareholding	386,500	103,593
	921,761	474,047

## (b) Credit commitments

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

	2016 RMB'000	2015 RMB'000
Irrevocable credit commitments:	5,432,647	4,840,547

At any given time, the Group also has outstanding commitments to extend credit, which are included in irrevocable credit commitments. These commitments are in the form of approved lease contracts, which have yet to be provided at the end of each reporting period.

## Notes to Financial Statements

31 December 2016

### 43. RELATED PARTY TRANSACTIONS

Relationship between the Group and its related parties:

**Ultimate holding company of a shareholder with significant influence**

Sinochem Group

**A shareholder with significant influence**

Greatpart Limited

**Subsidiaries of the ultimate holding company of a shareholder with significant influence**

Sinochem Hong Kong

Sinochem Finance Co., Ltd.

China Jin Mao Group Co., Ltd.

Beijing Chemsunny Property Co., Ltd.

Jin Mao (Shanghai) Property Management Service Co., Ltd.

Sinochem Jinmao Property Management (Beijing) Co., Ltd.

Sinochem Corporation

Sinochem International (Overseas) Pte. Ltd.

Sinochem International Tendering Co., Ltd. ("Sinochem Tendering")

**Joint ventures**

Weihai Haida Hospital Co., Ltd.

Guangzhou Kangda Industrial Technology Co., Ltd.

Kunming Broadhealthcare Investment Co., Ltd.

Teamway Shipping Limited

Gold Chance Shipping Limited

In addition to the transactions and balances in Notes 23, 24, 26, 30 and 31 to the financial statements, the Group had the following material transactions with related parties during the year.

(i) **Interest income from cash at banks:**

	2016 RMB'000	2015 RMB'000
Sinochem Finance Co., Ltd.	3,371	4,522

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



## Notes to Financial Statements

31 December 2016

## 43. RELATED PARTY TRANSACTIONS (continued)

## (ii) Service fee income:

	2016 RMB'000	2015 RMB'000
Sinochem International (Overseas) Pte. Ltd.	2,642	10,435

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

## (iii) Interest expense on borrowings:

	2016 RMB'000	2015 RMB'000
Sinochem Finance Co., Ltd.	4,426	11,036

The interest expenses were charged at a rate of 3.60% to 4.35% per annum.

## (iv) Commission fee:

	2016 RMB'000	2015 RMB'000
Sinochem Finance Co., Ltd.	6,159	7,264

## (v) Rental expenses:

	2016 RMB'000	2015 RMB'000
China Jin Mao Group Co., Ltd.	50,563	50,462
Beijing Chemsunny Property Co., Ltd.	5,955	8,192
Jin Mao (Shanghai) Property Management Services Co., Ltd.	1,575	2,265
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	430	596
Sinochem Hong Kong	2,801	2,810
	61,324	64,325

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

## Notes to Financial Statements

31 December 2016

**43. RELATED PARTY TRANSACTIONS** (continued)**(vi) Information and technology services:**

	2016 RMB'000	2015 RMB'000
Sinochem Corporation	–	165

The information and technology service expenses were charged based on prices mutually agreed between the parties.

**(vii) Interest income**

	2016 RMB'000	2015 RMB'000
Weihai Haida Hospital Co., Ltd.	354	1,519
Guangzhou Kangda Industrial Technology Co., Ltd.	4,438	3,533
Kunming Broadhealthcare Investment Co., Ltd.	3,067	878
	7,859	5,930

**(viii) Non-cancellable operating leases:**

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
China Jin Mao Group Co., Ltd.	50,937	101,244
Beijing Chemsunny Property Co., Ltd.	8,773	15,353
Sinochem Hong Kong	–	2,562
	59,710	119,159

**(ix) Tendering service fee:**

	2016 RMB'000	2015 RMB'000
Sinochem International Tendering Co., Ltd.	857	703

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

## Notes to Financial Statements

31 December 2016

### 43.RELATED PARTY TRANSACTIONS (continued)

#### (x) Finance lease with CRRC Qingdao Sifang Co., Ltd. ("CRRC Sifang") and Sinochem Tendering

On 10 June 2015, the Group entered into (i) the Lease Contract with CSR Sifang and (ii) the Supplementary Agreement with CSR Sifang and Sinochem Tendering. Pursuant to the Supplementary Agreement, upon the completion of the performance by CSR Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB11,738,000 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

On 15 January 2016, the Group entered into (i) the New Lease Contract with CRRC Sifang and (ii) the New Supplementary Agreement with CRRC Sifang and Sinochem Tendering. Pursuant to the New Supplementary Agreement, upon the completion of the performance by CRRC Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB19,584,396 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

In the opinion of the directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

#### (xi) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	84,208	47,952

During 2016, certain key management personnel of the Group were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme and the restricted share award scheme of the Company, further details of which are set out in Note 34 and Note 35 to the financial statements.

Further details of directors' emoluments are set out in Note 8 to the financial statements.

Save for the related party transactions with joint ventures as set out in note (vii) and the related party transactions in respect of compensation of key management personnel in note (xi), all the related party transactions disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## Notes to Financial Statements

31 December 2016

## 44. 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 2016

Financial assets

	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Financial instruments at fair value through profit or loss RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Total RMB'000
Loans and accounts receivables	138,801,377	–	–	–	138,801,377
Deposits and other receivables	2,793,955	–	–	–	2,793,955
Restricted deposits	2,461,364	–	–	–	2,461,364
Derivative instruments – cash flow hedges	–	–	–	1,357,888	1,357,888
Derivatives not designated as hedges	–	–	24,988	–	24,988
Available-for-sale investments	–	289,889	–	–	289,889
Equity investments at fair value through profit or loss	–	–	721,239	–	721,239
Cash and cash equivalents	2,051,307	–	–	–	2,051,307
	146,108,003	289,889	746,227	1,357,888	148,502,007

## Notes to Financial Statements

31 December 2016

## 44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2016 (continued)

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	2,887,321	–	–	2,887,321
Other payables and accruals	26,170,500	–	–	26,170,500
Interest-bearing bank and other borrowings	106,937,588	–	–	106,937,588
Derivative instruments – cash flow hedges	–	92,217	–	92,217
Other liabilities	–	–	70,000	70,000
	135,995,409	92,217	70,000	136,157,626

As at 31 December 2015

Financial assets

	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Financial instruments at fair value through profit or loss RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Total RMB'000
Loans and accounts receivables	120,566,309	–	–	–	120,566,309
Deposits and other receivables	794,629	–	–	–	794,629
Restricted deposits	2,640,891	–	–	–	2,640,891
Derivative instruments – cash flow hedges	–	–	–	1,105,539	1,105,539
Derivatives not designated as hedges	–	–	11,695	–	11,695
Available-for-sale investments	–	427,142	–	–	427,142
Equity investments at fair value through profit or loss	–	–	244,132	–	244,132
Cash and cash equivalents	2,500,665	–	–	–	2,500,665
	126,502,494	427,142	255,827	1,105,539	128,291,002

## Notes to Financial Statements

31 December 2016

**44. FINANCIAL INSTRUMENTS BY CATEGORY** (continued)

As at 31 December 2015 (continued)

Financial liabilities

	At amortised cost RMB'000	Financial instruments at fair value through other comprehensive income RMB'000	Financial instruments at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	8,337,635	–	–	8,337,635
Other payables and accruals	20,903,452	–	–	20,903,452
Interest-bearing bank and other borrowings	83,428,801	–	–	83,428,801
Derivative instruments – cash flow hedges	–	288,114	–	288,114
	112,669,888	288,114	–	112,958,002

## Notes to Financial Statements

31 December 2016

### 45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

#### Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, restricted deposits, loans and accounts receivables, financial assets included in deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and borrowings.

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

#### Cash and cash balances, current portion of financial assets included in deposits and other receivables, trade and bills payables, short term borrowings and current portion of financial liabilities included in other payables and accruals

Substantially all of the financial assets and liabilities mature within one year from the end of each reporting period and their carrying values approximate to their fair values.

#### Loans and accounts receivables, interest-bearing bank and other borrowings except for bonds issue and short term borrowings and restricted deposits

Substantially all of the loans and accounts receivables, restricted deposits and interest-bearing bank and other borrowings, except for bonds issued and short term borrowings are on floating rate terms, 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.

## Notes to Financial Statements

31 December 2016

**45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS** (continued)

Financial instruments not measured at fair value (continued)

Bonds issued (continued)

	Carrying amounts		Fair values	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<b>Financial liabilities</b>				
Bonds issued	43,690,437	22,050,220	43,697,168	22,409,695

**Non-current portion of financial assets included in prepayments deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals**

The fair values of the non-current portion of financial assets included in prepayment deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The difference between the carrying amounts and the fair values of those financial assets and liabilities are not significant.

**Equity investments at fair value through profit or loss and available-for-sale investments**

As at 31 December 2016, the fair value has not been disclosed for certain equity investments at fair value through profit or loss and available-for-sale investments in unlisted equity instruments that do not have a quoted market price in an active market and is measured at cost less any impairment because their fair value cannot be measured reliably. The reason why the fair value cannot be measured reliably is that the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The carrying amount of these equity investments at fair value through profit or loss and available-for-sale investments was RMB124,000,000 (31 December 2015: Nil) and RMB103,555,000 (31 December 2015: RMB427,142,000), respectively. All of them are unlisted equity investments held by the Group in China, which are intended to be disposed of by the Group after getting listed on the designated stock exchanges in the future.

During the year ended 31 December 2016, the available-for-sale investments whose fair value could not be reliably measured with a carrying amount of RMB228,318,000 was derecognised and the relevant gain on disposal amounted to RMB27,908,000 was recognised in the consolidated statement of profit or loss.



## Notes to Financial Statements

31 December 2016

### 45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

#### Financial instruments measured at fair value

##### Non-deliverable cross-currency swaps

Non-deliverable cross-currency swaps are measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

##### Equity investments at fair value through profit or loss

The valuations of the equity investments 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; making reference to the current market value of another instrument that is substantially the same and net assets making as much use of available and supportable market data as possible.

##### Available-for-sale investments

The fair values of available-for-sale investments of listed equity investments are based on quoted market prices.

##### Fair value hierarchy

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

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

#### Assets and liabilities measured at fair value

As at 31 December 2016

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Available-for-sale investments – equity investments	186,334	–	–	186,334
Cross-currency interest rate swaps – assets	–	1,034,720	–	1,034,720
Forward currency contracts – assets	–	348,156	–	348,156
Forward currency contracts – liabilities	–	(90,150)	–	(90,150)
Interest rate swaps – liabilities	–	(2,067)	–	(2,067)
Equity investments at fair value through profit or loss	–	597,239	–	597,239
Other liabilities	–	(70,000)	–	(70,000)

## Notes to Financial Statements

31 December 2016

**45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS** (continued)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

As at 31 December 2015

	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	–	844,702	–	844,702
Cross-currency interest rate swaps – liabilities	–	(4,989)	–	(4,989)
Forward currency contracts – assets	–	272,532	–	272,532
Forward currency contracts – liabilities	–	(283,125)	–	(283,125)
Equity investments at fair value through profit or loss	–	244,132	–	244,132

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

	RMB'000
Call option:	
At 31 December 2014 and 1 January 2015	12,006
Addition	–
Total losses recognised in the statement of profit or loss	(12,006)
Exchange difference	–
At 31 December 2015	–
At 31 December 2015 and 1 January 2016	–
Addition	–
Total losses recognised in the statement of profit or loss	–
Exchange difference	–
At 31 December 2016	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

## Notes to Financial Statements

31 December 2016

**45. 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 2016

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	43,697,168	–	43,697,168

As at 31 December 2015

	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	–	22,409,695	–	22,409,695

## Notes to Financial Statements

31 December 2016

### 46. 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, foreign 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.

A principal objective 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 mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such risk mitigation measure. For example, the Group enters into cross currency interest rate swaps to mitigate the interest rate risk as well as currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 22).

The table below demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, to the Group's profit before tax.

The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of the reporting period subject to repricing within the coming year.

## Notes to Financial Statements

31 December 2016

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Interest rate risk** (continued)

	Increase/(decrease) in profit before tax	
	As at 31 December	
	2016 RMB'000	2015 RMB'000
Change in basis points		
+100 basis points	65,369	277,617
– 100 basis points	(65,369)	(277,617)

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).

The exchange rate of RMB to US\$ is managed under a floating exchange rate system. The 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.

## Notes to Financial Statements

31 December 2016

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Currency risk** (continued)**Group**

Currency	Change in currency rate	Increase in profit before tax	
		As at 31 December	
		2016 RMB'000	2015 RMB'000
US\$	+/-1%	17,786/(17,786)	(2,391)/2,391
HK\$	+/-1%	(17,903)/17,903	(5,996)/5,996

**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, and entrusted loans. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk is equal to the carrying amounts of these assets.

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

## Notes to Financial Statements

31 December 2016

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Credit risk** (continued)

	As at 31 December 2016		As at 31 December 2015	
	RMB'000	%	RMB'000	%
<b>Net lease receivables</b>				
Healthcare	27,529,840	25	27,207,144	25
Packaging	9,762,118	8	11,003,910	10
Transportation	10,320,475	9	8,993,212	8
Infrastructure construction	17,926,400	15	17,275,090	16
Machinery	11,836,274	10	10,759,272	10
Education	22,740,745	19	19,324,385	18
Comprehensive development (formerly textile)	4,135,572	4	3,699,584	3
Electronic information	7,415,747	6	6,717,174	6
Others	5,198,565	4	5,354,295	4
	<b>116,865,736</b>	<b>100</b>	<b>110,334,066</b>	<b>100</b>
Less: Impairment provision of lease receivables	(2,527,157)		(2,196,194)	
<b>Net</b>	<b>114,338,579</b>		<b>108,137,872</b>	

As the customers of the Group are widely dispersed and are engaged in different industries, 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.

