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遠東宏信有限公司
FAR EAST HORIZON LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 3360)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “**Board**”) of Far East Horizon Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the six months ended 30 June 2019. This announcement, containing the full text of the 2020 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcement of interim results.

By Order of the Board
Far East Horizon Limited
KONG Fanxing
Chief Executive Officer and Executive Director

Hong Kong, 26 August 2020

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

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Corporate Information

Board of Directors

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

Executive Directors

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

Non-Executive Directors

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

Independent Non-executive Directors

Mr. CAI Cunqiang
Mr. HAN Xiaojing
Mr. LIU Jialin
Mr. YIP Wai Ming

Composition of Committees

Audit and Risk Management Committee

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

Remuneration and Nomination Committee

Mr. LIU Jialin (*Chairman*)
Mr. HAN Xiaojing
Mr. KUO Ming-Jian

Strategy and Investment Committee

Mr. LIU Haifeng David (*Chairman*)
Mr. KONG Fanxing
Mr. CAI Cunqiang

Company Secretary

Ms. MAK Sze Man

Authorised Representatives

Mr. KONG Fanxing
Ms. MAK Sze Man

Registered Office

Unit 6608, 66/F,
International
Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong
(with effect from 31 July 2020)

Corporate Information

Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

Unit 6608, 66/F,
International
Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong
(with effect from 31 July 2020)

Share Registrar

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

Principal Bankers

China Development Bank
Bank of China

Auditors

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

Legal Adviser

Baker & McKenzie

Company's Website

www.fehorizon.com

Stock Code

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

Company Profile

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

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

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

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

National Office Layout



Business Overview

For the six months ended 30 June 2020

Total revenue
RMB'000

13,275,366

For the six months ended 30 June

2020 13,275,366

2019 14,181,427

For the twelve months ended
31 December

2019 26,856,461

2018 25,378,612

2017 18,782,314

Cost of sales
RMB'000

6,500,950

For the six months ended 30 June

2020 6,500,950

2019 6,162,222

For the twelve months ended
31 December

2019 12,525,041

2018 11,484,055

2017 8,106,962

Basic earnings per share
(RMB)

0.54

For the six months ended 30 June

2020 0.54

2019 0.58

For the twelve months ended
31 December

2019 1.14

2018 1.02

2017 0.84

Diluted earnings
per share (RMB)
30 June
2020

0.54

Return on average assets⁽²⁾
30 June
2020

1.72%

Return on average equity⁽³⁾
30 June
2020

13.45%

Gearing
ratio
2019
2020

84.50% **84.21%**

Net interest margin⁽⁴⁾
30 June
2020

3.51%

Net interest spread⁽⁵⁾
30 June
2020

2.44%

Cost to income ratio⁽⁶⁾
30 June
2020

34.86%

Net assets
per share (RMB) 30 June
2019
2020

7.21 **7.82**

Business Overview

	For the six months ended 30 June		For the twelve months ended 31 December		
	2020	2019	2019	2018	2017
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Operating results					
Total revenue	13,275,366	14,181,427	26,856,461	25,378,612	18,782,314
Financial services (interest income)	7,730,045	8,163,767	15,841,562	16,137,698	10,972,384
Advisory services (fee income)	1,969,167	3,078,778	4,573,954	4,889,048	4,661,303
Revenue from industrial operation	3,620,098	2,970,529	6,521,280	4,515,625	3,254,433
Tax and surcharges	(43,944)	(31,647)	(80,335)	(163,759)	(105,806)
Cost of sales	(6,500,950)	(6,162,222)	(12,525,041)	(11,484,055)	(8,106,962)
Borrowing costs	(3,980,399)	(4,191,318)	(8,038,630)	(8,527,275)	(5,801,693)
Costs for industrial operation	(2,520,551)	(1,970,904)	(4,486,411)	(2,956,780)	(2,305,269)
Pre-provision operating profit ⁽¹⁾	4,985,955	5,182,898	9,917,400	9,152,801	6,739,557
Profit before tax	3,329,603	3,569,893	7,144,830	6,492,567	4,787,188
Profit for the period/year attributable to holders of ordinary shares of the Company	2,055,682	2,233,436	4,337,602	3,927,472	3,229,057
Basic earnings per share (RMB)	0.54	0.58	1.14	1.02	0.84
Diluted earnings per share (RMB)	0.54	0.58	1.14	1.02	0.84
Profitability indicators					
Return on average assets ⁽²⁾	1.72%	1.93%	1.83%	1.78%	1.73%
Return on average equity ⁽³⁾	13.45%	15.88%	14.99%	14.80%	13.37%
Net interest margin ⁽⁴⁾	3.51%	3.64%	3.66%	3.51%	3.09%
Net interest spread ⁽⁵⁾	2.44%	2.44%	2.48%	2.28%	1.96%
Cost to income ratio ⁽⁶⁾	34.86%	35.16%	33.53%	35.36%	36.64%

