遠東宏信
FAR EAST HORIZON

2014 Interim Report

Incorporated in Hong Kong with limited liability Stock Code: 3360

Hyacinth

Facing the sun and surviving the coldness

in a wide variety of species and colours

Far East Horizon also expands its businesses into various industries

across the country since its establishment

風信子花語
Hyacinth's symbolic meaning

祇要點燃生命之火，便可同享豐富人生。

As long as the fire of life is lit,

a rich and sumptuous life can be shared.

Corporate Information

Board of Directors

Chairman and Non-Executive Director
Mr. LIU Deshu *(Chairman)*

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

Non-Executive Director
Mr. YANG Lin
Mr. LIU Haifeng David
Mr. KUO Ming-Jian
Mr. John LAW

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

Composition of Committee

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

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

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

Company Secretary

Ms. MAK Sze Man

Authorised Representatives

Mr. KONG Fanxing
Ms. MAK Sze Man

Registered Office

Room 4701, Office Tower,
Convention Plaza,
1 Harbour Road,
Wan Chai, Hong Kong

Principal Place of Business in the PRC

35th Floor, Jin Mao Tower,
88 Century Avenue, Pudong,
Shanghai, the People's Republic of China

Principal Place of Business in Hong Kong

Room 4706, Office Tower,
Convention Plaza,
1 Harbour Road,
Wan Chai, Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited

Principal Bankers

China Development Bank
Bank of China

Auditors

Ernst & Young

Legal Adviser

Baker & McKenzie

Company's Website

www.fehorizon.com

Stock Code

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

Company Profile

Far East Horizon Limited ("the Company" or "Far East Horizon") and its subsidiaries ("The Group") is one of China's leading innovative financial companies focusing on the Chinese infrastructure industry and leveraging the business model of integrating finance and industry to serve enterprises of greatest vitality with the support of the fast-growing economy in China. We provide our target customers in specific industries in China with tailor-made financial services and solutions through financial leasing as well as value-added services covering advisory, trading and brokerage.

Over the past 20 years, the Group has evolved from a single financial service company into an integrated service provider with a global vision centered on China so as to facilitate sustainable economic and social development. With the creative integration of industrial capital and financial capital and with unique advantages in the organization of resources and value added services, we provide integrated finance, trade, advisory and investment services in healthcare, packaging, shipping, infrastructure construction, industrial machinery, education, textiles, electronic information, as well as other sectors. The Group, headquartered in Hong Kong, has an operations center in Shanghai, and has offices in major cities throughout China such as Beijing, Shenyang, Ji'nan, Zhengzhou, Wuhan, Chengdu, Chongqing, Changsha, Shenzhen, Xi'an, Harbin and Xiamen, forming a client service network that covers the national market. The Group has been successfully operating its professional and dedicated business platforms in China and abroad in financial leasing, trade, medical engineering, ship leasing, etc.

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

Business Overview

	For the six months ended 30 June		For the year ended 31 December		
	2014	2013	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
OPERATIONAL RESULTS					
TOTAL REVENUE	**5,095,894**	3,658,876	7,908,101	6,486,395	4,716,436
Finance leasing and factoring (interest income)	**3,156,490**	2,414,197	5,243,805	4,333,589	3,063,074
Advisory services (fee income)	**1,585,197**	1,082,845	2,245,431	1,525,721	1,099,792
Cost of sales	**(1,899,272)**	(1,254,526)	(2,890,185)	(2,908,365)	(2,214,078)
Interest expenses	**(1,574,862)**	(1,074,877)	(2,464,876)	(2,208,405)	(1,615,495)
Profit before tax	**1,610,556**	1,372,337	2,600,741	2,076,020	1,478,809
Profit for the year/period attributable to holders of ordinary shares of the Company	**1,165,444**	1,034,153	1,912,744	1,518,577	1,107,630
Basic and diluted earnings per share (RMB)	**0.35**	0.31	0.58	0.48	0.42
PROFITABILITY INDICATORS					
Return on average assets(1)	**2.51%**	3.10%	2.61%	2.82%	3.06%
Return on average equity(2)	**16.16%**	15.85%	14.18%	13.70%	17.33%
Net interest margin(3)	**3.61%**	4.22%	4.02%	4.27%	4.39%
Net interest spread(4)	**2.35%**	3.19%	2.87%	3.02%	2.92%
Service fee income ratio (%)(5)	**48.06%**	43.84%	43.41%	40.71%	41.74%
Cost to income ratio(6)	**33.72%**	35.77%	37.56%	33.98%	32.56%

Business Overview

	30 June 2014 RMB'000 (Unaudited)	30 June 2013 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)	31 December 2012 RMB'000 (Audited)	31 December 2011 RMB'000 (Audited)
Assets and liabilities					
Total assets	**99,903,421**	72,995,891	86,512,872	60,570,275	47,097,345
Net lease receivables	**91,368,637**	68,118,549	78,587,147	56,809,962	41,110,096
Total liabilities	**83,890,195**	59,729,481	72,348,002	47,714,829	37,795,575
Interest-bearing bank and other borrowings	**65,904,936**	46,775,280	56,554,478	36,751,959	29,649,439
Total equity	**16,013,226**	13,266,410	14,164,870	12,855,446	9,301,770
Equity attributable to holders of ordinary shares of the Company	**14,716,975**	13,255,987	14,125,342	12,844,482	9,297,751
Net assets per share (RMB)	**4.47**	4.03	4.30	3.90	3.27
DURATION MATCHING OF ASSETS AND LIABILITIES					
Financial assets	**109,074,506**	**79,935,634**	93,346,706	68,746,183	53,699,660
Financial liabilities	**87,075,497**	**62,703,221**	74,297,209	50,263,012	40,559,631
ASSET QUALITY					
Non-performing assets ratio[7]	**0.89%**	0.76%	0.80%	0.73%	0.60%
Provision coverage ratio[8]	**215.31%**	219.34%	219.19%	213.87%	218.38%
Write-off of non-performing[9]	**1.42%**	0.10%	2.47%	–	–
Overdue loans and lease assets ratio receivables (over 30 days)[10]	**0.70%**	0.35%	0.45%	0.30%	0.08%

Notes:

(1) Return on average assets = profit for the year or the period/average balance of assets at the beginning and end of the period, presented on an annualised basis;

(2) Return on average equity = profit for the year or the period attributable to holders of ordinary shares of the Company/average balance of equity attributable to holders of ordinary shares of the Company at the beginning and end of the period, presented on an annualised basis;

(3) Net interest margin = net interest income/average total balance of interest-earning assets, presented on an annualised basis;

(4) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities, presented on an annualised basis;

(5) Service fee income ratio = service fee income/(interest income – interest expense + service fee income + income from trading and others segment – cost of trading and others segment), income is before business taxes and surcharges;

(6) Cost to income ratio = (selling and distribution cost + administrative expenses – provision for loans and accounts receivable)/gross profit;

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

(8) Provision coverage ratio = provision for impairment of assets/balance of non-performing assets;

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

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

Management Discussion and Analysis

1. Economic Environment

1.1 Macro-economy Environment

During the first half of 2014, the growth rate of China's macro-economy further slowed down as a result of the combined effect of weak external demand and domestic structural economic adjustment. Gross domestic product (GDP) grew only by 7.4% year on year, representing a decrease of 0.2 percentage point as compared to the first half of 2013. Industrial production, investment and consumption slowed down across the board: the growth rate of fixed asset investment fell down to 17.3% from its highs, the added value of industrial enterprises above designated size grew by 8.8% and the total retail sales of consumer goods grew by 12.1%, representing a decrease of 2.8 percentage points, 0.5 percentage point and 1.2 percentage points as compared to the same period last year. Consumption, investment and exports contributed 4%, 3.6% and -0.2% respectively to the GDP growth. The growth of consumption was relatively stable but investment and exports gained insufficient momentum.

For the financial environment, there were significant changes in China's overall financing structure, financial regulatory policies, debt structure of the banking sector and monetary policies of the central bank. For the first half of 2014, the total financing amount across the country hit a record high of RMB10.57 trillion, of which direct financing accounted for 14.2%, representing an increase of 1 percentage point as compared to the same period last year. Regulations on assets and liabilities management of the banking sector became more stringent, resulting in fewer non-standard financing activities and more credit and standardized asset investment. Bank credit facilities accounted for 54.3% of the total financing amount for the first half of the year, representing an increase of 4.3 percentage points as compared to the same period last year. Furthermore, the central bank had two targeted reserve requirement ratio cuts and employed re-loan instruments on multiple occasions. The integrated use of various policy tools was characterized by countercyclical operation and specific pro-cyclical fine tuning.

1.2 Industry Environment

Profit margin of companies in the industries continued to decline due to ever higher costs of factor of production such as labour. Industrial profit grew by 9.8% for the first five months, representing a decrease of 2.5 percentage points as compared to the same period last year. Profit from principal activities grew by 9.1%, representing a decrease of 2.3 percentage points as compared to the same period last year. The income-cost ratio of industrial enterprises above designated size was 86% for the first five months. The profitability of private companies slipped under external and internal pressure such as intensified competition and increasing costs.

Against this backdrop, the eight major industries in which Far East Horizon was involved were affected by external conditions to various extents. The public sector including healthcare, education, infrastructure construction and electronic information maintained stable growth, while the private sector, mainly the manufacturing industry, was facing difficulties such as production overcapacity, insufficient order demand and increasing factor costs. The growth of output of and investment in printing, industrial equipment and textile industries further slowed down, thus weakening the demand for corporate financing. The shipping market continued to slip and remained depressed due to the weak global economy and shipping overcapacity.

Management Discussion and Analysis

1.3 The Leasing Industry

During the first half of 2014, China's financial leasing industry maintained its rapid growth. There were approximately 1,350 registered financial leasing companies (excluding SPV) operating in the country, representing an increase of 324 as compared to the end of last year. Among those companies, 25 were financial leasing ones, 123 domestic leasing ones and 1,202 foreign leasing ones. In addition, financial institutions such as banks, asset management companies and insurers were applying licenses for financial leasing, and major conglomerates were setting up more non-financial leasing companies.

As of the end of June, the total registered capital in the industry amounted to approximately RMB404.0 billion, up RMB98.0 billion from the end of last year, of which the capital of financial leasing, domestic leasing and foreign leasing amounted to RMB87.6 billion, RMB59.3 billion and RMB257.1 billion, accounting for 21.7%, 14.7% and 63.6%, respectively.

As of the end of June, the balance of financial leasing contracts across the country amounted to approximately RMB2.6 trillion, representing an increase of RMB500.0 billion from the end of last year, of which the balance of those of financial leasing, domestic leasing and foreign leasing amounted to RMB1,030.0 billion, RMB820.0 billion and RMB750.0 billion, representing 39.6%, 31.5% and 28.9%, respectively.

1.4 The Company's Solutions

Facing the sluggish macro-economic environment, insufficient industrial expansionary demand, lingering business downturn and intensified competition, the Group formulated differentiated development strategies for each industry based on its own conditions, stepped up efforts to innovate its system and strengthened its capacity to raise and allocate funds to ensure safe business operation and stable development.

For financial business, it continued to expand its customer base and developed new niche markets in segments without perfect competition such as healthcare and education from the prospective of a complete value chain and a general customer base to facilitate business growth,. For segments with perfect competition such as packaging, industrial equipment and textiles, it proactively modified its strategies to strengthen deployment for customers and areas with higher reliability. Besides, it promoted business innovation in new products, new services and new business models.

For non-financial business, the Group continued to cultivate and establish its business operational capability by commencing integrated services in healthcare, infrastructure construction, transportation, utilities and other areas integrating financial leasing, factoring, operating leasing, investment, trading and management consultancy. For instance, it provided integrated finance, technology, management and investment services to over 2,000 medical institutions and medical manufacturing and logistics companies by applying its knowledge and perception in this area gained through its experience of over ten years. In February 2014, the Group successfully acquired an equity interest in Huizhou Huakang Orthopedics and Traumatology Hospital Co. Ltd. ("Huakang Hospital"), to which it contributed its quality medical and management resources. By taking advantage of its coordination between applying financing resources in an organized way and producing and developing industrial resources, it facilitated the healthy and rapid growth of the hospital.

For raising funds, the Group further strengthened its fund raising and allocating capability. On one hand, it strengthened its direct financing, and doubled its foreign MTN capacity to USD3.0 billion and succeeded in issuing senior perpetual securities with a coupon rate of 5.55% to a principal of USD200 million. On the other hand, it expanded its indirect fund raising channels, and finalized a strategic cooperation agreement of RMB30.0 billion with China Development Bank for 2014-2016; it also promoted foreign syndicated facility renewal to further developed foreign facilities markets such as Hong Kong and Taiwan and positively explored channels of raising non-credit fund by means of private banking, trusts and third-party wealth management.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In the first half of 2014, the Group achieved healthy and rapid growth in its results with the growth in revenue being in line with the growth in costs and various expenses. The Group realised a profit before tax of RMB1,610,556,000, representing growth of 17.36% as compared to the corresponding period of the previous year. The profit attributable to holders of ordinary shares of the Company during the period was RMB1,165,444,000, representing growth of 12.70% as compared to the corresponding period of the previous year. The following table sets forth the figures for the six months ended 30 June 2014 and the comparative figures for the six months ended 30 June 2013.

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000	Change %
	(Unaudited)	(Unaudited)	
Revenue	**5,095,894**	3,658,876	39.27%
Cost of sales	**(1,899,272)**	(1,254,526)	51.39%
Gross profit	**3,196,622**	2,404,350	32.95%
Other income and gains	**40,657**	133,473	-69.54%
Selling and distribution costs	**(642,668)**	(512,887)	25.30%
Administrative expenses	**(829,987)**	(604,757)	37.24%
Other expenses	**(154,759)**	(46,884)	230.09%
Finance costs	**(3,236)**	(958)	237.79%
Share of net profit of an associate	**3,927**	–	N/A
Profit before tax from continuing operations	**1,610,556**	1,372,337	17.36%
Income tax expense	**(439,996)**	(338,727)	29.90%
Profit for the period from continuing operations	**1,170,560**	1,033,610	13.25%
Attributable to:			
Holders of ordinary shares of the Company	**1,165,444**	1,034,153	12.70%
Holders of senior perpetual securities	**1,298**	–	N/A
Non-controlling interests	**3,818**	(543)	-803.13%

Management Discussion and Analysis

2.2 Revenue

In the first half of 2014, the Group realised revenue of RMB5,095,894,000, representing growth of 39.27% from RMB3,658,876,000 as compared to the corresponding period of the previous year, which was mainly attributable to the growth of income in leasing and advisory segment. In the first half of 2014, income (before business taxes and surcharges) of the leasing and advisory segment was RMB4,741,687,000, accounting for 91.23% of the total income (before business taxes and surcharges), representing growth of 35.59% as compared to the corresponding period of the previous year. Income from trading and others segment made its share in the total income (before business taxes and surcharges) increase to 8.77% from 6.11% of the corresponding period of the previous year mainly due to the Group's proactively exploring its integrated business with a view to diversifying its revenue distribution.

In addition, in June 2012, International Far Eastern Leasing Co., Ltd., a subsidiary of the Group, obtained approval from the Ministry of Commerce of the PRC to expand its scope of business to include commercial factoring and related advisory services. The business scope expansion marked a solid step forward for the industry integrated operation services strategy of the Group. The Group realised revenue in factoring business of RMB75,184,000 in total for the first half of 2014 as it promoted factoring business among its existing customer base in the industries, representing an increase of 339.72% from RMB17,098,000 for the same period the previous year.

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

	For the six months ended 30 June				
	2014		2013		
	RMB'000 (Unaudited)	**% of total**	RMB'000 (Unaudited)	% of total	Change %
Leasing and advisory segment	**4,741,687**	**91.23%**	3,497,042	93.89%	35.59%
Finance leasing and factoring (interest income)	**3,156,490**	**60.73%**	2,414,197	64.82%	30.75%
Advisory services (fee income)	**1,585,197**	**30.50%**	1,082,845	29.07%	46.39%
Trading and others segment	**455,828**	**8.77%**	227,413	6.11%	100.44%
Total	**5,197,515**		3,724,455		39.55%
Business taxes and surcharges	**(101,621)**		(65,579)		54.96%
Revenue (after business taxes and surcharges)	**5,095,894**		3,658,876		39.27%

The Group also categorised income by industry, and the Group was mainly engaged in 8 industries covering healthcare, infrastructure construction, education, transportation, packaging, machinery, textiles and electronic information for the first half of 2014. In the first half of 2014, the share of each industry in income tended to be more balanced.

Management Discussion and Analysis

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

	For the six months ended 30 June				
	2014		2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Unaudited)	% of total	Change %
Healthcare	1,128,417	21.71%	784,908	21.07%	43.76%
Education	721,340	13.88%	560,982	15.06%	28.59%
Infrastructure construction	956,969	18.41%	667,751	17.93%	43.31%
Transportation	719,983	13.85%	450,550	12.10%	59.80%
Packaging	685,902	13.20%	504,146	13.53%	36.05%
Machinery	416,834	8.02%	295,950	7.95%	40.85%
Textiles	140,386	2.70%	91,213	2.45%	53.91%
Electronic information	249,565	4.80%	202,543	5.44%	23.22%
Others	178,119	3.43%	166,412	4.47%	7.03%
Total	5,197,515	100.00%	3,724,455	100.00%	39.55%

2.2.1 *Financial Leasing and Factoring (Interest Income)*

The interest income (before business taxes and surcharges) from the leasing and advisory segment of the Group rose by 30.75% from RMB2,414,197,000 for the first half of 2013 to RMB3,156,490,000 for the first half of 2014, accounting for 60.73% of the Group's total revenue (before business taxes and surcharges).

The changes in interest income were mainly driven by two factors: the average balance of interest-earning assets and the average yield.

The interest income for the first half of 2014 increased by 30.75% mainly due to the growth of the average balance of interest-earning assets. The Group's average balance of interest-earning assets rose from RMB63,402,608,000 for the first half of 2013 to RMB87,618,201,000 for the first half of 2014, representing an increase of 38.19%. It was attributable to the expansion of the Group's business operation. The average rate of yield of the Group fell to 7.21% for the first half of 2014 from 7.62% for the first half of 2013. Details of the primary reason for the fall are described under the paragraph headed "Analysis according to average yield" below.