## Notes to Financial Statements

31 December 2016

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Credit risk (continued)

The analysis of financial assets which are neither past due nor impaired is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Lease receivables	114,921,325	107,555,743
Notes receivable	755,552	267,874
Accounts receivable	1,274,555	657,037
Factoring receivable	3,814,163	2,837,201
Entrusted loans	17,543,787	7,699,011
Secured loans	294,465	422,627
Interest receivables	613,180	495,378
Derivative financial instruments	1,382,876	1,117,234
Deposits and other receivables	2,991,589	794,629
Long term receivables	363,394	82,014

As 31 December 2016, the assets which were past due but were not considered impaired amounted to RMB874,433,000 (31 December 2015: RMB1,738,203,000). The aging analysis is as follows:

2016	Less than 90 days	90 days to 1 year	1 year to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and accounts receivables	874,433	–	–	–	874,433

2015	Less than 90 days	90 days to 1 year	1 year to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and accounts receivables	1,738,203	–	–	–	1,738,203



## Notes to Financial Statements

31 December 2016

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Liquidity risk**

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

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

The tables below summarise the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows:

	As at 31 December 2016					Total RMB'000
	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	
<b>FINANCIAL ASSETS:</b>						
Loans and accounts receivables	670,943	16,620,558	44,053,564	92,741,843	714,573	154,801,481
Deposits and other receivables	–	255,667	111,294	2,426,994	–	2,793,955
Restricted deposits	390	2,254,502	201,101	14,664	–	2,470,657
Derivative financial instruments	–	359,965	544,122	478,789	–	1,382,876
Available-for-sale investments	–	–	–	289,889	–	289,889
Equity investments at fair value through profit or loss	–	–	–	721,239	–	721,239
Cash and cash equivalents	2,051,307	–	–	–	–	2,051,307
<b>Total financial assets</b>	<b>2,722,640</b>	<b>19,490,692</b>	<b>44,910,081</b>	<b>96,673,418</b>	<b>714,573</b>	<b>164,511,404</b>
<b>FINANCIAL LIABILITIES:</b>						
Trade and bills payables	–	1,347,001	1,540,265	55	–	2,887,321
Other payables and accruals	109,165	2,452,885	3,879,370	19,664,829	64,251	26,170,500
Interest-bearing bank and other borrowings	–	19,721,668	37,027,710	55,517,268	513,629	112,780,275
Derivative financial instruments	–	–	61,059	31,158	–	92,217
Other liabilities	–	–	–	–	70,000	70,000
<b>Total financial liabilities</b>	<b>109,165</b>	<b>23,521,554</b>	<b>42,508,404</b>	<b>75,213,310</b>	<b>647,880</b>	<b>142,000,313</b>
<b>Net liquidity gap</b>	<b>2,613,475</b>	<b>(4,030,862)</b>	<b>2,401,677</b>	<b>21,460,108</b>	<b>66,693</b>	<b>22,511,091</b>

## Notes to Financial Statements

31 December 2016

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Liquidity risk (continued)

	As at 31 December 2015					
			3 to less			
	On demand	Less than	than	1 to 5	Over	Total
	RMB'000	3 months	12 months	years	5 years	RMB'000
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	449,219	13,959,650	39,277,560	81,075,930	173,954	134,936,313
Deposits and other receivables	–	231,003	630	562,996	–	794,629
Restricted deposits	–	1,814,321	776,607	105,090	–	2,696,018
Derivative financial instruments	–	96,808	323,568	696,858	–	1,117,234
Available-for-sale investments	–	–	–	427,142	–	427,142
Equity investments at fair value through profit or loss	–	–	–	244,132	–	244,132
Cash and cash equivalents	2,000,665	500,594	–	–	–	2,501,259
Total financial assets	2,449,884	16,602,376	40,378,365	83,112,148	173,954	142,716,727
FINANCIAL LIABILITIES:						
Trade and bills payables	19,055	4,379,821	3,934,944	3,815	–	8,337,635
Other payables and accruals	31,671	1,726,485	2,882,901	16,151,094	111,301	20,903,452
Interest-bearing bank and other borrowings	–	12,252,937	32,332,618	43,068,666	755,779	88,410,000
Derivative financial instruments	–	–	–	288,114	–	288,114
Total financial liabilities	50,726	18,359,243	39,150,463	59,511,689	867,080	117,939,201
Net liquidity gap	2,399,158	(1,756,867)	1,227,902	23,600,459	(693,126)	24,777,526

## Notes to Financial Statements

31 December 2016

**46. 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	
	2016	2015
	RMB'000	RMB'000
Bank and other borrowings	106,937,588	83,428,801
Total equity	24,846,101	22,961,420
Total equity and net debt	131,783,689	106,390,221
Gearing ratio	81%	78%

## Notes to Financial Statements

31 December 2016

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**Capital management** (continued)**Far Eastern Leasing**

The primary objectives of the capital management of Far Eastern Leasing, a principal subsidiary of the Group located in Mainland China, are to ensure that it complies with the regulatory requirements of MOFCOM in addition to the aforementioned general requirements that are relevant to the Group. In accordance with the *Administration of Foreign Investment in the Leasing Industry* promulgated by MOFCOM on 3 February 2005 and other relevant laws and regulations, Far Eastern Leasing has set up appropriate program of business development and capital management and established a comprehensive evaluation system. It actively adjusts the capital structure in light of changes in the market and the risks being confronted by adjusting its dividend policy or financing channels in light of risks confronted. During the year, there were no significant changes in the policies or processes for managing the capital of Far Eastern Leasing.

In accordance with the aforementioned requirements of MOFCOM, Far Eastern Leasing should maintain its assets at risk within 10 times of its equity. The ratios of assets at risk to equity as at the reporting dates are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Total assets	136,256,718	119,918,073
Less: Cash	(2,408,413)	(2,721,314)
Total assets at risk	133,848,305	117,196,759
Equity	20,449,035	19,263,095
Ratio of assets at risk to equity	6.55	6.08

**47. OTHER LIABILITIES**

	2016 RMB'000	2015 RMB'000
Continuing involvement in transferred assets (Note 47a)	2,398,981	569,062
Payables to non-controlling interests of consolidated structured entities	70,000	–
	2,468,981	569,062

## Notes to Financial Statements

31 December 2016

### 47a. TRANSFERS OF FINANCIAL ASSETS AND INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

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

During the year ended 31 December 2016, the Group transferred an aggregate carrying amount of RMB276,714,000 (2015: RMB1,688,391,000) of loans and accounts receivable to some unconsolidated structured entities, which qualified for full derecognition. Hence, the Group derecognized those assets. The Group did not provide liquidity support to these unconsolidated structured entities. There is no exposure to losses. (31 December 2015: The Group provided liquidity support up to RMB235,322,000 which approximate the maximum exposure to losses.)

During the year ended 31 December 2016, the Group also transferred an aggregate carrying amount of RMB27,187,667,000 (2015: RMB13,709,872,000) of loans and accounts receivable to other unconsolidated structured entities, whereby the Group retained continuing involvement in the transferred assets. As a result, as at 31 December 2016, in addition to recognition of its acquisition of subordinated tranches of asset-backed securities issued by the structured entities of amounting to RMB2,350,662,000, in other receivables (31 December 2015: RMB520,726,000), the Group recognized the transferred assets to the extent of its continuing involvement, amounting to RMB2,398,981,000 as other assets (31 December 2015: RMB569,062,000), and also recognized associated liabilities amounting to RMB2,398,981,000 as other liabilities (31 December 2015: RMB569,062,000), which approximate the maximum exposure to losses from its involvement in such securitization arrangements and the unconsolidated structured entities.

As a result of the above securitization transactions, the Group recognized gains of RMB92,907,000 and losses of RMB45,744,000 (2015: gains of RMB67,203,000 and losses of RMB300,810,000) from transfers of loans and accounts receivable.

### 48. EVENTS AFTER THE REPORTING PERIOD

There were no material subsequent events undertaken by the Group after 31 December 2016.

### 49. COMPARATIVE AMOUNTS

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

## Notes to Financial Statements

31 December 2016

## 50.STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)*
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	913	40
Investments in subsidiaries	25,156,478	21,635,556
Deferred tax assets	10,177	10,177
Loans and accounts receivables	14,127,466	26,703,472
Prepayments, deposits and other receivables	430,010	–
Derivative financial instruments	478,789	696,858
<b>Total non-current assets</b>	<b>40,203,833</b>	<b>49,046,103</b>
<b>CURRENT ASSETS</b>		
Loans and accounts receivables	1,706,909	1,567,487
Prepayments, deposits and other receivables	2,142,356	1,709,492
Dividend receivable from subsidiaries	13,174	1,112,926
Restricted deposits	14,942	16,555
Cash and cash equivalents	287,333	918,147
Derivative financial instruments	904,087	420,376
<b>Total current assets</b>	<b>5,068,801</b>	<b>5,744,983</b>
<b>CURRENT LIABILITIES</b>		
Trade and bills payables	–	1,218
Other payables and accruals	214,488	418,555
Derivative financial instruments	61,059	–
Tax payable	(36,073)	(24,279)
Interest-bearing bank and other borrowings	13,327,914	13,736,802
<b>Total current liabilities</b>	<b>13,567,388</b>	<b>14,132,296</b>
<b>NET CURRENT LIABILITIES</b>	<b>(8,498,587)</b>	<b>(8,387,313)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>31,705,246</b>	<b>40,658,790</b>

## Notes to Financial Statements

31 December 2016

**50.STATEMENT OF FINANCIAL POSITION OF THE COMPANY** (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows (continued):

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	7,454,908	17,688,909
Derivative financial instruments	29,091	288,114
Deferred tax liabilities	30,136	63,527
Total non-current liabilities	7,514,135	18,040,550
Net assets	24,191,111	22,618,240
EQUITY		
Share capital	10,213,017	10,210,572
Reserves	12,746,213	11,180,465
	22,959,230	21,391,037
Holders of perpetual securities	1,231,881	1,227,203
Total equity	24,191,111	22,618,240

Kong Fanxing  
Director

Wang Mingzhe  
Director

## Notes to Financial Statements

31 December 2016

## 50.STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve <sup>†</sup> 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 2015										
As previously reported	2,607,841	(136,260)	17,994	-	-	411,106	-	-	598,280	3,498,961
Changes in accounting policies (note 2.2)	(511,018)	-	-	1,065	121,913	-	-	638,299	5,679,981	5,930,240
As restated*	2,096,823	(136,260)	17,994	1,065	121,913	411,106	-	638,299	6,278,261	9,429,201
Profit for the year	-	-	-	-	-	-	-	-	2,503,109	2,503,109
Other comprehensive income for the year	-	-	-	-	-	(89,621)	-	(30,629)	-	(120,250)
Total comprehensive income for the year	-	-	-	-	-	(89,621)	-	(30,629)	2,503,109	2,382,859
Purchase of shares under share award scheme	-	(116,245)	-	-	-	-	-	-	-	(116,245)
Final 2014 dividend declared (net of dividends received from shares held for share award scheme)	-	-	-	-	-	-	-	-	(592,476)	(592,476)
Recognition of equity-settled share-based payments	-	-	58,971	-	-	-	-	-	-	58,971
Special reserve - safety fund appropriation	-	-	-	835	-	-	-	-	(835)	-
Special reserve - safety fund utilisation	-	-	-	(685)	-	-	-	-	685	-
Changes in the Company's share of net assets in the subsidiaries due to transactions with non-controlling interests	18,155	-	-	-	-	-	-	-	-	18,155
At 31 December 2015	2,114,978	(252,505)	76,965	1,215	121,913	321,485	-	607,670	8,188,744	11,180,465



## Notes to Financial Statements

31 December 2016

## 50.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 <sup>#</sup>	Special reserve	Reserve fund	Hedging reserve	Available- for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016										
As previously reported	2,607,841	(252,505)	76,965	-	-	321,485	-	-	890,083	3,643,869
Change in accounting policies (note 2.2)	(492,863)	-	-	1,215	121,913	-	-	607,670	7,298,661	7,536,596
As restated*	2,114,978	(252,505)	76,965	1,215	121,913	321,485	-	607,670	8,188,744	11,180,465
Profit for the year	-	-	-	-	-	-	-	-	2,882,208	2,882,208
Other comprehensive income for the year	-	-	-	-	-	(171,498)	83,860	9,113	-	(78,525)
Total comprehensive income for the year	-	-	-	-	-	(171,498)	83,860	9,113	2,882,208	2,803,683
Purchase of shares under share award scheme	-	(633,176)	-	-	-	-	-	-	-	(633,176)
Final 2015 dividend declared (net of dividends received from shares held for share award scheme)	-	-	-	-	-	-	-	-	(769,673)	(769,673)
Shares vested under restricted share award scheme	-	33,222	(24,647)	-	-	-	-	-	(8,575)	-
Transfer of share option reserve upon exercise of share options	-	-	(508)	-	-	-	-	-	-	(508)
Recognition of equity-settled share-based payments	-	-	166,320	-	-	-	-	-	-	166,320
Special reserve - safety fund appropriation	-	-	-	521	-	-	-	-	(578)	(57)
Special reserve - safety fund utilisation	-	-	-	(1,080)	-	-	-	-	1,115	35
Changes in the Company's share of net in the subsidiaries due to transactions with non-controlling interests	(876)	-	-	-	-	-	-	-	-	(876)
At 31 December 2016	2,114,102	(852,459)	218,130	656	121,913	149,987	83,860	616,783	10,293,241	12,746,213

\* Certain comparative amounts have been restated to reflect the change in accounting policy as a result the adoption of Amendments to HKAS 27 to use the equity method to account for investments in subsidiaries, details are disclosed in Note 2.2 to the financial statements.