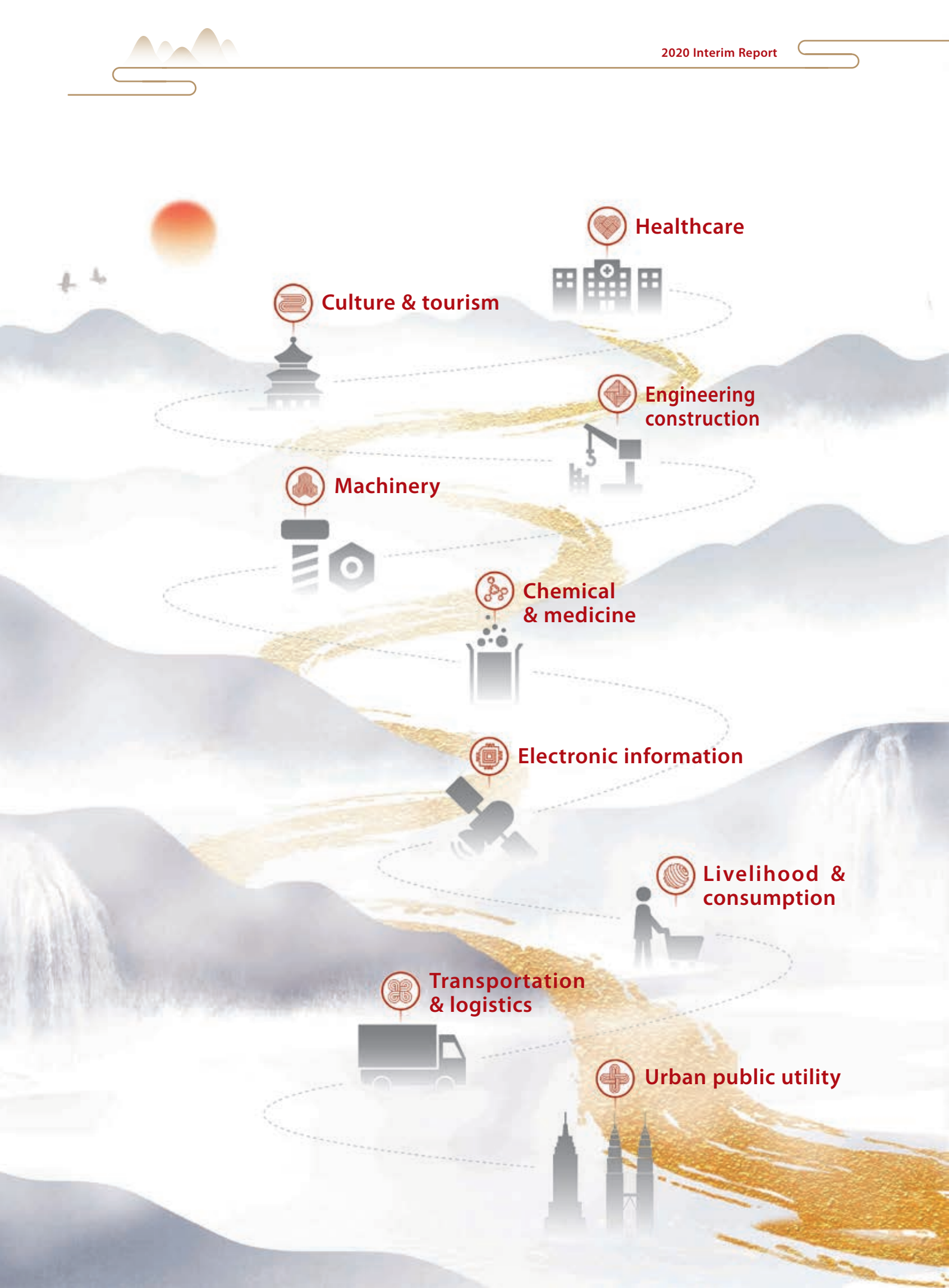
Business Overview

	30 June 2020	30 June 2019	31 December 2019	31 December 2018	31 December 2017
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Assets and liabilities					
Total assets	289,317,456	259,235,096	260,570,588	265,969,794	227,454,273
Net interest-earning assets	223,861,581	212,701,062	203,149,075	223,989,078	193,977,583
Total liabilities	243,624,474	219,051,277	219,035,813	226,877,290	191,046,481
Interest-bearing bank and other borrowings	188,182,819	163,292,253	162,396,266	172,514,982	144,899,680
Gearing ratio	84.21%	84.50%	84.06%	85.30%	83.99%
Total equity	45,692,982	40,183,819	41,534,775	39,092,504	36,407,792
Equity attributable to holders of ordinary shares of the Company	31,000,176	28,543,701	30,128,436	27,729,743	25,340,869
Net assets per share (RMB)	7.82	7.21	7.61	7.01	6.41
Duration matching of assets and liabilities					
Financial assets	250,156,815	228,882,159	224,024,699	238,575,428	208,240,849
Financial liabilities	232,440,861	208,269,856	206,139,112	216,469,936	183,911,170
Quality of interest-earning assets					
Non-performing asset ratio ⁽⁷⁾	1.13%	1.04%	1.11%	0.96%	0.91%
Provision coverage ratio ⁽⁸⁾	244.54%	254.33%	246.11%	236.73%	219.71%
Write-off of non-performing assets ratio ⁽⁹⁾	16.35%	30.63%	40.30%	34.41%	5.21%
Overdue interest-earning assets (over 30 days) ratio ⁽¹⁰⁾	1.28%	1.20%	1.29%	0.94%	0.72%