Management Discussion and Analysis

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

	For the six months ended 30 June					
	2014			2013		
	Average Interest-earning assets[1]	Interest income[2]	Average yield[3]	Average Interest-earning assets[1]	Interest income[2]	Average yield[3]
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Healthcare	19,914,026	697,519	7.01%	13,664,333	499,920	7.32%
Education	13,408,617	482,267	7.19%	10,773,015	396,468	7.36%
Infrastructure construction	14,022,385	486,444	6.94%	9,938,817	367,033	7.39%
Transportation	9,806,040	357,110	7.28%	7,261,131	274,605	7.56%
Packaging	11,903,037	430,031	7.23%	8,944,811	348,256	7.79%
Machinery	7,552,462	275,838	7.30%	4,735,002	195,750	8.27%
Textiles	2,429,055	78,923	6.50%	1,411,512	55,503	7.86%
Electronic information	4,776,186	186,140	7.79%	3,301,314	130,207	7.89%
Others	3,806,393	162,218	8.52%	3,372,673	146,455	8.68%
Total	87,618,201	3,156,490	7.21%	63,402,608	2,414,197	7.62%

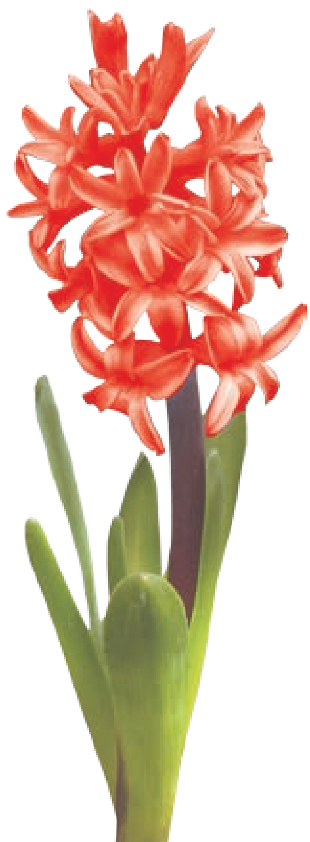
Notes:

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

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

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

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



Management Discussion and Analysis

Analysis according to average balance of interest-earning assets

Among the eight target industries, healthcare, education, infrastructure construction, packaging and machinery were the key drivers to the Group's average balance of interest-earning assets, representing 76.24% of the average balance of interest-earning assets for the first half of 2014. The increase in the average balance of interest-earning assets reflected the business expansion of the Group and its in-depth exploration into each of the industries, as well as the benefits from the Group's greater efforts in marketing and promotion, including arranging expositions and exhibitions for major industry participants and professionals, and recruiting more sales and marketing staff. In the first half of 2014, the Group enhanced the expansion in the niche market of respective industries, such as the pharmaceutical and distribution segments of the healthcare industry, the cultural tourism market in the education industry, the electric power market and new construction material market in the infrastructure construction industry and the logistics segment of the transportation industry.

Analysis according to average yield

In the first half of 2014, the average yield of the Group was 7.21%, representing 0.41 percentage point lower than 7.62% as compared to the corresponding period of the previous year, mainly due to the fact that (i) the growth in the total value of new leasing contracts of customers generating high gross profit slowed down due to the optimisation of the quotation structure for customers in respect of the leasing quotation terminal as a result of the more intense competition in the market and the financial liberalization; and (ii) the Group, in the first half of 2014, became more involved in the highly secured civil industries without perfect competition such as healthcare, education, and infrastructure construction, and stepped up efforts to engage with medium-to-high end customers in each industries, and the growth in the total value of new leasing contracts of low gross profit accelerated due to the greater emphasis on quality customers in respect of the leasing quotation terminal; (iii) the value-added tax for the financial leasing industry was levied at 17% and was tax excluded in price due to the introduction of the pilot reform of transformation of business tax into value-added tax on 1 January 2012. The yield was affected as compared with the tax included in price under the business tax system. As new leasing contracts of the Group in the value-added tax system grew and leasing contracts in the business tax system declined, the effects were gradually reflected in the results for the reporting period. It is estimated that this policy would cause the Group's average yield to decrease by approximately 0.18 percentage point as compared to the corresponding period of the previous year.

Management Discussion and Analysis

2.2.2 Advisory Services (Fee Income)

In the first half of 2014, fee income (before business taxes and surcharges) from leasing and advisory segment grew by 46.39% from RMB1,082,845,000 for the first half of 2013 to RMB1,585,197,000 for the first half of 2014, accounting for 30.50% of the total revenue (before business taxes and surcharges) of the Group and representing an increase as compared with 29.07% in the corresponding period of the previous year.

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

	For the six months ended 30 June				
	2014		2013		
	RMB'000 (Unaudited)	**% of total**	RMB'000 (Unaudited)	% of total	Change %
Healthcare	**363,473**	**22.93%**	259,916	24.00%	39.84%
Education	**237,564**	**14.99%**	164,515	15.19%	44.40%
Infrastructure construction	**320,611**	**20.22%**	205,877	19.01%	55.73%
Transportation	**170,935**	**10.78%**	105,584	9.75%	61.89%
Packaging	**228,845**	**14.44%**	151,023	13.95%	51.53%
Machinery	**123,005**	**7.76%**	97,240	8.98%	26.50%
Textiles	**61,463**	**3.88%**	35,710	3.30%	72.12%
Electronic information	**63,400**	**4.00%**	43,026	3.97%	47.35%
Others	**15,901**	**1.00%**	19,954	1.85%	-20.31%
Total	**1,585,197**	**100.00%**	1,082,845	100.00%	46.39%

Healthcare, infrastructure construction, education and packaging accounted for the greatest contribution to the aggregate growth of the Group's service charge income (before business taxes and surcharges) and service charge income of such segments represented 73.49% of the Group's total service charge income in the first of 2014. The increase in service charge income of such industries was mainly attributable to: (i) the expansion of scale and scope of services provided to the customers of the Group in view of the diversification of products and services offered in the Group's advisory services segment and expansion of the Group's businesses; and (ii) the recruitment of more sales and marketing staff of different industries. The Group adjusted the charge rate of some services for the industries and focused on providing service to high quality customers in the industries.

Management Discussion and Analysis

2.2.3 Revenue from Trading and Others Segment

Revenue from trading and others segment of the Group for the first half of 2014, before business taxes and surcharges increased by 100.44% from RMB227,413,000 for the first half of 2013 to RMB455,828,000 for the first half of 2014, accounting for 8.77% of the total revenue (before business taxes and surcharges), representing 2.66 percentage points higher as compared with 6.11% in the corresponding period of the previous year. This was attributable to increased efforts in developing chartering and brokerage and operating leasing business.

The table below sets forth the Group's revenue from the trading and others segment (before business taxes and surcharges) by business segment during the indicated periods.

	For the six months ended 30 June				
	2014		2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Unaudited)	% of total	Change %
Revenue from trading	57,296	12.57%	90,579	39.83%	-36.74%
Revenue from chartering and brokerage	193,447	42.44%	69,234	30.44%	179.41%
Revenue from construction contracts	32,770	7.19%	21,087	9.27%	55.40%
Revenue from operating lease	143,590	31.50%	43,679	19.21%	228.74%
Revenue from healthcare service	23,295	5.11%	–	–	NA
Revenue from other businesses	5,430	1.19%	2,834	1.25%	91.60%
Total	455,828	100.00%	227,413	100.00%	100.44%

In the first half of 2014, revenue from the trade business was RMB57,296,000 (before business taxes and surcharges), representing a decrease of RMB33,283,000 or 36.74% from the first half of 2013 as a result of the Group's prudent promotion of trading businesses with low profit margin and a decline in trading revenue of machinery, packaging and electronic information for the corresponding period of the previous year. The chartering and brokerage revenue was RMB193,447,000 (before business taxes and surcharges), representing an increase of RMB124,213,000 or 179.41% from the first half of 2013 mainly due to the further expansion in the ship chartering business and the income from brokerage services of the sale and purchase of ships. The construction contracts of the Group realised revenue (before business taxes and surcharges) of RMB32,770,000, representing an increase of RMB11,683,000 or 55.40% from the first half of 2013 mainly due to new construction contracts of the medical engineering business. The Group's operating leasing business rapidly grew for the first half of 2014 as compared to the corresponding period of the previous year, and realised revenue (before business taxes and surcharges) of RMB143,590,000, representing an increase of RMB99,911,000 or 228.74% from the first half of 2013. The Group acquired Huakang Hospital in the first half of 2014 and gained additional revenue from healthcare service (before business taxes and surcharges) of RMB23,295,000.

Management Discussion and Analysis

2.3 Cost of Sales

Cost of sales of the Group for the first half of 2014 was RMB1,899,272,000, representing a decrease of 51.39% from RMB1,254,526,000 in the corresponding period of the previous year. This was mainly due to an increase in the cost of the leasing and advisory service segment. Among them, the cost of the leasing and advisory segment was RMB1,574,862,000, accounting for 82.92% of the total cost. The cost of the trading and others segment was RMB324,410,000, accounting for 17.08% of the total cost.

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

	For the six months ended 30 June				
	2014		2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Unaudited)		
Cost of the leasing and advisory segment	**1,574,862**	**82.92%**	1,074,877	85.68%	46.52%
Cost of trading and others segments	**324,410**	**17.08%**	179,649	14.32%	80.58%
Cost of sales	**1,899,272**	**100.00%**	1,254,526	100.00%	51.39%

2.3.1 Cost of the Leasing and Advisory Segment

The cost of sales of the leasing and advisory segment of the Group comprised solely the cost of sales of financial leasing facing of the Group. The cost of sales of financial leasing and factoring arose entirely from the relevant interest expenses of the interest-bearing bank and other borrowings of the Group.

The following table sets forth the average balance of the interest-bearing liabilities of the Group, the interest expense of the Group and the average cost of the Group in the indicated periods.

	For the six months ended 30 June					
	2014			2013		
	Average balance[(1)]	**Interest expenses**	**Average cost rate[(2)]**	Average balance[(1)]	Interest expenses	Average cost rate[(2)]
	RMB'000	**RMB'000**	**% of total**	RMB'000	RMB'000	% of total
	(Unaudited)	**(Unaudited)**		(Unaudited)	(Unaudited)	
Interest-bearing liabilities	**64,825,321**	**1,574,862**	**4.86%**	48,480,664	1,074,877	4.43%

Notes:

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

(2) Calculated by dividing interest expense by the average balance of interest-bearing liabilities, on an annualised basis

Management Discussion and Analysis

The cost of sales of financial leasing increased by 46.52% from RMB1,074,877,000 for the first half of 2013 to RMB1,574,862,000 for the first half of 2014. The average cost rate of the Group was 4.86% for the first half of 2014, a slight increase from the first half of 2013, due to (i) the higher costs for RMB loans resulting from tightened liquidity in the domestic market in the first half of 2014; and (ii) the greater adjustment of the debt maturity structure with a priority given to long-term borrowings for inclusion, thus resulting in a year-on-year increase of 13.04% of the proportion of long-term borrowings in the first half of 2014.

In 2014, under the strategy of "resources globalization", the Group continued to optimize its liability structure and effectively control its finance costs. Our major measures are as follows: (i) Continuous enhancement in the recognition in the international capital market by proactively leveraging the advantage of a rating of investment grade internationally recognised and maintaining good communication with the capital market; (ii) Absorption of more low-cost funds by exploring financing markets and expanding its financing channels; and (iii) Capture of the opportunity to issue bonds in the domestic market by exploring the market.

2.3.2 Cost of Trading and Others Segment

The cost of sales of the trading and others segment of the Group is primarily derived from the cost of goods sold for trading business, cost of charter business, cost of construction contract, cost of operating lease and cost of healthcare service.

The following table sets forth the cost of trading and others segment of the Group by business type in the indicated periods.

	For the six months ended 30 June				
	2014		2013		
	RMB'000 (Unaudited)	**% of total**	RMB'000 (Unaudited)	% of total	Change %
Cost of trading	**55,373**	**17.07%**	84,373	46.96%	-34.37%
Cost of chartering and brokerage	**168,825**	**52.04%**	53,808	29.95%	213.75%
Cost of construction contracts	**22,405**	**6.91%**	16,196	9.02%	38.34%
Cost of operating lease	**65,374**	**20.15%**	25,272	14.07%	158.68%
Cost of healthcare service	**10,771**	**3.32%**	–	–	N/A
Cost of other business	**1,662**	**0.51%**	–	–	N/A
Total	**324,410**	**100.00%**	179,649	100.00%	80.58%

Management Discussion and Analysis

Cost of goods sold for the trading business of the Group decreased by 34.37% to RMB55,373,000 for the first half of 2014 from RMB84,373,000 for the first half of 2013, primarily due to a decrease in the aggregate value of trading transactions in machinery, packaging and electronic information for the first half of 2014, which resulted in a decrease in the cost of sales relating to the trading business. Cost of the chartering and brokerage business of the Group increased by 213.75% to RMB168,825,000 in the first of 2014 from RMB53,808,000 for the first half of 2013 mainly due to an increase in cost caused by the increase of the transportation chartering business. The cost of construction contracts increased by 38.34% to RMB22,405,000 for the first half of 2014 from RMB16,196,000 for the first half of 2013 mainly due to an increase of cost of construction contracts of medical engineering caused by additional construction contracts. Cost of operating lease of infrastructure construction increased by 158.68% to RMB65,374,000 for the first half of 2014 from RMB25,272,000 for the first half of 2013, mainly due to the rapid growth of the operating leasing business of the Group. For the first half of 2014, cost of healthcare service amounted to RMB10,771,000, mainly comprised of the operating cost of Huakang Hospital which was acquired in such period.

2.4 Gross Profit

The gross profit of the Group for the first half of 2014 increased by RMB792,272,000 or 32.95% to RMB3,196,622,000 from RMB2,404,350,000 in the corresponding period of the previous year. For the first half of 2014 and 2013, the gross profit margin of the Group was 62.73% and 65.71%, respectively.

2.4.1 Gross Profit of Lease and Advisory Segment

The gross profit margin of the lease and advisory segment of the Group for the first half of 2014 was 66.79%, down as compared with 69.26% in the corresponding period of the previous year. The gross profit margin of the leasing and advisory segment was affected by the change of net interest income and net interest income margin. The following table sets forth the interest income, interest expense, net interest income, net interest spread and net interest margin for the periods indicated.

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000	Change %
	(Unaudited)	(Unaudited)	
Interest income[1]	**3,156,490**	2,414,197	30.75%
Interest expense[2]	**1,574,862**	1,074,877	46.52%
Net interest income	**1,581,628**	1,339,320	18.09%
Net interest spread[3]	**2.35%**	3.19%	-26.33%
Net interest margin[4]	**3.61%**	4.22%	-14.45%

Notes:

(1) Interest income is the revenue for the financial leasing and factoring portion of the financial leasing and advisory segment of the Group.

(2) Interest expense is the cost of sales of the financial leasing and factoring portion of the financial leasing and advisory services segment of the Group.

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

(4) Calculated by dividing net interest income by the average total balance of interest-earning assets, on an annualised basis.

Management Discussion and Analysis

Net interest spread of the Group for the first half of 2014 decreased by 0.84 percentage point to 2.35% as compared with 3.19% for the corresponding of the previous year and was slightly lower as compared with 2.63% for the second half of 2013. Net interest spread increased, primarily due to the decrease of 41 basis points in the average yield on interest-earning assets of the Group and the increase of 43 basis points in respect of the average cost on interest-bearing liabilities of the Group. For the changes in respect of the average yield on interest-earning assets and average cost on interest bearing borrowings, please refer to paragraphs 2.2.1 and 2.3.1 of this section. At the same time, the average total balance of interest-earning assets of our Group for the first half of 2014 increased by 38.19%. As such, the net interest income of the Group increased by 18.09% to RMB1,581,628,000 for the first half of 2014 from RMB1,339,320,000 for the first half of 2013. Based on the above-mentioned reasons, the net interest margin of the Group decreased by 0.61 percentage point to 3.61% as compared with 4.22% for the corresponding of the previous year and was slightly lower as compared with 3.84% for the second half of 2013.

2.4.2 Gross Profit of Trading and Others Segment

The gross profit of trading and other segments increased by 175.14% from RMB47,764,000 for the first half of 2013 to RMB131,418,000 for the first half of 2014, primarily due to the increase of the gross profit of the operating lease business, the chartering and brokerage business and construction contracts, which was partially offset by the decline in the gross profit of the trading business. The gross profit of the trading business decreased from RMB1,923,000 for the first half of 2013 to RMB6,206,000 for the first half of 2014. The gross profit of the chartering and brokerage business went up from RMB24,622,000 for the first half of 2013 to RMB15,426,000 for the first half of 2014. The gross profit of construction contracts increased from RMB4,891,000 for the first half of 2013 to RMB10,365,000 for the first half of 2014. The gross profit of the operating lease business rose from RMB18,407,000 for the first half of 2013 to RMB78,216,000 for the first half of 2014. The gross profit of the healthcare service amounted to RMB12,524,000 for the first half of 2014.

2.5 Other Income and Gains

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

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000	Change %
	(Unaudited)	(Unaudited)	
Bank interest income	**22,178**	17,322	28.03%
Foreign exchange gain	**–**	63,876	-100.00%
Gain from structured financial products	**1,585**	2,044	-22.46%
Government grants	**599**	44,737	-98.66%
Derivative financial instruments – transaction not qualifying as a hedge:			
Unrealised fair value losses, net	**2,657**	1,658	60.25%
Realised fair value losses, net	**–**	2,561	-100.00%
Other income	**13,638**	1,275	969.65%
Total	**40,657**	133,473	-69.54%

Management Discussion and Analysis

In the first half of 2014, the Group's other income and gains amounted to RMB40,657,000, representing a decrease of 69.54% from the corresponding period of the previous year, mainly attributable to changes in foreign exchange gain and government grants. Foreign exchange loss for 2014 amounted to RMB101,728,000 (2013: foreign exchange gain of RMB63,876,000) mainly attributable to the Group's foreign exchange risk exposure to US$ debts to a large extent and the depreciation of RMB against US$ by approximately 0.92% during the first half of 2014. To control currency risk, the Group gradually hedged against foreign exchange risks through the operation of financial instruments such as forward rate and currency swap. In the first half of 2014, the average percentage of foreign exchange exposure with hedges was 38%. As at 30 June 2014, the percentage of foreign exchange exposure with hedges reached 66%. Government grants amounted to RMB599,000, representing a decrease of 98.66% from the previous year, mainly comprised of the rebated value-added tax realised under the instant rebate of value-added tax policy which the Group is entitled to enjoy pursuant to the document (Cai Shui (2011)No. 111) during the corresponding period of the previous year.