# The reserve of the Company comprises the recognition of the equity-settled share-based payment under the Share Options 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.

## 51.APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2017.

## Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past few financial years, as extracted from the published audited financial information and financial statements is set out below.

### RESULTS

	2016 RMB'000	For the year ended 31 December			
		2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	13,928,369	11,795,983	10,060,717	7,868,382	6,486,395
Cost of Sales	(5,735,538)	(4,771,610)	(4,106,547)	(2,890,185)	(2,908,365)
Gross profit	8,192,831	7,024,373	5,954,170	4,978,197	3,578,030
Other income and gains	477,443	510,032	523,689	318,178	119,845
Selling and administrative expenses	(2,875,622)	(2,556,557)	(2,265,899)	(1,884,669)	(1,215,751)
Other expenses	(306,790)	(454,489)	(249,400)	(282,972)	(52,939)
Finance costs	(157,755)	(122,221)	(14,667)	(1,270)	(2,138)
Profit or loss on investment in joint ventures	591	(310)	(195)	–	–
Profit or loss on investment in associates	300	–	13,511	7,893	–
Pre-provision Operating Profit	5,330,998	4,440,828	3,961,209	3,135,357	2,427,047
Provision for loans and accounts receivable	(1,258,528)	(821,103)	(750,009)	(534,616)	(351,027)
Provision before tax	4,072,470	3,579,725	3,211,200	2,600,741	2,076,020
Income tax expense	(1,130,683)	(999,734)	(869,026)	(684,668)	(558,652)
Profits for the year	2,941,787	2,579,991	2,342,174	1,916,073	1,517,368
Attributable to:					
Holders of ordinary shares of the Company	2,882,208	2,503,109	2,295,954	1,912,744	1,518,577
Holders of senior perpetual securities	78,284	73,080	36,036	–	–
Non-controlling interests	(18,705)	3,802	10,184	3,329	(1,209)
	2,941,787	2,579,991	2,342,174	1,916,073	1,517,368

## 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<sup>(1)</sup> as of the dates indicated.

	For the year ended 31 December				
	2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000	2012 US\$'000
Revenue	2,074,125	1,870,508	1,647,151	1,270,898	1,030,699
Cost of sales	(854,100)	(756,642)	(672,328)	(466,822)	(462,144)
Gross profit	1,220,025	1,113,866	974,823	804,076	568,555
Other income and gains	71,098	80,877	85,739	51,392	19,044
Selling and administrative expenses	(428,219)	(405,397)	(370,976)	(304,411)	(193,185)
Other expenses	(45,685)	(72,069)	(40,832)	(45,705)	(8,411)
Finance costs	(23,492)	(19,381)	(2,401)	(205)	(340)
Profit or loss on investment in joint ventures	88	(49)	(32)	–	–
Profit or loss on investment in associates	45	–	2,212	1,275	–
Pre-provision Operating Profit	793,859	697,847	648,533	506,422	385,663
Provision for loans and accounts receivable	(187,412)	(130,204)	(122,792)	(86,351)	(55,779)
Profit before tax	606,447	567,643	525,741	420,071	329,884
Income tax expense	(168,374)	(158,530)	(142,278)	(110,587)	(88,771)
Profits for the year	438,073	409,113	383,463	309,484	241,113
Attributable to:					
Holders of ordinary shares of the Company	429,200	396,922	375,896	308,946	241,305
Holders of perpetual securities	11,658	11,588	5,900	–	–
Non-controlling interests	(2,785)	603	1,667	538	(192)
	438,072	409,113	383,463	309,484	241,113

## Financial Summary

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	For the year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	166,560,921	139,312,889	110,726,124	86,512,872	60,570,275
Total liabilities	(141,714,820)	(116,351,469)	(93,276,231)	(72,348,002)	(47,714,829)
Perpetual securities	(1,231,881)	(1,227,203)	(1,258,170)	–	–
Non-controlling interests	(654,990)	(343,180)	(78,771)	(39,528)	(10,964)
	22,959,230	21,391,037	16,112,952	14,125,342	12,844,482

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<sup>(1)</sup> as of the dates indicated.

	For the year ended 31 December				
	2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000	2012 US\$'000
Total assets	24,010,512	21,453,876	18,095,461	14,189,649	9,636,509
Total liabilities	(20,428,834)	(17,917,868)	(15,243,705)	(11,866,359)	(7,591,255)
Senior perpetual securities	(177,581)	(188,987)	(205,617)	–	–
Non-controlling interests	(94,420)	(52,849)	(12,873)	(6,483)	(1,744)
	3,309,677	3,294,172	2,633,266	2,316,807	2,043,510

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	Average exchange rate
31 December 2012	6.2855	6.2932
31 December 2013	6.0969	6.1912
31 December 2014	6.1190	6.1080
31 December 2015	6.4936	6.3063
31 December 2016	6.9370	6.7153

## Report on Review of Interim Condensed Consolidated Financial Statements



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

### INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 64 to 125, which comprise the interim condensed consolidated statement of financial position of Far East Horizon Limited and its subsidiaries (the "Group") as at 30 June 2017, and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
23 August 2017

## Interim Condensed Consolidated Statement of Profit or Loss



For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	5	8,972,211	7,280,667
Cost of sales		(3,508,756)	(2,566,867)
Gross profit		5,463,455	4,713,800
Other income and gains	5	200,806	144,238
Selling and distribution costs		(960,771)	(974,218)
Administrative expenses		(2,076,507)	(1,584,805)
Other expenses		(218,488)	(130,158)
Finance cost		(92,292)	(84,723)
Share of net (losses)/profits of:			
Associates		(10,781)	162
Share of net (losses)/profits of:			
Joint ventures		(1,518)	826
PROFIT BEFORE TAX	6	2,303,904	2,085,122
Income tax expense	7	(684,358)	(619,698)
PROFIT FOR THE PERIOD		1,619,546	1,465,424
Attributable to:			
Ordinary shareholders of the Company		1,619,032	1,439,491
Holders of perpetual securities	22	39,856	37,212
Non-controlling interests		(39,342)	(11,279)
		1,619,546	1,465,424
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY EQUITY HOLDERS OF THE PARENT	9	RMB	RMB
Basic and diluted			
– For profit for the period		0.42	0.37

Details of the dividends payable and proposed for the period are disclosed in Note 8 to the interim condensed consolidated financial statements.

## Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	(Unaudited) RMB'000	(Unaudited) RMB'000
PROFIT FOR THE PERIOD	1,619,546	1,465,424
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:		
Available-for-sale investments:		
Changes in fair value	(13,573)	–
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
– gains on disposal	(26,118)	–
	(39,691)	–
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	(404,649)	74,082
Reclassification to the consolidated statement of profit or loss	109,774	(623,558)
Income tax effect	48,557	90,663
	(246,318)	(458,813)
Exchange differences on translation of foreign operations	7,712	19,559
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(278,297)	(439,254)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(278,297)	(439,254)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,341,249	1,026,170
Attributable to:		
Ordinary shareholders of the Company	1,340,735	1,000,237
Holders of perpetual securities	39,856	37,212
Non-controlling interests	(39,342)	(11,279)
	1,341,249	1,026,170

## Interim Condensed Consolidated Statement of Financial Position



As at 30 June 2017

		30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	5,413,399	4,995,714
Prepaid land lease payments	11	1,234,987	1,215,828
Goodwill		1,122,558	748,821
Other assets		3,119,336	2,434,148
Investments in joint ventures	14	1,534,566	1,404,870
Investments in associates		382,104	263,700
Available-for-sale investments		214,794	289,889
Equity investments at fair value through profit or loss		1,144,111	721,239
Derivative financial instruments	13	31,018	478,789
Loans and accounts receivables	12	104,369,662	84,721,981
Prepayments, deposits and other receivables		3,400,679	2,431,140
Deferred tax assets	19	2,491,367	1,907,364
Restricted deposits	16	103,593	12,600
Total non-current assets		124,562,174	101,626,083
<b>CURRENT ASSETS</b>			
Inventories		326,009	246,057
Construction contracts	15	53,073	44,129
Derivative financial instruments	13	429,441	904,087
Loans and accounts receivables	12	63,253,097	54,079,396
Prepayments, deposits and other receivables		2,631,744	5,161,098
Restricted deposits	16	2,940,247	2,448,764
Cash and cash equivalents	16	2,790,075	2,051,307
Total current assets		72,423,686	64,934,838
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	17	2,274,969	2,887,266
Other payables and accruals		10,928,267	8,378,115
Derivative financial instruments	13	124,237	61,059
Interest-bearing bank and other borrowings	18	59,761,153	53,545,549
Taxes payable		753,651	1,002,600
Total current liabilities		73,842,277	65,874,589
NET CURRENT LIABILITIES		(1,418,591)	(939,751)



## Interim Condensed Consolidated Statement of Financial Position



As at 30 June 2017

		30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
	Notes		
TOTAL ASSETS LESS CURRENT LIABILITIES		123,143,583	100,686,332
NON-CURRENT LIABILITIES			
Trade and bills payables	17	–	55
Interest-bearing bank and other borrowings	18	70,738,657	53,392,039
Derivative financial instruments	13	41,202	31,158
Deferred tax liabilities	19	45,185	70,850
Other payables and accruals		22,236,783	19,729,080
Deferred revenue		174,538	148,068
Other liabilities		3,485,982	2,468,981
Total non-current liabilities		96,722,347	75,840,231
Net assets		26,421,236	24,846,101
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	20	10,213,688	10,213,017
Other reserves	21	13,301,296	12,746,213
		23,514,984	22,959,230
Holders of perpetual securities	22	2,036,648	1,231,881
Non-controlling interests		869,604	654,990
Total equity		26,421,236	24,846,101

Kong Fanxing  
Director

Wang Mingzhe  
Director

## Interim Condensed Consolidated Statement of Changes in Equity



For the six months ended 30 June 2017

	Attributable to ordinary shareholders of the parent													
								Available-for-sale						
			Shares held	Share-based	Special reserve	Reserve fund	Hedging reserve	investment	Exchange	Retained profits	Total	Perpetual securities	Non-controlling interests	Total equity
	Share capital	Capital reserve	for share award scheme	compensation reserve				revaluation reserve	fluctuation reserve					
	RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000					
	(Note 20)	(Note 21)		(Note 21)	(Note 21)	(Note 21)						(Note 22)		
At 1 January 2017 (Audited)	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 period	-	-	-	-	-	-	-	-	-	1,619,032	1,619,032	39,856	(39,342)	1,619,546
Other comprehensive income	-	-	-	-	-	-	(246,318)	(39,691)	7,712	-	(278,297)	-	-	(278,297)
Total comprehensive income	-	-	-	-	-	-	(246,318)	(39,691)	7,712	1,619,032	1,340,735	39,856	(39,342)	1,341,249
Final 2016 dividend declared (net of dividends received from shares held for share award scheme) (Note 8)	-	-	-	-	-	-	-	-	-	(762,997)	(762,997)	-	-	(762,997)
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	-	(37,847)	-	(37,847)
Shares vested under restricted share award scheme	-	-	102,270	(73,982)	-	-	-	-	-	(28,288)	-	-	-	-
Transfer of share option reserve upon exercise of share options	671	-	-	(136)	-	-	-	-	-	-	535	-	-	535
Recognition of equity-settled share-based payments	-	-	-	118,804	-	-	-	-	-	-	118,804	-	-	118,804
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	59,031	59,031
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(1,886)	(1,886)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(5,740)	(5,740)
Purchase of non-controlling interests	-	(7,424)	-	-	-	-	-	-	-	-	(7,424)	-	(7,277)	(14,701)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	209,828	209,828
Issue of perpetual capital securities (Note 22)	-	-	-	-	-	-	-	-	-	-	-	2,032,719	-	2,032,719
Redemption of senior perpetual securities	-	-	-	-	-	-	-	-	-	(133,899)	(133,899)	(1,229,961)	-	(1,363,860)
At 30 June 2017 (Unaudited)	10,213,688	2,106,678*	(750,189)*	262,816*	656*	121,913*	(96,331)*	44,169*	624,495*	10,987,089*	23,514,984	2,036,648	869,604	26,421,236

\* These reserve accounts comprise the consolidated reserves of RMB13,301,296,000 (31 December 2016: RMB12,746,213,000) in the consolidated statement of financial position.

## Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to ordinary shareholders of the parent												
	Share capital	Capital reserve	Shares held for share award scheme	Share-based compensation reserve	Special reserve	Reserve fund	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total	Perpetual securities	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 20)	(Note 21)		(Note 21)	(Note 21)	(Note 21)					(Note 22)		
At 1 January 2016 (Audited)	10,210,572	2,114,978	(252,505)	76,965	1,215	121,913	321,485	607,670	8,188,744	21,391,037	1,227,203	343,180	22,961,420
Profit for the period	-	-	-	-	-	-	-	-	1,439,491	1,439,491	37,212	(11,279)	1,465,424
Other comprehensive income	-	-	-	-	-	-	(458,813)	19,559	-	(439,254)	-	-	(439,254)
Total comprehensive income	-	-	-	-	-	-	(458,813)	19,559	1,439,491	1,000,237	37,212	(11,279)	1,026,170
Final 2015 dividend declared (net of dividends received from shares held for share award scheme) (Note 8)	-	-	-	-	-	-	-	-	(769,673)	(769,673)	-	-	(769,673)
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	(36,803)	-	(36,803)
Recognition of equity-settled share-based payments	-	-	-	56,539	-	-	-	-	-	56,539	-	-	56,539
Capital injection by non-controlling shareholders	-	26	-	-	-	-	-	-	-	26	-	10,974	11,000
Decrease in ownership interests in subsidiaries without loss of control	-	5,277	-	-	-	-	-	-	-	5,277	-	5,047	10,324
Purchase of non-controlling interests	-	(3,976)	-	-	-	-	-	-	-	(3,976)	-	(2,704)	(6,680)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	54,314	54,314
At 30 June 2016 (Unaudited)	10,210,572	2,116,305	(252,505)	133,504	1,215	121,913	(137,328)	627,229	8,858,562	21,679,467	1,227,612	399,532	23,306,611

## Interim Condensed Consolidated Statement of Cash Flows



For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,303,904	2,085,122
Adjustments for:			
Finance costs		2,622,491	2,025,543
Interest income	5	(11,302)	(24,343)
Share of net losses/(profits) of associates		10,781	(162)
Share of net losses/(profits) of joint ventures		1,518	(826)
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value losses/(gains), net		24,988	(7,005)
Realised fair value losses, net		109,930	11,301
Gains on structured financial products	5	(21,819)	(2,948)
Gains on disposal of available-for-sale investments	5	(26,118)	–
Losses/(gains) on disposal of property, plant and equipment, net		13,693	(2,066)
Gains on disposal of subsidiaries	5	(2,106)	–
Depreciation		230,678	165,143
Provision for impairment of loans and accounts receivable	12	812,044	880,441
Provision for impairment of other assets		32,918	192
Provision for impairment of property, plant and equipment	6	148,403	–
Amortisation of intangible assets and other assets		21,084	26,080
Equity settled share-based payments expenses	6	118,804	56,539
Foreign exchange loss, net		32,905	30,250
		6,422,796	5,243,261
Increase in inventories		(78,434)	(23,586)
Increase in construction contracts		(8,944)	(21,948)
Increase in loans and accounts receivable		(29,668,482)	(12,375,486)
Decrease in prepayments, deposits and other receivables		1,717,936	735,665
Increase in restricted cash related to asset-backed securitisations and collective fund trusts		(608,401)	(1,007,199)
Increase in other assets		(803,356)	(687,453)
Decrease in trade and bills payables		(630,394)	(4,355,043)
Increase in other payables and accrued liabilities		5,594,340	4,397,092
Increase in other liabilities		917,544	781,053
Net cash flows used in operating activities before tax and interest		(17,145,395)	(7,313,644)
Interest paid		(2,566,486)	(1,694,531)
Interest received		11,302	24,343
Income tax paid		(1,496,579)	(842,567)
Net cash flows used in operating activities		(21,197,158)	(9,826,399)

## Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Gain on structured financial products	5	21,819	2,948
Realised gains on derivative financial instruments not qualifying as hedges		19,324	1,363
Proceeds from disposal of property, plant and equipment		117,590	12,363
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(880,680)	(837,262)
Acquisition of subsidiaries	3	(185,339)	(51,455)
Proceeds from disposal of subsidiaries		(888)	–
Purchase of shareholding for joint ventures		(132,995)	(323,484)
Purchase of shareholding for associates		(130,000)	(17,200)
Dividend received from joint ventures		1,761	–
Dividend received from associates		815	–
Proceeds from disposal of a joint venture		–	1,290
Disposal of available-for-sale investments		59,516	–
Purchase of equity investments at fair value through profit or loss		(422,872)	(112,947)
Net cash flows used in investing activities		(1,531,949)	(1,324,384)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from exercise of share options		535	–
Capital injection from non-controlling shareholders		59,031	11,000
Purchase of non-controlling shareholders		(10,225)	(6,680)
Cash received from borrowings		78,210,159	50,480,174
Repayments of borrowings		(55,101,345)	(41,832,566)
Dividends paid		(762,997)	(769,673)
Decrease in pledged deposits		25,925	1,044,890
Distribution paid to holders of perpetual securities	22	(37,847)	(36,803)
Issue of perpetual capital securities		2,032,719	–
Dividends paid to non-controlling shareholders		(5,740)	–
Redemption of perpetual securities		(1,363,860)	–
Decrease in ownership interests in subsidiaries without loss of control		–	5,759
Realised fair value gains from derivative financial Instruments in hedges for borrowings		467,765	284,996
Net cash flows from financing activities		23,514,120	9,181,097
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		785,013	(1,969,686)
Cash and cash equivalents at beginning of the period		2,051,307	2,500,665
Effect of exchange rate changes on cash and cash equivalents		(46,245)	89,193
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		2,790,075	620,172

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 1. Corporate 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 Far East Horizon Limited. The registered office of the Company is Room 6305, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company’s shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 March 2011.

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 and entrusted loan arrangements, factoring, the provision of advisory services, equipment operation business, and other services as approved by the Ministry of Commerce (the “MOFCOM”) of the People’s Republic of China (the “PRC”).

### 2. Basis of Preparation and Accounting Policies

#### 2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2016.

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

#### 2.2 Significant accounting policies

##### *Adoption of amendments*

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the Group’s financial statements for the year ended 31 December 2016, except in relation to the following amendments which are adopted by the Group for the first time for the current period’s financial statements:

Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 7	Disclosure Initiative
Annual Improvements 2014-2016 Cycle	Amendments to a number of HKFRSs

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 2. Basis of Preparation and Accounting Policies (continued)

#### 2.2 Significant accounting policies (continued)

##### *Adoption of amendments (continued)*

Adoption of these revised HKFRS did not have any material effect on the financial position or performance of the Group, nor resulted in the restatement of comparative figures.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

##### *Issued but not yet effective HKFRSs*

Further information about those HKFRSs issued but not yet effective for the six months ended 30 June 2017 that may significantly affect the consolidated financial statements of the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects that the adoption of HKFRS 9 may have an impact on the classification, measurement and impairment of the Group's financial assets. The Group expects to adopt HKFRS 9 on 1 January 2018 and is currently assessing the impact of HKFRS 9 upon adoption.

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 standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 2. Basis of Preparation and Accounting Policies (continued)

#### 2.2 Significant accounting policies (continued)

##### *Issued but not yet effective HKFRSs (continued)*

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. 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. 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. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

### 3. Business Combinations

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

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

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

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

All of these acquisitions have been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of these acquired subsidiaries since their respective acquisition dates.



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 3. Business Combinations (continued)

#### Acquisition of Zhengzhou Renji Hospital

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

	Fair value recognised on acquisition (Unaudited) RMB'000
<b>Assets</b>	
Property, plant and equipment	6,815
Cash	10,199
Trade receivables	837
Prepayments, deposits and other receivables	131,576
Inventories	1,152
Other assets	85,665
	236,244
<b>Liabilities</b>	
Trade payables	(1,398)
Other payables and accruals	(4,304)
Taxes payable	(379)
Deferred tax liabilities	(452)
	(6,533)
Total identifiable net assets at fair value	229,711
Non-controlling interests	(112,558)
Goodwill arising on acquisition	101,417
Purchase consideration transferred	218,570
Including: Consideration paid upon acquisition	–
Consideration paid as additional capital injection to the subsidiary	196,713
Consideration to be paid as additional capital injection to the subsidiary	21,857
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	10,199
Cash paid	–
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	10,199
Transaction costs of the acquisition (included in cash flows from operating activities)	(750)
	9,449

Since the acquisition, Zhengzhou Renji Hospital has contributed RMB38,613,000 to the Group's revenue and a net profit of RMB5,955,000 to the consolidated profit for the six-month period ended 30 June 2017.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**3. Business Combinations (continued)****Acquisition of Shenzhen Xinzonghai**

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

	Fair value recognised on acquisition (Unaudited) RMB'000
<b>Assets</b>	
Property, plant and equipment	19,211
Cash	17,286
Trade receivables	7,073
Prepayments, deposits and other receivables	115,983
Inventories	8,065
Other assets	21,953
	189,571
<b>Liabilities</b>	
Trade payables	(10,285)
Other payables and accruals	(26,969)
Interest-bearing bank and other borrowings	(50,660)
Taxes payable	(308)
Deferred tax liabilities	(894)
Other liabilities	(1,847)
	(90,963)
Total identifiable net assets at fair value	98,608
Non-controlling interests	(29,761)
Goodwill arising on acquisition	251,153
Purchase consideration transferred	320,000
Including: Consideration paid upon acquisition	50,000
Consideration paid after acquisition	130,000
Consideration paid as additional capital injection to the subsidiary	100,000
Consideration to be paid after acquisition	40,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	17,286
Cash paid	(180,000)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(162,714)
Transaction costs of the acquisition (included in cash flows from operating activities)	(290)
	(163,004)

Since the acquisition, Shenzhen Xinzonghai has contributed RMB71,816,000 to the Group's revenue and a net profit of RMB12,023,000 to the consolidated profit for the six-month period ended 30 June 2017.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 3. Business Combinations (continued)

#### Acquisition of Siyang Xiehe Hospital

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

	Fair value recognised on acquisition (Unaudited) RMB'000
<b>Assets</b>	
Property, plant and equipment	47,771
Cash	457
Trade receivables	1,680
Prepayments, deposits and other receivables	24,198
Inventories	1,189
Other assets	1,180
	76,475
<b>Liabilities</b>	
Trade payables	(6,244)
Other payables and accruals	(29,150)
Interest-bearing bank and other borrowings	(4,705)
Other liabilities	(1,376)
	(41,475)
Total identifiable net assets at fair value	35,000
Non-controlling interests	(10,500)
Goodwill arising on acquisition	10,500
Purchase consideration transferred	35,000
Including: Consideration paid as additional capital injection to the subsidiary	28,000
Consideration to be paid as additional capital injection to the subsidiary	7,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	457
Cash paid	-
Net inflow of cash and cash equivalents (included in cash flows from investing activities)	457
Transaction costs of the acquisition (included in cash flows from operating activities)	(77)
	380

Since the acquisition, Siyang Xiehe Hospital has contributed RMB6,803,000 to the Group's revenue and a net profit of RMB768,000 to the consolidated profit for the six-month period ended 30 June 2017.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**3. Business Combinations (continued)****Acquisition of Daishan Guanghua Hospital**

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

	Fair value recognised on acquisition (Unaudited) RMB'000
<b>Assets</b>	
Property, plant and equipment	85,934
Cash	3,946
Prepayments, deposits and other receivables	31,158
	121,038
<b>Liabilities</b>	
Other payables and accruals	(113)
Taxes payable	(6)
Deferred tax liabilities	(545)
	(664)
Total identifiable net assets at fair value	120,374
Non-controlling interests	(57,262)
Goodwill arising on acquisition	10,288
Purchase consideration transferred	73,400
Including: Consideration paid upon acquisition	17,616
Consideration paid after acquisition	20,133
Consideration paid as additional capital injection to the subsidiary	31,457
Consideration to be paid after acquisition	4,194
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3,946
Cash paid	(37,749)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(33,803)
Transaction costs of the acquisition (included in cash flows from operating activities)	(16)
	(33,819)

Since the acquisition, Daishan Guanghua Hospital has not contributed to the Group's revenue and has caused a net loss of RMB596,000 to the consolidated profit for the six-month period ended 30 June 2017.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 3. Business Combinations (continued)

#### Acquisition of Jinhua Hospital

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

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

Since the acquisition, Jinhua Hospital has not contributed to the Group's revenue and has caused a net loss of RMB15,000 to the consolidated profit for the six-month period ended 30 June 2017.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 3. Business Combinations (continued)

If the acquisition had taken place at the beginning of the period, revenue of the Group would have been RMB9,007,276,000 and the net profit of the Group for the period would have been RMB1,612,855,000.

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 RMB2,103,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The assessments of the fair values of the identifiable assets and liabilities of Zhengzhou Renji Hospital, Shenzhen Xinzonghai, Siyang Xiehe Hospital, Daishan Guanghua Hospital and Jinhua Hospital are still undergoing and the information of the fair values of the identifiable assets and liabilities is provisional. The finalised information will be disclosed in the consolidated financial statements of the Group for the year ended 31 December 2017.

The Group acquired Siyang Traditional Chinese Medicine Company Limited and Qingdao Confucius Education Investment Consulting Company, Limited during the six months ended 30 June 2016.

