遠東宏信
FAR EAST HORIZON

2013 Interim Report

Incorporated in Hong Kong with limited liability Stock Code: 3360

Freshen up every day and grow up fast

A quotation from the inscription engraved on Tang's bathtub

Tang, the founding monarch of the Shang Dynasty, engraved this motto on his bathtub as his own reminder at all times.

"Freshen ourselves up every day and make up our mind. There cannot be construction without destruction and we innovate and advance."

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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
Ms. SHI Dai (resigned on 18 March 2013)
Mr. LIU Haifeng David
Mr. KUO Ming-Jian (appointed on 18 March 2013)
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
Ms. SHI Dai (resigned on 18 March 2013)
Mr. KUO Ming-Jian (appointed on 18 March 2013)

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,
Wanchai, 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,
Wanchai, Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited

Principal Bankers

China Development Bank
Bank of China

Auditors

Ernst & Young

Legal Adviser

Paul Hastings

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 in 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[1], transportation[2], infrastructure construction, industrial machinery, education, textiles, electronic information, as well as other sectors. The Group, headquartered in Hong Kong, has an operation 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.

1 In April 2013, the Group renamed its printing sector as packaging sector so as to build up a whole-packaging industry chain, expand the scope of business and enhance its operating abilities.

2 In July 2013, the Group renamed its shipping sector as transportation sector to get involved in areas of railway transportation, pipeline transportation and smart logistics.

Business Overview

	For the six months ended 30 June		For the year ended 31 December		
	2013	2012	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
OPERATIONAL RESULTS					
TOTAL REVENUE	**587,102**	540,358	1,030,699	729,895	326,909
Finance leasing and factoring (interest income)	**387,382**	360,985	688,615	474,028	178,361
Advisory services (fee income)	**173,753**	130,544	242,439	170,199	119,768
Cost of sales	**(201,300)**	(254,132)	(462,144)	(342,641)	(117,864)
Interest expenses	**(172,474)**	(196,775)	(350,919)	(250,007)	(87,656)
Profit before tax	**220,205**	166,570	329,884	228,854	133,328
Profit for the year/period attributable to owners of the parent	**165,940**	122,786	241,305	171,412	103,749
Basic and diluted earnings per share (US cents)	**5.04**	4.01	7.59	6.56	5.45
PROFITABILITY INDICATORS					
Return on average assets(1)	**3.09%**	3.09%	2.82%	3.04%	3.50%
Return on average equity(2)	**15.83%**	14.45%	13.69%	17.13%	25.75%
Net interest margin(3)	**4.25%**	4.55%	4.30%	4.33%	3.18%
Net interest spread(4)	**3.23%**	3.12%	3.16%	2.95%	1.65%
Service fee income ratio (%)(5)	**43.84%**	43.51%	40.71%	41.74%	54.68%
Cost to income ratio(6)	**35.77%**	32.70%	33.98%	32.56%	31.31%
Cost of credit(7)	**0.82%**	0.78%	0.71%	0.77%	0.59%

Business Overview

	30 June 2013 US$'000 (Unaudited)	30 June 2012 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)	31 December 2011 US$'000 (Audited)	31 December 2010 US$'000 (Audited)
Assets and liabilities					
Total assets	**11,814,118**	8,366,333	9,636,509	7,474,702	3,824,164
Net lease receivables	**11,024,738**	7,743,546	9,038,257	6,524,480	3,657,678
Total liabilities	**9,666,998**	6,452,047	7,591,255	5,998,442	3,296,832
Interest-bearing bank and other borrowings	**7,570,408**	5,011,538	5,847,102	4,705,588	2,569,939
Total equity	**2,147,120**	1,914,286	2,045,254	1,476,260	527,332
Equity attributable to owners of the parent	**2,145,433**	1,913,948	2,043,510	1,475,622	526,916
Net assets per share (US$)	**0.65**	0.58	0.62	0.52	0.28
DURATION MATCHING OF ASSETS AND LIABILITIES					
Financial assets	**12,937,290**	9,477,911	10,937,266	8,522,538	4,311,798
Financial liabilities	**10,148,287**	6,967,381	7,996,654	6,437,117	3,459,411
ASSET QUALITY					
Non-performing assets ratio(8)	**0.77%**	0.66%	0.73%	0.59%	0.97%
Provision coverage ratio(9)	**219.34%**	220.83%	215.21%	219.02%	120.42%
Write-off of non-performing assets ratio(10)	**0.11%**	0.00%	0.00%	0.00%	0.15%
Overdue loans and lease receivables (over 30 days)(11)	**0.35%**	0.34%	0.30%	0.08%	0.14%

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/average balance of equity 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) Cost of credit = provision for loans and accounts receivables/average balance of interest-earning assets at the beginning and end of the period, presented on an annualised basis;

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

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

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

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

(12) With the increase of other interest-earning assets other than lease receivables of the Group, to reflect non-performing assets ratio, provision coverage ratio, write-off of non-performing assets ratio and overdue loans and lease receivables (over 30 days) ratio in a more accurate way, we have made adjustments to the corresponding numerators and denominators contained in the above indicators effective from the reporting period. Non-performing assets refer to such non-performing assets in all interest-earning assets instead of those in lease receivables only; provision for impairment of assets refers to such provision for impairment of all interest-earning assets; overdue loans and lease receivables (over 30 days) refer to such overdue interest-earning assets over 30 days instead of overdue lease receivables over 30 days merely. Non-performing assets ratio, provision coverage ratio, write-off of non-performing assets ratio and overdue loans and lease receivables (over 30 days) ratio from 31 December 2010 to 31 December 2012 set out in this report have, based on the above definitions, been restated to conform with the presentation of financial data as at 30 June 2013.

Management Discussion and Analysis

1. Economic Environment

In the first half of 2013, the global economic recovery gained momentum. The US economy saw slow growth with a sustained slight recovery in the job market and mild relief from inflationary pressures. The downward trend of various economic indicators in the Eurozone was stabilised. The Eurozone gradually reached a phase of slow recovery but the economy may pose risks again. Monetary easing in Japan stimulated the economy to a certain extent, but may bring greater risks in the future. Affected by factors such as prolonged weak external demand, the increase in resources prices and the rising labour cost, most emerging economies suffered reduced economic activities with greater downside risk and an emerging trend of capital outflow.

For the domestic economy, in the first half of 2013, China's economy continued to expand, but growing at a slower rate, most industries are displaying signs of over capacity in their production, businesses progressively moves to storage and investments continues to slow down. For Gross Domestic Product (GDP), it was RMB24,800.9 billion in the first half of 2013 with a year-on-year increase of 7.6%. However, the year-on-year growth for the first and second quarter was 7.7% and 7.5% respectively, revealing a declining trend. For fixed investment, the national fixed investment for the first half of the year was RMB18,100 billion, up by 20.1% compared to last year, and its growth rate continued to slow down.

For the financial environment, in the first half of 2013, the regulation and relaxation of financial supervision worked in tandem. On the one hand, bank wealth management products increased in size, and the proportion of new loans continued to fall and non-traditional credit financing such as the "shadow banking" which was subject to less stringent regulation grew by leaps and bounds. Such financial fields required stronger regulation and credit funds should be continuously guided to support the real economy so as to keep the risk under control. On the other hand, the process of the interest rate liberalisation speeded up as the floor of lending rates was removed in July. Financial institutions such as rural banks and small loan companies which allowing for the inflow of funds from the private sector grew rapidly in number and the restrictions on licence were gradually relaxed.

For the financial leasing industry, the industry continued to maintain rapid growth in China in the first half of 2013. According to the statistics of the China Leasing Alliance, in the first half of the year, the contract balance of the rental industry was approximately RMB1.9 trillion, the number of firms was approximately 670 and the registered capital of the industry amounted to RMB210.0 billion; all of which represented increases to certain extent compared to the beginning of the year. It is expected that the industry will maintain vigorous growth momentum for the second half of the year.

For the industries the Group had served, in the first half of 2013, the development of healthcare and education was stable due to strong rigid demand, higher financial investment and their weak cyclical nature. Affected by the slowdown in the macroeconomic growth, manufacturing industries such as textiles and machinery experienced slower growth in fixed investment with mixed performance of each fragmented market. The shipping market remained sluggish. Overall, as affected by the macroeconomic conditions and the national policy to different extent, the related industries of the Group showed a trend of differentiated development.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In the first half of 2013, 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 US$220,205,000, representing a growth of 32.20% as compared to the corresponding period of the previous year. The profit before tax excluding foreign exchange gain of US$10,250,000 amounted to US$209,955,000, representing a growth of 26.19% as compared to the corresponding period of the previous year. Foreign exchange gain mainly reflected the impact of changes in exchange rate and the Group took effective measures to lock in the exchange rates to lower the risks arising from changes in future exchange rate. The profit attributable to owners of the parent during the period was US$165,940,000, representing a growth of 35.15% as compared to the corresponding period of the previous year. The following table sets forth the figures for the six months ended 30 June 2012 for comparison.

	For the six months ended 30 June		
	2013	2012	
	US$'000	US$'000	Change %
	(Unaudited)	(Unaudited)	
Revenue	**587,102**	540,358	8.65%
Cost of sales	**(201,300)**	(254,132)	-20.79%
Gross profit	**385,802**	286,226	34.79%
Other income and gains	**21,417**	4,874	339.41%
Selling and distribution costs	**(82,298)**	(53,758)	53.09%
Administrative expenses	**(97,039)**	(68,039)	42.62%
Other expenses	**(7,523)**	(2,733)	175.27%
Finance costs	**(154)**	–	N/A
Profit before tax from continuing operations	**220,205**	166,570	32.20%
Income tax expense	**(54,352)**	(44,082)	23.30%
Profit for the period from continuing operations	**165,853**	122,488	35.40%
Attributable to:			
Owners of the parent	**165,940**	122,786	35.15%
Non-controlling interests	**(87)**	(298)	-70.81%

2.2. Revenue

In the first half of 2013, the Group realised revenue of US$587,102,000, representing a growth of 8.65% from US$540,358,000 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 2013, income (before business taxes and surcharges) of the leasing and advisory segment was US$561,135,000, accounting for 93.89% of the total income (before business taxes and surcharges), representing a growth of 14.16% 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) decrease to 6.11% from 11.30% in the previous year mainly due to the negative growth in revenue from trading business as the Group prudently promoted trading business of lower gross profit margin. The Group was proactively exploring its integrated business with a view to diversifying its revenue distribution.

Management Discussion and Analysis

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. In the first half of 2013, the Group realised revenue in factoring business of US$2,743,000 in total for the year as it promoted factoring business among the existing customer base in the industries. As at 30 June 2013, the factoring business receivables amounted to US$78,807,000.

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				
	2013		2012		
	US$'000 (Unaudited)	% of total	US$'000 (Unaudited)	% of total	Change%
Leasing and advisory segment	561,135	93.89%	491,529	88.70%	14.16%
Finance leasing and factoring (interest income)	387,382	64.82%	360,985	65.14%	7.31%
Advisory services (fee income)	173,753	29.07%	130,544	23.56%	33.10%
Trading and others segment	36,490	6.11%	62,635	11.30%	-41.74%
Total	597,625		554,164		7.84%
Business taxes and surcharges	(10,523)		(13,806)		-23.78%
Revenue (after business taxes and surcharges)	587,102		540,358		8.65%

The Group also categorised income by industry, and the Group was mainly engaged in 8 industries covering healthcare, packaging, infrastructure construction, education, machinery, transportation, textile and electronic information for the first half of 2013. In the first half of 2013, the share of each industry in income tended to be more balanced, and the share of the packaging and machinery industries in total income decreased year on year with a slightly reduced growth rate as a result of the packaging and machinery industries being affected by the trading business and machine tool equipment agency business for auto spare part customers being promoted prudently by the Group in response to the market environment. The Group consolidated the electronic information business in April 2012, through which the electronic operation in the machinery industry was incorporated into other industries. The Group incubated its business in the electronic information industry in December 2012. In April 2013, the Group renamed its printing sector as packaging sector so as to build up a whole-packaging industry chain, expand the scope of business and enhance its operating abilities.

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				
	2013		2012		
	US$'000 (Unaudited)	% of total	US$'000 (Unaudited)	% of total	Change %
Healthcare	125,946	21.07%	108,648	19.61%	15.92%
Education	90,015	15.06%	77,195	13.93%	16.61%
Infrastructure construction	107,147	17.93%	85,795	15.48%	24.89%
Transportation	72,295	12.10%	53,774	9.70%	34.44%
Packaging	80,895	13.54%	99,647	17.98%	-18.82%
Machinery[(1)]	47,488	7.94%	63,184	11.40%	-24.84%
Textiles	14,636	2.45%	8,728	1.58%	67.69%
Electronic information[(1)]	32,500	5.44%	27,600	4.98%	17.75%
Others[(1)]	26,703	4.47%	29,593	5.34%	-9.77%
Total	597,625	100.00%	554,164	100.00%	7.84%

Notes:

(1) The 2012 data for other industries and electronic information are reclassified in this report.

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 from US$360,985,000 for the first half of 2012 to US$387,382,000 or by 7.31% for the first half of 2013, accounting for 64.82% of the Group's total revenue (before business taxes and surcharges), which was comparable to that of the first half of 2012. It was mainly due to the growth of average balance of interest-earning assets, which was partially offset by the decrease in the average yield.

The changes in interest income were mainly driven by two factors: the average balance of interest-earning assets and the average yield. The Group's average balance of interest-earning assets rose from US$7,225,474,000 for the first half of 2012 to US$10,109,002,000 for the first half of 2013, representing an increase of 39.91%. It was attributable to the expansion of the Group's business operation. The average rate of yield of the Group fell from 9.99% for the first half of 2012 to 7.66% 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 period.