2.6 Selling and Distribution Costs

Selling and distribution costs of the Group in the first half of 2014 amounted to RMB642,668,000, which increased by RMB129,781,000 or 25.30% as compared to the corresponding period of the previous year, mainly attributable to the increase of 24.41% in the cost of the Group relating to the salaries and benefits of sales and marketing staff due to the increase in total headcount for sales and distribution personnel of the Group from 1,301 in the first half of 2013 to 2,313 in the first half of 2014. The net increase in the first half of 2014 was 810. This increase in headcount for sales and distribution personnel was necessary for the expansion of the Group's business operations. Similarly, the increase in staff and business volume also resulted in an increase in our travel expenses, which increased by 31.67% from the corresponding period of the previous year.

2.7 Administrative Expenses

Administrative expenses of the Group in the first half of 2014 were RMB829,987,000, representing an increase of RMB225,230,000 or 37.24% from the corresponding period of the previous year. The increase in administrative expenses was mainly due to: (i) the increase in expenses relating to the impairment of loans and accounts receivable (impairment of loans and accounts receivable in the first half of 2014 amounted to RMB394,624,000, representing an increase of RMB137,113,000 or 53.25% from the corresponding period of the previous year); (ii) the increase in the headcount of full-time staff (the cost regarding the remuneration and welfare of staff relating to the administrative expenses increased accordingly by RMB53,407,000 or 23.26% from the corresponding period of the previous year. The total headcount of full-time staff of the Group increased from 2,047 in the first half of 2013 to 3,583 in the first half of 2014 and the net increase in the first half of 2014 was 333); (iii) the increase in office expenses resulting from the business expansion (rental expenses of the Group in the first half of 2014 represented an increase of RMB8,031,000 or 20.64% from the corresponding period of the previous year).

2.7.1 Impairment of Loans and Accounts Receivable

The impairment of loans and accounts receivable of the Group in the first half of 2014 was RMB394,624,000, which increased by RMB137,113,000 or 53.25% from the corresponding period of the previous year. This was primarily due to an increase of 37.19% in the net interest-earning assets during the relevant period. According to the standards of the five-category classification, the Group cautiously increased the provisions for the impairment of loans and accounts receivable.

Management Discussion and Analysis

The following table sets forth the breakdown of the impairment of loans and accounts receivable of the Group for the indicated periods.

	For the six months ended 30 June				
	2014		2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Unaudited)		
Impairment of loans and accounts receivable:					
Individual assessment	**141,994**	**35.98%**	63,705	24.74%	122.89%
Collective assessment	**252,630**	**64.02%**	193,806	75.26%	30.35%
Total	**394,624**	**100.00%**	257,511	100.00%	53.25%

2.7.2 Cost to Income Ratio

Cost to income ratio of the Group in the first half of 2014 was 33.72%, which was slightly lower as compared with 35.77% of the corresponding period of the previous year and as compared with 39.20% of the second half of 2013.

2.8 Other Expenses

Other expenses of the Group in the first half of 2014 amounted to RMB154,759,000, representing an increase of RMB107,875,000 or 230.09% from the corresponding period of the previous year. They included foreign exchange loss of RMB101,728,000, as compared with the foreign exchange gain of RMB63,876,000 in the corresponding period of the previous year. Details of which are set out in paragraph 2.5 above.

2.9 Income Tax Expense

Income tax expense of the Group in the first half of 2014 was RMB439,996,000, which increased by RMB101,269,000 or 29.90% from the corresponding period of the previous year. The increase was primarily due to an increase in the operating profit of the Group during the relevant period. Effective tax rate of the Group in the first half of 2014 and 2013 was 27.32% and 24.68%, respectively. The increase in effective tax rate was mainly attributable to the increase in provision for income tax for the interest income of the shareholder loans to domestic subsidiaries.

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

Based on the above discussion and analysis, profit for the period attributable to holders of ordinary shares of the Company was RMB1,165,444,000, which increased by RMB131,291,000 or 12.70% from the corresponding period of the previous year. Net profit margin of the Group decreased from 28.25% in the corresponding period of the previous year to 22.97% in the first half of 2014.

Management Discussion and Analysis

3. Analysis of Financial Position

3.1 Assets (Overview)

As at 30 June 2014, the total assets of the Group increased by RMB13,390,549,000 or 15.48% from the end of the previous year to RMB99,903,421,000. Loans and accounts receivable increased by RMB13,443,900,000 or 16.87% from the end of the previous year to RMB93,130,920,000.

As at 30 June 2014, the cash and cash equivalents of the Group decreased from the end of 2013 to RMB1,693,997,000. The Group reserved relatively sufficient cash to sustain the business development and ensure the capital liquidity safety of the Group.

As at 30 June 2014, the restricted deposits of the Group amounted to RMB824,361,000, which mainly comprised the restricted security deposits and time deposits held in banks over three months.

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

	30 June 2014		31 December 2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Audited)		
Loans and accounts receivable	**93,130,920**	**93.22%**	79,687,020	92.12%	16.87%
Including: Net lease receivables	**91,368,637**	**98.11%**	78,587,147	98.62%	16.26%
Cash and cash equivalents	**1,693,997**	**1.70%**	2,673,476	3.09%	-36.64%
Restricted deposits	**824,361**	**0.83%**	463,129	0.54%	78.00%
Prepayments, deposits and other receivables	**759,544**	**0.76%**	949,681	1.10%	-20.02%
Deferred tax assets	**709,752**	**0.71%**	583,953	0.67%	21.54%
Property, plant and equipment	**1,401,102**	**1.40%**	964,053	1.11%	45.33%
Repaid land lease payments	**1,005,807**	**1.01%**	973,847	1.13%	3.28%
Investment in joint ventures	**26,670**	**0.03%**	–	–	N/A
Investment in an associate	**84,570**	**0.08%**	80,643	0.09%	4.87%
Derivative financial instruments	**60,859**	**0.06%**	968	0.00%	6187.09%
Inventories	**30,018**	**0.03%**	27,461	0.03%	9.31%
Construction contracts	**65,411**	**0.07%**	53,951	0.06%	21.24%
Goodwill	**64,164**	**0.06%**	–	–	N/A
Other assets	**46,246**	**0.05%**	54,690	0.06%	-15.44%
Total assets	**99,903,421**	**100.00%**	86,512,872	100.00%	15.48%

Management Discussion and Analysis

3.2 Loans and Accounts Receivable

The main components of assets of the Group were loans and accounts receivable, accounting for 93.22% of the total assets of the Group as of 30 June 2014. During the first half of 2014, against the external operating condition with ongoing increase of uncertainty, the Group, in adherence to the existing operating strategy and corresponding management approach and with the direction of main industry as the base and relatively well-managed customers as the target, implemented ongoing and stable expansion of the financial leasing business and increased staff of sales and market promotion on a basis of the Group's effective risk control so as to maintain stable growth in both the number of customers served and the number of new lease contracts entered into by the Group and keep the net lease receivables to increase steadily.

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

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
Lease receivables	102,451,321		88,630,514		15.59%
Less: Unearned finance income	(11,082,684)		(10,043,367)		10.35%
Net lease receivables	91,368,637	96.24%	78,587,147	96.89%	16.26%
Other net interest-earning assets[1]	3,122,009	3.29%	2,158,609	2.66%	44.63%
Subtotal for interest-earning assets	94,490,646	99.53%	80,745,756	99.55%	17.02%
Others[2]	449,706	0.47%	364,180	0.45%	23.48%
Loans and accounts receivable[3]	94,940,352	100.00%	81,109,936	100.00%	17.05%

Notes:

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

(2) Others include notes receivables and accounts receivables.

(3) The amount is before provisions.

Loans and accounts receivable of the Group (before provisions) as of 30 June 2014 amounted to RMB94,940,352,000, representing an increase of 17.05% from RMB81,109,936,000 as of 31 December 2013. Net lease receivables (before provisions) were the most significant component of loans and accounts receivable, accounting for 96.24% of loans and accounts receivable (before provisions) as of 30 June 2014.

Management Discussion and Analysis

3.2.1 Interest-earning Assets

Net interest-earning assets of the Group as of 30 June 2014 were RMB94,490,646,000, representing an increase of 17.02% as compared with RMB80,745,756,000 as of 31 December 2013. The increase was due to a steady increase in both the number of customers served and the number of new contracts entered into by the Group, as a result of the continuous expansion of financial leasing and factoring business of the Group on a basis of the Group's effective risk control in the first half of 2014.

3.2.2 Net Interest-earning Assets by Industry

The following table sets forth net interest-earning assets[1] of the Group by industry as of the dates indicated.

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
Healthcare	22,073,230	23.36%	17,754,823	21.99%	24.32%
Education	14,361,640	15.20%	12,455,594	15.43%	15.30%
Infrastructure construction	15,739,109	16.66%	12,305,661	15.24%	27.90%
Transportation	10,425,552	11.03%	9,186,527	11.38%	13.49%
Packaging	12,130,514	12.84%	11,675,559	14.46%	3.90%
Machinery	8,253,191	8.73%	6,851,733	8.49%	20.45%
Textiles	2,607,613	2.76%	2,250,497	2.79%	15.87%
Electronic information	5,061,519	5.36%	4,490,853	5.56%	12.71%
Others	3,838,278	4.06%	3,774,509	4.66%	1.69%
Total	94,490,646	100.00%	80,745,756	100.00%	17.02%

Note:

Net interest-earning assets for healthcare, infrastructure construction and transportation as of 30 June 2014 grew the most in amount among the target industries of the Group, namely by RMB4,318,407,000, RMB3,433,448,000 and RMB1,906,046,000, respectively over those as of 31 December 2013. The increase was attributable to the business expansion and exploration in different industries, as well as contribution from enhanced promotion and marketing activities, such as organising more expositions and exhibitions for major industry participants and professionals and employing additional sales and marketing staff.

Management Discussion and Analysis

3.2.3 *Aging Analysis of Net Interest-earning Assets*

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

	30 June 2014		31 December 2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Audited)		
Net interest-earning assets					
Within 1 year	**54,296,305**	**57.46%**	47,299,860	58.58%	14.79%
1 to 2 years	**25,931,056**	**27.44%**	20,304,845	25.15%	27.21%
2 to 3 years	**9,416,592**	**9.97%**	9,345,441	11.57%	0.76%
3 years and beyond	**4,846,693**	**5.13%**	3,795,610	4.70%	27.69%
Total	**94,490,646**	**100.00%**	80,745,756	100.00%	17.02%

Net interests-earning assets within one year represent net interest-earning assets the Group received, and are still valid as of the end of the year or the end of the period. As of 30 June 2014, net interest-earning assets within one year as set out in the table above represented 57.46% of net interest-earning assets of the Group, which was basically flat when compared to the end of the previous year. The Group remained to be able to execute and perform new lease contracts steadily.

3.2.4 *Maturity Profile of Net Interest-earning Assets*

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

	30 June 2014		31 December 2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Audited)		
Maturity date					
Within 1 year	**36,845,299**	**38.99%**	31,303,641	38.77%	17.70%
1 to 2 years	**27,721,826**	**29.34%**	23,016,610	28.50%	20.44%
2 to 3 years	**16,712,424**	**17.69%**	15,325,805	18.98%	9.05%
3 years and beyond	**13,211,097**	**13.98%**	11,099,700	13.75%	19.02%
Total	**94,490,646**	**100.00%**	80,745,756	100.00%	17.02%

Net interest-earning assets due within one year represent net interest-earning assets which the Group will receive within one year of the reporting date indicated. As of 30 June 2014, net interest-earning assets due within one year as set forth in the table above represented 38.99% of the Group's net interest-earning assets as of each of the respective dates, which was basically flat when compared to the end of the previous year. This indicated that the maturity of the Group's net lease receivables was widely spread and could provide the Group with consistent and sustainable cash inflows that facilitated the matching of our liabilities.

Management Discussion and Analysis

3.2.5 Asset Quality of Net Interest-earning Assets

3.2.5.1 Five-category Net Interest-earning Assets Classification

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

Classification criteria

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

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

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

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

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

Loss. After taking all possible steps or going through all necessary legal procedures, payments remain overdue or only a very limited portion has been recovered. We take into account other factors, for example, if payments have been overdue for more than one year, the interest-earning assets for this contract shall be classified as a loss.

Management Discussion and Analysis

Asset management measures

The China economy remained sluggish during the first half of 2014. With excess production capacity in some manufacturing sectors and prolonged weak domestic demand, the operating environment faced by our customers did not turned around. There were challenges in the safety of present stock assets. The Group continued to optimise its asset management system, strengthen its asset process monitoring, and intensify risk asset disposal so as to keep the quality of our assets stable and under control on the whole during the reporting period.

Intensifying asset process monitoring to promote the effectiveness of asset process monitoring

In the first half of 2014, the Group continued to optimise our asset management system. The Group strived for its management concept of "close to assets, close to customers" and its assets management headquarters established the regional management centre during the first half of 2014. The regional management centre was responsible for facilitating the implementation of our management measure of "localisation of asset management and regionalisation of horizontal management". We promoted regional asset manager deployment in regions with high customer concentration. The trial operation of the "regional asset management model" was expected to implement in Guangdong, Beijing, Tianjin and Hebei during the second half of 2014. Leveraging our competitive edges of "embedded in local region, close to assets, across different industries and high mobilisation", the Group timely monitored asset security information and rapidly responded to changes, thus enhancing the efficiency of asset management.

In the first half of 2014, the Group continued to optimise the control on the life responsibility for project assets security. The Group increased the proportion of assets security management under performance assessment of our staff. It also specified the assessment requirements.

In the first half of 2014, the Group reviewed and rectified the weaknesses on asset management based on the analysis of past risk exposure cases. The Group made specific suggestions on enhancing asset management. Officers from assets management headquarters inspected the implementation of rectification measures on assets management issues.

In order to enhance the effectiveness of leased items as risk aversion measures, the Group conducted specified research on the management of leased items during the first half of 2014. The Group formulated systematic management measures in respect of valuation, title inspection and registration of leased items. These measures were expected to fully implement in the second half of the year.

In order to ensure the safety of our assets and operations, the Group organised specific asset screening action in sectors with more non-performing assets (such as transportation and packaging) and regions with higher political and systematic risks during the first half of 2014. The Group analysed and assessed the safety level of stock assets of its two major sectors through research and the understanding of the degree of impact of external economic on customers' operation. The Group adopted risk reduction measures for assets which were exposed to risks. It also analysed market and regional systematic risks and made corresponding adjustment on future operating and management strategy.

Increased risk management methods to step up efforts to dispose of risk assets

In the first half of 2014, the Group classified its litigations, optimised resources allocation and improved the efficiency of risk asset disposal. For litigations which met specific criteria (such as litigations with clear juristic fact or small claims), the business segment is authorised to dispose assets. The assets management headquarters are responsible for handling complicated litigations with large claims.

Management Discussion and Analysis

During the first half of 2014, the Group stepped up efforts to dispose of risk assets through various means of disposal such as litigation and mediation, enforcement or disposal of leasing assets, thereby effectively mitigating the risks. In the first half of 2014, the Group disposed of 32 risk assets with 23 customers through litigation, with a recovery rate of 94.93%.

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	RMB'000 (Audited)	% of total	RMB'000 (Audited)	% of total
Pass	80,629,657	85.33%	68,819,144	85.23%	48,334,185	83.93%	34,705,439	83.01%
Special mention	13,024,409	13.78%	11,280,176	13.97%	8,832,505	15.34%	6,856,261	16.40%
Substandard	417,209	0.44%	259,905	0.32%	252,665	0.44%	190,606	0.46%
Doubtful	417,441	0.45%	386,531	0.48%	167,421	0.29%	55,686	0.12%
Loss	1,930	0.00%	–	–	434	0.00%	3,006	0.01%
Net interest-earning assets	94,490,646	100.00%	80,745,756	100.00%	57,587,210	100.00%	41,810,998	100.00%
Non-performing assets	836,580		646,436		420,520		249,298	
Non-performing asset ratio	0.89%		0.80%		0.73%		0.60%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As of 30 June 2014, the Group's assets under special mention accounted for 13.78% of its net interest-earning assets, representing a slight decrease as compared with 13.97% as of the end of the previous year. In particular, assets under special mention in the transportation industry accounted for the largest portion at 30.94%, which was mainly attributable to the continued sluggish shipping industry, overcapacity in the industry, and the prolonged low freight rate under weak market condition. Some regional shipping enterprises were facing liquidity problems due to suspension of loan grants from banks, hence affecting their production and operation. The Group prudently reclassified more assets in this sector as assets under special mention, as the Group paid close attention to the systematic risks of such industry. Assets under special mention in the machinery industry accounted for the second largest portion at 12.12%, mainly attributable to the continued sluggish machine manufacturing industry under current market condition and most of the customers were SMEs. In view of the impact of prolonged macroeconomic downturn, the Group conservatively reclassified more assets in this sector as assets under special mention. The assets under special mention in the healthcare industry accounted for the third largest portion at 10.60%, mainly attributable to the large investment of the infrastructure of the healthcare segment with long establishment time and high debts. The Group prudently kept this asset class under ongoing supervision. The assets under special mention in other industry accounted for the fourth largest portion at 10.39%, mainly attributable to the new industries explored by the Company. Given the short period of time since the Company entered the new markets, although customers in this segment maintained steady operation, the Group prudently reclassified the assets for this type of customers in view of the prolonged macroeconomic downturn and overall industry risks. This reflected close attention of the Group to the systematic risks of such industry. The assets under special mention in the packaging industry accounted for the fifth largest portion at 10.36%, mainly attributable to the slow growth in most of the domestic packaging markets under the macroeconomic environment. Markets in some regions were facing minor contraction and the overcapacity problem was not been solved yet. Hence, the Group prudently reclassified more assets in this industry as assets under special mention.

As of 30 June 2014, the balance of the Group's assets under special mention was RMB13,024,409,000, of which 97.94% of assets under special mention were not past due, 1.62% were overdue within 30 days and only 0.44% were overdue more than 30 days but within 90 days.

Management Discussion and Analysis

Among assets under special mention of RMB13,024,409,000, assets of RMB4,675,245,000 were reclassified as assets under special mention during the first half of 2014. The reclassification is mainly due to the fact that more assets in the transportation, packaging and machinery industry with higher risk exposure under the macroeconomic condition were reclassified as assets under special mention. Remaining assets of RMB8,349,164,000 were reclassified as assets under special mention at the end of 2013 and remained under special mention as at 30 June 2014. This asset type primarily comprised the following assets:

1) Assets of new industries. The Group usually keep attention to them prudently during the project cycle. This type of assets represented 14% of the total. In fact, some of the customers in this segment have good repayment record and the overall safety of assets can be controlled.

2) Assets of the industries exposed to higher systematic risk. If, for example, the shipping industry remained sluggish and the imbalance condition has not been improved, we will keep continuous attention to more assets in the shipping industry. This type of assets represented 34% of the total.

3) Assets where some of the concerns about the customers are not completely eliminated but do not affect the normal operation of the customers, representing 36% of the total.