### 4. Operating Segment Information

For management purposes, the Group is organised into two operating segments, namely the financial and advisory business and the industrial operation business, based on internal organisational structure, management's requirement and internal reporting system:

- The financial and advisory business comprises primarily (a) direct finance leasing; (b) sale-leaseback; (c) factoring; (d) entrusted loans; (e) advisory services; and (f) Public-Private-Partnership financial business.
- The industrial operation 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) equipment operation; (e) hospital and healthcare management and (f) education consulting and management.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

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

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

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 4. Operating Segment Information (continued)

As at and for the six months ended 30 June 2017 (Unaudited)	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	7,679,096	1,293,115	–	8,972,211
Intersegment sales	87,253	2,642	(89,895)	–
Cost of sales	(2,711,410)	(896,850)	99,504	(3,508,756)
Other income and gains	210,480	15,353	(25,027)	200,806
Selling and distribution costs and administrative expenses	(2,644,170)	(395,824)	2,716	(3,037,278)
Other expenses	(41,221)	(177,267)	–	(218,488)
Finance costs	–	(92,292)	–	(92,292)
Share of net losses of associates	(10,781)	–	–	(10,781)
Share of net losses of joint ventures	(7,910)	6,392	–	(1,518)
Profit before tax	2,561,337	(244,731)	(12,702)	2,303,904
Income tax expense	(674,267)	(10,091)	–	(684,358)
Profit after tax	1,887,070	(254,822)	(12,702)	1,619,546
Segment assets	195,128,555	12,189,602	(10,332,297)	196,985,860
Segment liabilities	(168,455,611)	(11,717,430)	9,608,417	(170,564,624)
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	903,927	89,438	–	993,365
Depreciation and amortisation	22,244	229,518	–	251,762
Capital expenditure	225,635	1,526,251	–	1,751,886

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



## 4. Operating Segment Information (continued)

For the six months ended 30 June 2016 (Unaudited)	Financial and advisory RMB'000	Industrial operation RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	6,487,865	792,802	–	7,280,667
Intersegment sales	49,482	7,611	(57,093)	–
Cost of sales	(1,999,350)	(626,047)	58,530	(2,566,867)
Other income and gains	128,135	30,428	(14,325)	144,238
Selling and distribution costs and administrative expenses	(2,369,524)	(197,844)	8,345	(2,559,023)
Other expenses	(94,618)	(35,540)	–	(130,158)
Finance costs	–	(84,723)	–	(84,723)
Share of net profit of an associate	–	162	–	162
Share of net profits of joint ventures	(1,785)	2,611	–	826
Profit before tax	2,200,205	(110,540)	(4,543)	2,085,122
Income tax expense	(632,802)	13,104	–	(619,698)
Profit after tax	1,567,403	(97,436)	(4,543)	1,465,424
<b>As at 31 December 2016 (Audited)</b>				
Segment assets	163,614,496	12,953,138	(10,006,713)	166,560,921
Segment liabilities	(141,615,753)	(9,664,602)	9,565,535	(141,714,820)
<b>For the six months ended 30 June 2016 (Unaudited)</b>				
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	860,579	20,054	–	880,633
Depreciation and amortisation	27,768	163,455	–	191,223
Capital expenditure	330,393	1,011,955	–	1,342,348



Notes to the Unaudited Interim Condensed Consolidated Financial Statements

4. Operating Segment Information (continued)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Mainland China	8,906,843	7,202,489
Hong Kong	60,827	60,164
Other countries or regions	4,541	18,014
	8,972,211	7,280,667

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

(b) Non-current assets

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Mainland China	12,447,004	10,505,918
Hong Kong	359,946	557,163
	12,806,950	11,063,081

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

Information about a major customer

There was no single customer who contributed over 10% of the total revenue to the Group during the period.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**5. Revenue, Other Income and Gains**

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts, and the value of services rendered and gross leasing income received, net of value-added tax, during the period.

An analysis of revenue, other income and gains is as follows:

	Note	For the six months ended 30 June	
		2017	2016
		(Unaudited) RMB'000	(Unaudited) RMB'000
<b>Revenue</b>			
Finance lease and loan interest income		4,673,275	3,857,516
Service fee income		2,872,184	2,639,020
Factoring income		142,746	110,254
Sale of goods		115,786	76,844
Chartering and brokerage income		62,364	88,461
Construction contract revenue		36,522	39,386
Operating lease income		443,893	284,209
Healthcare service income		590,678	235,578
Education service income		71,299	50,546
Other income		14,907	15,563
Tax and surcharges		(51,443)	(116,710)
		<b>8,972,211</b>	<b>7,280,667</b>
<b>Other income and gains</b>			
Bank interest income		11,302	24,343
Gain on structured financial products		21,819	2,948
Gains on disposal of available-for-sale investments		26,118	–
Gain on disposal of property, plant and equipment		1,526	3,103
Government grants	5a	6,564	5,934
Gain on transfers of loans and receivables		17,769	36,201
Gains on disposal of subsidiaries		2,106	–
Interest income from subordinated tranches of asset-backed securities		112,267	11,739
Tax benefits from intra-group borrowings		–	56,381
Others		1,335	3,589
		<b>200,806</b>	<b>144,238</b>

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 5. Revenue, Other Income and Gains (continued)

#### 5a. Government Grants

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Government special subsidy	6,564	5,934
	6,564	5,934

### 6. Profit Before Tax

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of borrowings included in cost of sales	2,530,199	1,940,820
Cost of inventories sold	109,983	64,755
Cost of construction contracts	29,306	25,761
Cost of operating lease	281,752	230,605
Cost of chartering	95,773	104,740
Cost of healthcare service	404,626	165,620
Cost of education service	45,953	30,467
Cost of others	11,164	4,099
Depreciation	21,387	11,999
Amortisation of intangible assets and other assets:		
Current year expenditure	19,580	26,465
Less: Government grants released	(689)	(689)
	18,891	25,776
Rental expenses	83,553	51,051
Auditors' remuneration – other services	4,650	1,740
Employee benefit expense (Including directors' remuneration)		
– Wages and salaries		
– Current year expenditure	1,358,693	1,155,452
– Less: Government grants released	(18,600)	(15,000)
	1,340,093	1,140,452
– Equity-settled share-based payment expense	118,804	56,539
– Pension scheme contributions	46,610	40,439
– Other employee benefits	111,944	110,291
	277,358	207,269

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**6. Profit Before Tax (continued)**

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited) RMB'000	(Unaudited) RMB'000
Impairment of loans and accounts receivable ( <i>Note 12</i> )	812,044	880,441
Impairment of other receivables	24,895	192
Impairment of inventories	8,023	–
Impairment of property, plant and equipment	148,403	–
Entertainment fee	36,515	24,407
Business travelling expenses	97,158	75,655
Consultancy fees	43,998	37,003
Office expenses	21,831	13,525
Advertising and promotion expenses	8,603	4,163
Transportation expenses	5,543	3,531
Communication expenses	10,758	9,053
Other miscellaneous expenses:		
Current year expenditure	68,238	66,366
Less: Government grants released	(3,580)	(3,765)
	64,658	62,601
Litigation expense	8,917	10,165
Losses on disposal of property, plant and equipment	15,219	1,037
Donation	646	160
Bank commission expense	23,257	61,190
Realised losses from derivative instruments		
– transactions not qualifying as hedges	109,930	4,296
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 foreign exchange):	109,774	(602,501)
Others	(76,869)	632,751
Losses on transfers of loans and receivables	9,594	31,501
Finance costs	92,292	84,723
Other expenditure	1,949	1,724



## 7. Income Tax

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Hong Kong		
Charge for the period	32,641	98,824
Current – Mainland China		
Charge for the period	1,216,296	850,881
Deferred tax (Note 19)	(564,579)	(330,007)
Total tax charge for the period	684,358	619,698

### Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the period.

### Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the period, based on existing legislation, interpretations and practices in respect thereof.

On 18 November 2012, Domin Medical Engineering was recognised as a high-technology enterprise by the Shanghai Science and Technology Commission. Since then, Domin Medical Engineering has enjoyed a preferential tax rate of 15%.

On 30 October 2015, Shanghai Horizon Equipment & Engineering Co., Ltd. was recognised as a high-technology enterprise by the Shanghai Science and Technology Commission. Since then, Shanghai Horizon Equipment & Engineering Co., Ltd. has enjoyed a preferential tax rate of 15%.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**7. 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 its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	For the six months ended 30 June	
	2017	2016
	(Unaudited) RMB'000	(Unaudited) RMB'000
Profit before tax	2,303,904	2,085,122
Tax at the statutory income tax rates	607,452	521,582
Effect of lower tax rate enacted by local authority	(2,737)	894
Expenses not deductible for tax	11,701	28,839
Income not subject to tax	(22,004)	(16,249)
Adjustment on current income tax in respect of prior years	51	1,704
Utilisation of previously unrecognised tax losses	–	(849)
Unrecognised tax losses	67,267	4,184
Effect of recognition of deductible temporary differences that were not recognized in prior years	(4,859)	–
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	27,615
Effect of withholding tax on interest on intra-group balances	27,487	51,978
Income tax expense reported in the interim condensed consolidated statement of profit or loss	684,358	619,698

The share of taxes attributable to associates and joint ventures amounting to approximately RMB3,594,000 (six months ended 30 June 2016: RMB54,000) and RMB506,000 (six months ended 30 June 2016: RMB275,000) is included in "Share of net losses of associates" and "Share of net losses of joint ventures" on the face of the interim condensed consolidated statement of profit or loss.

**8. Dividends**

	For the six months ended 30 June	
	2017	2016
	(Unaudited) RMB'000	(Unaudited) RMB'000
Dividends	762,997	769,673

Pursuant to a resolution passed at the general meeting on 7 June 2017, the Company declared a final dividend of HK\$0.23 per share in respect of the year ended 31 December 2016 to its shareholders whose names appear on the register of members of the Company on 16 June 2017. Based on the total number of outstanding ordinary shares of 3,810,737,899 (excluding the 140,148,918 shares held for the share award scheme), cash dividends declared of approximately HK\$876,470,000 (equivalent to RMB762,997,000) were recognised in the financial statements.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 8. Dividends (continued)

The board of directors do not recommend the payment of an interim dividend to shareholders in respect of the period for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

### 9. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the consolidated net profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of the diluted earnings per share amounts is based on the consolidated net profit for the period 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 period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculation of basic and diluted earnings per share is based on:

#### Earnings

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	1,619,032	1,439,491

#### Shares

	Number of shares	
	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares outstanding during the period, used in the basic earnings per share calculation	3,812,012,389	3,903,149,860
Effect of dilution – weighted average number of ordinary shares:		
Share options	616,695	–
Weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation	3,812,629,084	3,903,149,860

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 9. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent (continued)

During the six months ended 30 June 2017, the unvested share options under the Share Option Scheme and the unvested restricted shares under the Restricted Share Award Scheme have 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.

### 10. Property, Plant and Equipment

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment at a total cost of RMB951,402,000 (six months ended 30 June 2016: RMB996,860,000), including those through acquisition of subsidiaries.

Property, plant and equipment with a net book value of RMB131,283,000 were disposed of by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB31,336,000), resulting in a net loss on disposal of RMB13,693,000 (six months ended 30 June 2016: a net gain of RMB2,066,000).

As at 30 June 2017, the Group has not obtained the property ownership certificates for five buildings (31 December 2016: one) with a net book value of RMB305,356,000 (31 December 2016: RMB9,254,000).

The Group was in the process of applying for the property ownership certificates for the above building as at 30 June 2017.

As at 30 June 2017, property, plant and equipment with a net carrying amount of RMB786,655,000 (31 December 2016: RMB748,439,000) were pledged to secure general banking facilities granted to the Group (see note 18(c)).

### 11. Prepaid Land Lease Payments

As at 30 June 2017, the Group has obtained the land use right certificates for the parcels of land with an aggregate net book value of RMB1,212,112,000 (31 December 2016: RMB1,193,115,000), and the Group has not obtained the land ownership certificate for one parcel (31 December 2016: one) of land with a net book value of RMB22,875,000 (31 December 2016: RMB22,713,000). The Group was in the process of applying for the land ownership certificate for the above parcel of land as at 30 June 2017.

As at 30 June 2017, the Group's leasehold land of approximately RMB892,502,000 (31 December 2016: RMB902,756,000) was pledged to secure general banking facilities granted to the Group (see note 18(c)).



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 12. Loans and Accounts Receivables

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Loans and accounts receivables due within 1 year	63,253,097	54,079,396
Loans and accounts receivables due after 1 year	104,369,662	84,721,981
	167,622,759	138,801,377

#### 12a. Loans and accounts receivables by nature

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Lease receivables (Note 12b)*	160,680,768	129,219,522
Less: Unearned finance income	(16,671,644)	(12,353,786)
Net lease receivables (Note 12b)	144,009,124	116,865,736
Interest receivables*	847,539	614,129
Notes receivable	1,003,439	757,552
Accounts receivable (Note 12d)*	1,409,555	1,274,555
Factoring receivable (Note 12f)	4,376,192	3,883,666
Entrusted loans (Note 12h)*	18,774,423	17,751,946
Long-term receivables*	649,089	363,394
Secured loans	139,474	319,470
Subtotal of loans and accounts receivables	171,208,835	141,830,448
Less: Provision for lease receivables (Note 12c)	(3,052,515)	(2,527,157)
Provision for accounts receivable (Note 12e)	(122,580)	(82,385)
Provision for factoring receivable (Note 12g)	(86,198)	(81,282)
Provision for entrusted loans (Note 12h)	(310,222)	(326,359)
Provision for long-term receivables (Note 12i)	–	–
Provision for secured loans (Note 12j)	(14,561)	(11,888)
	167,622,759	138,801,377

\* These balances included balances with related parties which are disclosed in Note 12k.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



## 12. Loans and Accounts Receivables (continued)

- 12b (1). An aging analysis of lease receivables, determined based on the age of the receivables since the effective date of the relevant lease contract, as at the end of the reporting period is as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Lease receivables:		
Within 1 year	99,423,015	71,561,617
1 to 2 years	37,800,487	34,267,676
2 to 3 years	13,536,434	14,137,570
3 to 5 years	9,920,832	9,252,659
Total	160,680,768	129,219,522

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Net lease receivables:		
Within 1 year	87,912,964	63,929,750
1 to 2 years	34,277,334	31,049,667
2 to 3 years	12,521,680	13,176,400
3 to 5 years	9,297,146	8,709,919
Total	144,009,124	116,865,736

- 12b (2). The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following three consecutive accounting years:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Lease receivables:		
Due within 1 year	60,013,700	51,465,438
Due in 1 to 2 years	45,049,412	36,723,765
Due in 2 to 3 years	30,521,328	23,387,457
Due in 3 to 5 years	24,622,273	17,642,862
Due after 5 years	474,055	–
Total	160,680,768	129,219,522

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 12. Loans and Accounts Receivables (continued)

12b (2). The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following three consecutive accounting years: (continued)

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Net lease receivables:		
Due within 1 year	52,210,049	45,418,293
Due in 1 to 2 years	40,217,918	33,109,052
Due in 2 to 3 years	27,910,746	21,547,706
Due in 3 to 5 years	23,269,705	16,790,685
Due after 5 years	400,706	–
Total	144,009,124	116,865,736

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.