	For the six months ended 30 June					
	2013			2012		
	Average Interest-earning assets[(1)]	Interest income[(2)]	Average yield[(3)]	Average Interest-earning assets[(1)]	Interest income[(2)]	Average yield[(3)]
	US$'000	US$'000	%	US$'000	US$'000	%
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Healthcare	2,181,098	80,217	7.36%	1,548,842	75,525	9.75%
Education	1,710,330	63,617	7.44%	1,195,528	57,982	9.70%
Infrastructure Construction	1,591,333	58,894	7.40%	1,108,934	59,185	10.67%
Transportation	1,162,721	44,063	7.58%	714,587	32,484	9.09%
Packaging	1,427,394	55,881	7.83%	1,031,414	49,395	9.58%
Machinery	751,992	31,410	8.35%	630,556	38,143	12.10%
Textiles	222,500	8,906	8.01%	98,846	5,833	11.80%
Electronic information	523,592	20,893	7.98%	339,387	14,071	8.29%
Others	538,042	23,501	8.74%	557,380	28,367	10.18%
Total	10,109,002	387,382	7.66%	7,225,474	360,985	9.99%

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, long-term receivables and factoring receivables.

Analysis according to average balance of interest-earning assets

Among the eight target industries, healthcare, education, infrastructure construction and packaging were the key drivers to the Group's average balance of interest-earning assets, representing 68.36% of the average balance of interest-earning assets for the first half of 2013. The increase in the average balance of interest-earning assets reflected the business expansion of the Group and the introduction of new target 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 2013, the Group enhanced the expansion in the market segment of respective industries, such as the non-bulk cargo ship market for logistics and maritime work in the transportation industry, the ancillary spare parts market for passenger vehicles and buses in the machinery industry, the final consumption market for packaging industry, information network application and electronic manufacturing of the electronic information industry.

Management Discussion and Analysis

Analysis according to average yield

In the first half of 2013, the average yield of the Group was 7.66%, representing 2.33 percentage points lower than 9.99% as compared to the corresponding period of the previous year, mainly due to the fact that (i) the two consecutive decreases in the benchmark interest rate by the People's Bank of China in 2012 resulted in a decrease of 50 basis points in the benchmark interest rate for 1-3 years and 3-5 years Renminbi loans, the effect of which was gradually reflected in the results for this year; (ii) the Group focused on more privileged customers in the respect of leasing quotation through providing customised and flexible financial products while the growth in new leasing contracts of high gross profit customers slowed down; (iii) the growth rate in the total value of new leasing contracts of customers generating low gross profit accelerated due to the optimization of the quotation structure in terms of the leasing quotation terminal as a result of the more intense competition in the market environment; and (iv) the value-added tax for the financial leasing industry was levied at 17% and not on the price due to the introduction of the pilot reform of transformation of business tax into value-added tax in Shanghai on 1 January 2012. The yield was affected as compared with the tax levied on the price in 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 will be gradually reflected in the 2013 results.

2.2.2 Advisory Services (Fee Income)

In the first half of 2013, fee income (before business taxes and surcharges) from leasing and advisory segment grew by 33.10% from US$130,544,000 for the first half of 2012 to US$173,753,000 for the first half of 2013, accounting for 29.07% of the total revenue (before business taxes and surcharges) of the Group and representing an increase as compared with 23.56% in the corresponding period of the previous year.

Management Discussion and Analysis

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

	For the six months ended 30 June				
	2013		2012		
	US$'000 (Unaudited)	% of total	US$'000 (Unaudited)	% of total	Change %
Healthcare	41,706	24.00%	31,088	23.81%	34.15%
Education	26,398	15.19%	19,213	14.72%	37.40%
Infrastructure construction	33,035	19.01%	24,672	18.90%	33.90%
Transportation	16,942	9.75%	12,509	9.58%	35.44%
Packaging	24,233	13.95%	20,712	15.87%	17.00%
Machinery	15,603	8.98%	12,693	9.72%	22.93%
Textiles	5,730	3.30%	2,895	2.22%	97.93%
Electronic information	6,904	3.97%	5,536	4.24%	24.71%
Others	3,202	1.85%	1,226	0.94%	161.17%
Total	173,753	100.00%	130,544	100.00%	33.10%

Healthcare, infrastructure construction, education and transportation 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 70.82% of the Group's total service charge income in the first of 2013. 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. As the machinery and packaging industries were affected by the market environment, the growth rate of service charge slowed down. 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 2013, before business taxes and surcharges, decreased by 41.74% from US$62,635,000 for the first half of 2012 to US$36,490,000 for the first half of 2013, accounting for 6.11% of the total revenue (before business taxes and surcharges), representing 5.19 percentage points lower than 11.30% as compared to the corresponding period of the previous year. This was attributable to a decline in trading revenue of machinery, packaging and electronic information for the corresponding period of the previous year.

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 period.

	For the six months ended 30 June				
	2013		2012		
	US$'000 (Unaudited)	% of total	US$'000 (Unaudited)	% of total	Change %
Revenue from trading	14,533	39.83%	50,565	80.73%	-71.26%
Revenue from brokerage	11,564	31.69%	9,174	14.65%	26.05%
Revenue from construction contracts	3,384	9.27%	958	1.53%	253.24%
Revenue from operating lease	7,009	19.21%	1,938	3.09%	261.66%
Total	36,490	100.00%	62,635	100.00%	-41.74%

In the first half of 2013, revenue from the trade business was US$14,533,000 (before business taxes and surcharges), representing a decrease of US$36,032,000 or 71.26% from the first half of 2012 as a result of the decline in the Group's machine tool equipment agency sales from the auto spare part customers of the machinery industry, the trading business such as paper trading of the packaging industry and the equipment agency sales from the electronic manufacturing customers of electronic information industry. The brokerage revenue was US$11,564,000 (before business taxes and surcharges), representing an increase of US$2,390,000 or 26.05% from the first half of 2012 mainly due to the further expansion in the ship chartering business and the income from brokerage services of the sale and purchase of ships contracted in previous years. The construction contracts for medical engineering of the Group achieved revenue (before business taxes and surcharges) of US$3,384,000, representing an increase of US$2,426,000 or 253.24% from the first half of 2012 mainly due to the growth of the medical engineering business. The Group's operating leasing business achieved a breakthrough for the first half of 2013 as compared to the corresponding period of the previous year, and realised revenue (before business taxes and surcharges) of US$7,009,000.

Management Discussion and Analysis

2.3. Cost of Sales

Cost of sales of the Group for the first half of 2013 was US$201,300,000, representing a decrease of 20.79% from US$254,132,000 in the corresponding period of the previous year. This was mainly due to a decrease in the cost of the leasing and advisory service segment and the trade and others segment. Among them, the cost of the leasing and advisory segment was US$172,474,000, accounting for 85.68% of the total cost. The cost of the trade and others segment was US$28,826,000, accounting for 14.32% 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				
	2013		2012		
	US$'000 (Unaudited)	% of total	US$'000 (Unaudited)	% of total	Change %
Cost of the leasing and advisory segment	172,474	85.68%	196,775	77.43%	-12.35%
Cost of trade and others segments	28,826	14.32%	57,357	22.57%	-49.74%
Cost of sales	201,300	100.00%	254,132	100.00%	-20.79%

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 period.

	For the six months ended 30 June					
	2013			2012		
	Average balance(1) US$'000 (Unaudited)	Interest expenses US$'000 (Unaudited)	Average cost rate(2) % of total	Average balance(1) US$'000 (Unaudited)	Interest expenses US$'000 (Unaudited)	Average cost rate(2) % of total
Interest – bearing liabilities	7,785,712	172,474	4.43%	5,729,091	196,775	6.87%

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 decreased by 12.35% from US$196,775,000 for the first half of 2012 to US$172,474,000 for the first half of 2013, because the Group continued to increase the level of interest-bearing bank and other borrowings to fund the ongoing business expansion of the Group, which was partially offset by the decline in the average cost rate. The average cost rate of our interest-bearing bank and other borrowings was 4.43% for the first half of 2013, representing a decrease of 2.44 percentage points from 6.87% for the first half of 2012. The decrease was mainly attributable to the fact that: (i) the cost of fund and financing was reduced due to the impact of the two consecutive decreases in the benchmark interest rate by the People's Bank of China reflected in the results for this year as affected by the macroeconomic environment in China in 2012; (ii) the Group took quick response to the two interest cuts and displaced parts of high cost financing generated before the interest cuts to ensure the synchronous decrease in cost under the condition of the interest cuts; and (iii) the Group took full use of its own advantages to promote U.S. dollars financing against the external market with low interest rate, so as to further reduce the overall finance costs of the Company. Also, cost of capital was effectively saved by various measures such as optimising the structure of financing maturity. The overall revenue level stayed steady and the decrease in the average yield of 2.33 percentage points was lower than that in the average cost rate of 2.44 percentage points.

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 business and cost of operating lease.

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

	For the six months ended 30 June				
	2013		2012		
	US$'000 (Unaudited)	% of total	US$'000 (Unaudited)	% of total	Change %
Cost of trading	13,538	46.96%	49,377	86.09%	-72.58%
Cost of brokerage	8,634	29.95%	6,810	11.87%	26.78%
Cost of construction contracts	2,599	9.02%	676	1.18%	284.47%
Cost of operating lease	4,055	14.07%	494	0.86%	720.85%
Total	28,826	100.00%	57,357	100.00%	-49.74%

Cost of goods sold for trading business of the Group decreased by 72.58% to US$13,538,000 for the first half of 2013 from US$49,377,000 for the first half of 2012, primarily due to a decrease in the aggregate value of trade transactions in machinery, packaging and electronic information for the first half of 2013, which resulted in a decrease in the cost of sales relating to the trading business of the Group's machinery, packaging and electronic information. Cost of the ship chartering business of the Group increased by 26.78% to US$8,634,000 in the first of 2013 from US$6,810,000 for the first half of 2012 mainly due to an increase in cost caused by the increase of the transportation chartering business and brokerage services for the sale and purchase of ships. The cost of construction contracts went up by 284.47% to US$2,599,000 for the first half of 2013 from US$676,000 for the first half of 2012 mainly due to an increase of cost of construction contracts of medical engineering caused by the growth in new revenue from construction contracts of medical engineering. In addition, cost of operating lease of infrastructure construction increased by 720.85% to US$4,055,000 for the first half of 2013 from US$494,000 for the first half of 2012.

Management Discussion and Analysis

2.4. Gross profit

The gross profit of the Group for the first half of 2013 was US$385,802,000, which increased by US$99,576,000 or 34.79% from US$286,226,000 in the corresponding period of the previous year. For the first half of 2013 and 2012, the gross profit margin of the Group was 65.71% and 52.97%, respectively.

2.4.1 Gross Profit of Lease and Services Segment

The gross profit margin of the lease and services segment of the Group for the first half of 2013 was 68.78%, up as compared with 58.82% in the corresponding period of the previous year. The gross profit margin of the leasing and services 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		
	2013	2012	
	US$'000	US$'000	Change %
	(Unaudited)	(Unaudited)	
Interest income [1]	**387,382**	360,985	7.31%
Interest expense [2]	**(172,474)**	(196,775)	-12.35%
Net interest income	**214,908**	164,210	30.87%
Net interest spread [3]	**3.23%**	3.12%	3.53%
Net interest margin [4]	**4.25%**	4.55%	-6.59%

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.

Net interest spread of the Group for the first half of 2013 increased by 0.11 percentage point to 3.23% as compared with 3.12% for the corresponding of the previous year. Net interest spread increased, primarily due to the decrease of 244 basis points in respect of the average cost on interest-bearing liabilities of the Group, which was partially offset by the decrease of 233 basis points in the average yield on interest-earning assets of the Group. For the changes in respect of the average yield on interest-earning assets and average cost 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 2013 increased by 39.91%. As such, the net interest income of the Group increased by 7.31% to US$387,382,000 for the first half of 2013 from US$360,985,000 for the first half of 2012. Furthermore, although the net interest spread for the first half of 2013 of the Group increased as compared to the corresponding period in the previous year, the average cost on interest-bearing liabilities for the first half of 2013 decreased to some extent and the proportion of non-interest-earning assets to the average total balance of interest-earning assets increased from 20.71% in the corresponding period of the previous year to 22.98%. Based on the above-mentioned reasons, the net interest margin of the Group fell slightly from 4.55% for the first half of 2012 to 4.25% for the first half of 2013.

Management Discussion and Analysis

2.4.2 Gross Profit of Trading and Others Segment

The gross profit of trade and other segments increased by 39.41% from US$5,154,000 for the first half of 2012 to US$7,185,000 for the first half of 2013, primarily due to the increase of the gross profit of the operating lease business, the brokerage business of the transportation industry and the medical engineering business, which was partially offset by the decline in the gross profit of the trading business. The gross profit of the trading business decreased from US$1,188,000 for the first half of 2012 to US$995,000 for the first half of 2013. The gross profit of the brokerage business of the transportation industry went up from US$2,364,000 for the first half of 2012 to US$2,930,000 for the first half of 2013. The gross profit of the medical engineering business increased from US$282,000 for the first half of 2012 to US$785,000 for the first half of 2013. The gross profit of the operating lease business rose from US$1,444,000 for the first half of 2012 to US$2,954,000 for the first half of 2013.

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		
	2013	2012	
	US$'000	US$'000	Change %
	(Unaudited)	(Unaudited)	
Bank interest income	**2,780**	4,282	-35.08%
Foreign exchange gain	**10,250**	184	5470.65%
Derivatives financial instruments – transactions not qualified as hedges:			
Unrealised fair value gains, net	**266**	–	N/A
Realised fair value gains, net	**411**	–	N/A
Gain from structured financial products	**328**	–	N/A
Government grants	**7,178**	–	N/A
Other income	**204**	408	-50.00%
Total	**21,417**	4,874	339.41%

In the first half of 2013, the Group's other income and gains amounted to US$21,417,000, representing an increase of 339.41% from the corresponding period of the previous year. Foreign exchange gain of US$10,250,000 represented a substantial increase from US$184,000 of the previous year, mainly reflecting the impact of change in exchange rate. The Group took effective measures to lock in the exchange rate to lower risks arising from changes in future exchange rate. Government grants of US$7,178,000 represented a substantial increase from the previous year, mainly due to implementation of the collection of value-added tax instead of business tax in 2012, after which the Group benefited from the instant rebate of value-added tax policy, and the rebated value-added tax had already been realised.