4) Assets where some of the concerns about the customers are eliminated or the operation condition has improved but still under observation period due to shorter lease period or the Group still caution about the uncertainties in the future. We still classify those assets as assets under special mention. This type of assets represented 16% of the total.

The Group paid attention to above assets for a longer period as prudent measure. This does not imply that this type of assets has been deteriorated. We only keep long-term concern over the unfavourable factors of the above assets, or we become more cautious about the unfavourable factors once existed. Hence, the daily monitor on assets can be enhanced and prevention can be achieved.

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	RMB'000 (Audited)	% of total	RMB'000 (Audited)	% of total
Healthcare	1,380,093	10.60%	1,319,246	11.70%	641,070	7.26%	403,832	5.89%
Education	1,030,232	7.91%	893,569	7.91%	1,591,140	18.02%	1,089,993	15.90%
Infrastructure construction	1,073,124	8.24%	993,563	8.81%	765,693	8.67%	1,323,122	19.30%
Transportation	4,030,246	30.94%	3,005,841	26.65%	1,462,367	16.56%	761,518	11.11%
Packaging	1,348,681	10.36%	1,230,813	10.91%	1,217,311	13.78%	337,457	4.92%
Machinery	1,578,536	12.12%	997,917	8.85%	648,344	7.34%	509,538	7.43%
Textiles	98,328	0.75%	78,540	0.70%	169,256	1.91%	27,911	0.41%
Electronic information	1,131,920	8.69%	1,069,806	9.48%	604,410	6.84%	290,159	4.23%
Others	1,353,249	10.39%	1,690,881	14.99%	1,732,914	19.62%	2,112,731	30.81%
Total	13,024,409	100.00%	11,280,176	100.00%	8,832,505	100.00%	6,856,261	100.00%

Management Discussion and Analysis

Based on the Group's historical migration, the proportion of reclassifying the Group's assets under special mention at the beginning of the year as non-performing assets as at the end of the year is low. The quality of the Group's assets under special mention is well maintained.

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

	Pass	Special mention	Substandard	Doubtful	Loss and write-off
			As at 30 June 2014 (Unaudited)		
Special mention	**8.36%**	**74.02%**	**0.26%**	**0.30%**	**0.00%**
			As at 31 December 2013 (Unaudited)		
Special mention	15.55%	40.77%	0.22%	0.39%	0.00%
			As at 31 December 2012 (Unaudited)		
Special mention	20.88%	49.63%	1.22%	0.17%	0.00%
			As at 31 December 2011 (Unaudited)		
Special mention	16.41%	49.24%	1.26%	0.44%	0.00%

The Group's asset quality remained favourable. The non-performing asset ratio slightly increased from 0.80% from the end of the previous year to 0.89% as of 30 June 2014. The Group's write-off amount of non-performing assets was RMB9,175,000. The write-off ratio of non-performing assets was 1.42%.

The non-performing asset ratio for the transportation industry to total non-performing assets was 35.86%, mainly because of higher risk exposure, significant decrease in profitability of shipping customers and illiquidity and suspension of operation of some customers under the continuous sluggish overseas and domestic shipping market. The Group prudently reclassified the assets of the segment into substandard assets. The non-performing asset ratio for the packaging industry to total non-performing assets was 33.76%, primarily because many business enterprises in the packaging industry were medium and small private enterprises, and they were susceptible to sluggish external economic conditions. Mutual guarantee, private lending and refinancing of leased items were commonly in the packaging industry. The packaging industry was greatly affected by the risks relating to mutual guaranteed financing. As a result, the Group prudently reclassified more assets of this segment into substandard and doubtful assets. The non-performing assets of the machinery industry accounted for 10.67% of the total non-performing assets, mainly because of the significant decrease in revenue and profit of customers in sub-segments which were vulnerable to market fluctuation, including engineering machinery, machine tools and general spare parts. Moreover, most of the customers in these segments are SMEs, which are easily affected by sluggish external economic conditions. Hence, the Group prudently reclassified more assets of the machinery industry into substandard and doubtful assets. The non-performing assets of the textiles industry accounted for 7.44% of the total non-performing assets. Non-performing assets concentrated in the textiles industry, mainly attributable to the continued sluggish cotton market, weak demand from downstream enterprises and lower yarn price. This put great pressure on the profitability of textile enterprises. In addition, the changes in bank lending policies had pressure on the liquidity of those enterprises. The Group prudently reclassified more assets in this industry into substandard assets.

Management Discussion and Analysis

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(Unaudited)		(Audited)		(Audited)		(Audited)	
Healthcare	11,115	1.33%	5,921	0.91%	16,307	3.88%	9,868	3.97%
Education	3,924	0.47%	8,071	1.25%	16,736	3.98%	19,126	7.67%
Infrastructure construction	61,161	7.31%	88,931	13.76%	80,821	19.22%	61,515	24.67%
Transportation	300,001	35.86%	212,565	32.88%	124,686	29.65%	94,217	37.79%
Packaging	282,428	33.76%	198,641	30.73%	83,287	19.81%	46,282	18.56%
Machinery	89,253	10.67%	81,259	12.57%	56,448	13.41%	18,290	7.34%
Textiles	62,250	7.44%	19,788	3.06%	5,923	1.41%	–	–
Electronic information	26,448	3.16%	31,260	4.84%	36,312	8.64%	–	–
Others	–	–	–	–	–	–	–	–
Total	836,580	100.00%	646,436	100.00%	420,520	100.00%	249,298	100.00%

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(Unaudited)		(Audited)		(Audited)		(Audited)	
Healthcare	5,333	1.28%	–	–	2,828	1.12%	9,868	5.18%
Education	1,374	0.33%	–	–	5,349	2.12%	8,573	4.50%
Infrastructure construction	17,235	4.13%	22,086	8.50%	22,556	8.93%	53,568	28.10%
Transportation	140,772	33.74%	108,819	41.87%	118,061	46.73%	94,217	49.44%
Packaging	159,654	38.27%	100,492	38.66%	47,117	18.65%	18,918	9.92%
Machinery	41,612	9.97%	21,855	8.41%	34,748	13.75%	5,462	2.86%
Textiles	48,910	11.72%	3,949	1.52%	–	–	–	–
Electronic information	2,319	0.56%	2,704	1.04%	22,006	8.70%	–	–
Others	–	–	–	–	–	–	–	–
Total	417,209	100.00%	259,905	100.00%	252,665	100.00%	190,606	100.00%

Management Discussion and Analysis

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(Unaudited)		(Audited)		(Audited)		(Audited)	
Healthcare	5,782	1.39%	5,921	1.53%	13,479	8.05%	–	–
Education	2,550	0.61%	8,071	2.09%	11,387	6.80%	10,553	18.95%
Infrastructure construction	43,926	10.52%	66,845	17.29%	58,265	34.80%	7,947	14.27%
Transportation	159,229	38.14%	103,746	26.84%	6,625	3.97%	–	–
Packaging	120,844	28.95%	98,149	25.39%	35,736	21.34%	24,358	43.74%
Machinery	47,641	11.41%	59,404	15.37%	21,700	12.96%	12,828	23.04%
Textiles	13,340	3.20%	15,839	4.10%	5,923	3.54%	–	–
Electronic information	24,129	5.78%	28,556	7.39%	14,306	8.54%	–	–
Others	–	–	–	–	–	–	–	–
Total	417,441	100.00%	386,531	100.00%	167,421	100.00%	55,686	100.00%

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(Unaudited)		(Audited)		(Audited)		(Audited)	
Healthcare	–	–	–	–	–	–	–	–
Education	–	–	–	–	–	–	–	–
Infrastructure construction	–	–	–	–	–	–	–	–
Transportation	–	–	–	–	–	–	–	–
Packaging	1,930	100%	–	–	434	100.00%	3,006	100.00%
Machinery	–	–	–	–	–	–	–	–
Textiles	–	–	–	–	–	–	–	–
Electronic information	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	1,930	100%	–	–	434	100.00%	3,006	100.00%

Management Discussion and Analysis

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

	Amount RMB'000 (Unaudited)	NPA ratio %
31 December 2011	249,298	0.60%
Downgrades[1]	361,853	
Upgrades	(2,638)	
Recoveries	(187,993)	
Write-offs	–	
31 December 2012	420,520	0.73%
Downgrades[1]	469,784	
Upgrades	(74,095)	
Recoveries	(159,384)	
Write-offs	(10,389)	
31 December 2013	646,436	0.80%
Downgrades[1]	431,956	
Upgrades	(37,786)	
Recoveries	(194,851)	
Write-offs	(9,175)	
30 June 2014	836,580	0.89%

Note:

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

Management Discussion and Analysis

3.2.5.2 Interest-earning Assets Provisions

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

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(Unaudited)		(Audited)		(Audited)		(Audited)	
Asset impairment provisions:								
Individual assessment	445,002	24.71%	312,024	22.02%	189,891	21.11%	75,844	13.93%
Collective assessment	1,356,206	75.29%	1,104,872	77.98%	709,470	78.89%	468,573	86.07%
Total	1,801,208	100.00%	1,416,896	100.00%	899,361	100.00%	544,417	100.00%
Non-performing assets	836,580		646,436		420,520		249,298	
Provision coverage ratio	215.31%		219.19%		213.87%		218.38%	

As of 30 June 2014, after prudent analysis of the tightening credit policies in China and dynamic changes in the global economic environment, the Group managed the asset quality of the Group in a prudent and cautious manner, carried on the relatively prudent provision policy of the Group and increased the provision for asset impairment. Accordingly, the provision coverage ratio of the Group was 215.31% as of 30 June 2014.

3.2.5.3 Write-offs of Interest-earning Assets

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

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Audited)	(Audited)
Write-off	9,175	10,389	–	–
Non-performing assets as at the end of the previous year	646,436	420,520	249,298	240,629
Write-off ratio(1)	1.42%	2.47%	–	–

Note:

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

Management Discussion and Analysis

In the first half of 2014, the Group conducted write-offs of non-performing assets of four customers from infrastructure construction, industrial equipment and packaging in an aggregate amount of RMB9,175,000. The write-offs in respect of two major customers are set forth below:

Customer A in the infrastructure construction sector began to co-operate with the Group in a project of two phases since January 2011, in which the phase 1 was a leasing one and the phase 2 was a factoring one. The commercial concrete industry saw lower profitability and tight cash flow due to a downturn across the industry with a fall in demand and intensified market competition. In August 2012, the beneficial controller of Customer A was held in custody. Customer A was forced to suspend operation. As the projects failed to operate for a prolonged period, a substantial loss of approximately RMB4,316,000 was incurred.

Customer B in the industrial equipment sector began to co-operate with the Group since the end of 2011. The customer made the rental payment in good order in 2012. However, demand for the products of the customer declined amid a downturn of the industrial machinery sector. The intensified competition led to a falling profit margin of the customer. Its banks also cut lending due to the tightened credit policies. Therefore, the customer heavily suffered when raising funds. In December 2012, it suspended production completely. The Group immediately processed property preservation and distrained the leased equipment. As the reorganisation out of bankruptcy of the customer was also blocked, the settlement of the case was at a standstill, thus resulting in a substantial loss of approximately RMB4,358,000.

3.2.5.4 *Status of Overdue Loans and Lease Receivables (Over 30 Days)*

The following table sets forth status of overdue loans and lease receivables (over 30 days) as of the dates indicated.

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Audited)	(Audited)
Overdue ratio (over 30 days)	**0.70%**	0.45%	0.30%	0.08%

As a result of the Group's prudent risk control and asset management, the Group's lease overdue ratio (over 30 days) was 0.70% during the first half of 2014, 0.25 percentage point higher as compared with 0.45% as of the end of 2013. Non-performing assets ratio increased slightly by 0.09 percentage point to 0.89% from 0.80%, which was mainly due to the fact that:

1) At the end of 2013, 99% of the assets within the projects overdue more than 30 days was classified as non-performing assets, of which 44% were projects overdue less than 30 days but classified as non-performing assets due to various risk warnings.

2) As at 30 June 2014, 91.37% of the assets within the projects overdue more than 30 days were classified as non-performing assets, of which around RMB150 million overdue less than 30 days by the end of 2013 and overdue more than 30 days as at 30 June 2014 was classified as non-performing assets by the end of 2013. The portion of assets caused a higher proportion of the assets overdue more than 30 days as at 30 June 2014 but failed to push up the indicator of non-performing assets for 2014. Therefore, non-performing assets ratio did not grow in line with the portion of assets overdue more than 30 days.

Management Discussion and Analysis

The following table sets forth status of overdue loans and lease receivables (overdue more than 30 days) by industry as of the dates indicated.

	30 June 2014		31 December 2013	
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total
Healthcare	5,783	0.87%	7,515	2.08%
Education	5,682	0.85%	6,885	1.90%
Infrastructure construction	47,537	7.15%	57,774	15.99%
Transportation	265,996	40.00%	104,337	28.88%
Packaging	171,073	25.73%	108,408	30.00%
Machinery	83,813	12.60%	52,238	14.46%
Textiles	58,680	8.82%	6,152	1.70%
Electronic information	26,448	3.98%	18,023	4.99%
Others	–	–	–	–
Total	665,012	100.00%	361,332	100.00%

Although the Group's overdue ratio (over 30 days) slightly increased during the first half of 2014, the Group adhered to stringent policy on classification and management of asset quality. As a result, most of the overdue loans and lease receivables (over 30 days) were reflected in the non-performing assets and the overall asset quality of the Group continued to be favourable.

The following table sets forth the classification of overdue loans and lease receivables (overdue more than 30 days) as of the dates indicated.

	30 June 2014		31 December 2013	
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total
Special mention	57,356	8.63%	2,167	0.60%
Substandard	306,328	46.06%	86,911	24.05%
Doubtful	299,398	45.02%	272,254	75.35%
Loss	1,930	0.29%	–	–
Total	665,012	100.00%	361,332	100.00%

Management Discussion and Analysis

3.3 Other assets

On 30 June 2014, the balance of the Group's derivative financial instruments amounted to RMB60,859,000, representing an increase of RMB59,891,000 as compared with RMB968,000 as of 31 December 2013, which was the fair value of the derivative financial instruments as at 30 June 2014. In order to control currency risk, the Group gradually hedged against foreign exchange exposure through the operation of derivative financial instruments such as foreign exchange forwards and currency swaps. On 30 June 2014, the balance of the Group's goodwill amounted to RMB64,164,000, which is the goodwill recognised for the acquisition of Huakang Hospital.

3.4 Liabilities (Overview)

On 30 June 2014, total liabilities of the Group amounted to RMB83,890,195,000, representing an increase of RMB11,542,193,000 or 15.95% as compared to the end of last year. Interest-bearing bank and other borrowings were the main component of the Group's liabilities, accounting for 78.56% of the total, which represented a slight increase as compared with 78.17% as of the end of last year.

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

	30 June 2014		31 December 2013		
	RMB'000	% of total	RMB'000	% of total	Change %
	(Unaudited)		(Audited)		
Interest-bearing bank and other borrowings	65,904,936	78.56%	56,554,478	78.17%	16.53%
Other payables and accruals	14,559,134	17.35%	12,495,590	17.27%	16.51%
Trade and bills payables	2,756,092	3.28%	2,299,346	3.18%	19.86%
Tax Payable	309,028	0.37%	603,297	0.83%	-48.78%
Derivative financial instruments	71,683	0.09%	66,818	0.09%	7.28%
Deferred tax liabilities	115,391	0.14%	124,482	0.18%	-7.30%
Deferred income	173,931	0.21%	203,991	0.28%	-14.74%
Total Liabilities	83,890,195	100.00%	72,348,002	100.00%	15.95%

3.5 Interest-bearing Bank and Other Borrowings

In the first half of 2014, as the complex financial environment at home and overseas faced the Group, the Group adhered to the established strategy of "resources globalisation", and made good progress in both indirect financing and direct financing with an improved liability structure, thus obviously enjoying a finance cost advantage over the peers.

Within the marketplace of direct financing, the Group successfully expanded the facility in the medium term note programme to US$3.0 billion from US$1.5 billion, and further expanded its channels for sourcing funds. In the first half of 2014, the Group placed several US$ and HKD bond issues in Hong Kong and SGD bond issues in Singapore, which broke the limit on product types and terms. In June, the Group issued senior perpetual securities of US$200 million and HKD bonds with a term of 8 years, which reflected our diversity of bond issue arrangement and sustainable issuing capacity.

Management Discussion and Analysis

Within the marketplace of indirect financing, the Group achieved cross-platform facility on the basis of the current financing channel as required by its strategic development, and strengthened its co-operation relationship with key bank channels at the same time. The Group continued to expand the proportion overseas financing through foreign consortiums, thus indicating our access to large-scale financing as well as our flexible and effective product innovation in the marketplace of indirect financing.

As the Group joined the National Association of Financial Market Institutional Investors and was given a rating of investment grade internationally recognised, the Group had diverse financing methods with an improved liability structure, thus further reducing our reliability on a single product and a single market, and in turn achieving diversity of financing products, decentralisation of financing regions and the long term finance. The Group was confident that with the global financing network as well as resource advantage, the Group can further improve its competitiveness in the liability landscape, and promote investors' dependency on the Group.

The Group's business growth and capital requirements are primarily supported by multiple credit facilities granted by various financial institutions to the Group's operating entities.

As of 30 June 2014, the total sum of the Group's interest-bearing bank and other borrowings amounted to RMB65,904,936,000, representing an increase of 16.53% as compared with RMB56,554,478,000 as of the end of last year. This is primarily because the Group increased the amount of bank loans in the first half of 2014 in order to support the growth of the Group's lease receivable portfolio as we expanded our business operations. The Group's borrowings were mainly denominated in RMB and USD at floating interest rates.

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

	30 June 2014		31 December 2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Audited)		
Current	**29,944,910**	**45.44%**	27,283,667	48.24%	9.75%
Non-current	**35,960,026**	**54.56%**	29,270,811	51.76%	22.85%
Total	**65,904,936**	**100.00%**	56,554,478	100.00%	16.53%

As of 30 June 2014, the Group's current interest-bearing bank and other borrowings (including short-term loans and portions that are due within one year in long-term loans) as a percentage of the Group's total interest-bearing bank and other borrowings was 45.44%, representing a decrease of 2.8 percentage points as compared with 48.24% as of 31 December 2013, which was mainly caused by the Group's inclusion of long term borrowings as a priority and further adjustment on liability structure.

Management Discussion and Analysis

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

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
Secured	19,978,429	30.31%	19,864,235	35.12%	0.57%
Unsecured	45,926,507	69.69%	36,690,243	64.88%	25.17%
Total	65,904,936	100.00%	56,554,478	100.00%	16.53%

The Group carefully managed its funding risk in the first half of 2014. As at 30 June 2014, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 69.69% of the Group's total interest-bearing bank and other borrowings, higher than that of the end of last year, indicating the strengthened financing capacity of the Group.