### 12c. Change in provision for lease receivables

	Individually assessed		Collectively assessed		Total	
	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of period/year	397,960	262,681	2,129,197	1,933,513	2,527,157	2,196,194
Charge for the period/year	189,969	446,288	575,978	485,462	765,947	931,750
Recoveries of lease receivables previously written off	13,242	–	–	–	13,242	–
Disposal	–	–	(178,276)	(277,331)	(178,276)	(277,331)
Write-off	(71,661)	(312,913)	–	(22,872)	(71,661)	(335,785)
Exchange differences	(1,753)	1,904	(2,141)	10,425	(3,894)	12,329
At end of period/year	527,757	397,960	2,524,758	2,129,197	3,052,515	2,527,157

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**12. Loans and Accounts Receivables (continued)****12c. Change in provision for lease receivables (continued)**

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Lease receivables:		
Individually assessed ( <i>Note (i)</i> )	1,583,649	1,343,183
Collectively assessed	159,097,119	127,876,339
Total	160,680,768	129,219,522

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Net lease receivables:		
Individually assessed ( <i>Note (i)</i> )	1,460,769	1,253,853
Collectively assessed	142,548,355	115,611,883
Total	144,009,124	116,865,736

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

*Note (ii)* As at 30 June 2017, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB14,916,598,000 (31 December 2016: RMB12,886,076,000) (see Note 18(a)).

**12d. 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.

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 1 year	1,181,798	1,057,077
More than 1 year	227,757	217,478
Total	1,409,555	1,274,555

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 12. Loans and Accounts Receivables (continued)

#### 12e. Change in provision for accounts receivable

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of period/year	82,385	18,290
Charge for the period/year	53,561	51,583
Acquisition of a subsidiary	2,993	18,031
Write-off	(15,962)	(5,626)
Exchange differences	(397)	107
At end of period/year	122,580	82,385

#### 12f. An aging analysis of factoring receivables as at the end of the reporting period is as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 1 year	3,278,863	2,720,475
More than 1 year	1,097,329	1,163,191
	4,376,192	3,883,666

#### 12g. Change in provision for the factoring receivable

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of period/year	81,282	48,526
Charge for the period/year	5,686	49,756
Write-off	(770)	(17,000)
At end of period/year	86,198	81,282

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**12. Loans and Accounts Receivables (continued)**

- 12h (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:

	<b>30 June 2017 (Unaudited) RMB'000</b>	<b>31 December 2016 (Audited) RMB'000</b>
Entrusted loans:		
Within 1 year	6,892,225	12,950,500
1 to 2 years	11,632,189	4,725,530
2 to 3 years	241,759	64,416
3 to 5 years	8,250	11,500
<b>Total</b>	<b>18,774,423</b>	<b>17,751,946</b>

- 12h (2).** The table below illustrates the amounts of entrusted loans the Group expects to receive in the following three consecutive accounting years:

	<b>30 June 2017 (Unaudited) RMB'000</b>	<b>31 December 2016 (Audited) RMB'000</b>
Entrusted loans:		
Due within 1 year	6,696,238	4,834,857
Due in 1 to 2 years	5,504,919	5,173,124
Due in 2 to 3 years	3,805,479	4,081,715
Due in 3 to 5 years	2,505,865	3,662,250
Due after 5 years	261,922	–
<b>Total</b>	<b>18,774,423</b>	<b>17,751,946</b>

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 12. Loans and Accounts Receivables (continued)

#### 12h (3). Change in provision for entrusted loans

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of period/year	326,359	126,726
(Reversal)/charge for the period/year	(16,137)	223,487
Disposal	–	(23,854)
At end of period/year	310,222	326,359

#### 12i. Change in provision for long term receivables

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of period/year	–	17
Reversal for the period/year	–	(17)
At end of period/year	–	–

#### 12j. Change in provision for secured loans

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of period/year	11,888	9,288
Charge for the period/year	2,987	1,969
Exchange difference	(314)	631
At end of period/year	14,561	11,888

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**12. Loans and Accounts Receivables (continued)****12k. Balances with related parties**

		30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	150,000	150,000
Long-term receivables	(ii)	75,000	75,000
Interest receivables		21,594	8,786
– Weihai Haida hospital Co., Ltd.			
Long-term receivables	(ii)	30,000	30,000
Lease receivables	(iii)	10,000	10,000
Interest receivables		1,296	525
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
Interest receivables		87	95
– Fengyang Gulou hospital Co., Ltd.			
Accounts receivables		15,630	–
		353,607	324,406

- (i) Balances of entrusted loans were interest-bearing at annual interest rates ranging from 6.245% to 15% (31 December 2016: from 6.245% to 15%).
- (ii) Balances of long-term receivables were interest-bearing at annual interest rates ranging from 5.655% to 6.05% (31 December 2016: from 5.655% to 6.05%).
- (iii) Balances of lease receivables were interest-bearing at annual interest rates 12.77% (31 December 2016: 12.77%).

**13. Derivative Financial Instruments**

	30 June 2017 (Unaudited) RMB'000		31 December 2016 (Audited) RMB'000	
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap contracts	426,171	(7,860)	1,034,720	–
Forward currency contracts	3,270	(156,648)	348,156	(90,150)
Interest rate swaps	31,018	(931)	–	(2,067)
	460,459	(165,439)	1,382,876	(92,217)



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 13. Derivative Financial Instruments (continued)

	30 June 2017 (Unaudited) RMB'000		31 December 2016 (Audited) RMB'000	
	Assets	Liabilities	Assets	Liabilities
Portion classified as non-current				
Cross-currency interest rate swap contracts	–	–	458,150	–
Forward currency contracts	–	(40,271)	20,639	(29,091)
Interest rate swaps	31,018	(931)	–	(2,067)
	31,018	(41,202)	478,789	(31,158)
Current portion	429,441	(124,237)	904,087	(61,059)
	460,459	(165,439)	1,382,876	(92,217)

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

During the six months ended 30 June 2017, the Group designated 21 (six months ended 30 June 2016: 26) cross-currency interest rate swap contracts and 20 (six months ended 30 June 2016: 25) forward currency contracts as hedges in respect of future repayments of borrowings which will be settled in United States dollar, Singapore dollar, Japanese yen, Australian dollar or Hong Kong dollar, and some of which bear floating interest rates; the Group designated 3 (six months ended 30 June 2016: Nil) interest rate swap contracts as hedges of future cash flows arising from finance lease receivables which bear floating interest rates.

The terms of the cross-currency interest rate swap contracts and forward currency contracts substantially match the terms of the borrowing contracts, and the terms of the interest rate swap contracts substantially match the terms of the finance lease contracts. The cash flow hedges relating to expected future payments or receivables were assessed to be highly effective and a net loss of RMB246,318,000 (six months ended 30 June 2016: RMB458,813,000) was included in the hedging reserve as follows:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Total fair value (losses)/gains included in the hedging reserve	(404,649)	74,082
Deferred tax impact on fair value losses/(gains)	66,671	(12,224)
Reclassified from other comprehensive income and recognised/(credited) in the statement of profit or loss	109,774	(623,558)
Deferred tax on reclassifications to profit or loss	(18,114)	102,887
Net losses included in hedging reserve	(246,318)	(458,813)

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**13. Derivative Financial Instruments (continued)****Cross-currency interest rate swap contracts, forward currency contracts and interest rate swap contracts – cash flow hedges (continued)**

Cross-currency interest rate swaps, with a total net fair value of RMB418,311,000 (31 December 2016: a total net fair value of RMB1,009,732,000) as of 30 June 2017, were designated as hedging instruments in cash flow hedges of cash flow interest rate risks and currency risks arising from floating rate loans (with remaining maturity from 3 months to 1 year) denominated in US Dollar and other foreign currencies. Forward currency contracts, with a total negative net fair value of RMB153,378,000 (31 December 2016: a total net fair value of RMB258,006,000) as of 30 June 2017, were designated as hedging instruments in cash flow hedges of currency risks arising from loans (with remaining maturity from 3 months to 3 years) denominated in US Dollar and other foreign currencies. RMB-denominated interest rate swaps, with a total negative net fair value of RMB931,000 (31 December 2016: a total negative net fair value of RMB2,067,000) as of 30 June 2017, were designated as hedging instruments in cash flow hedges of interest rate risks arising from floating rate lease receivables (with remaining maturity from 2 years to 3 years) denominated in RMB.

**Fair value hedge**

At 30 June 2017, the Group had an interest rate swap agreement in place with a notional amount of RMB1,000,000,000 whereby it receives interest at a fixed rate of 4.85% per annum and pays interest at a variable rate equal to the benchmark interest rate of Renminbi loans of the People's Bank of China with terms of 1 to 5 years on the notional amount. The swap is used to hedge the exposure to changes in the fair value of its 4.85% long-term bond. The critical terms of the interest rate swap substantially match those of the bond. This hedge was assessed to be effective.

As of 30 June 2017, the fair value of the aforementioned RMB-denominated interest rate swap designated as the hedging instrument amounted to RMB31,018,000 (31 December 2016: Nil) and the aforementioned RMB-denominated interest rate swap has a remaining maturity of 2 years.

**14. Investments in Joint Ventures**

	30 June 2017	31 December 2016
	RMB'000	RMB'000
Share of net assets	1,454,614	1,324,918
Excess of consideration over share of net assets acquired	79,952	79,952
	1,534,566	1,404,870

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

14. Investments in Joint Ventures (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of		Principal activities
			Ownership interest	Profit sharing	
Shanghai Dongling investment, LLP (上海東翎投資合夥企業(有限合伙))	RMB55,717,310	PRC/ Mainland China	49.2	49.2	Investment holding
Shanghai Dongsong Investment, LLP (上海東松投資合夥企業(有限合伙))	RMB40,100,000	PRC/ Mainland China	66.50	#	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. 廣州康大工業科技產業有限公司 ("Kangda")	Registered capital of HKD200,000,000	PRC/ Mainland China	60	60	Development and construction
Skycity (Shanghai) Business Co., Ltd. (天空之城(上海)實業有限公司)	Registered capital of RMB5,230,000	PRC/ Mainland China	49.7	49.7	Sale of electronic products
Kunming Boyue Maternal and Infant Care Co., Ltd. (昆明博悅母嬰護理有限責任公司)	Registered capital of RMB5,555,600	PRC/ Mainland China	28.36	28.36	Medical service

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**14. Investments in Joint Ventures (continued)**

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of		Principal activities
			Ownership interest	Profit sharing	
Grand Flight Holdings Co., Ltd. (遠翼控股有限公司)	Authorised capital of USD50,000	British Virgin Islands	70	70	Investment holding
Grand Flight Hooyoung Investment Management Co., Ltd. (遠翼宏揚投資管理有限公司)	Authorised capital of USD50,000	Cayman Islands	70	70	Investment holding
Grand Flight Hooyoung Investment L.P. (遠翼宏揚投資有限夥)	USD72,321,241.36	Cayman Islands	55	55	Investment holding
Teamway Shipping Limited (匯聯船務有限公司)	HK\$10,000	Hong Kong	50	50	Shipping service
Gold Chance Shipping Limited (金運船務有限公司)	HK\$10,000	Hong Kong	50	50	Shipping service
Fengyang Gulou Hospital Co., Ltd. (鳳陽縣鼓樓醫院有限公司)	Registered capital of RMB100,000,000	PRC/ Mainland China	35	35	Medical service
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. (蘇州高新康復醫院有限公司)	Registered capital of RMB50,000,000	PRC/ Mainland China	61*	61	Medical service

# The voting powers are equally shared by three joint venture partners (a subsidiary of the Group and two third party investors). All decisions about the activities that would significantly affect its returns require unanimous consent of all joint venture partners.

\* The decisions about the activities that most significantly affect the returns of the investee would be subject to the consent of the shareholders representing more than 2/3 of the total number of shareholders to vote, under which the 61% ownership interest does not grant the Group the unilateral ability to direct relevant activities.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 14. Investments in Joint Ventures (continued)

The Group's loans and accounts receivable balances due from the joint ventures are disclosed in Note 12k to the financial statements.

Kangda, which is considered a material joint venture of the Group, is mainly engaged in the development and construction business in Mainland China and is accounted for using the equity method.

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.

	30 June 2017 RMB'000	31 December 2016 RMB'000
Cash and cash equivalents	294,846	72,021
Other current assets	2,065,070	1,903,672
Current assets	2,359,916	1,975,693
Non-current assets	3,921	4,066
Financial liabilities, excluding trade and other payables	(250,000)	(250,000)
Trade and other payables	(190,417)	(155,079)
Taxes payable	13,416	–
Current liabilities	(427,001)	(405,079)
Non-current liabilities	(365,000)	–
Net assets	1,571,836	1,574,680

Reconciliation to the Group's interest in the joint venture:

Proportion of the Group's ownership	60%	60%
Carrying amount of the investment	943,102	944,808

	For the six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Administrative expenses	(4,079)	(4,034)
Other expenses	1,236	1,126
Loss and total comprehensive income for the period	(2,843)	(2,908)

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**14. Investments in Joint Ventures (continued)**

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Share of the joint ventures' profit for the period	188	2,571
<hr/>		
	30 June	31 December
	2017	2016
	RMB'000	RMB'000
Aggregate carrying amount of the Group's investments in the joint ventures	591,464	460,062

**15. Construction Contracts**

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Gross amount due from contract customers	53,073	44,129
Contract costs incurred plus recognised profits to date	263,912	240,890
Less: Progress billings	(210,839)	(196,761)
	53,073	44,129

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 16. Cash and Cash Equivalents and Restricted Deposits

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Cash and bank balances	5,804,996	4,426,996
Time deposits	28,919	85,675
	5,833,915	4,512,671
Less:		
Pledged deposits	305,694	331,619
Restricted bank deposits related to asset-backed securitisations	2,662,760	2,129,745
Restricted bank deposits related to collective fund trusts	75,386	–
Cash and cash equivalents	2,790,075	2,051,307

At 30 June 2017, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB5,594,239,000 (31 December 2016: RMB4,095,014,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at either fixed or floating rates based on daily bank deposit rates.