Management Discussion and Analysis

2.6. Selling and Distribution Costs

Selling and distribution cost of the Group for the first half of 2013 was US$82,298,000, which increased by US$28,540,000 or 53.09% as compared to the corresponding period of the previous year, mainly attributable to the increase of 58.85% 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 selling and distribution personnel of the Group from 1,010 for the first half of 2012 to 1,301 for the first half of 2013. This increase in headcount for selling 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 17.87%.

2.7. Administrative Expenses

In the first half of 2013, administrative expenses of the Group were US$97,039,000, representing an increase of US$29,000,000 or 42.62% 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 of the Group for the first half of 2013 amounted to US$41,320,000, representing an increase of US$13,110,000 or 46.47% from the corresponding period of the previous year; (ii) the increase of office expenses as a result of business expansion – Rental expenses of the Group for the first half of 2013 amounted to US$6,244,000, an increase of US$1,571,000 or 33.62% up from the corresponding period of the previous year; and (iii) the cost regarding the remuneration and welfare of staff relating to the administrative expenses rose by 49.64%.

2.7.1. Impairment of Loans and Accounts Receivable

In the first half of 2013, the impairment of loans and accounts receivable of the Group was US$41,320,000, which increased by US$13,110,000 or 46.47% from the corresponding period of the previous year. This is primarily due to an increase of 22.89% 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.

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

	For the six months ended 30 June				
	2013		2012		
	US$'000 (Unaudited)	**% of total**	US$'000 (Unaudited)	% of total	Change %
Impairment of loans and accounts receivable:					
Individual assessment	**10,222**	**24.74%**	5,615	19.90%	82.05%
Collective assessment	**31,098**	**75.26%**	22,595	80.10%	37.63%
Total	**41,320**	**100.00%**	28,210	100.00%	46.47%

Management Discussion and Analysis

2.7.2. Cost to income ratio

In the first half of 2013, cost to income ratio of the Group was 35.77%, representing an increase as compared with 32.70% for the corresponding period of the previous year.

2.8. Other Expenses

In the first half of 2013, other expenses of the Group were US$7,523,000, representing an increase of US$4,790,000 as compared to the corresponding period of the previous year. Bank charges amounted to US$6,123,000, representing an increase of US$3,971,000 as compared to the corresponding period of the previous year; net realised fair value loss of derivative financial instruments – transactions not qualifying as hedges amounted to US$1,399,000, representing an increase of US$990,000 as compared to the corresponding period of the previous year.

2.9. Income Tax Expense

In the first half of 2013, income tax expense of the Group was US$54,352,000, which increased by US$10,270,000 or 23.30% 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 for the first half of 2013 and 2012 was 24.68% and 26.46%, respectively.

2.10. Profit for the Year Attributable to Owners of the Parent

Based on the above discussion and analysis, profit for the period attributable to owners of the parent was US$165,940,000, representing an increase of US$43,154,000 or 35.15% from the corresponding period of the previous year. Net profit margin of the Group for the first half of 2013 was 28.25%, representing an increase as compared with 22.67% for the corresponding period of the previous year.

Management Discussion and Analysis

3. Analysis of Financial Position

3.1. Assets (Overview)

As at 30 June 2013, the total assets of the Group increased by US$2,177,609,000 or 22.60% from the end of the previous year to US$11,814,118,000. Loans and accounts receivable increased by US$1,990,270,000 or 22.01% from the end of the previous year to US$11,032,535,000.

As at 30 June 2013, the cash and cash equivalents of the Group increased slightly from the end of 2012 to US$313,432,000. The increase was primarily due to a relatively sufficient cash reserved by the Group in response to the domestic situation of credit crunch, so as to sustain the business development and ensure the liquidity safety of the Group.

As at 30 June 2013, the restricted deposits of the Group amounted to US$61,240,000, mainly the restricted security deposit and time deposit held in banks over three months.

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

	30 June 2013		31 December 2012		
	US$'000 (Unaudited)	**% of total**	US$'000 (Audited)	% of total	Change %
Loans and accounts receivable	11,032,535	93.38%	9,042,265	93.83%	22.01%
Including: Net lease receivables	11,024,738		9,038,257		21.98%
Cash and cash equivalents	313,432	2.65%	239,074	2.48%	31.10%
Restricted deposit	61,240	0.52%	107,589	1.12%	-43.08%
Prepayment and other accounts receivable	78,816	0.67%	121,502	1.26%	-35.13%
Deferred tax assets	61,270	0.52%	42,045	0.44%	45.72%
Property, plant and equipment	75,010	0.64%	56,554	0.59%	32.63%
Repaid land lease payments	156,857	1.33%	–	–	N/A
Investment in associates	11,774	0.10%	–	–	N/A
Derivative financial instruments	159	0.00%	159	0.00%	0.00%
Inventories	7,605	0.06%	8,700	0.09%	-12.59%
Construction contracts	9,412	0.08%	12,804	0.13%	-26.49%
Other assets	6,008	0.05%	5,817	0.06%	3.28%
Total assets	11,814,118	100.00%	9,636,509	100.00%	22.60%

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 93.38% of the total assets of the Group as of 30 June 2013. During the first half of 2013, 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 2013		31 December 2012		
	US$'000 (Unaudited)	**% of total**	US$'000 (Audited)	% of total	Change %
Lease receivables	**12,485,723**		10,330,633		20.86%
Less: Unearned finance income	**(1,460,985)**		(1,292,376)		13.05%
Net lease receivables	**11,024,738**	**98.26%**	9,038,257	98.39%	21.98%
Other net interest-earning assets[1]	**122,227**	**1.09%**	32,781	0.36%	272.86%
Subtotal for interest-earning assets	**11,146,965**	**99.35%**	9,071,038	98.75%	22.89%
Others[2]	**72,831**	**0.65%**	114,571	1.25%	-36.43%
Loans and accounts receivable[3]	**11,219,796**	**100.00%**	9,185,609	100.00%	22.15%

Notes:

(1) Other interest-earning assets include principal of entrusted loans, principal of long term receivables and principal of factoring receivables, which are a beneficial complement of financial leasing business.

(2) Others include interest receivables, notes receivables and accounts receivables.

(3) The amount is before provisions.

Loans and accounts receivable of the Group (before provisions) as of 30 June 2013 amounted to US$11,219,796,000, representing an increase of 22.15% from US$9,185,609,000 as of 31 December 2012. Net lease receivables (before provisions) were the most significant component of loans and accounts receivable, accounting for 98.26% of loans and accounts receivable (before provisions) as of 30 June 2013.

Management Discussion and Analysis

3.2.1. Interest-earning Assets

Net interest-earning assets of the Group as of 30 June 2013 were US$11,146,965,000, representing an increase of 22.89% as compared with US$9,071,038,000 as of 31 December 2012. The increase was due to a significant 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 during the first half of 2013.

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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Healthcare	2,487,187	22.31%	1, 875,010	20.67%	32.65%
Education	1,821,335	16.34%	1, 599,325	17.63%	13.88%
Infrastructure construction	1,785,271	16.02%	1, 397,395	15.40%	27.76%
Transportation	1,283,457	11.52%	1,041, 986	11.49%	23.17%
Packaging	1,577,541	14.15%	1, 277,247	14.08%	23.51%
Machinery	815,393	7.31%	688,590	7.59%	18.41%
Textiles	256,517	2.30%	188,483	2.08%	36.10%
Electronic information	576,581	5.17%	470,602	5.19%	22.52%
Others	543,683	4.88%	532,400	5.87%	2.12%
Total	11,146,965	100.00%	9, 071,038	100.00%	22.89%

Note:

(1) As there is an increase in other interest-earning assets other than lease receivables, relevant figures were disclosed by interest-earning assets for the reporting period so as to reflect the debt conditions of the Group. Figures as at 31 December 2010 have been restated in view to maintain a consistent reporting ways with financial data as at 30 June 2013.

Net interest-earning assets for healthcare, infrastructure construction, packaging and transportation as of 30 June 2013 grew the most among the target industries of the Group, namely by US$612,177,000, US$387,876,000, US$300,294,000 and US$241,471,000, respectively over those as of 31 December 2012, due to the fact that the Group had assigned more dedicated sales and marketing personnel to the above industries. The development of new fragmented markets in other industries slowed down as a result of prudent consideration.

Management Discussion and Analysis

3.2.3 Ageing 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 and factoring contracts.

	30 June 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Net interest-earning assets					
Within 1 year	6,428,824	57.67%	4,981,460	54.92%	29.06%
1 to 2 years	3,030,271	27.18%	2,824,782	31.14%	7.27%
2 to 3 years	1,257,992	11.29%	1,001,514	11.04%	25.61%
3 years and beyond	429,878	3.86%	263,282	2.90%	63.28%
Total	11,146,965	100.00%	9,071,038	100.00%	22.89%

Net interests-earning assets within one year represent net interest-earning assets relating to new leases, entrusted loans and factoring contracts that become effective within one year from the reporting date indicated, and are still valid as of the end of the year or the end of the period. As of 30 June 2013, net interest-earning assets within one year represented 57.67% of net interest-earning assets of the Group, which was higher than the level recorded as of the end of the previous year, indicating that the Group remained 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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Maturity date					
Within 1 year	4,227,856	37.93%	3,412,168	37.62%	23.91%
1 to 2 years	3,321,882	29.80%	2,766,925	30.50%	20.06%
2 to 3 years	2,074,738	18.61%	1,686,707	18.59%	23.01%
3 years and beyond	1,522,489	13.66%	1,205,238	13.29%	26.32%
Total	11,146,965	100.00%	9,071,038	100.00%	22.89%

Net interest-earning assets due within the first year represent net interest-earning assets which the Group will receive within one year of the reporting date indicated. As of 30 June 2013, net interest-earning assets due within one year as set forth in the table above represented 37.93% of the Group's net interest-earning assets as of each of the respective dates, which was slightly higher as 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 collectability 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. Assets classified as special mention or below can be adjusted upward for its classification after six months of normal repayment.

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 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 macroeconomic environment in China continued to decline during the first half of 2013. Chinese economic development was exposed to a reversal. Some manufacturing industries suffered an excess of production capacity. Domestic demand was still sluggish and the operating environment faced our customers did not turned around. There were challenges in the safety of inventory. The Group continued to optimise its asset management system, strengthen its asset process monitoring, and intensify risk asset disposal. The quality of our assets remained to be stable and under control on the whole during the reporting period.

Raising the awareness of risk prevention and control to resolve overall risk by classification

The Group continuously enhanced the optimisation of our internal control system. The risk management capability of various business segments improved and the control over the authority to operate continues to improve. Meanwhile, the synergy of business operation and management between the Group's head office and business segments was increasingly enhanced and the risk management system gradually became versatile. During the first half of 2013, the Group consistently strengthened the awareness of risk prevention and control, kept prudent when introducing customers, thoroughly learnt customers' credit position by professional experience accumulated in the past, so as to select customers with fine security into our business; the Group also selectively employed the guarantee measures such as security, pledge or non-related third party corporate guarantee to strengthen the protection against the credit assets. Moreover, the Group strengthened the process control, established assessment and management system to suppliers in domestic trade and direct leasing. Meanwhile, the Group further optimised the assessment and management of leased articles. The property right protection and value realisation of the leased articles were continuously enhanced.

During the first half of 2013, the Group allocated operating resources against risk exposure among different industries according to the business introduction policy formulated at the beginning of the year. Especially under external environment of industrial restructuring and cyclical fluctuation of some industries, the Group dealt with them differently and resolved them by classification: we strictly controlled and prevented resources from flowing into real estate industry and industries with excess capacity so as to mitigate industrial systematic risks; meanwhile, we ensured resources to be utilised in the financing of high-end and advanced equipment in machinery, electronic manufacturing, etc. and the technical improvement and updating in packaging, textiles, etc. to assure new businesses were selectively introduced. Besides, in order to expand our business scope and diversify the overall risk, the Group explored in fields of clean energy, smart city and modern pharmacy to different extent. The Group continuously perfected the entry and management mechanism for new industry to ensure the mitigation of the systematic risk in the areas such as market testing and system setting.

Optimising rental management methods to promote the effectiveness of control and management

In respect of rent paying remainder, we classified our customers into different tiers based on their paying records. This not only increases customers' satisfaction, but also helps us have a better control on rent covering from specific customers. Meanwhile, the Group continued to optimise its rent management system and implement direct contact system with banks. This significantly improved our efficiency and helped us to achieve real-time control on customer rent payment conditions.

Management Discussion and Analysis

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

During the first half of 2013, the Group continued to optimise our asset management system and adjusted our asset management system in accordance with the management concept of "close to assets, close to customers" so as to improve the effectiveness of asset monitoring. After making adjustments, the asset management system explicitly included customer managers into the main body of our asset management system and specified the managers' responsibilities of security monitoring of and control on as well as management of assets so that asset managers can focus more on management and control of key projects. During the first half of 2013, the Group stepped up efforts to promote the return visit to customers so that customer managers can better perform the responsibilities of security monitoring of and control on assets.

During the first half of 2013, the Group continued to implement measures of regional asset managers. According to the allocation plan of regional asset managers, regional managers were stationed in districts with high customer concentration and higher risks. Regional asset managers already in place gradually revealed the effectiveness of control and management on asset safety. They leveraged regional advantage to acquire information on a more timely basis and substantially improved control efficiency.

In order to ensure the safety of our assets and operation, we organised and launched asset screening action for private sector assets during the first half of 2013. Through these special screening actions for key customers, we were able to get a better understanding of the degree of the impact which the changes in macroeconomic environment that may have on clients' business on a timely basis. This allowed us to evaluate the security of the present stock assets systemically, which helped taking countermeasures for assets subject to risks.

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

During the first half of 2013, 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. During the first half of 2013, the Group disposed of 19 risk assets with 16 customers through litigation, with a recovery rate of 99.66%.