Business Overview

Notes:

- (1) Pre-provision operating profit = profit before tax + provision for assets;
- (2) 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 annualized basis;
- (3) Return on average equity = profit for the year or the period attributable to holders of ordinary shares of the Company/average balance of equity attributable to holders of ordinary shares of the Company at the beginning and end of the period, presented on an annualized basis;
- (4) Net interest margin = net interest income/average balance of interest-earning assets, presented on an annualized basis;
- (5) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities, presented on an annualized basis;
- (6) Cost to income ratio = selling and administrative expense/gross profit;
- (7) Non-performing asset ratio = net non-performing assets/net interest-earning assets;
- (8) Provision coverage ratio = provision for interest-earning assets/net non-performing assets;
- (9) Write-off of non-performing assets ratio = interest-earning bad debt written-off/non-performing assets at the end of the previous year;
- (10) Overdue interest-earning assets (over 30 days) ratio = overdue interest-earning assets (over 30 days)/net interest-earning assets.



Healthcare



Culture & tourism



Engineering construction



Machinery



Chemical & medicine



Electronic information



Livelihood & consumption



Transportation & logistics



Urban public utility



Management Discussion and Analysis

1. Economic Environment

1.1 Macro-economy Environment

In the first half of 2020, facing the severe challenges brought by the COVID-19 pandemic and the complex and ever-changing domestic and overseas environment, China's economy gradually overcame the unprecedented headwinds of the epidemic, with its economic operation in a state of restorative growth and steady recovery. However, certain economic indicators remained in decline and the losses incurred from the headwinds of the epidemic had to be made up for. In the first half of the year, the preliminary gross domestic product (GDP) was RMB45.7 trillion, down by 1.6% year-on-year, representing a decrease of 5.2 percentage points as compared to the first quarter.

In terms of the supply side, industrial production experienced rapid recovery and certain sectors in the service industry achieved growth against the general downturn. In the first half of the year, the added value of the primary sector was RMB2.6 trillion, representing a year-on-year increase of 0.9%; the added value of the secondary sector was RMB17.3 trillion, representing a year-on-year decrease of 1.9%; and the added value of the tertiary sector was RMB25.8 trillion, representing a year-on-year decrease of 1.6%. Each of the primary sector, secondary sector and tertiary sector accounted for 5.7%, 37.8% and 56.5% of GDP, respectively.

In terms of the demand side, significant efforts were put into infrastructure development, and the decline in investment narrowed. Contact and clustering-based consumption was under continuous pressure. In the first half of the year, the total sales of social consumer goods amounted to RMB17.2 trillion, down by 11.4% year-on-year, which outperformed the slowdown in the first quarter by 7.6 percentage points. Investments in fixed assets (excluding farmers) amounted to RMB28.2 trillion, down by 3.1% year-on-year, which outperformed the slowdown in the first quarter by 13.0 percentage points. The total goods imports and exports amounted to RMB14.2 trillion, down by 3.2% year-on-year, which outperformed the slowdown in the first quarter by 3.3 percentage points.

The proactive fiscal policy became more active and promising. In the first half of the year, attributable to the tax and fee cuts, revenue in the national general public budget decreased by 10.8% year-on-year to RMB9.6 trillion; and attributable to proactive reduction of government expenditure, expenditure in the national general public budget decreased by 5.8% year-on-year to RMB11.6 trillion. Meanwhile, the proposed national fiscal deficit rate increased to more than 3.6%, and the issuance of RMB1 trillion of special treasury bonds to relieve the effects of the pandemic was completed.



Management Discussion and Analysis

The stable monetary policy became more flexible and moderate. In the first half of the year, the growth rates of the broad money supply and the size of social financing were 11.1% and 12.8%, respectively, significantly higher than those in the last year. Meanwhile, monetary policy tools with direct access to the real economy were innovated and corporate interest rates continued to decline. Since the beginning of the year, the loan prime rate (LPR) of one-year loans was cut by 30 basis points to 3.85%.

Currently, with the COVID-19 pandemic continuing to spread around the globe, its significant effects on the global economy will continue to develop and evolve. External risks and challenges have increased significantly while domestic economic recovery remains under pressure. China has advantages in a complete industrial system, constantly improving infrastructure and an ultra-large-scale market. The steady economic recovery in the first half of the year has not only laid a solid foundation for the continuous recovery for the second half of the year, but also provided ample market scope and sound market conditions for the Group's continuous stable development.

Source: National Bureau of Statistics of China

1.2 Industry Environment

With the prevention and control of COVID-19 yielding major strategic results, resumption of work, production, business operations and market activity continued to move forward. In the first half of the year, the farming, forestry, animal husbandry and fishery industry, the financial industry and the information transmission, software and IT service industry achieved rapid growth, with the growth rate of their respective added value at 1.1%, 6.6% and 14.5%, collectively driving GDP growth by 1.3 percentage points. Since the epidemic low point in February, the purchasing managers' index (PMI) and the non-manufacturing purchasing managers index had both remained in expansion territory and had been steadily recovering.