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

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
Bank loans	53,479,605	81.15%	48,165,951	85.17%	11.03%
Related-party borrowings	140,103	0.21%	174,401	0.31%	-19.67%
Other loans	12,285,228	18.64%	8,214,126	14.52%	49.56%
Total	65,904,936	100.00%	56,554,478	100.00%	16.53%

The proportion of the Group's bank loans and related-party borrowings as a percentage to the Group's total bank and other borrowings decreased as at 30 June 2014, as the Group constantly explored new markets, channels and products on financing in order to expand its business.

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

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
China	38,973,001	59.14%	35,466,296	62.71%	9.89%
Overseas	26,931,935	40.86%	21,088,182	37.29%	27.71%
Total	65,904,936	100.00%	56,554,478	100.00%	16.53%

Management Discussion and Analysis

As at 30 June 2014, the proportion of the Group's total borrowings from banks and other borrowings in China was 59.14%, which shrunk as compared with that at the end of last year as the Group proactively expanded overseas financing channels in Taiwan, Japan and Singapore, and chose to utilise more overseas loans to expand the business of the Group.

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

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
RMB	44,037,070	66.82%	41,482,332	73.35%	6.16%
US$	18,574,984	28.18%	13,960,236	24.68%	33.06%
Borrowings in other currencies	3,292,882	5.00%	1,111,910	1.97%	196.15%
Total	65,904,936	100.00%	56,554,478	100.00%	16.53%

As at 30 June 2014, the proportion of the Group's total bank and other borrowings in RMB was 66.82%, representing a decrease from the end of last year as the Group proactively diversified the financing types and chose to utilise more loans in US$ and other currencies to expand the Group's business.

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

	30 June 2014		31 December 2013		
	RMB'000 (Unaudited)	% of total	RMB'000 (Audited)	% of total	Change %
Direct financing	10,019,228	15.20%	5,864,095	10.37%	70.86%
Indirect financing	55,885,708	84.80%	50,690,383	89.63%	10.25%
Total	65,904,936	100.00%	56,554,478	100.00%	16.53%

As at 30 June 2014, the proportion of the Group's total indirect bank and other borrowings was 84.80%, representing a slight decrease from the end of last year as the Group placed several bond issues overseas in the first half of the year, and utilised direct financing such as enlarging the MTN facility to expand the Group's business.

Management Discussion and Analysis

3.6 Shareholders' Equity

As at 30 June 2014, the total equity of the Group was RMB16,013,226,000, representing an increase of RMB1,848,356,000 or 13.05% from the end of last year, which was mainly due to the increase of profit for the period by RMB1,170,560,000, declaration of dividend for 2013 of RMB600,849,000 and the issue of senior perpetual securities of RMB1,222,134,000.

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

	30 June 2014		31 December 2013		
	RMB'000	**% of total**	RMB'000	% of total	Change %
	(Unaudited)		(Audited)		
Issued share capital	**6,683,751**	**41.74%**	27,570	0.19%	24142.84%
Reserve	**8,033,224**	**50.17%**	14,097,772	99.53%	-43.02%
Senior perpetual securities	**1,223,432**	**7.64%**	–	–	N/A
Non-controlling interests	**72,819**	**0.45%**	39,528	0.28%	84.22%
Total Equity	**16,013,226**	**100.00%**	14,164,870	100.00%	13.05%

According to the new Companies Ordinance of Hong Kong effective on 3 March 2014, par value of shares was abolished. The Company fully transferred the balance of share premium account of RMB6,657,979,000 to the issued shares in the first half of 2014.

The functional currency of the Company changed from US$ to RMB with effect from 1 January 2014. RMB1,798,000 was transferred to reserves from issued capital in accordance with the related accounting standards.

4. Analysis on Cash Flows Statement

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000	Change %
	(Unaudited)	(Unaudited)	
Net cash flow from operating activities	**(9,986,255)**	(8,276,197)	20.66%
Net cash flow from investing activities	**(413,664)**	(1,121,678)	-63.12%
Net cash flow from financing activities	**9,414,995**	9,847,850	-4.40%
Effect of exchange rate changes on cash and cash equivalents	**5,445**	(16,070)	-133.88%
Net increase/(decrease) in cash and cash equivalents	**(979,479)**	433,905	-325.74%

Management Discussion and Analysis

As at 30 June 2014, the Group had net cash outflow from operating activities in the amount of RMB9,986,255,000 as the Group expanded its business and increased the balance of our net lease receivables. Correspondingly, the Group increased its bank and other borrowings, which were recorded as cash inflow from financing activities. As a result, as at 30 June 2014, net cash inflow from financing activities was RMB9,414,995,000. Net cash outflow from investing activities was RMB413,664,000 as at 30 June 2014, which was primarily attributable to the impact of external equity investments and capital expense such as payment for equipment. As at 30 June 2014, the Group's cash and cash equivalents amounted to RMB1,693,997,000, which are mainly denominated in RMB, US$ and Hong Kong dollars.

5. Capital Management

The primary objective of the Group's capital management activities is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. In the first half of 2014, no change was made to the objectives, policies or processes for managing capital.

5.1 Gearing Ratio

The Group monitors our capital by gearing ratio.

The following table sets forth the gearing ratios as at the dates indicated.

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Total assets	99,903,421	86,512,872
Total liabilities	83,890,195	72,348,002
Total equity	16,013,226	14,164,870
Gearing ratio	83.97%	83.63%

In the first half of 2014, the Company made full use of capital leverage for our operations to keep the Group's gearing ratio relatively high while at the same time closely managed the Group's gearing ratio to avoid potential liquidity risk. As at 30 June 2014, our gearing ratio, which was maintained at a reasonable level, was 83.97%.

6. Capital Expenditure

The Group's capital expenditure was RMB459,801,000 in the first half of 2014, which was mainly used as the expenditures for additions of land property, plant and equipment, and external equity investments.

7. Risk Management

7.1 Interest Rate Risk

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

Management Discussion and Analysis

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such risk measures to mitigate such risk.

The table below demonstrates the sensitivity to a reasonably possible change in interest rate, to the Group's profit before tax with all other variables held constant.

The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of each reporting period subject to re-pricing within the coming year. The effect of the assumed changes in interest rates on profit before tax is the change in profit of the assets relative to the non-interest-bearing assets (non-interest-bearing liabilities and equity) of the Group. The effect on the interest-bearing part is very slight.

	Increase/(decrease) in profit before tax of the Group	
	30 June 2014	31 December 2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Change in basis points		
+ 100 basis points	**331,908**	301,473
- 100 basis points	**(331,908)**	(301,473)

7.2 Currency Risk

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

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and to a lesser extent, other currencies. The Group's treasury operations exposure mainly arises from its transactions in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position and at the same time takes effective measures to reduce the risk of change in exchange rate in the future.

The exchange rate of RMB to US$ is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to the 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 indicates a sensitivity analysis of changes in the exchange rate of the currency to which the Group had exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the exchange rate of US$ to RMB, with all other variables held constant, and on the assumption that the functional currency of the Company had been changed to RMB on 31 December 2013 on profit before tax.

Management Discussion and Analysis

Currency	Change in currency rate	Increase/(decrease) in profit before tax of the Group 30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
US$	-1%	47,655	105,035

In order to control currency risk, the Group actively adopted financial instruments such as foreign exchange forwards and currency swaps to hedge against the foreign exchange exposure. As of 30 June 2014, the percentage of hedges against foreign exchange exposure was 66%. The effect above was based on the assumption that the Group's foreign exchange exposures as of the end of each reporting period are kept unchanged and the average percentage of foreign exchange exposure with hedges remained as above so as to calculated the effect of exchange rate change on profit before tax.

7.3 Liquidity Risk

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

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

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

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
	As of 30 June 2014 (Unaudited)					
Total financial assets	2,054,884	11,981,523	31,833,249	62,376,089	828,761	109,074,506
Total financial liabilities	36,836	11,514,461	26,124,091	48,447,991	952,118	87,075,497
Net liquidity gap	2,018,048	467,062	5,709,158	13,928,098	(123,357)	21,999,009
	As of 31 December 2013 (Audited)					
Total financial assets	2,920,459	9,632,448	27,072,135	52,926,569	795,095	93,346,706
Total financial liabilities	126,291	11,614,089	21,993,953	40,116,917	445,959	74,297,209
Net liquidity gap	2,794,168	(1,981,641)	5,078,182	12,809,652	349,136	19,049,497

8. Charge on Group Assets

The Group had lease receivables in the amount of RMB21,401,382,000, buildings in the amount of RMB112,489,000 and cash in the amount of RMB378,210,000 pledged to the bank as of 30 June 2014 in order to secure or pay the bank borrowings.

Management Discussion and Analysis

9. Material Investments, Acquisitions or Disposals

The acquisition of 70% equity of Huakang Hospital was completed on 28 February 2014 at a total consideration of RMB130,000,000. Therefore, Huakang Hospital became a subsidiary of the Group.

Founded in 1999, Huakang Hospital is a modernised general hospital specialised in trauma treatment and enjoys a relatively high reputation at the local hospital industry. The acquisition of Huakang Hospital marked a significant step for the Group's strategy of the combination of finance and industry, and in turn has profound strategic implications for further improvement of its operating capacity in healthcare industry.

10. Human Resources

As of 30 June 2014, the Group had 3,583 full-time employees, an increase of 333 full-time employees compared to 3,250 by the end of 2013.

During the first half of 2014 and the first half of 2013, the Group incurred employee benefit expenses of RMB795,122,000 and RMB634,834,000, respectively, representing approximately 15.60% and 17.35% of the Group's total revenue for those periods.

The Group believes it has a high quality work force with specialised industry expertise. As of 30 June 2014, approximately 63.20% of the Group's employees had bachelor's degrees and above, and approximately 31.70% had master's degrees and above.

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

Employee benefits

In accordance with applicable PRC regulations, the Group has made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. The Group also provides supplemental commercial medical insurance, property insurance and safety insurance in addition to those required under the PRC regulations. As of 30 June 2014, the Group complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

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

11.1 Contingent Liabilities

As of 30 June 2014, no legal proceedings were initiated by any of the third parties against the Group as defendant.

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Legal proceedings:		
Claimed amounts	–	614

11.2 Capital Commitments and Credit Commitments

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	**26,798**	59,487
Irrevocable credit Commitments	**5,519,365**	5,116,140

The Group's irrevocable credit commitments represent leases that have been signed but the term of the lease has not started. The increase in irrevocable credit commitments from 31 December 2013 to 30 June 2014 was primarily due to the expansion of the Group's business during the first half of 2014.

Other than the capital commitments stated above, the Group had no other material plans for major investment or capital assets acquisition.

12. Unaudited Interim Results

The board of directors of the Group (the "Board") is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2014 together with comparative amounts as follows. The Group's auditor Ernst & Young has reviewed the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 and issued the relevant review report, details of which are set out on pages 56 to 101 of this interim report.

Management Discussion and Analysis

13. Future Outlook

Looking into the future, overseas demand is unlikely to reverse as a market trend, and China's economy faces multiple internal and external uncertainties. The downward pressure will remain in the near future. In the long run, however, the country's economy will hopefully become stable with the economic stabilizing policies implemented by the Chinese government, the subsequent comprehensive reforms, urbanization in a new way and consumption recovery.

For the financial environment, along with the steadily proceeding financial reform, the financial sector is going to continue opening up, the market-oriented interest policy accelerate, more applications for private banking be approved, asset management business of financial institutions rapidly expand, online financial operations develop, competition in leasing intensified. The financial market will be more market-oriented and more open under the deepening financial reform and liberalization resulting therefrom.

For the trend of the industry, as the economy restructures and deleveraging, financing demand in the real economy, especially the manufacturing industry, will not significantly rebound in short term. However, structural optimization and upgrades of industry are offering momentum to areas comprising of new technology and new business models. From the point of view of major industries the Group operates in, healthcare and education have stable contribution from the government and hospitals and schools are gradually strengthening their intrinsic development. Infrastructure construction will be driven up at the downstream by new urbanization. Packaging, industrial equipment and textiles will meet with more pressure as overcapacity persists, and the profitability and risk resistance of related companies will be challenged. The shipping market will stay on its downward track for a rather long time due to economic slowdown and overcapacity.

To cope with the financial and industrial environment full of opportunities and challenges, the Group will serve specific industries as an integrated services provider and keep to its business model overlaying finance and industry in order to facilitate healthy development of Far East Horizon. In the area of financial services, it will build more growth drivers by continuing identifying and developing new areas with possible extension and strategic value on one hand, and continue promoting financial innovation and enhancing capability of its financial services to satisfy customers' diverse needs for financial services on the other hand. In non-financial service area, it will quicken its cultivation and development of industrial operational capability. For example, it will systematically promote business such as healthcare service and operating leasing in healthcare and infrastructure construction in order to provide sophisticated integrated services to its expanding customer base and form diversified asset, income and profit structures, which will ultimately enhance the return on total assets and the return on net assets of the Group.

Disclosure of Interest

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

As at 30 June 2014, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were detailed as follows:

Name of shareholder	Name of corporation	Capacity/nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
KONG Fanxing	The Company	Beneficial owner	870,000(L)	0.02%
WANG Mingzhe	The Company	Beneficial owner	386,000(L)	0.01%
HAN Xiaojing	The Company	Beneficial owner	30,000(L)	0.00%

Note:

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

Save as disclosed above, as at 30 June 2014, none of the directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Disclosure of Interest

Substantial Shareholders' Interests in the Shares

Based on the information available to the directors of the Company as at 30 June 2014 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 30 June 2014, the entities who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares (1)	Approximate percentage of interest
Sinochem Group(2)	Interest in a controlled corporation	919,914,440(L)	27.94%
Greatpart Limited(2)	Beneficial owner	919,914,440(L)	27.94%
KKR Future Investments S.À.R.L.(3)	Beneficial owner	337,000,000(L)	10.24%
KKR Future Holdings Limited(3)	Beneficial owner	104,378,000(L)	3.17%
	Interest in a controlled entity	455,501,000(L)	13.83%
KKR Asian Fund L.P.(3)	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Associates Asia L.P.(3)	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Asia Limited(3)	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Fund Holdings L.P.(3)	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Fund Holdings GP Limited(3)	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Group Holdings L.P.(3)	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Group Limited(3)	Interest in a controlled entity	559,879,000(L)	17.01%

Disclosure of Interest

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares [(1)]	Approximate percentage of interest
KKR & Co. L.P.[(3)]	Interest in a controlled entity	559,879,000(L)	17.01%
KKR Management LLC[(3)]	Interest in a controlled entity	559,879,000(L)	17.01%
Mr. Henry R. Kravis and Mr. George R. Roberts[(3)]	Interest in a controlled entity	559,879,000(L)	17.01%
Techlink Investment Pte. Ltd.[(4)]	Beneficial owner	167,847,000(L)	5.10%
Tetrad Ventures Pte. Ltd.[(4)]	Interest in a controlled entity	167,847,000(L)	5.10%
GIC (Ventures) Pte. Ltd. (formerly known as Government of Singapore Investment Corporation (Ventures) Pte. Ltd.)[(4)]	Interest in a controlled entity	167,847,000(L)	5.10%
GIC Special Investments Pte. Ltd.[(4)]	Interest in a controlled entity	167,847,000(L)	5.10%
GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte. Ltd.)[(4)]	Interest in a controlled entity Investment manager	167,847,000(L) 61,746,000(L)	5.10% 1.88%
Prime Capital Management (Cayman) Limited	Investment manager	200,939,000(L)	6.10%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian Beneficial owner Custodian	329,415,192(L) 550,000(S) 327,060,766(P)	10.01% 0.02% 9.93%
Cathay Life Insurance Co., Ltd.	Beneficial owner	296,316,000(L)	9.00%

Disclosure of Interest

Notes:

(1) The letter "L" denotes the person's long position in the Shares of the Company. The letter "S" denotes the person's short position in the Shares of the Company. The letter "P" denotes the person's Shares of the Company 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 Company held by Greatpart Limited.

(3) Amongst the 559,879,000 Shares, 104,378,000 Shares are directly held by KKR Future Holdings Limited, 337,000,000 Shares are directly held by KKR Future Investments S.A.R.L., 58,791,000 Shares are directly held by KKR Future Holdings II Limited and 59,710,000 Shares are directly held by KKR Future Holdings III Limited. Each of KKR Future Holdings Limited (as the sole shareholder of KKR Future Investments S.A.R.L., KKR Future Holdings II Limited and KKR Future Holdings III Limited), KKR Asian Fund L.P. (as the controlling shareholder of KKR Future Holdings Limited), KKR Associates Asia L.P. (as the general partner of KKR Asian Fund L.P.), KKR Asia Limited (as the general partner of KKR Associates Asia L.P.), KKR Fund Holdings L.P. (as the sole member of KKR Asia Limited), KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.), KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited and controlling shareholder of KKR Subsidiary Partnership L.P.), KKR Group Limited (as the general partner of KKR Group Holdings L.P.), KKR & Co. L.P. (as the sole shareholder of KKR Group Limited), KKR Management LLC (as the general partner of KKR & Co. L.P.) and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) may be deemed, to be interested in the Shares. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares.

(4) Techlink Investment Pte. Ltd. ("Techlink") is wholly-owned by Tetrad Ventures Pte. Ltd. which, in turn, is wholly-owned by GIC (Ventures) Pte. Ltd. (formerly known as Government of Singapore Investment Corporation (Ventures) Pte. Ltd.). GIC Special Investments Pte. Ltd. manages the investments of Techlink, and is wholly-owned by GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte. Ltd.). Each of Tetrad Ventures Pte. Ltd., GIC (Ventures) Pte. Ltd. (formerly known as Government of Singapore Investment Corporation (Ventures) Pte. Ltd.), GIC Special Investments Pte. Ltd. and GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte. Ltd.) is deemed to be interested in the Shares held by Techlink under the SFO. In addition, GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte. Ltd.) holds 61,746,000 Shares in the capacity of investment manager.

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

Corporate Governance

Corporate Governance Code

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has complied with the code provisions of the CG Code throughout the period from 1 January 2014 to 30 June 2014, except for Code Provision E.1.2 as explained below.

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

At the annual general meeting of the Company held on 11 June 2014 (the "2014 AGM"), Mr. Liu Deshu (Chairman of the Board), Mr. Yip Wai Ming (Chairman of the Audit Committee), Mr. Liu Haifeng David (Chairman of the Strategy and Investment Committee) and Mr. Liu Jialin (Chairman of the Remuneration and Nomination Committee) were unable to turn up due to other important business engagements. In order to ensure smooth holding of the 2014 AGM, Mr. Kong Fanxing, the vice chairman, Executive Director, Chief Executive Officer and a member of the Strategy and Investment Committee of the Company chaired the 2014 AGM.