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

	30 June 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Pass	9,331,519	83.71%	7,609,038	83.89%	5,479,476	82.64%	3,034,976	81.46%
Special mention	1,730,131	15.52%	1,395,515	15.38%	1,112,051	16.77%	654,567	17.57%
Substandard	44,982	0.40%	39,960	0.44%	30,211	0.45%	29,750	0.80%
Doubtful	40,333	0.37%	26,456	0.29%	8,762	0.13%	5,856	0.15%
Loss		0.00%	69	0.00%	477	0.01%	656	0.02%
Net interest-earning assets	11,146,965	100.00%	9,071,038	100.00%	6,630,977	100.00%	3,725,805	100.00%
Non-performing assets	85,315		66,485		39,450		36,262	
Non-performing asset ratio	0.77%		0.73%		0.59%		0.97%	

Management Discussion and Analysis

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As of 30 June 2013, the Group's assets under special mention accounted for 15.52% of its total amount, representing a slight increase as compared with 15.38% as of the end of the previous year. In particular, assets under special mention in the transportation industry accounted for the largest portion at 26.76% primarily because the shipping market continued to be sluggish and the contradiction between redundant shipping capacity and unbalanced supply and demand did not significantly improve. Decrease in freight rate resulted in a slide in the profitability of some ship owners and 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 other industries accounted for the second portion at 15.98%, mainly because of the exploration of new industries by the Company, the short operating period and limited knowledge on customers' repayment pattern. Our business operations maintained steady growth. Nevertheless, taking into account of the ongoing tightening policy under the macroeconomic environment and the overall industry risks, the Group prudently adjusted the asset classification for such type of customers as the Group paid close attention to the systematic risks of such industry. The assets under special mention for the education industry accounted for the third largest portion, at 12.84%, mainly because the large size of the infrastructure of the higher education segment with long establishment time and high debts. The Group prudently kept this asset class under ongoing supervision. The assets under special mention for the packaging industry accounted for the fourth largest portion, at 10.69%, mainly because the packaging industry was impacted by market conditions. Taking into account the ongoing macro environment and the industry risks, the Group prudently reclassified more assets in this sector as assets under special mention.

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

	30 June 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Healthcare	175,161	10.12%	101,102	7.24%	63,842	5.74%	60,763	9.28%
Education	222,177	12.84%	251,094	17.99%	170,640	15.35%	150,264	22.96%
Infrastructure construction	133,271	7.70%	121,212	8.69%	209,227	18.81%	102,099	15.60%
Transportation	463,041	26.76%	232,163	16.64%	120,558	10.84%	65,965	10.08%
Packaging	184,877	10.69%	193,153	13.84%	53,396	4.80%	32,884	5.02%
Machinery	151,406	8.75%	101,683	7.29%	80,565	7.24%	25,711	3.93%
Textiles	22,357	1.29%	25,613	1.83%	4,418	0.40%	–	–
Electronic information	101,429	5.86%	95,205	6.82%	45,889	4.13%	12,368	1.89%
Others	276,412	15.98%	274,290	19.66%	363,516	32.69%	204,513	31.24%
Total	1,730,131	100.00%	1,395,515	100.00%	1,112,051	100.00%	654,567	100.00%

In addition, lease receivables over 30 days overdue were also included in assets under special mention. As a result of the Group's fixed asset management standard and stringent risk management and control asset management policy, the percentage of the Group's lease receivables over 30 days overdue in the first half of 2013 was 0.35%, slightly increased as compared with 0.30% as of the end of the previous year. However, our overall asset quality continued to be favourable and assets under special mention and non-performing assets continued to remain low.

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 2013 (Unaudited)				
Special mention	10.08%	69.91%	0.62%	0.18%	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%
	As at 31 December 2010 (Unaudited)				
Special mention	32.87%	32.18%	1.43%	0.84%	0.00%

The Group's asset quality remained favourable. The non-performing asset ratio slightly increased from 0.73% from the end of the previous year to 0.77% as of 30 June 2013. The Group's write-off amount of non-performing assets was US$70,000. The write-off ratio of non-performing assets was 0.11%.

The non-performing asset ratio for the transportation industry to total non-performing assets was 35.35%, mainly because the overseas and domestic shipping market remained sluggish and the freight rate continued to decline, especially in dry bulk vessels. Most customers of the non-performing assets were the privately operated customers in the fragmented industries of dry bulk vessels and special cargo vessels. The Group prudently reclassified the assets of the segments into substandard assets. The non-performing asset ratio for the packaging industry to total non-performing assets was 21.06%, primarily because of the obvious macroeconomic effect on packaging industry. Most customers of the non-performing assets were the privately operated customers in the fragmented industries of offset printing. The Group prudently reclassified more assets of this segment into substandard and doubtful assets. The non-performing assets of the infrastructure construction industry accounted for 16.01% of the total non-performing assets. The Group prudently reclassified more assets of the infrastructure industry into substandard and doubtful assets based on the continuity of macroeconomic tightening policies and the risks of that industry. Most of the customers of the non-performing assets were the privately operated customers of the fragmented industries such as lifting. The non-performing assets of the machinery industry accounted for 13.98% of the total non-performing assets. Most of the customers of the non-performing assets were in the fragmented industries of engineering machinery, heavy duty trucks and general spare parts, which were subject to greater market change, and their revenue further dropped. The Group prudently reclassified more assets of the machinery industry into substandard and doubtful assets.

Management Discussion and Analysis

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

	30 June 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Healthcare	4,521	5.30%	2,582	3.88%	1,561	3.96%	2,624	7.24%
Education	2,233	2.62%	2,571	3.87%	2,945	7.46%	1,055	2.91%
Infrastructure construction	13.660	16.01%	12,739	19.16%	9,727	24.65%	3,621	9.98%
Transportation	30,162	35.35%	19,757	29.72%	15,001	38.03%	18,733	51.66%
Packaging	17,964	21.06%	13,254	19.14%	7,317	18.55%	10,228	28.21%
Machinery	11,930	13.98%	8,959	13.47%	2,899	7.35%	–	–
Textiles	1,640	1.92%	846	1.27%	–	–	–	–
Electronic information	3,205	3.76%	5,777	8.69%	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	85,315	100.00%	66,485	100.00%	39,450	100.00%	36,262	100.00%

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

	30 June 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Healthcare	3,797	8.44%	446	1.12%	1,561	5.17%	1,604	5.39%
Education	–	–	833	2.08%	1,332	4.41%	1,055	3.55%
Infrastructure construction	2,772	6.16%	3,479	8.71%	8,465	28.02%	3,621	12.17%
Transportation	19,516	43.39%	18,703	46.80%	15,001	49.66%	18,733	62.97%
Packaging	11,162	24.81%	7,488	18.74%	2,989	9.89%	4,737	15.92%
Machinery	7,423	16.51%	5,510	13.79%	863	2.85%	–	–
Textiles	–	–	–	–	–	–	–	–
Electronic information	312	0.69%	3,501	8.76%	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	44,982	100.00%	39,960	100.00%	30,211	100.00%	29,750	100.00%

Management Discussion and Analysis

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

	30 June 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Healthcare	724	1.80%	2,136	8.07%	–	–	820	14.00%
Education	2,233	5.54%	1,738	6.57%	1,613	18.41%	–	–
Infrastructure construction	10,888	27.00%	9,260	35.00%	1,262	14.40%	–	–
Transportation	10,646	26.40%	1,054	3.99%	–	–	–	–
Packaging	6,802	16.85%	5,697	21.53%	3,851	43.95%	5,036	86.00%
Machinery	4,507	11.17%	3,449	13.04%	2,036	23.24%	–	–
Textiles	1,640	4.07%	846	3.20%	–	–	–	–
Electronic information	2,893	7.17%	2,276	8.60%	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	40,333	100.00%	26,456	100.00%	8,762	100.00%	5,856	100.00%

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

	30 June 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Healthcare	–	–	–	–	–	–	200	30.49%
Education	–	–	–	–	–	–	–	–
Infrastructure construction	–	–	–	–	–	–	–	–
Transportation	–	–	–	–	–	–	–	–
Packaging	–	–	69	100.00%	477	100.00%	456	69.51%
Machinery	–	–	–	–	–	–	–	–
Textiles	–	–	–	–	–	–	–	–
Electronic information	–	–						
Others	–	–	–	–	–	–	–	–
Total	–	–	69	100.00%	477	100.00%	656	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 US$'000 (Unaudited)	NPA ratio %
31 December 2010	36,262	0.97%
Downgrades [(1)]	19,133	
Upgrades	(1,942)	
Recoveries	(14,003)	
Write-offs	–	
31 December 2011	39,450	0.59%
Downgrades [(1)]	57,069	
Upgrades	(376)	
Recoveries	(29,658)	
Write-offs	–	
31 December 2012	66,485	0.73%
Downgrades [(1)]	42,496	
Upgrades	(7,639)	
Recoveries	(15,957)	
Write-offs	(70)	
30 June 2013	85,315	0.77%

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 2013		31 December 2012		31 December 2011		31 December 2010	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total	US$'000 (Audited)	% of total
Asset impairment provisions:								
Individual assessment	40,970	21.89%	30,211	21.11%	12,037	13.93%	8,930	20.45%
Collective assessment	146,161	78.11%	112,874	78.89%	74,366	86.07%	34,736	79.55%
Total	187,131	100.00%	143,085	100.00%	86,403	100.00%	43,666	100.00%
Non-performing assets	85,315		66,485		39,450		36,262	
Provision coverage ratio	219.34%		215.21%		219.02%		120.42%	

As of 30 June 2013, 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 219.34% as of 30 June 2013.

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 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)	31 December 2011 US$'000 (Audited)	31 December 2010 US$'000 (Audited)
Write-off	70	0	0	35
Non-performing assets as at the end of the previous year	66,485	39,450	36,262	23,589
Write-off ratio (1)	0.11%	0.00%	0.00%	0.15%

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.

As a result of the Group's stringent risk management controls and our management of asset quality, the amount of the Group's non-performing assets write-off during the first half of 2013 was US$70,000 and our non-performing assets write-off ratio was 0.11% slightly increased as compared to the end of previous year but the overall asset quality remained in a good position.

Management Discussion and Analysis

During the first half of 2013, the Group's non-performing assets write-off was mainly due to a project in packaging industry leased from 2008. The tenant was alleged to illegally absorb deposits from the public. Its beneficial controller was arrested and all of its assets were impounded. The Group filed a suit in September 2008. The final realised value of the leased item was reduced and unable to fully recover the balance of the principal of the project as the Group's litigation was delayed for a long time due to the tenant's involvement in other lawsuits. The Group wrote off the loss as non-performing assets.

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 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)	31 December 2011 US$'000 (Audited)	31 December 2010 US$'000 (Audited)
Overdue ratio (over 30 days)	**0.35%**	0.30%	0.08%	0.14%

As a result of the Group's stringent risk management controls and our management of assets quality, the Group's lease overdue ratio (over 30 days) was 0.35% during the first half of 2013, slightly increased as compared with 0.30% as of the end of 2012.

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

	30 June 2013		31 December 2012	
	US$'000 (Unaudited)	**% of total**	US$'000 (Audited)	% of total
Healthcare	**3,069**	**7.76%**	272	1.01%
Education	**2,233**	**5.64%**	1,848	6.84%
Infrastructure construction	**8,612**	**21.77%**	6,872	25.43%
Transportation	**10,646**	**26.91%**	306	1.13%
Packaging	**5,967**	**15.08%**	5,716	21.16%
Machinery	**6,197**	**15.66%**	6,275	23.23%
Textiles	**633**	**1.60%**	621	2.30%
Electronic information	**2,207**	**5.58%**	5,108	18.90%
Others	**–**	**–**	–	–
Total	**39,564**	**100.00%**	27,018	100.00%

Although the Group's overdue ratio (over 30 days) slightly increased during the first half of 2013, 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.

Management Discussion and Analysis

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

	30 June 2013		31 December 2012	
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total
Special mention	263	0.66%	88	0.33%
Substandard	8,795	22.23%	8,992	33.28%
Doubtful	30,506	77.11%	17,938	66.39%
Loss	–	–	–	–
Total	39,564	100.00%	27,018	100.00%

3.3. Liabilities (Overview)

On 30 June 2013, total debt of the Group was US$9,666,998,000, representing an increase of US$2,075,743,000 or 27.34% as compared to the end of last year. Interest-bearing bank and other borrowings was the main component of the Group's liabilities, accounting for 78.31% of the total, which represented a slight increase as compared with that as of the end of last year.

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

	30 June 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Interest-bearing bank and other borrowings	7,570,408	78.31%	5,847,102	77.02%	29.47%
Other payables and accruals	1,626,220	16.82%	1,327,729	17.49%	22.48%
Trade and bills payables	398,016	4.12%	348,563	4.59%	14.19%
Tax Payable	47,337	0.49%	40,015	0.53%	18.30%
Derivative financial instruments	883	0.01%	1,149	0.02%	-23.15%
Deferred tax liabilities	11,417	0.12%	14,652	0.19%	-22.08%
Deferred income	12,717	0.13%	12,045	0.16%	5.58%
Total Liabilities	9,666,998	100.00%	7,591,255	100.00%	27.34%

Management Discussion and Analysis

3.4. Interest-bearing Bank and Other Borrowings

In the first half of 2013, as the complex financial environment at home and overseas faced the Group, the Group adhered to the established strategy of "resources globalisation", processed smoothly in both indirect financing and direct financing with debentures structure in a better shape and dramatic reduction in financing cost.

Within the marketplace of direct financing, the Group successfully raised the facility in the medium term note programme to US$1.5 billion from US$1.0 billion, and privately placed several bond issues at home and overseas containing Dollar Bonds, Dim-sum Bonds and ABS, which reflected our diversity of bond issuance methods and sustainability in the issuance capacity.

Within the marketplace of indirect financing, the Group completed its first dual-currency syndicated loan and promoted a number of different types of innovative products such as overseas direct credit showing our outstanding product innovation and access to large-scale financing in the marketplace of indirect financing.

As our financing methods increased with our debt structure in a better shape, the Group reduce our reliability on a single product and a single market. The Group's business growth and capital requirements were primarily supported by multiple credit facilities granted by various financial institutions to the Group's operating entities. Meanwhile, a significant decline was seen in the Group's financing costs. The Group is confident that with the global financing network as well as resource advantage, the Group can further improve its competitiveness in the liability landscape.