For the various industry sectors served by the Group, despite the supply chain disruption and short-term business suspension caused by measures such as regional isolation and travel restrictions, rapid growth was achieved in the areas relating to anti-epidemic materials, infrastructure, domestic substitutes and online consumption, driven by the demands in epidemic control, stable growth and industrial transformation and upgrading. The exports of anti-epidemic materials such as face masks, protective suits and medical supplies mitigated the effects of contracting external demands. The machinery for special purposes, steel and construction industries benefitted from the successive commencement of major projects. The domestic substitution process in the electronics industry accelerated, and new infrastructure fields such as 5G created new momentum for economic development. COVID-19 promoted changes in the consumption habits, which led to growth in the business volume of delivery logistics to a certain extent. Demands for daily chemical products were steadily climbing with growing awareness of personal health. Meanwhile, automobile production and sales, affected by the global supply chain to a greater extent, continued to recover, domestic tourism was in a slow rebooting process, and the diagnosis and treatment procedure of medical institutions has gradually returned to normal.

Source: National Bureau of Statistics of China

Management Discussion and Analysis

1.3 The Leasing Industry

The overall business volume of the financial leasing industry declined. As at the end of the first quarter, the total number of financial leasing companies in China was approximately 12,145, increased by 15 as compared to the end of last year. The total capital of the industry amounted to approximately RMB3.3 trillion, representing an increase of 0.6% as compared to the end of last year. The balance of financing leasing contracts in China totaled approximately RMB6.5 trillion, representing a decrease of 2.8% as compared to the end of last year, recording negative growth in balance of contracts for the first time since 2006.

In terms of industrial regulation, in May 2020, the Interim Measures for the Supervision and Management of Financial Leasing Companies (《融資租賃公司監督管理暫行辦法》) was officially issued by the China Banking and Insurance Regulatory Commission, further enhancing the supervision and management of financial leasing companies. In various regions including Shanghai, Shenzhen, Tianjin, Hunan and Jiangsu, local financial regulatory authorities increased efforts to straighten out and rectify leasing companies with irregular activities such as existing only on paper and being out of reach. Tighter regulation of the financial leasing industry shall be imperative. On the one hand, it facilitated the healthy and orderly development of the financial leasing industry by decreasing the number and improving the quality of the companies; on the other hand, it was favorable to large, compliant and professional financial leasing companies in the long run.

Source: China Leasing Union (中國租賃聯盟), the Joint Leasing Research and Development Center (租賃聯合研發中心), and Tianjin Binhai Financial Leasing Research Institute (天津濱海融資租賃研究院)

1.4 Company's Solutions

Since the beginning of 2020, the sudden outbreak of COVID-19 pandemic severely disrupted the normal order of production and life, leading to a period of economic shutdown with an effect exceeding all expectations in terms of both scope and degree. Under this backdrop, on the premise of ensuring the prevention and control of the pandemic, the Group committed to a phased resumption of work and production as early as possible in order to minimize losses. In addition, the Group continued to adhere to the development strategy of "finance + industry" and pushed forward measures for lean operation and management, as a response to the complex and ever-changing macro situation and the severe challenges.

In terms of the financial business, first, we led the way in promoting the resumption of work and production. During the pandemic, all employees quickly returned to work by resorting to, among others, online office and remote communication, with a work resumption rate of 95% for the month after the Spring Festival. Meanwhile, the Group allowed business movement in certain regions under the condition of ensuring safety. Second, we made timely adjustments to operation strategies. On the one hand, we provided online credit support to quality customers and fought against the pandemic together with the enterprises; on the other hand, we leveraged the linkage system between front, middle and back offices to significantly simplify processes and improve operational efficiency. Third, we steadily promoted new types of businesses. We achieved steady progress in inclusive finance, supply chain finance, asset management and overseas business. With staffing substantially in place, sound system and mechanism and a functional business layout, we constantly enriched our business operation and improved profitability. Fourth, we strengthened our comprehensive service capabilities. Through the utilization of innovative products, we excavated customer needs in depth and constantly improved the Group's comprehensive service capabilities.

Management Discussion and Analysis

In terms of industrial operations, in the first half of the year, Horizon Construction Development and the hospital group under the Group not only played to their own strengths and actively participated in the national front-line epidemic prevention and anti-epidemic efforts, but also continuously unleashed its financial efficiency, contributing critical growth momentum for the Group's "finance + industry" dual driven and coordinated development.

In respect of Horizon Construction Development, first, it actively integrated itself into the national emergency mobilization system, successively supported and secured emergency power supply to over 20 hospitals across the nation, including Vulcan Mountain Hospital and Thunder Mountain Hospital in Wuhan, participated in the construction of over 10 emergency hospitals and took an active part in the rescue and relief of flood disasters across the country. Its fast response and coordination, as well as its high level of engineering and technical service, were highly acclaimed, which elevated its overall brand awareness. Second, it was an active participant in the nationwide trend of resuming work and production, responded to the demand for stable economic growth and quickened its pace in equipment asset expansion. It continued to rank first in China in terms of asset scale of aerial work platforms, turnover materials and new formworks, ranked No. 39 in IRN100 and No. 6 in terms of high-altitude vehicles. Third, it further deepened business network layout. As at the end of June, Horizon Construction Development covered 97 cities and 186 business outlets, with the largest network size in China. Meanwhile, it accelerated the incubation of tier-3 and tier-4 networks to achieve nationwide peripheral coverage. Additionally, it actively developed the overseas market in Southeast Asia to cultivate new marketing momentum. Fourth, it continuously increased R&D investments in IT and engineering technology, continued to consolidate its competitive advantages in various product lines and continuously enhanced business process efficiency and customer service perception. Since the second quarter, various businesses of Horizon Construction Development rapidly recovered, leading the industry and laying a solid foundation for its stable growth throughout the year.