Furthermore, Mr. Wang Mingzhe (as an Executive Director and Chief Financial Officer) and Mr. John Law (as a Non-Executive Director and a member of the Audit Committee) has attended the 2014 AGM to answer questions where necessary.

Corporate Governance

Model Code for Securities Transactions

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

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the code of conduct throughout the six months ended 30 June 2014.

The Company has also established written guidelines no less exacting than the required standard set out in the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Independent Non-executive Directors

Throughout the period from 1 January 2014 to 30 June 2014, the Board of Directors has at all times in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three Independent Non-executive Directors in the Board of Directors; with Rule 3.10(2) of the Listing Rules, which requires one of those Independent Non-executive Directors to be specialized in accounting or relevant financial management; and with Rule 3.10A of the Listing Rules, which requires Independent Non-executive Directors representing one-third of the Board of Directors.

Audit Committee

The Company has established an audit committee (the "Audit Committee") in compliance with Rules 3.21 and 3.22 of the Listing Rules. The Audit Committee comprises three members, including Mr. Yip Wai Ming as Chairman, Mr. Han Xiaojing and Mr. John Law. This interim report has been reviewed by the Audit Committee.

The Audit Committee has reviewed with the management and the external auditors the condensed consolidated financial statements for the six months ended 30 June 2014 of the Group, including the accounting principles and practices adopted by the Group.

Other Information

Implementation of Distribution of 2013 Final Dividends

According to the method of distribution of dividends, which was considered and passed at the Annual General Meeting held on 11 June 2014, the Group has paid a dividend of HK$0.23 per share to shareholders whose names appear on the register of members of the Company on 20 June 2014, thereby resulting in a total dividend payment amount of HK$757,252,000

Interim Dividends

The Board does not recommend the payment of an interim dividend in respect of the period ended 30 June 2014.

Incentive Scheme

On 11 June 2014, the Board adopted the restricted share award scheme and approved the proposed the adoption of the share option scheme, to recognise the contributions by certain employees and as an incentive to retain them for the Group's continuing operation and development and to attract suitable personnel for further development of the Group. The resolutions for the adoption of the share option scheme were passed at the general meeting held on 7 July 2014 and the Company granted 13,169,600 share options to subscribe for a total of 13,169,600 ordinary shares in the share capital of the Company on 11 July 2014.

For details, please refer to the announcements published by the Company on 11 June, 7 July and 11 July 2014 respectively and the circular dated 19 June 2014 of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2014.

Changes in Directors' Biographical Details

Changes in directors' biographical details since the date of the 2013 annual report of the Company and up to the date of this report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Name of director	Details of changes
Cai Cunqiang	No longer entitled to the director fees of HK$420,000 per annum with effect from 30 March 2014
Han Xiaojing	Appointed as an independent director of Beijing Sanju Environmental Protection & New Materials Co., Ltd., a listed company of Shenzhen Stock Exchange with effect from 15 April 2014
Yip Wai Ming	Appointed as an independent non-executive director of Yida China Holdings Ltd., a listed company on the Stock Exchange with effect from 1 June 2014

Report on Review of Interim Condensed Consolidated Financial Statements

To the board of directors 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 57 to 101, which comprise the interim condensed consolidated statement of financial position of Far East Horizon Limited and its subsidiaries (the "Group") as at 30 June 2014, 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

22F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
20 August 2014

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June 2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
REVENUE	5	5,095,894	3,658,876
Cost of sales		(1,899,272)	(1,254,526)
Gross profit		3,196,622	2,404,350
Other income and gains	5	40,657	133,473
Selling and distribution costs		(642,668)	(512,887)
Administrative expenses		(829,987)	(604,757)
Other expenses		(154,759)	(46,884)
Finance cost		(3,236)	(958)
Share of net profit of:			
An associate		3,927	–
PROFIT BEFORE TAX	6	1,610,556	1,372,337
Income tax expense	7	(439,996)	(338,727)
PROFIT FOR THE PERIOD		1,170,560	1,033,610
Attributable to:			
Ordinary shareholders of the Company		1,165,444	1,034,153
Holders of perpetual securities		1,298	–
Non-controlling interests		3,818	(543)
		1,170,560	1,033,610
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		RMB cents	RMB cents
Basic and diluted			
– For profit for the period	9	35.40	31.41

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 2014

	For the six months ended 30 June 2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	1,170,560	1,033,610
OTHER COMPREHENSIVE INCOME		
Item to be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	34,766	–
Reclassification to the consolidated statement of profit or loss	(1,871)	–
Income tax effect	(5,428)	–
	27,467	–
Exchange differences on translation of foreign operations	(429)	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	27,038	–
Item not to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements into presentation currency	–	(19,931)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	(19,931)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	27,038	(19,931)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,197,598	1,013,679
Attributable to:		
Ordinary shareholders of the Company	1,192,482	1,014,222
Holders of perpetual securities	1,298	–
Non-controlling interests	3,818	(543)
	1,197,598	1,013,679

Interim Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	1,401,102	964,053
Prepaid land lease payments	*11*	1,005,807	973,847
Goodwill		64,164	–
Other assets		46,246	54,690
Investment in an associate		84,570	80,643
Investment in joint ventures		26,670	–
Deferred tax assets	*18*	709,752	583,953
Loans and accounts receivable	*12*	56,669,507	48,641,068
Prepayments, deposits and other receivables		14,950	80,995
Derivative financial instruments	*13*	59,883	968
Restricted deposits	*15*	119,512	87,752
Total non-current assets		60,202,163	51,467,969
CURRENT ASSETS			
Inventories		30,018	27,461
Construction contracts	*14*	65,411	53,951
Loans and accounts receivable	*12*	36,461,413	31,045,952
Prepayments, deposits and other receivables		744,594	868,686
Derivative financial instruments	*13*	976	–
Restricted deposits	*15*	704,849	375,377
Cash and cash equivalents	*15*	1,693,997	2,673,476
Total current assets		39,701,258	35,044,903
CURRENT LIABILITIES			
Trade and bills payables	*16*	2,756,092	2,299,346
Other payables and accruals		3,677,322	3,183,664
Interest-bearing bank and other borrowings	*17*	29,944,910	27,283,667
Taxes payable		309,028	603,297
Derivative financial instruments	*13*	8,158	11,832
Total current liabilities		36,695,510	33,381,806
NET CURRENT ASSETS		3,005,748	1,663,097

Interim Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		63,207,911	53,131,066
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*17*	35,960,026	29,270,811
Derivative financial instruments	*13*	63,525	54,986
Deferred tax liabilities	*18*	115,391	124,482
Other payables and accruals		10,881,812	9,311,926
Deferred revenue		173,931	203,991
Total non-current liabilities		47,194,685	38,966,196
Net assets		16,013,226	14,164,870
EQUITY			
Equity attributable to ordinary shareholders of the Company			
Issued capital	*19*	6,683,751	27,570
Reserves	*20*	8,033,224	14,097,772
		14,716,975	14,125,342
Perpetual securities	*21*	1,223,432	–
Non-controlling interests		72,819	39,528
Total equity		16,013,226	14,164,870

Kong Fanxing
Director

Wang Mingzhe
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of ordinary shareholders of the Company											
	Issued capital RMB'000 *(Note 19)*	Share premium account RMB'000 *(Note 19)*	Capital reserve RMB'000 *(Note 20)*	Special reserve RMB'000 *(Note 20)*	Reserve fund RMB'000 *(Note 20)*	Hedging reserve RMB'000	Exchange fluctuation reserve equity RMB'000	Retained profits RMB'000	Total RMB'000	Holders of perpetual securities RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014 (Audited)	27,570	7,067,502	2,403,345	671	121,913	–	(100,283)	4,604,624	14,125,342	–	39,528	14,164,870
Profit for the period	–	–	–	–	–	–	–	1,165,444	1,165,444	1,298	3,818	1,170,560
Other comprehensive income for the period:												
Cash flow hedges, net of tax	–	–	–	–	–	27,467	–	–	27,467	–	–	27,467
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(429)	–	(429)	–	–	(429)
Total comprehensive income for the period	–	–	–	–	–	27,467	(429)	1,165,444	1,192,482	1,298	3,818	1,197,598
Effect of change in functional currency during the period *(Note 2.2)*	(1,798)	(409,523)	(306,786)	–	–	–	739,181	(21,074)	–	–	–	–
Transfer to issued capital	6,657,979	(6,657,979)	–	–	–	–	–	–	–	–	–	–
Issue of perpetual securities, net of expense *(Note 21)*	–	–	–	–	–	–	–	–	–	1,222,134	–	1,222,134
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	6,500	6,500
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	28,216	28,216
Dividends – 2013 final dividend *(Note 8)*	–	–	–	–	–	–	–	(600,849)	(600,849)	–	–	(600,849)
Dividends by a subsidiary to a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	(5,243)	(5,243)
At 30 June 2014 (Unaudited)	6,683,751	–	2,096,559*	671*	121,913*	27,467*	638,469*	5,148,145*	14,716,975	1,223,432	72,819	16,013,226

* These reserve accounts comprise the consolidated reserves of RMB8,033,224,000 (31 December 2013: RMB14,097,772,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of ordinary shareholders of the Company								Non-controlling interests	Total equity
	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Reserve fund RMB'000	Exchange fluctuation reserve equity RMB'000	Retained profits RMB'000	Total RMB'000	RMB'000	RMB'000
At 1 January 2013 (Audited)	27,570	7,067,502	2,402,874	–	121,913	(70,642)	3,295,265	12,844,482	10,964	12,855,446
Profit for the period	–	–	–	–	–	–	1,034,153	1,034,153	(543)	1,033,610
Other comprehensive income for the period	–	–	–	–	–	(19,931)	–	(19,931)	–	(19,931)
Total comprehensive income for the period	–	–	–	–	–	(19,931)	1,034,153	1,014,222	(543)	1,013,679
Special reserve – safety fund appropriation	–	–	–	509	–	–	(509)	–	–	–
Dividends *(Note 8)*	–	–	–	–	–	–	(602,714)	(602,714)	–	(602,714)
At 30 June 2013 (Unaudited)	27,570	7,067,502	2,402,874	509	121,913	(90,573)	3,726,195	13,255,990	10,421	13,266,411

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June 2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,610,556	1,372,337
Adjustments for:			
Finance costs and bank charges		1,657,639	1,305,994
Interest income		(22,201)	(17,322)
Share of profits of an associate		(3,927)	–
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	*5*	(2,657)	(1,658)
Realised fair value losses, net	*6*	13,807	6,155
Gain on structured financial products	*5*	(1,585)	(2,044)
Gain on disposal of property, plant and equipment, net		(28)	(1)
Depreciation		72,593	27,929
Provision for impairment of lease receivables	*12*	377,823	256,885
Provision for impairment of other assets	*12*	16,801	626
Amortisation of intangible assets and other assets	*6*	31,306	19,244
Foreign exchange loss/(gain), net		98,234	(63,876)
		3,848,361	2,904,269
(Increase)/Decrease in inventories		(408)	7,686
(Increase)/Decrease in construction contracts		(11,460)	22,328
Increase in loans and accounts receivable		(13,832,901)	(11,577,924)
Decrease in prepayments, deposits and other receivables		181,578	324,317
Decrease/(Increase) in amounts due from related parties		6,675	(65,082)
Increase in other assets		(9,413)	(15,844)
Increase in trade and bills payables		398,649	269,696
Increase in other payables, accrued liabilities		1,923,363	1,642,320
Increase/(Decrease) in amounts due to related parties		2,064	(10,120)
(Decrease)/Increase in other liabilities		(30,060)	2,865
Net cash flows used in operating activities before tax and interest		(7,523,552)	(6,495,489)
Interest paid		(1,600,902)	(1,365,787)
Interest received		22,201	17,322
Income tax paid		(884,002)	(432,243)
Net cash flows used in operating activities		(9,986,255)	(8,276,197)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

		For the six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments in respect of derivative financial instruments		–	(6,154)
Gain on structured financial products	*5*	1,585	2,044
Proceeds from disposal of property, plant and equipment		10,470	712
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(384,934)	(1,157,530)
Acquisition of a subsidiary	*3*	(48,197)	–
Purchase of shareholding for an associate		–	(72,750)
Investment in a joint venture		(26,670)	–
Decrease in time deposits		–	112,000
Decrease in deposits for derivative financial instruments		34,082	–
Net cash flows used in investing activities		(413,664)	(1,121,678)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of perpetual securities		1,222,134	–
Capital injection from non-controlling shareholders		6,500	–
Cash received from borrowings		23,916,136	21,286,837
Cash received from issuance of bonds		4,849,903	2,001,528
Repayments of borrowings		(18,998,232)	(12,348,055)
Repayments of bonds		(597,360)	(652,640)
Dividends paid		(600,849)	(602,714)
Dividends paid by a subsidiary to a non-controlling shareholder		(5,243)	–
Decrease in pledged deposits		(361,232)	185,532
Payments in respect of derivative financial instruments used in hedging of borrowings	*6*	(13,807)	–
Cash paid for other financing activities		(2,955)	(22,638)
Net cash flows from financing activities		9,414,995	9,847,850
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(984,924)	449,975
Cash and cash equivalents at beginning of period		2,673,476	1,502,698
Effect of exchange rate changes on cash and cash equivalents		5,445	(16,070)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		1,693,997	1,936,603

Notes to 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 4701, Office Tower, Convention Plaza, 1 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 providing financing to its customers for a wide array of assets under finance lease arrangements, operating lease arrangements, factoring, the provision of leasing advisory services, import and export trade, and the provision of other services as approved by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China (the "PRC") in Mainland China.

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 2014 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 2013.

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 new and revised accounting standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2013, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that are adopted by the Group for the first time for the current period's financial statements:

HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *(2011)-Investment Entities*
HK(IFRIC)-Int 21	*Levies*

Notes to Interim Condensed Consolidated Financial Statements

2. Basis of Preparation and Accounting Policies (continued)

2.2 Significant accounting policies (continued)

Adoption of new and revised accounting standards and interpretations (continued)

Adoption of these new HKFRS did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

Change in functional currency

In prior years, the Company regarded US dollar ("US$") as its functional currency. However, as a result of the Company's development in recent years, the Company's business transactions in terms of operations have increasingly placed greater reliance on Renminbi ("RMB"). As a result, effective from 1 January 2014, the Company has changed its functional currency from US$ to RMB. RMB have also been adopted as the presentation currency of the Group's interim financial report.

The change in functional currency of the Company was applied prospectively from date of change when all items were translated into RMB at the exchange rate on that date.

3. Business Combinations

Acquisition of Huizhou Huakang Orthopedics and Traumatology Hospital Co. Ltd.

In February 2014, the Group acquired 70% of the voting shares of Huizhou Huakang Orthopedics and Traumatology Hospital Co. Ltd. ("Huakang Hospital"), which is mainly specialised in Chinese orthopedic treatment. The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Huakang Hospital since the acquisition date.

Notes to Interim Condensed Consolidated Financial Statements

3. Business Combinations (continued)

Acquisition of Huizhou Huakang Orthopedics and Traumatology Hospital Co. Ltd. (continued)

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

	Fair value recognized on acquisition (Unaudited) RMB'000
Assets	
Property, plant and equipment	127,361
Prepaid land lease payments	13,446
Cash	16,933
Trade receivables	7,658
Prepayments, deposits and other receivables	66,169
Inventories	2,069
Other assets	1,254
	234,890
Liabilities	
Trade payables	(8,968)
Other payables and accruals	(10,144)
Interest-bearing bank and other borrowings	(112,238)
Deferred tax liability	(9,489)
	(140,839)
Total identifiable net assets at fair value	94,051
Non-controlling interests	(28,215)
Goodwill arising on acquisition	64,164
Purchase consideration transferred	130,000
Including: consideration paid upon acquisition	65,130
consideration paid after the date of acquisition	64,870
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	16,933
Cash paid	(65,130)
Net cash outflow	(48,197)

Since the acquisition, Huakang Hospital has contributed RMB23,295,000 to the the Group's revenue and recorded a net profit of RMB2,481,000 to the consolidated profit for the period ended 30 June 2014.

If the acquisition had taken place at the beginning of the period, revenue of the Group would have been RMB5,103,682,000 and the net profit of the Group for the period would have been RMB1,169,650,000.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Huakang Hospital with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of RMB900,000 have been expensed and are included in administrative expenses in the statement of profit or loss and are part of operating cash flows in the statement of cash flows.

There is no business combination during the period for the six months ended 30 June 2013.

Notes to Interim Condensed Consolidated Financial Statements

4. Operating Segment Information

For management purposes, the Group is organized into two operating segments, namely leasing and advisory business and trade and others business, based on internal organizational structure, management requirement and internal reporting system:

- The finance leasing and advisory business comprises; (a) direct finance leasing; (b) sale-leaseback; (c) factoring; and (d) advisory services.

- Trade and others business comprises primarily (a) import and export trade and domestic trade of medical equipment and parts, printing equipments and industrial equipments, as well as the provision of trade agency services primarily within the machinery industry; (b) chartering and ship brokerage services; (c) medical engineering; (d) operating leasing; and (e) heathcare service.

Management monitors the operating results of its 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.