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 2013, the total sum of the Group's interest-bearing bank and other borrowings (including deposits for lease and entrusted loans) amounted to US$8,547,348,000, of which interest-bearing bank and other borrowings amounted to US$7,570,408,000, representing an increase of 29.47% compared with US$5,847,102,000 as of the end of last year. This is primarily because the Group increased the amount of bank loans in the first half of 2013 in order to support the growth of the Group's lease receivable portfolio as we expanded our business operations. The Group's borrowings were mainly denominated in RMB and US$ with variable 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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Current	3,886,708	51.34%	3,010,726	51.49%	29.10%
Non-current	3,683,700	48.66%	2,836,376	48.51%	29.87%
Total	7,570,408	100.00%	5,847,102	100.00%	29.47%

As of 30 June 2013, 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 51.34%, essentially remaining flat at 51.49% as of 31 December 2012. In the first half of 2013, the Group made no change to the Group's policies with respect to the term structure of current and non-current bank and other borrowings.

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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Secured	2,921,770	38.59%	2,233,832	38.20%	30.80%
Unsecured	4,648,638	61.41%	3,613,270	61.80%	28.65%
Total	7,570,408	100.00%	5,847,102	100.00%	29.47%

The Group carefully managed its funding risk in the first half of 2013. As at 30 June 2013, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 61.41% of the Group's total interest-bearing bank and other borrowings, essentially remaining unchanged as of the end of last year.

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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Bank loans	6,156,573	81.32%	4,655,945	79.63%	32.23%
Related-party borrowings	48,554	0.64%	173,529	2.97%	-72.02%
Other loans	1,365,281	18.04%	1,017,628	17.40%	34.16%
Total	7,570,408	100.00%	5,847,102	100.00%	29.47%

The proportion of the Group's related-party borrowings as a percentage to the Group's total bank and other borrowings was 0.64% as at 30 June 2013, decreased by 2.33 percentage points as compared to the end of last year as the Group chose to utilise more bank loans and other loans 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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
China	5,205,865	68.77%	4,704,845	80.46%	10.65%
Overseas	2,364,543	31.23%	1,142,257	19.54%	107.01%
Total	7,570,408	100.00%	5,847,102	100.00%	29.47%

As at 30 June 2013, the proportion of the Group's total borrowings from banks and other borrowings in China was 68.77%, which shrunk as compared with that at the end of last year as the Group chose to utilise more overseas borrowings to expand the business of the Group.

Management Discussion and Analysis

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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
RMB	5,967,245	78.82%	5,133,416	87.79%	16.24%
US dollars	1,552,938	20.51%	711,722	12.17%	118.19%
Borrowings in other currencies	50,225	0.67%	1,964	0.04%	2457.28%
Total	7,570,408	100.00%	5,847,102	100.00%	29.47%

As at 30 June 2013, the proportion of the Group's total bank and other borrowings in RMB was 78.82%, representing a decrease from the end of last year as the Group proactively chose to utilise more borrowings in US dollars and loans in 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 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Direct financing	748,876	9.89%	547,494	9.36%	36.78%
Indirect financing	6,821,532	90.11%	5,299,608	90.64%	28.72%
Total	7,570,408	100.00%	5,847,102	100.00%	29.47%

As at 30 June 2013, the proportion of the Group's total indirect bank and other borrowings was 90.11%, representing a slight decrease from the end of last year as the Group proactively chose to utilise more direct financing to expand the Group's business.

3.5. Shareholders' equity

As at 30 June 2013, the total equity of the Group was US$2,147,120,000, representing an increase of US$101,866,000 or 4.98% from the end of last year.

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

	30 June 2013		31 December 2012		
	US$'000 (Unaudited)	% of total	US$'000 (Audited)	% of total	Change %
Issued share capital	4,227	0.20%	4,227	0.20%	0.00%
Reserve	2,141,206	99.72%	2,039,283	99.71%	5.00%
Non-controlling interests	1,687	0.08%	1,744	0.09%	-3.27%
Total Equity	2,147,120	100.00%	2,045,254	100.00%	4.98%

Management Discussion and Analysis

4. Analysis on Cash Flows Statement

	For the six months ended 30 June		
	2013	2012	
	US$'000	US$'000	Change %
	(Unaudited)	(Unaudited)	
Net cash flow from operating activities	**(1,319,047)**	(1,071,387)	23.12%
Net cash flow from investing activities	**(179,885)**	26,556	-777.38%
Net cash flow from financing activities	**1,558,469**	786,737	98.09%
Effect of exchange rate changes on cash and cash equivalents	**14,821**	476	3013.66%
Net increase/(decrease) in cash and cash equivalents	**74,358**	(257,618)	-128.86%

As at 30 June 2013, the Group had net cash outflow from operating activities in the amount of US$1,319,047,000 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 2013, net cash inflow from financing activities was US$1,558,469,000. Net cash outflow from investing activities was US$179,885,000 as at 30 June 2013, which was primarily attributable to the impact of payment of land. As at 30 June 2013, the Group's cash and cash equivalents amounted to US$313,432,000, which are mainly denominated in RMB, USD 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 2013, 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 2013	31 December 2012
	US$'000	US$'000
	(Unaudited)	(Audited)
Total assets	**11,814,118**	9,636,509
Total liabilities	**9,666,998**	7,591,255
Total equity	**2,147,120**	2,045,254
Gearing ratio	**81.83%**	78.78%

In the first half of 2013, 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 2013, our gearing ratio, which was maintained at a reasonable level, was 81.83%.

Management Discussion and Analysis

6. Capital Expenditure

The Group's capital expenditure was US$179,600,000 in the first half of 2013, which was mainly used as the expenditures for additions of land property, plant and equipment.

On 21 March 2013, the Group, through Far Eastern, entered into the land use rights transfer contract with the Shanghai Land Bureau to acquire the land use rights of a piece of land in Shanghai, the PRC at the consideration of RMB949 million. The land acquisition is suitable for the construction of our new headquarters office building to satisfy our daily office use in the future. With the new headquarters office building, the pressure of the Group for leasing offices will be eased and the adverse impact on the Group's operation and development caused by diversified workplaces will be lessened. Also, its expenses on property leasing will be reduced.

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.

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 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
Change in basis points		
+ 100 basis points	**39,832**	31,097
– 100 basis points	**(39,832)**	(31,097)

Management Discussion and Analysis

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 lock in the exchange rate 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 currency rate against the RMB, with all other variables held constant, on profit before tax. This effect, however, is based on the assumption that the Group's foreign exchange exposures as of the end of each reporting period are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

		Increase/(decrease) in profit before tax of the Group	
		30 June 2013	31 December 2012
Currency	**Change in currency rate**	**US$'000**	US$'000
		(Unaudited)	(Audited)
US dollar	-1%	309	765

Since the net position is comparatively small, the Group has adopted financial instruments to hedge against currency risk to a small extent. As of 30 June 2013, the Group's net position with financial instruments as hedges accounted for 4.4% of the total net position

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 Company.

Management Discussion and Analysis

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	As of 30 June 2013 (Unaudited)					
Total financial assets	333,905	1,306,277	3,767,117	7,377,314	152,677	12,937,290
Total financial liabilities	366,923	1,478,264	3,039,498	5,213,698	49,904	10,148,287
Net liquidity gap	(33,018)	(171,987)	727,619	2,163,616	102,773	2,789,003
	As of 31 December 2012 (Audited)					
Total financial assets	248,979	1,103,014	3,229,221	6,242,418	113,634	10,937,266
Total financial liabilities	8,678	1,096,923	2,718,567	4,138,308	35,178	7,996,654
Net liquidity gap	240,301	6,091	510,654	2,104,110	78,456	2,940,612

8. Charge on Group Assets

The Group had lease receivables in the amount of US$3,551,470,000 and cash in the amount of US$17,910,000 pledged to the bank as of 30 June 2013 in order to secure or pay the bank borrowings.

9. Material Investments, Acquisitions or Disposals

As of 30 June 2013, the Group had no material investment and there was no material acquisition and disposal of subsidiaries and associated companies.

10. Human Resources

As of 30 June 2013, the Group had 2,047 full-time employees, an increase of 230 full-time employees compared to 1,817 by the end of 2012.

During the first half of 2013 and the first half of 2012, the Group incurred employee benefit expenses of US$101,870,000 and US$66,590,000, respectively, representing approximately 17.35% and 12.32% 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 2013, approximately 72.30% of the Group's employees had bachelor's degrees and above, and approximately 42.30% 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.

Management Discussion and Analysis

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 2013, 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 2013, 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 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
Legal proceedings		
Claimed amounts	–	–

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 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	**1,518**	5,838
Irrevocable credit Commitments	**921,187**	530,797

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 2012 to 30 June 2013 was primarily due to the expansion of the Group's business during the first half of 2013.

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

Management Discussion and Analysis

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 2013 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 2013 and issued the relevant review report, details of which are set out on pages 51 to 89 of this interim report.

13. Prospects

Looking forward into the second half of 2013, the global economy will maintain a sluggish recovery while its growth will remain divided. The International Monetary Fund (IMF) predicts that the global economic growth rate for 2013 will be at 3.1%. The United States will experience 1.7% of economic growth, Japan will grow by 2.0% and the Eurozone will decline by 0.6%. The emerging economies will grow by 5.0%.

For the domestic macroeconomic environment, in the second half of 2013, China's economy will continue to expand and its growth rate will stabilise. For macroeconomic adjustments, the Chinese government will adopt the guiding principle of "seeking growth and accomplishing achievements while maintaining stability". It will continue to implement a proactive fiscal policy and a prudent monetary policy. It will step up efforts to support the real economy with finance in order to maintain the overall stable development momentum of China's economy.

In response to the economic development and the development of the financial sector in China, the Group will stick to its innovative finance model which organically and effectively blends the finance and the industries. As an operating strategy, the Group will "focus on the select industries, serve quality customers, strengthen customer stickiness and strictly keep assets safe". The Group will continuously enhance the operating and management capability of the Company while continuously strengthening the establishment of a finance system of multi channels, multi currencies and multi products at home and overseas. The Group will also continue to optimise its financing structure and reduce its finance costs, thereby ensuring the healthy, stable and sustainable development of the Group's business.

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 2013, 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 Director	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	346,000(L)	0.01%
HAN Xiaojing	The Company	Beneficial owner	30,000(L)	0.00%

Notes:

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

Save as disclosed above, as at 30 June 2013, 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 had taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the 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

As at 30 June 2013, the following 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%

Disclosure of Interest

Name of shareholder	Capacity/nature of interest	Number of ordinary shares [1]	Approximate percentage of interest
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%
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	196,211,000(L)	5.96%
Tetrad Ventures Pte Ltd[4]	Interest in a controlled entity	196,211,000(L)	5.96%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.[4]	Interest in a controlled entity	196,211,000(L)	5.96%
GIC Special Investments Pte. Ltd.[4]	Interest in a controlled entity	196,211,000(L)	5.96%
Government of Singapore Investment Corporation Pte Ltd[4]	Interest in a controlled entity Investment manager	201,662,000(L) 61,687,000(L)	6.13% 1.87%
Prime Capital Management (Cayman) Limited	Investment manager	200,939,000(L)	6.10%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian Custodian	321,092,477(L) 318,540,734(P)	9.75% 9.68%
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 "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 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.À.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.À.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 shareholder of KKR Asia Limited), KKR Fund Holdings GP Limited (as the general partner of KKR Fund Holdings L.P.), KKR Group Holdings L.P. (as the general partner of KKR Fund Holdings 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 the designated shareholders of KKR Management LLC) is deemed to be interested in the Shares of the Company. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares of the Company.

(4) Techlink Investment Pte Ltd ("Techlink") is wholly-owned by Tetrad Ventures Pte Ltd which, in turn, is wholly-owned by Government of Singapore Investment Corporation (Ventures) Pte. Ltd. GIC Special Investments Pte. Ltd. manages the investments of Techlink, and is wholly-owned by Government of Singapore Investment Corporation Pte Ltd. Each of Tetrad Ventures Pte Ltd, Government of Singapore Investment Corporation (Ventures) Pte. Ltd., GIC Special Investments Pte. Ltd. and Government of Singapore Investment Corporation Pte Ltd is deemed to be interested in the Shares of the Company held by Techlink under the SFO. In addition, Government of Singapore Investment Corporation Pte Ltd holds 61,687,000 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 Listing Rules.

The Company has complied with the code provisions of the CG Code throughout the period from 1 January 2013 to 30 June 2013, except for Code Provisions E.1.2 and A.6.7 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 14 June 2013 (the "2013 AGM"), Mr Liu De Shu (Chairman of the Board), Mr Liu Haifeng David (Chairman of the Strategy and Investment Committee) and Mr Liu Jialin (Chairman of the Remuneration and Nomination Committee) were unable to attend due to other important business engagements. In order to ensure smooth holding of the 2013 AGM, Mr Wang Mingzhe, an executive director and Chief Financial Officer of the Company chaired the 2013 AGM.

Furthermore, Mr Wang Mingzhe together with Mr Kong Fanxing (as an executive director, vice chairman, chief executive officer and a member of the Strategy and Investment Committee) together with Mr Yip Wai Ming (an independent non-executive director and Chairman of the Audit Committee) were available at the 2013 AGM to answer questions where necessary.

Code Provision A.6.7 of the CG Code requires independent non-executive directors and other non-executive directors, to attend general meetings and develop a balanced understanding of the views of shareholders.

At the 2013 AGM, a few independent non-executive directors and non-executive directors were unable to attend the 2013 AGM due to their other important engagements at the relevant time.

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 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 requirements set out in the Code of Conduct throughout the six months ended 30 June 2013.

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 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

The Board of Directors has been, at any time, 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.

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the condensed consolidated financial statements for the six months ended 30 June 2013.

Other Information

Implementation of Distribution of 2012 Final Dividends

According to the method of distribution of dividends, which was considered and passed at the Annual General Meeting held on 14 June 2013, 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 26 June 2013, 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 2013.