As at 30 June 2017, cash of RMB175,882,000 (31 December 2016: RMB99,542,000) was pledged for bank and other borrowings (see Note 18(b)).

As at 30 June 2017, cash of RMB114,893,000 (31 December 2016: RMB232,077,000) was pledged for bank acceptances and letters of credit.

As at 30 June 2017, cash of RMB14,919,000 (31 December 2016: Nil) was pledged for collective fund trusts.

As at 30 June 2017, cash of RMB246,572,000 (31 December 2016: RMB245,558,000) was deposited with Sinochem Finance Co., Ltd., a subsidiary of the ultimate holding company of a shareholder with significant influence.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**17. Trade and Bills Payables**

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Current:		
Bills payable	1,105,833	1,748,770
Trade payables	1,169,136	1,138,496
	2,274,969	2,887,266
Non-current:		
Trade payables	–	55
	2,274,969	2,887,321

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 1 year	2,095,790	2,682,301
1 to 2 year	82,287	115,622
2 to 3 year	43,343	44,090
3 years and beyond	53,549	45,308
	2,274,969	2,887,321

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



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 18. Interest-Bearing Bank and Other Borrowings

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Effective			Effective		
	annual interest			annual interest		
	rate (%)	Maturity	RMB'000	rate (%)	Maturity	RMB'000
<b>Current:</b>						
Current portion of long term bank loans – secured	2.78~5.94	2017~2018	7,218,220	2.78~5.94	2017	6,054,392
Bank loans – secured	2.50	2018	135,488	–	–	–
Bank loans – unsecured	1.90~6.35	2017~2018	20,279,010	1.85~4.75	2017	14,017,000
Current portion of long term bank loans – unsecured	2.08~5.70	2017~2018	20,571,427	2.08~6.15	2017	19,032,705
Other loans – secured	5.08~6.00	2017~2018	1,100,000	4.00~5.08	2017	370,000
Other loans – unsecured	4.75	2017	165,000	4.75	2017	315,103
Bonds – unsecured	3.80~5.75	2017~2018	10,292,008	2.79~5.75	2017	13,756,349
			59,761,153			53,545,549
<b>Non-current:</b>						
Bank loans – secured	2.78~5.94	2018~2026	8,163,441	2.78~5.94	2018~2023	5,591,411
Bank loans – unsecured	3.33~6.15	2018~2030	20,841,454	2.50~4.28	2018~2026	17,124,488
Other loans – secured	7.00	2018	679,238	5.08~7.00	2018	703,902
Other loans – unsecured	5.64~7.09	2018~2020	32,980	5.64~7.09	2018	38,150
Bonds – unsecured	3.00~6.13	2018~2022	41,021,544	3.00~6.13	2018~2022	29,934,088
			70,738,657			53,392,039
			130,499,810			106,937,588

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**18. Interest-Bearing Bank and Other Borrowings (continued)**

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	48,204,145	39,104,097
In the second year	20,555,132	15,033,642
In the third to fifth years, inclusive	8,340,080	7,579,826
Beyond five years	109,683	102,431
	77,209,040	61,819,996
Other borrowings repayable:		
Within one year	11,557,008	14,441,452
In the second year	13,693,128	984,467
In the third to fifth years, inclusive	27,882,662	29,356,493
Beyond five years	157,972	335,180
	53,290,770	45,117,592
	130,499,810	106,937,588

- (a) As at 30 June 2017, the Group's bank and other borrowings secured by the pledge of or the transfer of certain of the Group's lease receivables amounted to RMB14,757,116,000 (31 December 2016: RMB12,059,285,000).
- (b) As at 30 June 2017, the Group's bank and other borrowings, pledged by cash, amounted to RMB2,135,488,000 (31 December 2016: RMB312,165,000).
- (c) As at 30 June 2017, the Group's bank and other borrowings, pledged by the Group's leasehold land, and property, plant and equipment, amounted to RMB403,783,000 (31 December 2016: RMB348,225,000). The Group had not provided any guarantees for other entities (31 December 2016: Nil).

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 19. Deferred Tax

The movements in deferred tax liabilities and assets of the Group during the period are as follows:

#### Deferred tax assets

	Government special subsidy RMB'000	Cash flow hedge 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	Fee income received in advance RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2017 (Audited)	307,914	517	63,521	843,642	652,098	51,269	–	(11,597)	1,907,364
(Charged)/credited to the statement of profit or loss during the period	(524)	–	27,002	172,344	128,978	37,425	220,898	(19,155)	566,968
Credited to reserve	–	18,613	–	–	–	–	–	–	18,613
Exchange differences	–	–	–	(1,452)	–	(126)	–	–	(1,578)
Gross deferred tax assets at 30 June 2017 (Unaudited)	307,390	19,130	90,523	1,014,534	781,076	88,568	220,898	(30,752)	2,491,367

	Government special subsidy RMB'000	Cash flow hedge 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	Fee income received in advance RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2016 (Audited)	128,204	–	17,442	635,281	506,019	8,468	–	5,310	1,300,724
Credited/(Charged) to the statement of profit or loss during the year	179,710	–	46,079	205,468	146,079	40,806	–	(16,907)	601,235
Credited to reserve	–	517	–	–	–	–	–	–	517
Exchange differences	–	–	–	2,893	–	1,995	–	–	4,888
Gross deferred tax assets at 31 December 2016 (Audited)	307,914	517	63,521	843,642	652,098	51,269	–	(11,597)	1,907,364

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**19. Deferred Tax (continued)****Deferred tax liabilities**

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from equity investments at fair value through profit or loss RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2017 (Audited)	20,629	29,944	10,702	9,385	190	70,850
(Credited)/charged to the statement of profit or loss during the period	(3,765)	–	–	–	6,154	2,389
Arising from acquisition of subsidiaries	1,890	–	–	–	–	1,890
Credited to reserve	–	(29,944)	–	–	–	(29,944)
Gross deferred tax liabilities at 30 June 2017 (Unaudited)	18,754	–	10,702	9,385	6,344	45,185

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from equity investments at fair value through profit or loss RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2016 (Audited)	14,582	63,526	–	51,284	–	129,392
(Credited)/charged to the statement of profit or loss during the year	(794)	–	10,702	(41,899)	190	(31,801)
Arising from acquisition of subsidiaries	6,841	–	–	–	–	6,841
Credited to reserve	–	(33,582)	–	–	–	(33,582)
Gross deferred tax liabilities at 31 December 2016 (Audited)	20,629	29,944	10,702	9,385	190	70,850

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 19. 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:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Net deferred tax assets recognised in the consolidated statement of financial position	2,491,367	1,907,364
Net deferred tax liabilities recognised in the consolidated statement of financial position	45,185	70,850

As at 30 June 2017, the Group had tax losses arising in Hong Kong of RMB268,402,000 (31 December 2016: RMB106,794,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB177,127,000 (31 December 2016: RMB114,770,000) that will expire in one to five years for offsetting against future taxable profits, for which, the Group has recognised deferred tax assets in respect of the tax losses. Aside from this, as at 30 June 2017, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses and deductible temporary differences of RMB206,814,000 (31 December 2016: RMB41,471,000) and RMB157,435,000 (31 December 2016: RMB276,000), respectively, due to uncertainty in their recoverability.

Pursuant to the resolution of the Company, part of the profits of the PRC subsidiaries generated from 2012 onwards will be retained by the PRC subsidiaries for 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 30 June 2017, the aggregate amount of unrecognised deferred tax liabilities (i.e. withholding taxes relating to such temporary differences) was approximately RMB459,221,000 (31 December 2016: RMB387,363,000).

### 20. Share Capital

	Number of shares	Amounts HK\$
<b>Issued and fully paid ordinary shares:</b>		
At 31 December 2016 (HK\$0.01 each) (Audited)	3,950,783,817	13,005,970,000
At 30 June 2017 (Unaudited) (Note (i))	3,950,886,817	13,006,746,000

Note:

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

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**20. 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 2017 and 31 December 2016	3,950,783,817	13,005,970	10,213,017
Share options exercised ( <i>note(ii)</i> )	103,000	776	671
As at 30 June 2017 (Unaudited)	3,950,886,817	13,006,746	10,213,688

*Note:*

- (ii) The subscription rights attaching to 103,000 share options were exercised at the subscription price of HK\$5.86 per share, resulting in the issue of 103,000 shares for a total cash consideration, before expenses, of HK\$604,000. An amount of HK\$172,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

**21. Reserves**

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the interim condensed consolidated statement of changes in equity.

The Group's capital reserve represents the excess of the carrying amounts of capital and capital reserve of the subsidiaries acquired pursuant to the Reorganization as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalised in excess of the nominal value of shares issued.

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC are required to transfer no less than 10% of their profits after taxation, as determined under PRC Company Law, to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to this statutory reserve fund must be made before the distribution of dividend to shareholders.

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 payment under the share options and the restricted shares 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.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 22. Perpetual Securities

On 14 June 2017, the Company issued US\$300,000,000 perpetual capital securities ("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 ("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 Securities have no fixed maturity date and are callable at the Company's option in whole on 14 June 2022 ("First Call Date") or on any Distribution Payment Date falling after the First Call Date at their principal amounts together with any distribution accrued to the date fixed for redemption (including any arrears of distribution and any additional distribution amounts). The applicable distribution rate will reset, in respect of the period (A) from, and including, the First Call Date to, but excluding, the immediately following reset date ("Reset Date") and (B) from, and including, each Reset Date falling after the First Call Date to, but excluding, the immediately following Reset Date, the relevant reset distribution rate shall be the comparable treasury rate as at each relevant Reset Date plus the initial spread 2.62% plus 5.00% per annum.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of Perpetual Securities other than an unforeseen liquidation of the Company.

The direct transaction costs attributable to the Perpetual Securities amounted to RMB5,451,000.

On 23 June 2014, the Company issued US\$200,000,000 senior perpetual capital securities ("Senior Perpetual Securities") at an initial distribution rate of 5.55%. The First Call Date of the Senior Perpetual Securities is 23 June 2017 and the Company redeemed the Senior Perpetual Securities in full during the six months ended 30 June 2017.

For the six months ended 30 June 2017, the profit attributable to the holders of Perpetual Securities and Senior Perpetual Securities, based on the applicable distribution rates, was RMB39,856,000 (six months ended 30 June 2016: RMB37,212,000) and the distribution made by the Group to the holders of Senior Perpetual Securities was RMB37,847,000 (six months ended 30 June 2016: RMB36,803,000).

### 23. Restricted Share Award Scheme and Share Option Scheme

On 11 June 2014, the Board of directors announced that it has adopted an award scheme (the "Award Scheme"). As a result, the Company granted restricted shares to selected grantees under the Award Scheme since 2014. On 20 June 2017 the Company has resolved to additionally offer to grant restricted shares to the selected grantees under the Award Scheme for a total of 49,386,000 shares.

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. As a result, the Company granted share options to selected grantees under the Share Option Scheme since 2014. On 20 June 2017 the Board announced that, the Company has resolved to additionally offer to grant share options to certain qualified participants under the Share Option Scheme to subscribe for a total of 32,924,000 ordinary shares in the capital of the Company.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**24. Contingent Liabilities**

At the end of the reporting period, contingent liabilities that not provided for in the financial statements were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Claimed amounts	4,855	4,257

**25. Pledge of Assets**

Details of the Group's bank loans which are secured by the assets of the Group are included in Notes 10, 11, 12, 16 and 18 to the financial statements.

**26. Operating Lease Arrangements****(a) As lessor**

The Group leases its equipment, tools and moulds under operating lease arrangements. 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 30 June 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within one year	370,928	671,916
In the second to fifth years, inclusive	467,034	420,871
	837,962	1,092,787



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 26. 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 substantially ranging from one to more than five years.

At 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within one year	134,874	154,533
In the second to fifth years, inclusive	254,066	192,695
More than five years	283,347	99,669
	672,287	446,897

### 27. Commitments

(a) In addition to the operating lease commitments detailed in Note 26(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	754,433	535,261
Purchase of shareholding	399,049	386,500
	1,153,482	921,761

#### (b) Credit commitments

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Irrevocable credit commitments	9,778,844	5,432,647

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**27. Commitments (continued)****(b) Credit commitments (continued)**

At any given time, the Group has outstanding commitments to extend credit, which are included in irrevocable credit commitments. These commitments are in the form of approved lease contracts, which had yet to be provided as at the end of each reporting period.

**28. Related Party Transactions**

Relationship between the Group and its related parties:

**Ultimate holding company of a shareholder with significant influence**

Sinochem Group

**A shareholder with significant influence**

Greatpart Limited

**Subsidiaries of the ultimate holding company of a shareholder with significant influence**

Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")

Sinochem Finance Co., Ltd.

China Jin Mao Group Co., Ltd.

Beijing Chemsunny Property Co., Ltd.

Jin Mao (Shanghai) Property Management Service Co., Ltd.

Sinochem Jinmao Property Management (Beijing) Co., Ltd.

Sinochem Corporation

Sinochem International (Overseas) Pte. Ltd.

Sinochem International Tendering Co., Ltd. ("Sinochem Tendering")

**Joint ventures**

Weihai Haida hospital Co., Ltd.

Guangzhou Kangda Industrial Technology Co., Ltd.