For the six months ended 30 June 2014 (Unaudited)	Finance leasing and advisory RMB'000	Trading and others RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Revenue	4,667,322	456,050	(27,478)	5,095,894
Sales to external customers	4,641,167	454,727	–	5,095,894
Intersegment sales	26,155	1,323	(27,478)	–
Cost of sales	(1,576,100)	(324,410)	1,238	(1,899,272)
Other income and gains	39,335	2,516	(1,194)	40,657
Selling and distribution costs and administrative expenses	(1,406,040)	(68,385)	1,770	(1,472,655)
Other expenses	(152,908)	(1,851)	–	(154,759)
Finance cost	–	(28,900)	25,664	(3,236)
Share of net profit of an associate	–	3,927	–	3,927
Profit before tax	1,571,609	38,947	–	1,610,556
Income tax expense	(433,266)	(6,730)	–	(439,996)
Profit after tax	1,138,343	32,217	–	1,170,560

Notes to Interim Condensed Consolidated Financial Statements

4. Operating Segment Information (continued)

For the six months ended 30 June 2013 (Unaudited)	Finance leasing and advisory RMB'000	Trading and others RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Revenue	3,445,165	224,421	(10,710)	3,658,876
Sales to external customers	3,434,455	224,421	–	3,658,876
Intersegment sales	10,710	–	(10,710)	–
Cost of sales	(1,075,726)	(179,649)	849	(1,254,526)
Other income and gains	129,133	5,189	(849)	133,473
Selling and distribution costs and administrative expenses	(1,090,085)	(28,654)	1,095	(1,117,644)
Other expenses	(46,596)	(288)	–	(46,884)
Finance cost	–	(10,573)	9,615	(958)
Profit before tax	1,361,891	10,446	–	1,372,337
Income tax expense	(337,917)	(810)	–	(338,727)
Profit after tax	1,023,974	9,636	–	1,033,610

	Finance leasing and advisory RMB'000	Trading and others RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
At 30 June 2014 (Unaudited)				
Segment assets	**99,357,738**	**2,641,479**	**(2,095,796)**	**99,903,421**
Segment liabilities	**(83,485,032)**	**(2,061,801)**	**1,656,638**	**(83,890,195)**
At 31 December 2013 (Audited)				
Segment assets	86,387,589	1,642,959	(1,517,676)	86,512,872
Segment liabilities	(72,327,706)	(1,098,810)	1,078,514	(72,348,002)

Notes to Interim Condensed Consolidated Financial Statements

4. Operating Segment Information (continued)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Mainland China	**4,927,558**	3,613,110
Hong Kong	**79,170**	14,826
Other countries or regions	**89,166**	30,940
	5,095,894	3,658,876

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

(b) Non-current assets

	30 June	31 December
	2014	2013
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Mainland China	**2,481,066**	2,046,377
Hong Kong	**147,493**	26,856
	2,628,559	2,073,233

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 of the Group during the period.

Notes to Interim Condensed Consolidated Financial Statements

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the gross leasing income received, net of business tax or value added tax; the value of services rendered, net of business tax or value added tax; the net invoiced value of goods sold, net of value added tax, after allowances for returns and trade discounts; and an appropriate proportion of contract revenue of construction contracts during the period.

An analysis of revenue, other income and gains is as follows:

		For the six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
Revenue			
Finance lease income		**3,081,306**	2,397,099
Service fee income		**1,585,197**	1,082,845
Factoring income		**75,184**	17,098
Sale of goods		**57,296**	90,579
Chartering and brokerage income		**193,447**	69,234
Construction contract revenue		**32,770**	21,087
Operating lease income		**143,590**	43,679
Healthcare service		**23,295**	–
Other income		**5,430**	2,834
Business tax and surcharges		**(101,621)**	(65,579)
		5,095,894	3,658,876
Other income and gains			
Bank interest income		**22,178**	17,322
Foreign exchange gains		**–**	63,876
Gain on structured financial products		**1,585**	2,044
Government grants	*5a*	**599**	44,737
Derivative financial instrument transactions not qualifying as hedges:			
Unrealized fair value gains, net		**2,657**	1,658
Realized fair value gains, net		**–**	2,561
Others		**13,638**	1,275
		40,657	133,473

5a. Government grants

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Value Added Tax ("VAT") refund	**–**	40,292
Government special subsidy	**599**	4,445
	599	44,737

Notes to Interim Condensed Consolidated Financial Statements

6. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of borrowings included in cost of sales	**1,574,862**	1,074,877
Cost of inventories sold	**55,373**	84,373
Cost of construction contracts	**22,405**	16,196
Cost of chartering	**168,825**	53,808
Cost of operating lease	**65,374**	25,272
Cost of healthcare service	**10,771**	–
Other cost	**1,662**	–
Depreciation	**10,593**	8,358
Amortisation of intangible assets and other long term assets	**31,306**	19,244
Rental expenses	**46,937**	38,906
Auditors' remuneration	**650**	650
Employee benefit expense (Including directors' remuneration)		
– Wages and salaries	**678,649**	550,921
– Pension scheme contributions	**29,220**	24,659
– Other employee benefits	**87,253**	59,254
Impairment of loans and accounts receivable	**394,624**	257,511
Entertainment fee	**26,359**	19,855
Business travelling expenses	**71,022**	53,938
Consultancy fees	**14,668**	26,256
Office expenses	**20,455**	16,632
Advertising and promotion expenses	**1,724**	761
Transportation expenses	**3,855**	2,276
Communication expenses	**6,415**	5,984
Other miscellaneous expenses	**49,354**	32,446
Losses on disposal of property, plant and equipment	**636**	–
Donation	**4,013**	–
Bank commission expense	**34,146**	38,161
Derivative financial instrument transactions not qualifying as hedges:		
Realized fair value losses, net	**13,807**	8,716
Foreign exchange losses	**101,728**	–
Finance costs	**3,236**	958

Notes to Interim Condensed Consolidated Financial Statements

7. Income Tax

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Hong Kong		
Charge for the period	**88,052**	7,510
Current – Mainland China		
Charge for the period	**501,601**	466,072
Overprovision in respect of prior years	**–**	(101)
Deferred tax *(Note 18)*	**(149,657)**	(134,754)
Total tax charge for the period	**439,996**	338,727

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2013: 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.

Prior to 1 January 2008, Far Eastern Leasing was entitled to a preferential CIT rate of 15% and all other subsidiaries in the PRC were subject to CIT at the statutory rate of 33%. For each of the PRC subsidiaries of the Group, CIT is provided at the applicable rate of the profits for the purpose of PRC statutory financial reporting, adjusted for those items which are not assessable or deductible.

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. The CIT rate of Far Eastern Leasing and Shanghai Donghong is 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 enjoyed a preferential tax rate of 15%.

Notes to 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	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit before tax	**1,610,556**	1,372,337
Tax at the statutory income tax rates	**400,513**	335,931
Lower tax rate for enacted by local authority	**(34)**	(482)
Expenses not deductible for tax	**3,455**	9,950
Income not subject to tax	**(7,837)**	(18,231)
Adjustment on current income tax in respect of prior years	**–**	(101)
Tax losses utilised for which deferred tax had not been previously recognised	**(7,184)**	(2,510)
Unrecognised tax losses	**4,934**	2,169
Effect of recognition of tax losses that were not recognized in prior years	**(4,868)**	–
Effect of recognition of deductible temporary differences that were not recognized in prior years	**(6,480)**	–
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**24,021**	12,001
Effect of withholding tax on interest on intra-group balances	**33,476**	–
Income tax expense reported in the interim condensed consolidated statement of profit or loss	**439,996**	338,727

The share of taxes from continuing operations attributable to associates amounting to approximately RMB982,000 (six months ended 30 June 2013: Nil) is included in "share of net profit of an associate" on the face of the interim condensed consolidated statement of profit or loss.

8. Dividends

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividends	**600,849**	602,714

Pursuant to a resolution passed at the general meeting on 11 June 2014, the Company declared a final dividend of HK$0.23 per share in respect of year ended 31 December 2013 to its shareholders whose names appear on the register of members of the Company on 20 June 2014. Based on the total number of outstanding ordinary shares of 3,292,400,000 as at 20 June 2014, cash dividends declared of approximately HK$757,252,000 (equivalent to RMB600,849,000) were recognised in the financial statements.

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 2014 (six months ended 30 June 2013: Nil).

Notes to Interim Condensed Consolidated Financial Statements

9. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2014 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 of 3,292,400,000 (six months ended 30 June 2013: 3,292,400,000) in issue during the period.

The calculation of basic earnings per share is based on:

Earnings

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,165,444**	1,034,153

Shares

	Number of shares For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	**3,292,400,000**	3,292,400,000

There were no potential dilutive ordinary shares during the period.

10. Property, Plant and Equipment

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment at a total cost of RMB517,158,000 (six months ended 30 June 2013: RMB138,357,000), including those through acquisition of a subsidiary.

Property, plant and equipment with a net book value of RMB10,443,000 were disposed of by the Group during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB713,000), resulting in a net gain on disposal of RMB28,000 (six months ended 30 June 2013: a net gain of RMB1,000).

As at 30 June 2014, certain buildings of the Group with net carrying amounts of approximately RMB112,489,000 (31 December 2013:Nil), were pledged to secure general banking facilities granted to the Group (see note 17(c)).

Notes to Interim Condensed Consolidated Financial Statements

11. Prepaid Land Lease Payments

As at 30 June 2014, the Group has not obtained the land use right certificate for one parcel (31 December 2013: one) of land with a total gross area of approximately 7,000 (31 December 2013: 21,000) square meters and a net book value of RMB1,977,000 (31 December 2013: RMB949,016,000).

The Group was in the process of applying for the land use right certificates for the above parcels of land as at 30 June 2014.

12. Loans and Accounts Receivable

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Loans and accounts receivable due within 1 year	36,461,413	31,045,952
Loans and accounts receivable due after 1 year	56,669,507	48,641,068
	93,130,920	79,687,020

12a. Loans and accounts receivable by nature

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Lease receivables *(Note 12b)*	102,451,321	88,630,514
Less: Unearned finance income	(11,082,684)	(10,043,367)
Net lease receivables *(Note 12b)**	91,368,637	78,587,147
Lease interest receivables*	488,576	386,220
Notes receivable	136,346	140,889
Accounts receivable *(Note 12d)**	313,360	223,291
Factoring receivable *(Note 12f)*	2,176,422	1,450,632
Entrusted loans	236,577	232,026
Long-term receivables	5,286	6,690
Secured loans	215,148	83,041
Subtotal of loans and accounts receivable	94,940,352	81,109,936
Less: Provision for lease receivables *(Note 12c)*	(1,763,120)	(1,390,630)
Provision for accounts receivable *(Note 12e)*	(8,224)	(6,020)
Provision for factoring receivable *(Note 12g)*	(30,884)	(21,435)
Provision for entrusted loans *(Note 12h)*	(4,103)	(3,645)
Provision for long-term receivables *(Note 12i)*	(37)	(48)
Provision for mortgage loans *(Note 12j)*	(3,064)	(1,138)
	93,130,920	79,687,020

* These balances included balances with related parties which are disclosed in Note 12k.

Notes to Interim Condensed Consolidated Financial Statements

12. Loans and Accounts Receivable (continued)

12b (1). An aging analysis of lease receivables, determined based on the age of the receivable since the effective date of the relevant lease contracts, as at the end of the reporting period is as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Lease receivables		
Within 1 year	**58,190,481**	51,423,424
1 to 2 years	**28,429,639**	22,651,643
2 to 3 years	**10,550,036**	10,519,918
3 years and beyond	**5,281,165**	4,035,529
Total	**102,451,321**	88,630,514

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Net lease receivables		
Within 1 year	**51,489,957**	45,384,245
1 to 2 years	**25,760,308**	20,270,979
2 to 3 years	**9,411,615**	9,310,084
3 years and beyond	**4,706,757**	3,621,839
Total	**91,368,637**	78,587,147

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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Lease receivables		
Due within 1 year	**40,518,174**	35,082,592
Due in 1 to 2 years	**30,235,395**	25,455,971
Due in 2 to 3 years	**17,835,358**	16,407,465
Due after 3 years and beyond	**13,862,394**	11,684,486
Total	**102,451,321**	88,630,514

Notes to Interim Condensed Consolidated Financial Statements

12. Loans and Accounts Receivable (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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Net lease receivables		
Due within 1 year	34,831,061	29,893,379
Due in 1 to 2 years	27,036,010	22,582,580
Due in 2 to 3 years	16,385,211	15,081,793
Due after 3 years and beyond	13,116,355	11,029,395
Total	91,368,637	78,587,147

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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of period/year	308,874	189,891	1,081,756	696,545	1,390,630	886,436
Charge for the period/year	142,144	129,909	235,679	387,024	377,823	516,933
Write-off	(6,175)	(10,389)	–	–	(6,175)	(10,389)
Exchange differences	159	(537)	683	(1,813)	842	(2,350)
At end of period/year	445,002	308,874	1,318,118	1,081,756	1,763,120	1,390,630

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Lease receivables:		
Individually assessed (Note (i))	926,758	719,822
Collectively assessed	101,524,563	87,910,692
Total	102,451,321	88,630,514

Notes to Interim Condensed Consolidated Financial Statements

12. Loans and Accounts Receivable (continued)

12c. Change in provision for lease receivables (continued)

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Net lease receivables:		
Individually assessed *(Note (i))*	836,079	642,238
Collectively assessed	90,532,558	77,944,909
Total	91,368,637	78,587,147

Note (i) Individually assessed lease receivables include those classified as substandard, doubtful and loss by the Group.

Note (ii) As at 30 June 2014, the carrying amount of lease receivables and entrusted loans pledged as security for the Group's borrowings amounted to RMB21,401,382,000 (31 December 2013: RMB20,699,613,000) (see Note 17 (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 of major customers can be extended to 90 days.

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 year	298,181	208,450
More than 1 year	15,179	14,841
Total	313,360	223,291

12e. Change in Provision for Accounts Receivable

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of period/year	6,020	1,631
Charge for the period/year	1,999	4,324
Acquisition of a subsidiary	205	–
Exchange differences	–	65
At end of period/year	8,224	6,020

Notes to Interim Condensed Consolidated Financial Statements

12. Loans and Accounts Receivable (continued)

12f. An aged analysis of factoring receivables as at the end of the reporting period is as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 year	2,030,286	1,416,766
More than 1 year	146,136	33,866
	2,176,422	1,450,632

12g. Change in provision for factoring receivables

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of period/year	21,435	5,483
Charge for the period/year	12,449	15,952
Write-off	(3,000)	–
At end of period/year	30,884	21,435

12h. Change in provision for entrusted loans

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of period/year	3,645	7,246
Charge/(reversal) for the period/year	458	(3,601)
At end of period/year	4,103	3,645

12i. Change in provision for long-term receivables

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of period/year	48	195
Reversal for the period/year	(11)	(147)
At end of period/year	37	48

Notes to Interim Condensed Consolidated Financial Statements

12. Loans and Accounts Receivable (continued)

12j. Change in provision for secured loans

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of period/year	1,138	–
Charge for the period/year	1,906	1,155
Exchange difference	20	(17)
At end of period/year	3,064	1,138

12k. Balance with related parties

		30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Associate:			
Changchun Engley Automobile Industry Co., Ltd.			
Net lease receivables	*(i)*	67,538	80,089
Lease interest receivables		119	147
		67,657	80,236
Subsidiary of the ultimate holding company of a shareholder with significant influence:			
Sinochem International (Overseas) Pte. Ltd.			
Accounts receivable	*(ii)*	6,021	–
		6,021	–

(i) Balance of net lease receivables was interest-bearing with a range of annual interest rate of 6.36% to 8.32%;

(ii) Balance with the related party was unsecured and non-interest-bearing.

Notes to Interim Condensed Consolidated Financial Statements

13. Derivative Financial Instruments

	30 June 2014 (Unaudited) RMB'000		31 December 2013 (Audited) RMB'000	
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap contracts	28,596	(57,792)	–	(66,818)
Forward currency contracts	31,287	(13,891)	–	–
Call options	976	–	968	–
	60,859	(71,683)	968	(66,818)
Portion classified as non-current				
Cross-currency interest rate swap contracts	28,596	(57,792)	–	(54,986)
Forward currency contracts	31,287	(5,733)	–	–
Call options	–	–	968	–
	59,883	(63,525)	968	(54,986)
Current portion	976	(8,158)	–	(11,832)

Cross-currency interest rate swap contracts and forward currency contracts – cash flow hedges

During the six months ended 30 June 2014, the Group designated 14 (six months ended 30 June 2013: Nil) cross-currency interest rate swaps contracts and 14 (six months ended 30 June 2013: Nil) forward currency contracts as hedges in respect of future repayments of borrowings which will be settled in US Dollar or Singapore Dollar and some of which bear floating interest rates.

The terms of the cross-currency interest rate swaps 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 gains of RMB27,467,000 was included in the hedging reserve as follows:

	For the six months ended 30 June 2014 RMB'000 (Unaudited)
Total fair value gains included in the hedging reserve	34,766
Deferred tax on fair value gains	(5,736)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	(1,871)
Deferred tax on reclassifications to profit or loss	308
Net gains included in hedging reserve	27,467

As at 30 June 2014, the Group held 4 forward currency contracts (31 December 2013: 10 cross-currency interest rate swap contracts) to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The net loss arising from non-hedging financial derivatives for the six months ended 30 June 2014 amounted to RMB11,150,000 (six months ended 30 June 2013: net loss of RMB4,497,000).

Notes to Interim Condensed Consolidated Financial Statements

14. Construction Contracts

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Gross amount due from contract customers	65,411	53,951
Contract costs incurred plus recognised profits to date	160,401	153,738
Less: Progress billings	(94,990)	(99,787)
	65,411	53,951

15. Cash and Cash Equivalents and Restricted Deposits

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Cash and bank balances	2,140,148	2,925,231
Time deposits	378,210	211,374
	2,518,358	3,136,605
Less:		
Restricted deposits	824,361	463,129
Cash and cash equivalents	1,693,997	2,673,476

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB2,089,129,000 (31 December 2013: RMB2,655,974,000).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 2014, cash of RMB378,210,000 (31 December 2013: RMB211,374,000) was pledged for bank and other borrowings (see Note 17(b)).

As at 30 June 2014, cash of RMB334,702,000 (31 December 2013: RMB764,130,000) was deposited with Sinochem Finance Co., Ltd.

Notes to Interim Condensed Consolidated Financial Statements

16. Trade and Bills Payables

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Bills payable	1,684,180	1,538,501
Trade payables	1,071,912	760,845
	2,756,092	2,299,346

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 year	2,632,639	2,178,539
1 to 2 year	69,837	80,923
2 to 3 year	38,296	11,871
3 years and beyond	15,320	28,013
	2,756,092	2,299,346

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

Notes to Interim Condensed Consolidated Financial Statements

17. Interest-Bearing Bank and Other Borrowings

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	6.30	2014	299,504	2.24~5.60	2014	1,172,907
Current portion of long term bank loans – secured	3.32~8.52	2014~2015	9,275,191	2.71~6.72	2014	8,311,837
Bank loans – unsecured	2.04~6.72	2014~2015	8,889,777	1.65~6.30	2014	7,097,549
Current portion of long term bank loans – unsecured	1.39~6.77	2014~2015	8,918,538	1.39~6.77	2014	8,000,708
Current portion of long term loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	6.15	2014	140,103	6.15	2014	174,401
Other loans – secured	6.00~6.46	2014~2015	681,500	5.40~8.00	2014	1,431,383
Other loans – unsecured	5.70~8.30	2014~2015	1,250,000	5.70	2014	498,648
Bonds – unsecured	3.70~6.95	2014~2015	490,297	3.90	2014	596,234
			29,944,910			27,283,667
Non-current						
Bank loans – secured	3.32~8.52	2015~2021	9,387,734	2.17~6.72	2015~2020	8,528,108
Bank loans – unsecured	1.39~ 6.77	2015~2021	16,708,861	1.39~6.77	2015~2021	15,054,842
Other loans – secured	6.15~ 11.00	2015~2018	334,500	6.15~8.00	2015~2016	420,000
Bonds – unsecured	3.70~6.95	2015~2021	9,528,931	3.70~6.95	2015~2017	5,267,861
			35,960,026			29,270,811
			65,904,936			56,554,478

Notes to Interim Condensed Consolidated Financial Statements

17. Interest-Bearing Bank and Other Borrowings (continued)

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	27,383,010	24,583,001
In the second year	16,434,880	12,232,655
In the third to fifth years, inclusive	9,183,604	11,132,337
Beyond five years	478,111	217,958
	53,479,605	48,165,951
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence over the Group:		
Within one year	140,103	174,401
Other borrowings repayable:		
Within one year	2,421,797	2,526,265
In the second year	2,627,108	2,227,515
In the third to fifth years, inclusive	7,059,405	3,460,346
Beyond five years	176,918	–
	12,285,228	8,214,126
	65,904,936	56,554,478

(a) As at 30 June 2014, the Group's bank and other borrowings secured by the pledge of or the transfer of certain of the Group's lease receivables lease receivables and entrusted loans amounted to RMB19,198,363,000 (31 December 2013: RMB18,679,073,000). As at 30 June 2014, the Group's lease receivables and entrusted loans pledged or charged as security for the Group's bank and other borrowings amounted to RMB21,401,382,000 (31 December 2013: RMB20,699,613,000).