Share Option Scheme

The Group does not have any share option scheme.

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 2013.

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 financial information set out on pages 52 to 89, which comprises the condensed consolidated statement of financial position of Far East Horizon Limited and its subsidiaries (the "Group") as at 30 June 2013, and the related condensed consolidated statements of income, 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 this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 financial information 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
21 August 2013

Interim Condensed Consolidated Income Statements

For the six months ended 30 June 2013

	Notes	For the six months ended 30 June 2013 (Unaudited) US$'000	2012 (Unaudited) US$'000
CONTINUING OPERATIONS			
REVENUE	4	587,102	540,358
Cost of sales		(201,300)	(254,132)
Gross profit		385,802	286,226
Other income and gains	4	21,417	4,874
Selling and distribution costs		(82,298)	(53,758)
Administrative expenses		(97,039)	(68,039)
Other expenses		(7,523)	(2,733)
Finance cost		(154)	–
PROFIT BEFORE TAX	5	220,205	166,570
Income tax expense	6	(54,352)	(44,082)
PROFIT FOR THE PERIOD		165,853	122,488
Attributable to:			
Owners of the parent		165,940	122,786
Non-controlling interests		(87)	(298)
		165,853	122,488
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		US cents	US cents
Basic and diluted			
– For profit for the period	8	5.04	4.01

Details of the dividends payable and proposed for the period are disclosed in Note 7 to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
PROFIT FOR THE PERIOD	**165,853**	122,488
Exchange differences on translation of financial statements of entities in Mainland China	**33,701**	(5,375)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**33,701**	(5,375)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**199,554**	117,113
Attributable to:		
Owners of the parent	**199,611**	117,413
Non-controlling interests	**(57)**	(300)
	199,554	117,113

Interim Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	75,010	56,554
Prepaid land lease payments	*10*	156,857	–
Other assets		6,008	5,817
Investment in an associate		11,774	–
Deferred tax assets	*17*	61,270	42,045
Loans and accounts receivable	*11*	6,814,389	5,614,201
Prepayments, deposits and other receivables		3,453	8,995
Derivative financial instruments	*12*	159	159
Total non-current assets		7,128,920	5,727,771
CURRENT ASSETS			
Inventories		7,605	8,700
Construction contracts	*13*	9,412	12,804
Loans and accounts receivable	*11*	4,218,146	3,428,064
Prepayments, deposits and other receivables		75,363	112,507
Restricted deposits	*14*	61,240	107,589
Cash and cash equivalents	*14*	313,432	239,074
Total current assets		4,685,198	3,908,738
CURRENT LIABILITIES			
Trade and bills payables	*15*	398,016	345,900
Other payables and accruals		383,978	294,718
Interest-bearing bank and other borrowings	*16*	3,886,708	3,010,726
Taxes payable		47,337	40,015
Derivative financial instruments	*12*	883	–
Total current liabilities		4,716,922	3,691,359
NET CURRENT (LIABILITIES)/ASSETS		(31,724)	217,379

Interim Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		7,097,196	5,945,150
NON-CURRENT LIABILITIES			
Trade and bills payables	*15*	–	2,663
Interest-bearing bank and other borrowings	*16*	3,683,700	2,836,376
Derivative financial instruments	*12*	–	1,149
Deferred tax liabilities	*17*	11,417	14,652
Other payables and accruals		1,242,242	1,033,011
Deferred revenue		12,717	12,045
Total non-current liabilities		4,950,076	3,899,896
Net assets		2,147,120	2,045,254
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*18*	4,227	4,227
Reserves	*19*	2,141,206	2,039,283
		2,145,433	2,043,510
Non-controlling interests		1,687	1,744
Total equity		2,147,120	2,045,254

Kong Fanxing
Director

Wang Mingzhe
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the parent									
	Issued capital US$'000 *(Note 18)*	Share premium account US$'000 *(Note 18)*	Capital reserve US$'000 *(Note 19)*	Special reserve US$'000 *(Note 19)*	Reserve fund US$'000 *(Note 19)*	Exchange fluctuation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2013 (Audited)	4,227	1,092,027	340,062	–	16,350	88,031	502,813	2,043,510	1,744	2,045,254
Profit for the period	–	–	–	–	–	–	165,940	165,940	(87)	165,853
Other comprehensive income for the period	–	–	–	–	–	33,671	–	33,671	30	33,701
Total comprehensive income for the period	–	–	–	–	–	33,671	165,940	199,611	(57)	199,554
Special reserve – safety fund appropriation	–	–	–	81	–	–	(81)	–	–	–
Dividends *(Note 7)*	–	–	–	–	–	–	(97,688)	(97,688)	–	(97,688)
At 30 June 2013 (Unaudited)	4,227	1,092,027*	340,062*	81*	16,350*	121,702*	570,984*	2,145,433	1,687	2,147,120

* These reserve accounts comprise the consolidated reserves of US$2,141,206,000 (31 December 2012: US$2,039,283,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the parent								
	Issued capital US$'000	Share premium account US$'000	Capital reserve US$'000	Reserve funds US$'000	Exchange fluctuation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2012 (Audited)	3,647	729,260	340,296	16,350	82,125	303,944	1,475,622	638	1,476,260
Profit for the period	–	–	–	–	–	122,786	122,786	(298)	122,488
Other comprehensive income for the period	–	–	–	–	(5,373)	–	(5,373)	(2)	(5,375)
Total comprehensive income for the period	–	–	–	–	(5,373)	122,786	117,413	(300)	117,113
Issue of shares	580	370,329	–	–	–	–	370,909	–	370,909
Share issue expenses	–	(7,560)	–	–	–	–	(7,560)	–	(7,560)
Dividends *(Note 7)*	–	–	–	–	–	(42,436)	(42,436)	–	(42,436)
At 30 June 2012 (Unaudited)	4,227	1,092,029	340,296	16,350	76,752	384,294	1,913,948	338	1,914,286

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

		For the six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	**US$'000**	US$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**(1,319,047)**	(1,071,387)
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**(179,885)**	26,556
NET CASH FLOWS FROM FINANCING ACTIVITIES		**1,558,469**	786,737
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**59,537**	(258,094)
Cash and cash equivalents at beginning of the period		**239,074**	661,365
Effect of exchange rate changes on cash and cash equivalents		**14,821**	476
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**313,432**	403,747
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**360,129**	455,347
Less: Pledged deposits		**(46,697)**	(51,600)
Cash and cash equivalents as stated in the statement of financial position	*14*	**313,432**	403,747
Cash and cash equivalents as stated in the statement of cash flows		**313,432**	403,747

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 2013 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 2012.

The interim condensed consolidated financial statements are presented in United States dollars ("US dollars" or "US$") and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

2.2 Significant accounting policies

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 2012, 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:

Notes to Interim Condensed Consolidated Financial Statements

2. Basis of Preparation and Accounting Policies (continued)

2.2 Significant accounting policies (continued)

HKAS 1 Amendments	*Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKFRS 1 Amendments	*Government Loans*
HKFRS 7 Amendments	*Disclosure – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interest in Other Entities*
HKFRS 13	*Fair Value Measurement*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	*Transition Guidance*
Annual Improvements 2009 – 2011 cycle (issued in June 2012)	

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.

3. 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 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, paper, ink, cardboard and paper goods primarily for the healthcare and printing industries, as well as the provision of trade agency services primarily within the machinery industry (b) the ship brokerage services (c) medical engineering; and (d) operating leasing.

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.

Notes to Interim Condensed Consolidated Financial Statements

3. Operating Segment Information (continued)

For the six months ended 30 June 2013 (Unaudited)	Leasing and advisory US$'000	Trading and others US$'000	Adjustments and eliminations US$'000	Total US$'000
Revenue	552,809	36,011	(1,718)	587,102
Sales to external customers	551,091	36,011	–	587,102
Intersegment sales	1,718	–	(1,718)	–
Cost of sales	(172,610)	(28,826)	136	(201,300)
Other income and gains	20,720	833	(136)	21,417
Selling and distribution costs and administrative expenses	(174,914)	(4,598)	175	(179,337)
Other expenses	(7,477)	(46)	–	(7,523)
Finance cost	–	(1,697)	1,543	(154)
Profit before tax	218,528	1,677	–	220,205
Income tax expense	(54,222)	(130)	–	(54,352)
Profit after tax	164,306	1,547	–	165,853

For the six months ended 30 June 2012 (Unaudited)	Leasing and advisory US$'000	Trading and others US$'000	Adjustments and eliminations US$'000	Total US$'000
Revenue	478,128	62,511	(281)	540,358
Sales to external customers	477,847	62,511	–	540,358
Intersegment sales	281	–	(281)	–
Cost of sales	(196,877)	(57,357)	102	(254,132)
Other income and gains	4,715	215	(56)	4,874
Selling and distribution costs and administrative expenses	(118,102)	(3,725)	30	(121,797)
Other expenses	(2,702)	(31)	–	(2,733)
Finance cost	–	(251)	251	–
Profit before tax	165,162	1,362	46	166,570
Income tax expense	(44,048)	(34)	–	(44,082)
Profit after tax	121,114	1,328	46	122,488

Notes to Interim Condensed Consolidated Financial Statements

3. Operating Segment Information (continued)

At 30 June 2013 (Unaudited)	Leasing and advisory US$'000	Trading and others US$'000	Adjustments and eliminations US$'000	Total US$'000
Segment assets	**11,809,514**	**158,747**	**(154,143)**	**11,814,118**
Segment liabilities	**(9,671,623)**	**(102,488)**	**107,113**	**(9,666,998)**
At 31 December 2012 (Audited)				
Segment assets	9,613,297	128,428	(105,216)	9,636,509
Segment liabilities	(7,582,940)	(93,396)	85,081	(7,591,255)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2013 (Unaudited) US$'000	2012 (Unaudited) US$'000
Mainland China	**579,758**	537,045
Hong Kong	**2,379**	2,390
Other countries or regions	**4,965**	923
	587,102	540,358

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

(b) Non-current assets

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Mainland China	**249,642**	62,362
Hong Kong	**7**	9
	249,649	62,371

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

4. Revenue, Other Income and Gains

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

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

		For the six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	**US$'000**	US$'000
Revenue			
Finance lease income		**384,639**	360,985
Service fee income		**173,753**	130,544
Factoring business income		**2,743**	–
Sale of goods		**14,533**	50,565
Brokerage income		**11,564**	9,174
Construction contract revenue		**3,384**	958
Operating lease income		**7,009**	1,938
Business tax and surcharges		**(10,523)**	(13,806)
		587,102	540,358
Other income and gains			
Bank interest income		**2,780**	4,282
Foreign exchange gain		**10,250**	184
Gain on structured financial products		**328**	–
Government grants	*4a*	**7,178**	–
Derivative financial instrument transactions not qualifying as hedges:			
Unrealized fair value gains, net		**266**	–
Realized fair value gains, net		**411**	–
Others		**204**	408
		21,417	4,874

Notes to Interim Condensed Consolidated Financial Statements

4. Revenue, Other Income and Gains (continued)

4a. Government Grants

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Tax reimbursement	**6,465**	–
Government special subsidy	**713**	–
	7,178	–

According to the "Notice of the Ministry of Finance and the State Administration of Taxation on Carrying out the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries in Shanghai" (Caishui [2011] No. 111), International Far Eastern Leasing Co., Ltd. ("Far Eastern Leasing") started to pay Value Added Tax instead of Business Tax for the income of finance lease and consultation service from 1 January 2012. In accordance with the transitional policies in the "Pilot Program for the Transformation from Business Tax to Value Added Tax" and internal materials from Shanghai tax bureau, finance lease company approved by the People's Bank of China, China Banking Regulatory Commission or the Ministry of Commerce of the PRC, is awarded a tax refund for VAT paid in excess of 3% of the taxable income of finance lease, which is calculated by the total price and associated charges deducted by the actual costs of leased goods. The aforesaid "actual costs for leased goods" refers to the purchasing price of the leased goods, customs duty, value-added tax, consumption tax, freight and expenses, installation fee, insurance premium borne by the lessor, etc. However, according to Caishui [2012] No.86 "Supplementary Circular to Caishui [2011] No.111" effective from 1 December 2012, the minimum VAT refund should be calculated at 3% of total price and associated charges. In other words, the "actual costs of leased goods" is not deductible for calculating the minimum VAT refund thereafter. Under the "levy first and refund later" policy, Far Eastern Leasing obtained Value Added Tax refund of US$6,465,000 in 2013.

The government special subsidies during 2013 included special subsidy amounting to US$562,000 on staff vocational training awarded to Far Eastern Leasing and Shanghai Domin Medical Engineering Co., Ltd. ("Domin Medical Engineering") by Shanghai Pudong New Area Government, and special subsidy amounting to US$151,000 granted to Shanghai Horizon Construction Engineering Equipment Co., Ltd. ("Shanghai Horizon Construction") by the government of Shanghai Jiading District and Far East Horizon Fortune Shipbrokers (Shanghai) Co., Ltd. by the government of Shanghai Hongkou District calculated based on a certain percentage of tax payment during a certain period.