In respect of the hospital group, first, it actively responded to government's call and fulfilled its social mission of providing medical service. During the pandemic, the Group deployed a total of more than 30 medical personnel from its five hospitals to aid the epidemic area in Hubei, providing an effective supplement to the public healthcare system with strong professional capacity and accumulated rich experience. Second, it reached the area with the weakest resource with a broad and accessible service network, enabling more people to enjoy quality, warm and affordable medical services in their neighborhood. As at the end of June, the Group cumulatively invested in 60 medical institutions, with over 20,000 available beds under institutions operated by the Company. Its layout spanned 55 counties and cities, serving a population catchment of over 100 million. Third, on the basis of the management model of "one network, one system and one hospital", it strengthened horizontal regional synergy and promoted cross-discipline talent linkage and complementary management advantages between regional hospitals. Fourth, it provided multi-level and diversified elderly care services by creating a four-pronged elderly care operating system focusing on of "medical, rehabilitation, nursing and healthcare". In the first half of the year, the operation of the hospital group steadily recovered and its results remained stable in general.

In terms of fund-raising, with numerous uncertainties in the operating environment, the Group continued to strengthen cooperation with traditional large financial institutions and dig deep into the resources of small and medium-sized banks, thereby securing powerful access to resources. Meanwhile, the Group successfully completed the issuance of the renewable epidemic prevention and control bonds of RMB2.0 billion, using its financial strength to provide timely support to provinces with the most cases, epidemic prevention and control enterprises and various brick-and-mortar enterprises such as small, medium and micro enterprises. Moreover, after prudential assessment, the Group rapidly completed the issuance of US\$300,000,000 convertible bonds, which received high market recognition.

Management Discussion and Analysis

2. Analysis of Profit and Loss

2.1 Analysis of Profit and Loss (Overview)

In the first half of 2020, in the face of the complicated and constantly changing macro environment and the effects of the COVID-19, the Group adhered to the development strategy and operational philosophy of “finance + industry”, which its overall performance remained stable. The Group realized a profit before tax of RMB3,329,603,000, representing a decline of 6.73% as compared to the corresponding period of the previous year. The profit attributable to holders of ordinary shares of the Company during the period was RMB2,055,682,000, representing a decline of 7.96% as compared to the corresponding period of the previous year. The following table sets forth the comparative figures for the six months ended 30 June 2019.

	For the six months ended 30 June		Change %
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)	
Revenue	13,275,366	14,181,427	-6.39%
Cost of sales	(6,500,950)	(6,162,222)	5.50%
Gross profit	6,774,416	8,019,205	-15.52%
Other income/gains	952,089	338,750	181.06%
Selling and administrative expenses	(2,361,302)	(2,819,296)	-16.24%
Other expenses and losses	(304,975)	(225,533)	35.22%
Finance costs	(325,086)	(221,541)	46.74%
Gains and loss on investment in joint ventures/associates	250,813	91,313	174.67%
Pre-provision operating profit	4,985,955	5,182,898	-3.80%
Provision for assets	(1,656,352)	(1,613,005)	2.69%
Profit before tax	3,329,603	3,569,893	-6.73%
Income tax expense	(971,717)	(1,041,013)	-6.66%
Profit for the period	2,357,886	2,528,880	-6.76%
Attributable to:			
Holders of ordinary shares of the Company	2,055,682	2,233,436	-7.96%
Holders of perpetual securities	278,928	259,216	7.60%
Non-controlling interests	23,276	36,228	-35.75%

Management Discussion and Analysis

2.2 Revenue

In the first half of 2020, the Group realized revenue of RMB13,275,366,000, representing a decline of 6.39% from RMB14,181,427,000 as compared to the corresponding period of the previous year. It also recorded a declined of income in the financial and advisory segment and continuous growth of income in the industrial operation segment. In the first half of 2020, income (before taxes and surcharges) of the financial and advisory segment was RMB9,699,212,000, accounting for 72.82% of the total income (before taxes and surcharges) and representing a decline of 13.73% as compared to the corresponding period of the previous year. Income derived from advisory services recorded a decline of 36.04%, mainly due to the effects of the COVID-19, and the on-site consulting service business was negatively affected. The Group also accelerated its pace in developing integrated industrial operation business with income derived from industrial operation growing by 21.87% as compared to the corresponding period of the previous year.