(b) As at 30 June 2014, the Group's bank and other borrowings, pledged by cash, amounted to RMB1,882,367,000 (31 December 2013: RMB1,147,722,000).

(c) As at 30 June 2014, the Group's bank and other borrowings, secured by mortgages over certain of the Group's buildings, amounted to RMB48,700,000 (31 December 2013: Nil).

Notes to Interim Condensed Consolidated Financial Statements

18. Deferred Tax

The movements in deferred tax liabilities and assets of the Group during the period are as follows:

Deferred tax assets

	Allowances for impairment losses RMB'000 (Unaudited)	Salary and welfare payable RMB'000 (Unaudited)	Losses available for off setting against future taxable profits RMB'000 (Unaudited)	Safety production cost RMB'000 (Unaudited)	Government special subsidy RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Gross deferred tax assets at 1 January 2014	328,737	222,609	3,872	168	49,952	605,338
Credited/(charged) to the statement of profit or loss during the period	107,402	19,888	4,194	–	(5,835)	125,649
Exchange differences	131	–	19	–	–	150
Gross deferred tax assets at 30 June 2014	436,270	242,497	8,085	168	44,117	731,137

	Allowances for impairment losses RMB'000 (Audited)	Salary and welfare payable RMB'000 (Audited)	Losses available for off setting against future taxable profits RMB'000 (Audited)	Safety production cost RMB'000 (Audited)	Government special subsidy RMB'000 (Audited)	Total RMB'000 (Audited)
Gross deferred tax assets at 1 January 2013	204,052	80,406	1,506	73	17,125	303,162
Credited to the statement of profit or loss during the year	125,075	142,203	2,434	95	32,827	302,634
Exchange differences	(390)	–	(68)	–	–	(458)
Gross deferred tax assets at 31 December 2013	328,737	222,609	3,872	168	49,952	605,338

Deferred tax liabilities

	Lease deposit RMB'000 (Unaudited)	Withholding tax RMB'000 (Unaudited)	Fair value adjustments arising from acquisitions of a subsidiary RMB'000 (Unaudited)	Cash flow hedges RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Gross deferred tax liabilities at 1 January 2014	21,385	124,482	–	–	145,867
Acquisition of an subsidiary	–	–	9,489	–	9,489
Credited to the statement of profit or loss during the period	–	(23,938)	(70)	–	(24,008)
Charged to other comprehensive income during the period	–	–	–	5,428	5,428
Gross deferred tax liabilities at 30 June 2014	21,385	100,544	9,419	5,428	136,776

	Lease deposits RMB'000 (Audited)	Withholding tax RMB'000 (Audited)	Total RMB'000 (Audited)
Gross deferred tax liabilities at 1 January 2013	38,885	92,093	130,978
(Charged)/credited to the statement of profit or loss during the year	(17,500)	32,598	15,098
Exchange differences	–	(209)	(209)
Gross deferred tax liabilities at 31 December 2013	21,385	124,482	145,867

Notes to Interim Condensed Consolidated Financial Statements

18. Deferred Tax (continued)

For the purpose of the presentation of the consolidated statements 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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Net deferred tax assets recognized in the consolidated statements of financial position	**709,752**	583,953
Net deferred tax liabilities recognized in the consolidated statements of financial position	**115,391**	124,482

As at 30 June 2014, the Group had tax losses arising in Hong Kong of RMB31,938,000 (31 December 2013: RMB6,407,000) that is available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB18,766,000.00 (31 December 2013: RMB18,766,000) 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 2014, the Group did not recognise deferred tax assets arising in the Mainland China and Hong Kong in respect of unutilized tax losses and deductible temporary differences of RMB22,074,000 (31 December 2013: RMB15,989,000) and RMB21,848,000 (31 December 2013: RMB113,485,000), respectively, due to uncertainty in their recoverability.

Pursuant to the resolution of the Company, part of PRC subsidiaries' profits generated from 2012 onwards will be retained by 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. The aggregate amount of unrecognised deferred tax liabilities (i.e. withholding taxes relating to such temporary differences) was approximately RMB138,404,000(31 December 2013: RMB92,887,000).

Notes to Interim Condensed Consolidated Financial Statements

19. Issued Capital

	Number of shares	Amounts HK$
Authorized ordinary shares:		
At 31 December 2013 (HK$0.01 each) (Audited)	10,000,000,000	100,000,000
At 30 June 2014 (HK$0.01 each) (Unaudited)	**10,000,000,000**	**100,000,000**
Issued and fully paid ordinary shares:		
At 31 December 2013 (HK$0.01 each) (Audited)	3,292,400,000	32,924,000
At 30 June 2014 (Unaudited) *(Note)*	**3,292,400,000**	**8,531,380,000**

A summary of the transactions during the period in the Companies issued capital is as follow:

				Equivalent		
	Number of shares in issue HK$'000	Issued capital HK$'000	Share premium account RMB'000	Issued capital RMB'000	Share premium account RMB'000	Total
At 1 January 2014 and 31 December 2013 (Audited)	3,292,400,000	32,924	8,498,456	27,570	7,067,502	7,095,072
Effect of change in functional currency during the period *(Note 2.2)*	–	–	–	(1,798)	(409,523)	(411,321)
Transfer to issued capital *(Note)*	–	8,498,456	(8,498,456)	6,657,979	(6,657,979)	–
As at 30 June 2014 (Unaudited)	3,292,400,000	8,531,380	–	6,683,751	–	6,683,751

Note: Pursuant to the transactional provisions for the abolition of the nominal value of share capital included in the new Hong Kong Companies Ordinance which become effective on 3 March 2014, the balances of the share premium account as at 3 March 2014 have been transferred to issued capital.

Notes to Interim Condensed Consolidated Financial Statements

20. 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 on pages 61 to 62 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 Reorganization as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalized 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 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.

21 Perpetual Securities

On 23 June 2014, the Company issued US$200,000,000 senior perpetual capital securities at initial distribution rate of of 5.55% ("Perpetual Securities"). 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. 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.

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.

22. Pledge of Assets

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 10, 12c, 15 and 17 to the financial statements.

Notes to Interim Condensed Consolidated Financial Statements

23. 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 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within one year	**44,327**	15,808

(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 three years.

At 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within one year	**51,557**	80,572
In the second to fifth years, inclusive	**9,275**	18,060
More than five years	**2,000**	2,240
	62,832	100,872

Notes to Interim Condensed Consolidated Financial Statements

24. Commitments

(a) In addition to the operating lease commitments detailed in Note 23 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	26,798	59,487

(b) **Credit commitments**

The Group's irrevocable credit commitments at the end of the reporting period are as follow:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Irrevocable credit commitment	5,519,365	5,116,140

At any given time, the Group has outstanding commitments to extend credit, which are included in irrevocable credit commitment. These commitments are in the form of approved lease contracts, which had yet to be provided as at the end of each reporting period.

Notes to Interim Condensed Consolidated Financial Statements

25. Related Party Transactions

Relationship between the Group and its related parties:

Ultimate holding company of a shareholder with significant influence
Sinochem Group

The 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 Foreign Economy and Trade Trust 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 Growth Enterprises Vision Co., Ltd
Sinochem International (Overseas) Pte. Ltd.
Shenyang International Science and Technology Industrial Park Co., Ltd.

Associate
Changchun Engley Automobile Industry Co., Ltd.

Joint venture
Shanghai Dongsong investment LLP

Notes to Interim Condensed Consolidated Financial Statements

25. Related Party Transactions (continued)

a. In addition to the balances in Notes 12, 15 and 17 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Due from related parties		
China Jin Mao Group Co., Ltd.	**13,898**	13,898
Beijing Chemsunny Property Co., Ltd.	**2,294**	2,668
Sinochem Hong Kong	**438**	438
Jin Mao (Shanghai) Property Management Service Co., Ltd.	**2**	–
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	**374**	–
	17,006	17,004

Amounts due from related parties balance of the Group were unsecured and non-interest-bearing.

(ii) Other payables and accruals

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Due to related parties		
Sinochem Finance Co., Ltd.	**1,233**	356
Sinochem Corporation	**259**	1,109
Changchun Engley Automobile Industry Co., Ltd.	**14,754**	14,053
	16,246	15,518

Amounts due to related parties balances of the Group were unsecured and non-interest-bearing.

Notes to Interim Condensed Consolidated Financial Statements

25. Related Party Transactions (continued)

b. The Group had the following material transactions with related parties during the period:

(i) Interest income from cash in bank

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	**3,058**	4,568

The interest incomes were charged at rates ranging from 0.39% to 1.27% per annum.

(ii) Service fee income

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem International (Overseas) Pte. Ltd.	**15,526**	24,124

These services were provided based on prices mutually agreed between the parties.

(iii) Interest expense on borrowings

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	**13,862**	31,378

The interest expenses were charged at rates ranging from 6.15% per annum.

Notes to Interim Condensed Consolidated Financial Statements

25. 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	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
China Jin Mao Group Co., Ltd.	**21,788**	21,772
Beijing Chemsunny Property Co., Ltd.	**5,897**	672
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	**158**	54
Shanghai Jin Mao Imtech Facility Services Co., Ltd.	**592**	1,016
Sinochem Hong Kong	**886**	504

These transactions for rental expenses were based on prices mutually agreed between the parties.

(v) Commission fee

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	**4,077**	710

Notes to Interim Condensed Consolidated Financial Statements

25. Related Party Transactions (continued)

b. The Group had the following material transactions with related parties during the period: (continued)

(vi) Non-cancellable operating leases

At each reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
China Jin Mao Group Co., Ltd.	**20,848**	41,271
Beijing Chemsunny Property Co., Ltd.	**5,336**	9,974
Sinochem Hong Kong	**885**	1,754

c. Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Short-term employee benefits	**9,058**	3,978

26. 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 bill 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 balance sheet date and their carrying value approximates fair value.

Notes to Interim Condensed Consolidated Financial Statements

26. 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 deposit

Substantially all of loans and accounts receivables, restricted deposit and interest-bearing bank and other borrowing except for bonds issued and short-term borrowings are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates 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 included in interest-bearing bank and other borrowings not presented at fair value on the statement of financial position.

Group

	Carrying amounts		Fair values	
	30 June 2014 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000	31 December 2013 RMB'000
Financial liabilities				
Bond issued	**10,019,228**	5,864,095	**10,315,944**	5,714,366

Non-current portion of financial assets included in 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 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 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.

Notes to Interim Condensed Consolidated Financial Statements

26. Fair Value Hierarchy (continued)

Financial instruments measured at fair value (continued)

Call options

Call options are measured using valuation techniques including the Binomial Lattice model. The model incorporates various inputs including the value of the underlying equity interest. The valuation of the underlying equity interest requires management to make certain assumptions about the unobservable inputs of the model, which are terminal growth rate, discount rate, discount for lack of marketability and minority discount.

The fair value of the call option is not significantly sensitive to the changes in the value of the underlying equity interest which could be caused by a reasonable change in the unobservable inputs.

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 30 June 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 swap contracts	**–**	**(29,196)**	**–**	**(29,196)**
Forward currency contracts	**–**	**17,396**	**–**	**17,396**
Call options	**–**	**–**	**976**	**976**

As at 31 December 2013

	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 swap contracts	–	(66,818)	–	(66,818)
Call options	–	–	968	968

Notes to Interim Condensed Consolidated Financial Statements

26. Fair Value Hierarchy (continued)

Fair value hierarchy: (continued)

Assets and Liabilities measured at fair value: (continued)

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

	RMB'000
Call option:	
At 31 December 2013 and 1 January 2014	968
Addition	–
Exchange difference	8
At 30 June 2014	**976**
At 31 December 2012 and 1 January 2013	998
Addition	–
Exchange difference	(30)
At 31 December 2013	968

During the year, there were no transfers at fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 June 2013: Nil).

Liabilities for which fair values are disclosed:

As at 30 June 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	**–**	**10,315,944**	**–**	**10,315,944**

As at 31 December 2013

	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	–	5,714,366	–	5,714,366

Notes to Interim Condensed Consolidated Financial Statements

27. After the Reporting Period Events

On 11 June 2014, the Board of directors (the "Board") announced that it has adopted an award scheme (the "Award Scheme"), under the Award Scheme, 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 Award Scheme rules. The number of Restricted Shares under the 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 Award Scheme by the Board. The Award Scheme shall be effective from its adoption until it is terminated by the Board or Shareholders in general meeting ("GM").

On 11 July 2014, the Board announced that, the Company has resolved to offer to grant share options ("Share Options") to certain qualified participants (the "Grantees") under the share option scheme ("Share Option Scheme") of the Company adopted on 7 July 2014 by GM to subscribe for a total of 13,169,600 ordinary shares in the capital of the Company. 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 GM, which is 131,696,000 shares and which will be valid for 10 years from the date of its adoption.

The Company started to grant Restricted Shares and Share Options in July 2014, according to the above schemes.

28. 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 20 August 2014.

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.

Result

	For the six months ended 30 June		For the year ended 31 December		
	2014	2013	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
REVENUE	**5,095,894**	3,658,876	7,908,101	6,486,395	4,716,436
Cost of sales	**(1,899,272)**	(1,254,526)	(2,890,185)	(2,908,365)	(2,214,078)
Gross profit	**3,196,622**	2,404,350	5,017,916	3,578,030	2,502,358
Other income and gains	**40,657**	133,473	278,459	119,845	75,131
Selling and distribution costs	**(642,668)**	(512,887)	(1,124,955)	(703,143)	(449,295)
Administrative expenses	**(829,987)**	(604,757)	(1,294,330)	(863,635)	(624,514)
Other expenses	**(154,759)**	(46,884)	(282,972)	(52,939)	(24,871)
Finance costs	**(3,236)**	(958)	(1,270)	(2,138)	–
Profit or loss on investment in associates	**3,927**	–	7,893	–	–
PROFIT BEFORE TAX	**1,610,556**	1,372,337	2,600,741	2,076,020	1,478,809
Income tax expense	**(439,996)**	(338,727)	(684,668)	(558,652)	(369,945)
Profits for the year	**1,170,560**	1,033,610	1,916,073	1,517,368	1,108,864
Attributable to:					
Holders of ordinary shares of the Company	**1,165,444**	1,034,153	1,912,744	1,518,577	1,107,630
Holders of senior perpetual securities	**1,298**	–	–	–	–
Non-controlling interests	**3,818**	(543)	3,329	(1,209)	1,234
	1,170,560	1,033,610	1,916,073	1,517,368	1,108,864

Financial Summary

The following table sets forth the results of the Group converted into RMB 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		
	2014	2013	2013	2012	2011
	US$'000	US$'000	US$'000	US$'000	US$'0000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
REVENUE	**832,003**	587,102	1,277,313	1,030,699	729,895
Cost of sales	**(310,093)**	(201,300)	(466,821)	(462,144)	(342,641)
Gross profit	**521,910**	385,802	810,492	568,555	387,254
Other income and gains	**6,638**	21,417	44,977	19,044	11,627
Selling and distribution costs	**(104,928)**	(82,298)	(181,702)	(111,731)	(69,531)
Administrative expenses	**(135,512)**	(97,039)	(209,060)	(137,233)	(96,647)
Other expenses	**(25,267)**	(7,523)	(45,706)	(8,411)	(3,849)
Finance costs	**(528)**	(154)	(205)	(340)	–
Profit or loss on investment in associates	**641**	–	1,275	–	–
PROFIT BEFORE TAX	**262,954**	220,205	420,071	329,884	228,854
Income tax expense	**(71,838)**	(54,352)	(110,587)	(88,771)	(57,251)
Profits for the year	**191,116**	165,853	309,484	241,113	171,603
Attributable to:					
Holders of ordinary shares of the Company	**190,281**	165,940	308,946	241,305	171,412
Holders of senior perpetual securities	**212**	–	–	–	–
Non-controlling interests	**623**	(87)	538	(192)	191
	191,116	165,853	309,484	241,113	171,603

Financial Summary

Assets, Liabilities and Non-controlling Interests

	For the six months ended 30 June		For the year ended 31 December		
	2014	2013	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	**99,903,421**	72,995,891	86,512,872	60,570,275	47,097,345
Total liabilities	**(83,890,195)**	(59,729,481)	(72,348,002)	(47,714,829)	(37,795,575)
Senior perpetual securities	**(1,223,432)**	–	–	–	–
Non-controlling interests	**(72,819)**	(10,423)	(39,528)	(10,964)	(4,019)
	14,716,975	13,255,987	14,125,342	12,844,482	9,297,751

The following table sets forth the assets, liabilities and non-controlling interests of the Group converted into RMB at the respective average 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		
	2014	2013	2013	2012	2011
	US$'000	US$'000	US$'000	US$'000	US$'0000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	**16,237,066**	11,814,118	14,189,649	9,636,509	7,474,702
Total liabilities	**(13,634,475)**	(9,666,998)	(11,866,359)	(7,591,255)	(5,998,442)
Senior perpetual securities	**(198,842)**	–	–	–	–
Non-controlling interests	**(11,835)**	(1,687)	(6,483)	(1,744)	(638)
	2,391,914	2,145,433	2,316,807	2,043,510	1,475,622

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
30 June 2013	6.1787	6.2321
30 June 2014	6.1528	6.1249

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