Notes to Interim Condensed Consolidated Financial Statements

5. Profit Before Tax

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

	For the six months	ended 30 June
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Cost of borrowings included in cost of sales	172,474	196,775
Cost of inventories sold	13,538	49,377
Cost of construction contracts	2,599	676
Cost of transportation	8,634	6,810
Cost of operating lease	4,055	494
Depreciation	1,341	1,345
Amortisation of intangible assets and other long term assets	3,088	1,081
Rental expenses	6,244	4,673
Auditors' remuneration	104	325
Employee benefit expense (Including directors' remuneration)		
– Wages and salaries	88,400	54,353
– Pension scheme contributions	3,957	2,947
– Other employee benefits	9,508	9,285
Impairment of loans and accounts receivable	41,320	28,210
Entertainment fee	3,186	2,345
Business travelling expenses	8,655	7,629
Consultancy fees	4,213	1,814
Office expenses	2,669	1,732
Advertising and promotion expenses	122	77
Transportation expenses	365	243
Communication expenses	960	778
Other miscellaneous expenses	5,206	4,960
Loss on disposal of property, plant and equipment	–	10
Commission expense	6,123	2,152
Derivative financial instrument transactions not qualifying as hedges:		
Unrealized fair value losses, net	–	162
Realized fair value losses, net	1,399	409
Finance costs	154	–

Notes to Interim Condensed Consolidated Financial Statements

6. Income Tax

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Current – Hong Kong		
Charge for the period	**1,205**	1,533
Current – Mainland China		
Charge for the period	**74,787**	48,891
Overprovision in respect of prior years	**(16)**	–
Deferred tax *(Note 17)*	**(21,624)**	(6,342)
Total tax charge for the period	**54,352**	44,082

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2012: 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 25 September 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

6. 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	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Profit before tax	**220,205**	166,570
Tax at the statutory income tax rates	**53,827**	42,178
Expenses not deductible for tax	**1,596**	1,512
Income not subject to tax	**(2,925)**	(2,901)
Adjustment on current income tax in respect of prior years	**(16)**	–
Tax losses utilised for which deferred tax had not been previously recognised	**(402)**	–
Unrecognised tax losses	**347**	1,762
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**1,925**	1,531
Income tax expense reported in the interim condensed consolidated income statement	**54,352**	44,082

7. Dividends

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Dividends	**97,688**	42,436

Pursuant to a resolution passed at the general meeting on 14 June 2013, the Company declared a final dividend of HK$0.23 per share in respect of year ended 31 December 2012 to its shareholders whose names appear on the register of members of the Company on 26 June 2013. Based on the total number of outstanding ordinary shares of 3,292,400,000 as at 26 June 2013, cash dividends declared of approximately HK$757,252,000 (equivalent to US$97,688,000) 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 2013 (six months ended 30 June 2012: Nil).

Notes to Interim Condensed Consolidated Financial Statements

8. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the consolidated net profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue for the period. The weighted average number of ordinary shares includes the weighted average of 450,000,000 shares issued on 2 April 2012, in addition to the outstanding 2,842,400,000 ordinary shares as at 31 December 2011.

The calculation of basic earnings per share for the six months ended 30 June 2013 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 in issue for the period.

The calculation of basic earnings per share is based on:

Earnings

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**165,940**	122,786

Shares

	Number of shares For the six months ended 30 June	
	2013	2012
	(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**	3,062,454,945

There were no potential dilutive ordinary shares during the period.

9. Property, Plant and Equipment

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment at a total cost of US$22,201,000 (six months ended 30 June 2012: US$14,872,000) and disposed of or wrote off items of property, plant and equipment with a total net carrying amount of US$114,000 (six months ended 30 June 2012: US$7,000).

Notes to Interim Condensed Consolidated Financial Statements

10. Prepaid Land Lease Payments

During the six months ended 30 June 2013, the Group acquired the use right of two parcels of land at a total cost of US$157,394,000 (year ended 31 December 2012: Nil).

As at 30 June 2013, the Group has not obtained the land use right certificates for the above two parcels of land with a total gross area of approximately 56 thousand square meter and a net book value of US$156,857,000.

The Group was in the process of applying for the land use right certificates for the above parcels of land as at 30 June 2013.

11. Loans and Accounts Receivable

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Loans and accounts receivable due within 1 year	**4,218,146**	3,428,064
Loans and accounts receivable due after 1 year	**6,814,389**	5,614,201
	11,032,535	9,042,265

11a. Loans and Accounts Receivable by Nature

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Lease receivables *(Note 11b)*	**12,485,723**	10,330,633
Less: Unearned finance income	**(1,460,985)**	(1,292,376)
Net lease receivables *(Note 11b)*	**11,024,738**	9,038,257
Including: due from related parties (Note 11j)	**11,896**	–
Bank interest receivables	**–**	1,024
Lease interest receivables	**55,326**	39,971
Including: due from related parties (Note 11j)	**25**	–
Notes receivable	**7,080**	2,141
Accounts receivable *(Note 11d)*	**10,062**	16,708
Including: due from related parties (Note 11j)	**–**	1,364
Factoring receivable *(Note 11f)*	**78,807**	34,553
Entrusted loans	**42,576**	51,412
Long-term receivables	**1,207**	1,543
Subtotal of loans and accounts receivable	**11,219,796**	9,185,609
Less: Provision for lease receivables *(Note 11c)*	**(184,793)**	(141,029)
Provision for accounts receivable *(Note 11e)*	**(130)**	(259)
Provision for factoring receivable *(Note 11g)*	**(1,397)**	(872)
Provision for entrusted loans *(Note 11h)*	**(926)**	(1,153)
Provision for long-term receivables *(Note 11i)*	**(15)**	(31)
	11,032,535	9,042,265

Notes to Interim Condensed Consolidated Financial Statements

11. Loans and Accounts Receivable (continued)

11b (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 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Lease receivables		
Within 1 year	**7,236,673**	5,745,815
1 to 2 years	**3,412,850**	3,214,520
2 to 3 years	**1,402,277**	1,091,393
3 years and beyond	**433,923**	278,905
Total	**12,485,723**	10,330,633

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Net lease receivables		
Within 1 year	**6,349,965**	5,001,451
1 to 2 years	**3,028,212**	2,815,162
2 to 3 years	**1,252,420**	969,266
3 years and beyond	**394,141**	252,378
Total	**11,024,738**	9,038,257

11b (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 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Lease receivables		
Due within 1 year	**4,906,575**	4,037,484
Due in 1 to 2 years	**3,709,342**	3,138,458
Due in 2 to 3 years	**2,250,273**	1,861,331
Due after 3 years and beyond	**1,619,533**	1,293,360
Total	**12,485,723**	10,330,633

Notes to Interim Condensed Consolidated Financial Statements

11. Loans and Accounts Receivable (continued)

11b (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 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Net lease receivables		
Due within 1 year	**4,154,875**	3,381,281
Due in 1 to 2 years	**3,290,845**	2,763,579
Due in 2 to 3 years	**2,060,282**	1,691,395
Due after 3 years and beyond	**1,518,736**	1,202,002
Total	**11,024,738**	9,038,257

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.

11c. Change in Provision for Lease Receivables

	Individually assessed		Collectively assessed		Total	
	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000	**30 June 2013 (Unaudited) US$'000**	31 December 2012 (Audited) US$'000	**30 June 2013 (Unaudited) US$'000**	31 December 2012 (Audited) US$'000
At beginning of period/year	**30,211**	12,037	**110,818**	72,520	**141,029**	84,557
Charge for the period/year	**10,222**	18,125	**30,987**	38,087	**41,209**	56,212
Write-off	**(69)**	–	**–**	–	**(69)**	–
Exchange differences	**606**	49	**2,018**	211	**2,624**	260
At end of period/year	**40,970**	30,211	**143,823**	110,818	**184,793**	141,029

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Lease receivables:		
Individually assessed *(Note (i))*	**95,721**	73,389
Collectively assessed	**12,390,002**	10,257,244
Total	**12,485,723**	10,330,633

Notes to Interim Condensed Consolidated Financial Statements

11. Loans and Accounts Receivable (continued)

11c. Change in Provision for Lease Receivables (continued)

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Net lease receivables:		
Individually assessed *(Note (i))*	85,315	66,025
Collectively assessed	10,939,423	8,972,232
Total	11,024,738	9,038,257

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

Note (ii) As at 30 June 2013, the carrying amount of lease receivables and entrusted loans pledged as security for the Group's borrowings amounted to US$3,551,473,000 (31 December 2012: US$3,224,319,000) (see Notes 16 (a) and (c)).

11d. 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 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Within 1 year	9,463	16,319
More than 1 year	599	389
Total	10,062	16,708

11e. Change in Provision for Accounts Receivable

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
At beginning of period/year	259	894
Reversal for the period/year	(132)	(638)
Exchange differences	3	3
At end of period/year	130	259

Notes to Interim Condensed Consolidated Financial Statements

11. Loans and Accounts Receivable (continued)

11f. An aged analysis of factoring receivables as at the end of the reporting period is as follows:

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Within 1 year	78,807	34,553

11g. Change in Provision for Factoring Receivables

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
At beginning of period/year	872	–
Charge for the period/year	505	871
Exchange differences	20	1
At end of period/year	1,397	872

11h. Change in Provision for Entrusted Loans

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
At beginning of period/year	1,153	1,828
Reversal for the period/year	(245)	(679)
Exchange differences	18	4
At end of period/year	926	1,153

Notes to Interim Condensed Consolidated Financial Statements

11. Loans and Accounts Receivable (continued)

11i. Change in Provision for Long-Term Receivable

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
At beginning of period/year	31	18
(Reversal)/charge for the period/year	(17)	13
Exchange differences	1	–
At end of period/year	15	31

11j. Balance with Related Parties

		30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Associate:			
Changchun Engley Tooling Manufacturing Co., Ltd.	(i)	11,921	–
Subsidiary of the ultimate holding company of a shareholder with significant influence:			
Sinochem International (Overseas) Pte. Ltd.	(ii)	–	1,364
		11,921	1,364

(i) Balance of net lease receivables was interest-bearing with a range of annual interest rate of 7.35% to 8.32%; balance of lease interest receivables was unsecured and non-interest-bearing.

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

12. Derivative Financial Instruments

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Cross-currency interest rate swaps	(883)	(1,149)
Call options	159	159

Notes to Interim Condensed Consolidated Financial Statements

13. Construction Contracts

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Gross amount due from contract customers	9,412	12,804
Contract costs incurred plus recognised profits to date	19,147	16,337
Less: Progress billings	9,816	3,549
Exchange differences	81	16
	9,412	12,804

14. Cash and Cash Equivalents and Restricted Deposits

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Cash and bank balances	360,129	324,074
Time deposits	14,543	22,589
	374,672	346,663
Less: Restricted deposits	61,240	107,589
Cash and cash equivalents	313,432	239,074

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$319,509,000 (31 December 2012: US$299,177,000). 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 2013, cash of US$17,905,000 (31 December 2012: US$28,534,000) was pledged for bank and other borrowings (see Note 16(b)).

As at 30 June 2013, cash of US$40,810,000 (31 December 2012: US$34,629,000) was deposited with Sinochem Finance Co., Ltd.

Notes to Interim Condensed Consolidated Financial Statements

15. Trade and Bills Payables

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Bills payable	275,512	234,408
Trade payables	122,504	114,155
	398,016	348,563

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

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Within 1 year	372,833	322,861
1 to 2 year	19,676	13,238
2 to 3 year	4,187	7,488
3 years and beyond	1,320	4,976
	398,016	348,563

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

16. Interest-Bearing Bank and Other Borrowings

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Effective annual interest rate (%)	Maturity	US$'000	Effective annual interest rate (%)	Maturity	US$'000
Current						
Bank loans – secured	2.24~5.60	2013~2014	330,885	2.51~6.15	2013	123,413
Current portion of long term bank loans – secured	2.17~6.77	2013~2014	1,048,493	2.16~7.04	2013	826,320
Bank loans – unsecured	1.77~7.50	2013~2014	1,008,120	1.50~7.40	2013	814,607
Current portion of long term bank loans – unsecured	1.58~6.46	2013~2014	775,021	1.83~6.98	2013	741,229
Current portion of long term loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	5.60	2013	48,554	6.15	2013	99,208
Other loans – secured	5.70~7.75	2013~2014	372,072	6.00~7.75	2013	335,012
Other loans – unsecured	5.04~8.00	2013~2014	207,163	8.65	2013	50,911
Bonds – secured	–	–	–	6.80~7.00	2013	20,026
Bonds – unsecured	4.08~7.54	2014	96,400	–	–	–
			3,886,708			3,010,726
Non-current						
Bank loans – secured	2.17~6.72	2014~2020	1,133,150	2.16~7.04	2014~2017	863,942
Bank loans – unsecured	1.58~ 6.77	2014~2016	1,860,904	1.83~6.98	2014~2019	1,286,434
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	–	–	–	6.15	2014	74,321
Other loans – secured	8.00	2014~2015	37,170	6.15~7.75	2014~2015	65,119
Other loans – unsecured	–	–	–	8.65	2014	19,092
Bonds – unsecured	4.08~7.54	2014~2017	652,476	4.12~7.54	2014~2016	527,468
			3,683,700			2,836,376
			7,570,408			5,847,102

Notes to Interim Condensed Consolidated Financial Statements

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

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**3,162,519**	2,505,569
In the second year	**1,520,393**	1,360,310
In the third to fifth years, inclusive	**1,447,521**	783,066
Beyond five years	**26,140**	7,000
	6,156,573	4,655,945
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence over the Group:		
Within one year	**48,554**	99,208
In the second year	**–**	74,321
	48,554	173,529
Other borrowings repayable:		
Within one year	**675,635**	405,949
In the second year	**162,145**	399,468
In the third to fifth years, inclusive	**527,501**	212,211
	1,365,281	1,017,628
	7,570,408	5,847,102

(a) As at 30 June 2013, the Group's bank and other borrowings pledged by lease receivables and entrusted loans amounted to US$2,772,468,000 (31 December 2012: US$2,067,773,000). As at 30 June 2013, the Group's lease receivables and entrusted loans pledged as security for the Group's bank and other borrowings amounted to US$3,551,473,000 (31 December 2012: US$3,120,011,000).

(b) As at 30 June 2013, the Group's bank and other borrowings pledged by cash amounted to US$215,871,000 (31 December 2012: US$150,178,000).

(c) In May 2012, the Company entered into a facility agreement ("the Agreement") with certain banks pursuant to which the Company assigned, among other things, certain rights in the inter-company loan to those banks as security for the payment and discharge. As at 30 June 2013, no bank borrowing was in relation to the Agreement (31 December 2012: US$41,584,000), and the Group had no account lease receivables charged as security for the borrowing in relation to the Agreement (31 December 2012: US$104,308,000).

(d) As at 30 June 2013, no shares in indirectly held subsidiaries of the Group were pledged for the bank borrowings (31 December 2012: US$28,678,000). The indirectly held subsidiaries are Ever Trend Shipping Limited, Treasure Shipping Limited, and Gold Power Transportation Limited.