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Unaudited)	% of total	
Financial and advisory segment	9,699,212	72.82%	11,242,545	79.10%	-13.73%
Financial services (interest income)	7,730,045	58.04%	8,163,767	57.44%	-5.31%
Advisory services (fee income)	1,969,167	14.78%	3,078,778	21.66%	-36.04%
Industrial operation segment	3,620,098	27.18%	2,970,529	20.90%	21.87%
Total	13,319,310	100.00%	14,213,074	100.00%	-6.29%
Taxes and surcharges	(43,944)		(31,647)		38.86%
Income (after taxes and surcharges)	13,275,366		14,181,427		-6.39%

The Group also categorized income by industry. In the first half of 2020, the Group's business mainly concentrated on nine major industries: healthcare, culture & tourism, engineering construction, machinery, chemical & medicine, electronic information, livelihood & consumption, transportation & logistics and urban public utility. In the first half of 2020, due to the negative effects of the COVID-19, the growth of major industries was greatly affected, especially the industries of culture & tourism, transportation & logistics, healthcare, and chemical & medicine with negative growth of -35.08%, -13.05%, -16.85% and -17.08% respectively. With the successive introduction of national macro-control policies, the urban public utility, electronic information and engineering construction industries grew by 13.04%, 7.92% and 3.83% respectively.

Management Discussion and Analysis

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

Industry	RMB' 000	% of total	Change %
Healthcare	2,954,387	22.18%	-16.85%
	3,553,149	25.00%	
Culture & Tourism	1,318,473	9.90%	-35.08%
	2,030,993	14.29%	
Engineering Construction	2,455,906	18.44%	3.83%
	2,365,256	16.64%	
Machinery	429,065	3.22%	-5.78%
	455,402	3.20%	
Chemical & Medicine	203,693	1.53%	-17.08%
	245,656	1.73%	
Electronic Information	566,650	4.26%	7.92%
	525,056	3.70%	
Livelihood & Consumption	468,934	3.52%	-0.09%
	469,348	3.30%	
Transportation & Logistics	806,971	6.06%	-13.05%
	928,088	6.53%	
Urban Public Utility	3,996,279	30.00%	13.04%
	3,535,215	24.87%	
Others	118,952	0.89%	13.38%
	104,911	0.74%	
Total	13,319,310	100.00%	-6.29%
	14,213,074	100.00%	

2020 For the six months ended 30 June

2019 For the six months ended 30 June

Management Discussion and Analysis

2.2.1 Financial Services (Interest Income)

The interest income (before taxes and surcharges) from the financial and advisory segment of the Group dropped by 5.31% from RMB8,163,767,000 for the first half of 2019 to RMB7,730,045,000 for the first half of 2020, accounting for 58.04% of the Group's total revenue (before taxes and surcharges).

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

	For the six months ended 30 June					
	2020			2019		
	Average balance of interest- earning assets ⁽¹⁾	Interest income ⁽²⁾	Average yield ⁽³⁾	Average balance of interest- earning assets ⁽¹⁾	Interest income ⁽²⁾	Average yield ⁽³⁾
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	%	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	%
Healthcare	31,355,979	1,189,993	7.59%	37,163,513	1,440,106	7.75%
Culture & tourism	30,020,445	1,113,269	7.42%	35,882,996	1,331,758	7.42%
Engineering construction	23,162,168	801,972	6.92%	26,244,132	919,345	7.01%
Machinery	9,101,006	287,052	6.31%	12,460,011	366,937	5.89%
Chemical & medicine	4,530,642	142,056	6.27%	4,410,598	147,925	6.71%
Electronic information	8,656,768	278,568	6.44%	9,609,899	338,373	7.04%
Livelihood & consumption	9,633,934	319,775	6.64%	10,239,157	365,342	7.14%
Transportation & logistics	13,669,156	448,536	6.56%	17,453,687	604,860	6.93%
Urban public utility	81,117,697	3,083,950	7.60%	63,487,957	2,569,243	8.09%
Others ⁽⁵⁾	2,257,533	64,874	5.75%	1,393,120	79,878	11.47%
Total	213,505,328	7,730,045	7.24%	218,345,070	8,163,767	7.48%

Note:

- (1) Calculated based on the 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 taxes and surcharges.
- (3) Average yield represents the quotient of interest income as divided by the average balance of interest-earning assets, on an annualized basis.
- (4) Interest-earning assets include net financial leasing receivable, entrusted loans, mortgage loans, long-term receivables, factoring receivables, the balance of certain financial assets at fair value through profit or loss and respective interest accrued but not received.
- (5) Other projects mainly include innovative financial projects such as overseas business department and asset management business.