Kunming Broadhealthcare Investment Co., Ltd.

Fengyang Gulou hospital Co., Ltd.

Teamway Shipping Limited

Gold Chance Shipping Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 28. Related Party Transactions (continued)

- a. In addition to the balances in Notes 12 and 16 to the financial statements, at the end of the reporting period, the Group had the following balances with its related parties:

(i) *Deposits and other receivables*

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
<b>Due from related parties</b>		
China Jin Mao Group Co., Ltd.	16,337	16,337
Beijing Chemsunny Property Co., Ltd.	2,493	2,493
Jin Mao (Shanghai) Property Management Service Co., Ltd.	2	2
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	175	175
Gold Chance Shipping Limited	40,252	41,154
Teamway Shipping Limited	39,913	40,807
Weihai Haida Hospital Co., Ltd.	83	–
Kunming Broadhealthcare Investment Co., Ltd.	150	–
	<b>99,405</b>	<b>100,968</b>

Amounts due from related parties of the Group were unsecured and non-interest-bearing.

(ii) *Other payables and accruals*

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
<b>Due to related parties</b>		
Sinochem Finance Co., Ltd.	–	814
Gold Chance Shipping Limited	2,832	–
Teamway Shipping Limited	2,500	–
	<b>5,332</b>	<b>814</b>

Amounts due to related parties were unsecured and non-interest-bearing.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**28. Related Party Transactions (continued)**

b. The Group had the following material transactions with related parties during the period:

*(i) Interest income from cash at banks*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	2,043	1,437

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

*(ii) Service fee income*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem International (Overseas) Pte. Ltd.	–	2,525
Weihai Haida Hospital Co., Ltd.	157	–
	157	2,525

These services were provided based on prices mutually agreed between the parties.

*(iii) Interest expenses on borrowings*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	9,381	5,539

The interest expenses were charged at rates ranging from 3.92% to 4.79% per annum.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements



### 28. Related Party Transactions (continued)

b. The Group had the following material transactions with related parties during the period: (continued)

(iv) *Rental expenses*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
China Jin Mao Group Co., Ltd.	25,292	25,304
Beijing Chemsunny Property Co., Ltd.	3,910	2,045
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	281	148
Jin Mao (Shanghai) Property Management Services Co., Ltd.	676	572
Sinochem Hong Kong	–	1,316
	30,159	29,385

These transactions for rental expenses were based on prices mutually agreed between the parties.

(v) *Commission fee expense*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	1,237	2,345

(vi) *Interest income*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Weihai Haida hospital Co., Ltd.	606	2,250
Guangzhou Kangda Industrial Technology Co., Ltd.	12,678	841
Kunming Broadhealthcare Investment Co., Ltd.	1,481	1,562
	14,765	4,653

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**28. Related Party Transactions (continued)**

- b. The Group had the following material transactions with related parties during the period: (continued)

*(vii) Sales of goods*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Fengyang Gulou hospital Co., Ltd.	113	–

*(viii) Tendering service fee*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem International Tendering Co., Ltd.	–	310

*(ix) Non-cancellable operating leases*

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	RMB'000
China Jin Mao Group Co., Ltd.	25,635	50,937
Beijing Chemsunny Property Co., Ltd.	4,387	8,773
	30,022	59,710

- (x) Finance lease with CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang"), CRRC Qingdao Sifang Co., Ltd. ("CRRC Sifang") and Sinochem Tendering

On 10 June 2015, the Group entered into (i) the Lease Contract with CSR Sifang and (ii) the Supplementary Agreement with CSR Sifang and Sinochem Tendering. Pursuant to the Supplementary Agreement, upon the completion of the performance by CSR Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB11,738,000 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

## 28. Related Party Transactions (continued)

- b. The Group had the following material transactions with related parties during the period: (continued)

- (x) Finance lease with CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang"), CRRC Qingdao Sifang Co., Ltd. ("CRRC Sifang") and Sinochem Tendering (continued)

On 15 January 2016, the Group entered into (i) the New Lease Contract with CRRC Sifang and (ii) the New Supplementary Agreement with CRRC Sifang and Sinochem Tendering. Pursuant to the New Supplementary Agreement, upon the completion of the performance by CRRC Sifang of all its duties under the Lease Contract, including but not limited to the payment of the total amount of rental and all other taxes, interest and damages incurred (if any), Sinochem Tendering shall repurchase the equipment in an amount of RMB19,584,000 and the Group will transfer the title of the equipment to Sinochem Tendering after the payment of the repurchase price by Sinochem Tendering. The repurchase price was determined based on the residual value of the leasing asset as at the repurchase date.

In the opinion of the directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

- c. Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Employee benefits	46,147	26,322

## 29. Fair Value Hierarchy

### Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, restricted deposits, loans and accounts receivables, financial assets included in deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, 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 the reporting period and their carrying values approximate to their fair values.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**29. Fair Value Hierarchy (continued)****Financial instruments not measured at fair value (continued)*****Loans and accounts receivables, interest-bearing bank and other borrowing 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 are on floating rate terms, bearing interest at prevailing market interest rates and their carrying values approximates to their fair values.

***Bonds issued***

The fair values of the bonds issued are calculated based on a discounted cash flow model using 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	
	30 June 2017 RMB'000	31 December 2016 RMB'000	30 June 2017 RMB'000	31 December 2016 RMB'000
<b>Financial liabilities</b>				
Bonds issued	51,313,552	43,690,437	51,699,139	43,697,168

***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 prepayments, deposits and other receivables and the fair value of the non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The difference between the carrying amounts and fair values of those financial assets and liabilities is not significant.

***Equity investments at fair value through profit or loss and available-for-sale investments***

As at 30 June 2017, the fair value has not been disclosed for certain equity investments at fair value through profit or loss and available-for-sale investments in unlisted equity instruments that do not have a quoted market price in an active market and is measured at cost less any impairment because their fair value cannot be measured reliably. The reason why the fair value cannot be measured reliably is that the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The carrying amounts of these equity investments at fair value through profit or loss and available-for-sale investments were RMB721,239,000 (31 December 2016: RMB124,000,000) and RMB103,555,000 (31 December 2016: RMB103,555,000), respectively. All of them are unlisted equity investments held by the Group in China, which are intended to be disposed of by the Group after getting listed on the designated stock exchanges in the future.





### Financial instruments measured at fair value

#### Non-deliverable cross-currency swaps and interest rate swaps

*Equity investments at fair value through profit or loss*

*Available-for-sale investments*

The fair values of available-for-sale investments of listed equity investments are based on quoted market prices.

**Fair value hierarchy:**

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

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

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

**29. Fair Value Hierarchy (continued)**

Fair value hierarchy: (continued)

*Assets and Liabilities measured at fair value:*

As at 30 June 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 – equity investments	111,238	–	–	111,238
Cross-currency interest rate swaps – assets	–	426,171	–	426,171
Cross-currency interest rate swaps – liabilities	–	(7,860)	–	(7,860)
Forward currency contracts – assets	–	3,270	–	3,270
Forward currency contracts – liabilities	–	(156,648)	–	(156,648)
Interest rate swaps – assets	–	31,018	–	31,018
Interest rate swaps – liabilities	–	(931)	–	(931)
Equity investments at fair value through profit or loss	–	422,872	–	422,872
Other liabilities	–	(413,195)	–	(413,195)

As at 31 December 2016

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Available-for-sale investments – equity investments	186,334	–	–	186,334
Cross-currency interest rate swaps – assets	–	1,034,720	–	1,034,720
Cross-currency interest rate swaps – liabilities	–	–	–	–
Forward currency contracts – assets	–	348,156	–	348,156
Forward currency contracts – liabilities	–	(90,150)	–	(90,150)
Interest rate swaps – liabilities	–	(2,067)	–	(2,067)
Equity investments at fair value through profit or loss	–	597,239	–	597,239
Other liabilities	–	(70,000)	–	(70,000)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements



29. Fair Value Hierarchy (continued)

Fair value hierarchy: (continued)

Assets and Liabilities measured at fair value: (continued)

During the six months ended 30 June 2017, there was no transfer at fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (six months ended 30 June 2016: Nil).

Liabilities for which fair values are disclosed:

As at 30 June 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	–	51,699,139	–	51,699,139

As at 31 December 2016

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	43,697,168	–	43,697,168

30. Events after the Reporting Period

There was no material subsequent event undertaken by the Group after 30 June 2017.

31. Approval of the Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2017.

## Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past few financial years, as extracted from the published audited financial information and financial statements is set out below.

### Results

	For the six months ended 30 June		For the year ended 31 December		
	2017	2016	2016	2015	2014
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
<b>Revenue</b>	8,972,211	7,280,667	13,928,369	11,795,983	10,060,717
Cost of Sales	(3,508,756)	(2,566,867)	(5,735,538)	(4,771,610)	(4,106,547)
Gross profit	5,463,455	4,713,800	8,192,831	7,024,373	5,954,170
Other income and gains	200,806	144,238	477,443	510,032	523,689
Selling and distribution costs	(2,043,913)	(1,678,390)	(2,872,888)	(2,531,237)	(2,265,899)
Other expenses	(218,488)	(130,158)	(306,790)	(454,489)	(249,400)
Finance costs	(92,292)	(84,723)	(157,755)	(122,221)	(14,667)
Profit or loss on investment in joint ventures	(1,518)	826	591	(310)	(195)
Profit or loss on investment in associates	(10,781)	162	300	–	13,511
Pre-Provision Operating Profit	3,297,269	2,965,755	5,333,732	4,426,148	3,961,209
Assets Provisions	(993,365)	(880,633)	(1,261,262)	(846,423)	(750,009)
<b>Profit before tax</b>	2,303,904	2,085,122	4,072,470	3,579,725	3,211,200
Income tax expense	(684,358)	(619,698)	(1,130,683)	(999,734)	(869,026)
<b>Profits for the year</b>	1,619,546	1,465,424	2,941,787	2,579,991	2,342,174
Attributable to:					
Holders of ordinary shares	1,619,032	1,439,491	2,882,208	2,503,109	2,295,954
Holders of perpetual securities	39,856	37,212	78,284	73,080	36,036
Non-controlling interests	(39,342)	(11,279)	(18,705)	3,802	10,184
	1,619,546	1,465,424	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 six months ended 30 June		For the year ended 31 December		
	2017 US\$'000 (Unaudited)	2016 US\$'000 (Unaudited)	2016 US\$'000 (Audited)	2015 US\$'000 (Audited)	2014 US\$'000 (Audited)
<b>Revenue</b>	<b>1,308,723</b>	<b>1,109,452</b>	<b>2,074,125</b>	<b>1,870,508</b>	<b>1,647,151</b>
Cost of Sales	(511,801)	(391,148)	(854,100)	(756,642)	(672,328)
Gross profit	796,922	718,304	1,220,025	1,113,866	974,823
Other income and gains	29,290	21,979	71,098	80,877	85,739
Selling and distribution costs	(298,133)	(255,759)	(427,812)	(401,382)	(370,976)
Other expenses	(31,870)	(19,833)	(45,685)	(72,069)	(40,832)
Finance costs	(13,462)	(12,910)	(23,492)	(19,381)	(2,401)
Profit or loss on investment in joint ventures	(221)	126	88	(49)	(32)
Profit or loss on investment in associates	(1,573)	25	45	–	2,212
Pre-Provision Operating Profit	480,953	451,932	794,267	701,862	648,533
Assets Provisions	(144,896)	(134,194)	(187,820)	(134,219)	(122,792)
<b>Profit before tax</b>	<b>336,057</b>	<b>317,738</b>	<b>606,447</b>	<b>567,643</b>	<b>525,741</b>
Income tax expense	(99,823)	(94,432)	(168,374)	(158,530)	(142,278)
Profits for the year	236,234	223,306	438,073	409,113	383,463
Attributable to:					
Holders of ordinary shares	236,159	219,355	429,200	396,922	375,896
Holders of perpetual securities	5,814	5,670	11,658	11,588	5,900
Non-controlling interests	(5,739)	(1,719)	(2,785)	603	1,667
	236,234	223,306	438,073	409,113	383,463

## Financial Summary

### Assets, Liabilities and Non-controlling Interests

	For the six months ended 30 June		For the year ended 31 December		
	2017	2016	2016	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	196,985,860	150,329,147	166,560,921	139,312,889	110,726,124
Total liabilities	(170,564,624)	(127,022,536)	(141,714,820)	(116,351,469)	(93,276,231)
Perpetual securities	(2,036,648)	(1,227,612)	(1,231,881)	(1,227,203)	(1,258,170)
Non-controlling interests	(869,604)	(399,532)	(654,990)	(343,180)	(78,771)
	23,514,984	21,679,467	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<sup>(1)</sup> as of the dates indicated.

	For the six months ended 30 June		For the year ended 31 December		
	2017	2016	2016	2015	2014
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	29,077,979	22,669,976	24,010,512	21,453,876	18,095,461
Total liabilities	(25,177,820)	(19,155,287)	(20,428,834)	(17,917,868)	(15,243,705)
Perpetual securities	(300,639)	(185,127)	(177,581)	(188,987)	(205,617)
Non-controlling interests	(128,366)	(60,249)	(94,420)	(52,849)	(12,873)
	3,471,154	3,269,313	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 2011	6.3009	6.4618
31 December 2012	6.2855	6.2932
31 December 2013	6.0969	6.1912
31 December 2014	6.1190	6.1080
31 December 2015	6.4936	6.3063
30 June 2013	6.1787	6.2321
30 June 2014	6.1528	6.1249
30 June 2015	6.1136	6.1163
30 June 2016	6.6312	6.5624
31 December 2016	6.9370	6.7153
30 June 2017	6.7744	6.8557

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