(e) As at 30 June 2013, no property, plant and equipment of the Group were provided as collateral for borrowings nor had the Group provided any guarantees for other entities (31 December 2012: Nil).

Notes to Interim Condensed Consolidated Financial Statements

17. 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 US$'000 (Unaudited)	Salary and welfare payable US$'000 (Unaudited)	Losses available for off setting against future taxable profits US$'000 (Unaudited)	Safety production cost US$'000 (Unaudited)	Government special subsidy US$'000 (Unaudited)	Total US$'000 (Unaudited)
Gross deferred tax assets at 1 January 2013	32,463	12,792	239	12	2,724	48,230
Credited to the income statement during the period	9,845	8,340	(12)	9	190	18,372
Exchange differences	618	293	1	–	49	961
Gross deferred tax assets at 30 June 2013	42,926	21,425	228	21	2,963	67,563

	Allowances for impairment losses US$'000 (Audited)	Salary and welfare payable US$'000 (Audited)	Losses available for off setting against future taxable profits US$'000 (Audited)	Safety production cost US$'000 (Audited)	Government special subsidy US$'000 (Audited)	Total US$'000 (Audited)
Gross deferred tax assets at 1 January 2012	18,802	5,241	285	–	–	24,328
Credited to the income statement during the year	13,597	7,529	(43)	12	2,721	23,816
Exchange differences	64	22	(3)	–	3	86
Gross deferred tax assets at 31 December 2012	32,463	12,792	239	12	2,724	48,230

Deferred tax liabilities

	Lease deposits US$'000 (Unaudited)	Withholding tax US$'000 (Unaudited)	Total US$'000 (Unaudited)
Gross deferred tax liabilities at 1 January 2013	6,185	14,652	20,837
Credited to the income statement during the period	–	(3,252)	(3,252)
Exchange differences	108	17	125
Gross deferred tax liabilities at 30 June 2013	6,293	11,417	17,710

	Lease deposits US$'000 (Audited)	Withholding tax US$'000 (Audited)	Total US$'000 (Audited)
Gross deferred tax liabilities at 1 January 2012	4,225	12,267	16,492
Charged to the income statement during the year	1,948	2,381	4,329
Exchange differences	12	4	16
Gross deferred tax liabilities at 31 December 2012	6,185	14,652	20,837

Notes to Interim Condensed Consolidated Financial Statements

17. 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 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Net deferred tax assets recognized in the consolidated statements of financial position	**61,270**	42,045
Net deferred tax liabilities recognized in the consolidated statements of financial position	**11,417**	14,652

As at 30 June 2013, the Group had tax losses arising in Hong Kong of US$1,007,000 (31 December 2012: US$1,051,000) 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 US$410,000 (31 December 2012: US$441,000) 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 form this, as at 30 June 2013, the Group did not recognise deferred tax assets arising in the Mainland China and Hong Kong in respect of unutilized tax losses of US$1,268,000 (31 December 2012: US$745,000) and US$18,430,000 (31 December 2012: US$21,219,000), 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 US$10,671,000 (31 December 2012: US$6,861,000).

18. Issued Capital

	Number of shares	**Amounts** HK$
Authorized ordinary shares:		
At 31 December 2012 (HK$0.01 each) (Audited)	10,000,000,000	100,000,000
At 30 June 2013 (HK$0.01 each) (Unaudited)	**10,000,000,000**	**100,000,000**
Issued and fully paid ordinary shares of HK$1.00 each:		
At 31 December 2012 (HK$0.01 each) (Audited)	3,292,400,000	32,924,000
At 30 June 2013 (HK$0.01 each) (Unaudited)	**3,292,400,000**	**32,924,000**

Notes to Interim Condensed Consolidated Financial Statements

18. Issued Capital

During the period, the movements in share capital and share premium account were as follows:

				Equivalent		
	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Issued capital US$'000	Share premium account US$'000	Total US$'000
At 1 January 2013 (Audited)	3,292,400,000	32,924	8,768,652	4,227	1,092,027	1,096,254
As at 30 June 2013 (Unaudited)	3,292,400,000	32,924	8,768,652	4,227	1,092,027	1,096,254

19. 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 56 to 57 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.

Appropriation to this special reserve is in accordance with the recently introduced PRC regulation regarding safety production expenditure, which is applicable to Shanghai Horizon Construction, one of the Group's subsidiaries.

20. Pledge of Assets

Details of the Group's bank loans which are secured by the assets of the Group, are included in Notes 11, 14 and 16 to the financial statements.

Notes to Interim Condensed Consolidated Financial Statements

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

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Within one year	**2,799**	2,015
In the second to fifth years, inclusive	**–**	17
	2,799	2,032

(b) As lessee

The Group leases certain properties as its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Within one year	**11,098**	10,586
In the second to fifth years, inclusive	**6,271**	11,145
	17,369	21,731

Notes to Interim Condensed Consolidated Financial Statements

22. Commitments

(a) In addition to the operating lease commitments detailed in Note 21 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	**1,518**	5,838

(b) **Credit commitments**

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

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Irrevocable credit commitment	**921,187**	530,797

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.

23. 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 Jin Mao Group Co., Ltd.
Beijing Chemsunny Property Co., Ltd.
Shanghai Jin Mao Imtech Facility Services Co., Ltd.
Sinochem Jinmao Property Management (Beijing) Co., Ltd
Sinochem Corporation
Sinochem International (Overseas) Pte. Ltd.

Associate
Changchun Engley Tooling Manufacturing Co., Ltd.

Notes to Interim Condensed Consolidated Financial Statements

23. Related Party Transactions (continued)

a. In addition to the balances in Notes 11, 14 and 16 to the financial statements, at the end of the reporting period, the Group had the following balances with its related parties:

(i) Prepayments, deposits and other receivables

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Due from related parties		
China Jin Mao Group Co., Ltd.	2,249	2,211
Beijing Chemsunny Property Co., Ltd.	60	60
Sinochem Hong Kong	39	39
	2,348	2,310

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

(ii) Other payables and accruals

	30 June 2013 (Unaudited) US$'000	31 December 2012 (Audited) US$'000
Due to related parties		
Sinochem Finance Co., Ltd.	260	316
Sinochem Corporation	112	245
Changchun Engley Tooling Manufacturing Co., Ltd.	1,836	–
	2,208	561

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

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	
	2013 (Unaudited) US$'000	2012 (Unaudited) US$'000
Sinochem Finance Co., Ltd.	733	442

The interest incomes were charged at rates ranging from 0.39% to 1.64% per annum.

Notes to Interim Condensed Consolidated Financial Statements

23. Related Party Transactions (continued)

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

(ii) Service fee income

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Sinochem International (Overseas) Pte. Ltd.	**3,871**	–

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

(iii) Interest expense on borrowings

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Sinochem Finance Co., Ltd.	**5,035**	10,709

The interest expenses were charged at rates ranging from 5.60% to 6.15% per annum.

(iv) Rental expenses

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
China Jin Mao Group Co., Ltd	**3,493**	2,898
Beijing Chemsunny Property Co., Ltd.	**108**	160
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	**9**	20
Shanghai Jin Mao Imtech Facility Services Co., Ltd.	**163**	116
Sinochem Hong Kong	**82**	73

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

Notes to Interim Condensed Consolidated Financial Statements

23. Related Party Transactions (continued)

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

(v) Commission fee

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Sinochem Finance Co., Ltd.	**114**	193

(vi) Information and Technology Services

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Sinochem Corporation	**147**	135

The IT service expenses were charged based on prices mutually agreed between the parties.

(vii) 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	31 December
	2013	2012
	(Unaudited)	(Audited)
	US$'000	US$'000
China Jin Mao Group Co., Ltd.	**10,019**	13,132
Beijing Chemsunny Property Co., Ltd.	**363**	476
Sinochem Hong Kong	**235**	26

Notes to Interim Condensed Consolidated Financial Statements

23. Related Party Transactions (continued)

c. Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Short-term employee benefits	**638**	617

24. Fair Value Hierarchy

The fair values is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement

The carrying amounts and fair values of the financial instruments of the Group are as follows:

	30 June 2013	
	Carrying amounts	Fair values
	(Unaudited)	(Unaudited)
	US$'000	US$'000
Financial assets:		
Cash and cash equivalents	**313,432**	313,432
Restricted deposits	**61,240**	61,240
Loans and accounts receivables	**11,032,535**	11,032,535
Financial assets included in prepayments, deposits and other receivables	**54,864**	54,864
Derivative financial instruments	**159**	159
	11,462,230	11,462,230
Financial liabilities:		
Trade and bills payables	**398,016**	398,016
Financial liabilities included in other payables and accruals	**1,541,487**	1,541,487
Derivative financial instruments	**883**	883
Interest-bearing bank and other borrowings	**7,570,408**	7,573,755
	9,510,794	9,514,141

Notes to Interim Condensed Consolidated Financial Statements

24. Fair Value Hierarchy(continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value 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 2013

	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Cross-currency interest rate swaps	–	(883)	–	(883)
Call options	–	–	159	159

As at 31 December 2012

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Cross-currency interest rate swaps	–	(1,149)	–	(1,149)
Call options	–	–	159	159

Notes to Interim Condensed Consolidated Financial Statements

24. Fair Value Hierarchy(continued)

Fair value hierarchy (continued)

The movements in fair value measurements in Level 3 during the period were as follows (see Note 12 for further details):

	US$'000
Call options:	
At 31 December 2012	159
Addition	–
At 30 June 2013	159

During the period, there were no transfers at fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

Valuation techniques

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.

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 input of the model, of which the significant unobservable inputs are disclosed in the table below:

	30 June 2013 (Unaudited)
Terminal growth rate	13%
Discount rate	2%
Lack of marketability discount	16%
Minority discount	30%

The fair value of the call option is not significantly sensitive to the changes in the value of the underlying equity interest which are caused by a reasonable change in the terminal growth rate, discount rate, lack of marketability discount or minority discount.

25. After the Reporting Period Events

The Group received a formal notice from the State Administration of Taxation on 9 August 2013, stating that since 1 August 2013, the finance lease sale shall be calculated as the total consideration and other charges receivables. As such, the principle amount involved in a leaseback transaction will also be included into the amount subject to value-added tax. Therefore, the implementation of this policy will increase the Group's tax burden in leaseback business.

26. 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 21 August 2013.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past few financial years, as extracted from the published audited financial information and financial statements is set out below.

Results

	For the six months ended 30 June		For the year ended 31 December		
	2013	2012	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
REVENUE	**587,102**	540,358	1,030,699	729,895	326,909
Cost of sales	**(201,300)**	(254,132)	(462,144)	(342,641)	(117,864)
Gross profit	**385,802**	286,226	568,555	387,254	209,045
Other income and gains	**21,417**	4,874	19,044	11,627	9,930
Selling and distribution costs	**(82,298)**	(53,758)	(111,731)	(69,531)	(37,614)
Administrative expenses	**(97,039)**	(68,039)	(137,233)	(96,647)	(44,589)
Other expenses	**(7,523)**	(2,733)	(8,411)	(3,849)	(3,444)
Finance costs	**(154)**	–	(340)	–	–
PROFIT BEFORE TAX	**220,205**	166,570	329,884	228,854	133,328
Income tax expense	**(54,352)**	(44,082)	(88,771)	(57,251)	(29,910)
Profits for the year	**165,853**	122,488	241,113	171,603	103,418
Attributable to:					
Owners of the parent	**165,940**	122,786	241,305	171,412	103,749
Non-controlling interests	**(87)**	(298)	(192)	191	(331)
	165,853	122,488	241,113	171,603	103,418

Financial Summary

The following table sets forth the results of the Group converted into RMB at the respective average exchanged 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		
	2013	2012	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
REVENUE	3,658,878	3,411,226	6,486,395	4,716,436	2,198,610
Cost of sales	(1,254,521)	(1,604,310)	(2,908,365)	(2,214,078)	(792,688)
Gross profit	2,404,357	1,806,916	3,578,030	2,502,358	1,405,922
Other income and gains	133,473	30,769	119,848	75,131	66,784
Selling and distribution costs	(512,889)	(339,369)	(703,146)	(449,295)	(252,971)
Administrative expenses	(604,757)	(429,523)	(863,635)	(624,514)	(299,881)
Other expenses	(46,884)	(17,253)	(52,932)	(24,871)	(23,162)
Finance costs	(960)	–	(2,140)	–	–
PROFIT BEFORE TAX	1,372,340	1,051,540	2,076,026	1,478,809	896,691
Income tax expense	(338,728)	(278,286)	(558,654)	(369,945)	(201,158)
Profits for the year	1,033,612	773,254	1,517,372	1,108,864	695,533
Attributable to:					
Owners of the parent	1,034,155	775,136	1,518,581	1,107,630	697,759
Non-controlling interests	(543)	(1,882)	(1,208)	1,234	(2,226)
	1,033,612	773,254	1,517,372	1,108,864	695,533

Financial Summary

Assets, Liabilities and Non-controlling Interests

	For the six months ended 30 June		For the year ended 31 December		
	2013	2012	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	**11,814,118**	8,366,333	9,636,509	7,474,702	3,824,164
Total liabilities	**(9,666,998)**	(6,452,047)	(7,591,255)	(5,998,442)	(3,296,832)
Non-controlling interests	**(1,687)**	(338)	(1,744)	(638)	(420)
	2,145,433	1,913,948	2,043,510	1,475,622	526,912

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		
	2013	2012	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	**72,995,891**	52,916,220	60,570,277	47,097,350	25,326,291
Total liabilities	**(59,729,481)**	(40,808,552)	(47,714,833)	(37,795,583)	(21,833,929)
Non-controlling interests	**(10,423)**	(2,138)	(10,962)	(4,020)	(2,782)
	13,255,987	12,105,530	12,844,482	9,297,747	3,489,580

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	**Average exchange rate**
31 December 2010	6.6227	6.7255
31 December 2011	6.3009	6.4618
31 December 2012	6.2855	6.2932
30 June 2012	6.3249	6.3129
30 June 2013	6.1787	6.2321

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