Management Discussion and Analysis

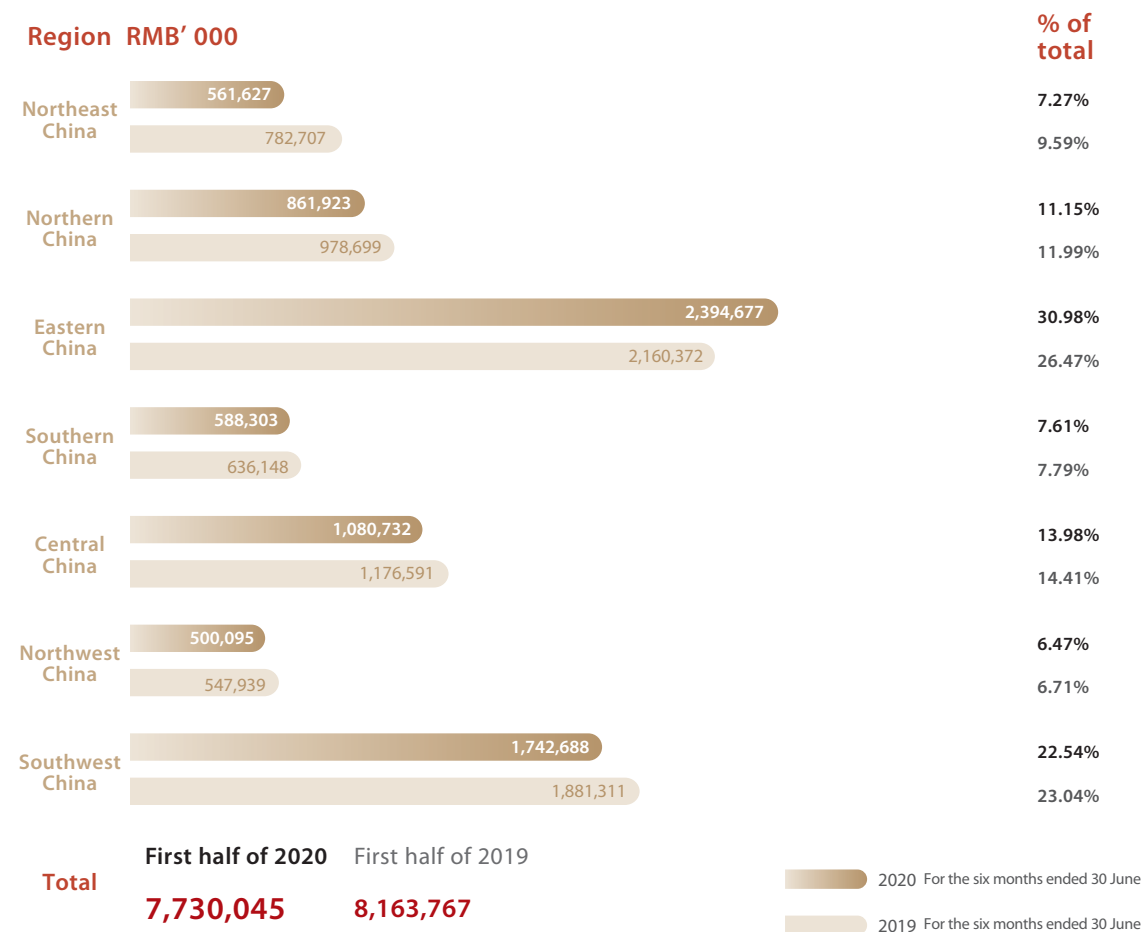
Analysis by average balance of interest-earning assets

The average balance of interest-earning assets of the Group decreased by 2.22% from RMB218,345,070,000 for the first half of 2019 to RMB213,505,328,000 for the first half of 2020. The Group actively managed the level of gearing ratio to enable the financial services business to maintain stable and coordinated development.

Analysis by average yield

In the first half of 2020, the average yield of the Group was 7.24%, representing 0.24 percentage point lower than 7.48% in the corresponding period of the previous year, which was due to the fact that (i) the market interest rates (such as the loan prime rate (LPR)) were cut: the one-year LPR dropped by 46 basis points, and the five-year LPR dropped by 20 basis points in the second half of 2019 and the first half of 2020; and (ii) while actively managing the assets size, the Group actively regulated the layout of the interest-earning assets industry and continued to maintain the business opportunities of high-end customers to maintain stable asset quality.

The table below sets forth the breakdown of interest income (before taxes and surcharges) by region during the indicated periods.



Note: Interest income from Hubei Province in the first half of 2020 amounted to RMB248,159,000, accounting for 3.21% of the total interest income.

Management Discussion and Analysis

2.2.2 Advisory Services (Fee Income)

In the first half of 2020, service fee income (before taxes and surcharges) from the financial and advisory segment of the Group declined by 36.04% from RMB3,078,778,000 for the first half of 2019 to RMB1,969,167,000 for the first half of 2020, accounting for 14.78% of the total revenue (before taxes and surcharges) of the Group.

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Unaudited)	% of total	
Healthcare	76,230	3.87%	675,154	21.93%	-88.71%
Culture & tourism	117,791	5.98%	584,219	18.98%	-79.84%
Engineering construction	223,926	11.37%	289,943	9.42%	-22.77%
Machinery	141,111	7.17%	87,722	2.85%	60.86%
Chemical & medicine	61,637	3.13%	97,731	3.17%	-36.93%
Electronic information	102,800	5.22%	74,796	2.43%	37.44%
Livelihood & consumption	125,491	6.37%	99,943	3.25%	25.56%
Transportation & logistics	154,285	7.84%	183,762	5.97%	-16.04%
Urban public utility	912,329	46.33%	965,973	31.37%	-5.55%
Others	53,567	2.72%	19,535	0.63%	174.21%
Total	1,969,167	100.00%	3,078,778	100.00%	-36.04%

In the first half of 2020, due to the negative effects of the COVID-19, the Group actively responded to the resumption of work and production. However, due to the economic shutdown for a period of time in the first quarter, and the epidemic had greater negative effects on the industry-related sectors such as healthcare, culture & tourism, chemical & medicine, engineering construction and transportation & logistics. Advisory service business activities in these industries were restricted, resulting in a decline in advisory service revenue. With the guidance of national macro policies and the promotion of industries such as infrastructure, public and online consumption, the Group's advisory service income in the machinery, electronic information and livelihood & consumption industries increased respectively as compared to the first half of 2019. The Group will gradually enhance its service capabilities, enrich the scope and means of service based on changes in customers' requirements, and strive to achieve steady and healthy growth in service income from the business.

Management Discussion and Analysis

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

	For the six months ended 30 June			
	2020		2019	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Unaudited)	% of total
Northeast China	67,792	3.44%	213,751	6.94%
Northern China	264,464	13.43%	405,454	13.17%
Eastern China	786,540	39.94%	983,337	31.95%
Southern China	175,454	8.91%	247,685	8.04%
Central China	223,662	11.36%	346,458	11.25%
Northwest China	127,442	6.47%	199,810	6.49%
Southwest China	323,813	16.45%	682,283	22.16%
Total	1,969,167	100.00%	3,078,778	100.00%

Note: Advisory services income from Hubei Province in the first half of 2020 amounted to RMB60,665,000, accounting for 3.08% of the total advisory services income.

Management Discussion and Analysis

2.2.3 Revenue from Industrial Operation Segment

Revenue from the industrial operation segment of the Group (before taxes and surcharges) increased by 21.87% from RMB2,970,529,000 for the first half of 2019 to RMB3,620,098,000 for the first half of 2020, accounting for 27.18% of the total revenue of the Group (before taxes and surcharges).

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000	% of total	RMB' 000	% of total	
(Unaudited)		(Unaudited)			
Revenue from the industrial operation segment	3,620,098	100.00%	2,970,529	100.00%	21.87%
Including:					
Revenue from hospital operation ⁽¹⁾	1,534,560	42.39%	1,332,160	44.85%	15.19%
Revenue from equipment operation ⁽²⁾	1,398,350	38.63%	1,153,560	38.83%	21.22%
Revenue from education institution operation	88,096	2.43%	109,177	3.68%	-19.31%

Note:

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

The Group steadily promoted the layout of high-end K12 education at home and abroad in 2020. By adhering to the principle of "people orientation, fusion of Chinese and western education and training elites", the Group continued to deepen and improve the level of teachers, curriculum system, campus facilities and operation flow management of kindergartens and schools within the Group, so as to cultivate outstanding students with social contribution, scientific innovation and international competitiveness. As at the end of the first half of 2020, the Group operated 14 high-end kindergartens (among which 5 kindergartens fulfilled their enrolment quota) and 3 schools (among which 1 had fulfilled its enrolment quota) with 2,111 students, representing an increase of 9.43% as compared to the first half of 2019, and the proportion of students with high tuition fees increased. The operating income of educational institutions for the first half of 2020 was RMB88,096,000, representing a decrease of 19.31% as compared to the first half of 2019, which was mainly due to the effects of the COVID-19. The kindergartens in the Group's system failed to carry out teaching according to the original plan in the first half of 2020.

Management Discussion and Analysis

2.3 Cost of Sales

Cost of sales of the Group for the first half of 2020 was RMB6,500,950,000, representing an increase of 5.50% from RMB6,162,222,000 in the corresponding period of the previous year. Of which, the cost of the financial and advisory segment was RMB3,980,399,000, accounting for 61.23% of the total cost and representing a decrease of 5.03% from RMB4,191,318,000 in the corresponding period of the previous year, mainly due to the fact that while the Group was maintaining the proportion of its investment in interest-earning assets through debt financing, the cost of new financing decreased, which led to the decrease in interest expenditure of the financial and advisory segment. The cost of the industrial operation segment was RMB2,520,551,000, accounting for 38.77% of the total cost and representing an increase of 27.89% from RMB1,970,904,000 in the corresponding period of the previous year. This was mainly due to the rapid expansions of the Group's industrial operations in respect of healthcare and equipment operation, among which, some of the hospitals under the healthcare segment were still at their preliminary stage and their economies of scale were not sufficient. The equipment operation industry achieved large-scale output through its nationwide operating network and operational capabilities, and the rapid expansions of the business scale led to a significant growth in cost of sales for industrial operation. The Group will, through group management, gradually enhance the operating efficiency of each industrial operation company to transform the cost of sales of industrial operation into the growth of its revenue in a highly-effective manner.

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000	% of total	RMB' 000	% of total	
(Unaudited)		(Unaudited)			
Cost of the financial and advisory segment	3,980,399	61.23%	4,191,318	68.02%	-5.03%
Cost of the industrial operation segment	2,520,551	38.77%	1,970,904	31.98%	27.89%
Cost of sales	6,500,950	100.00%	6,162,222	100.00%	5.50%

Management Discussion and Analysis

2.3.1 Cost of the Financial and Advisory Segment

The cost of sales of the financial and advisory segment of the Group comprised solely 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 rate of the Group in the indicated periods.

	For the six months ended 30 June					
	2020		Average cost rate ⁽²⁾	2019		Average cost rate ⁽²⁾
	Average balance ⁽¹⁾	Interest expense		Average balance ⁽¹⁾	Interest expense	
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)		
Interest-bearing liabilities	166,018,719	3,980,399	4.80%	166,475,658	4,191,318	5.04%

Note:

- (1) Calculated as the average balance of interest-bearing liabilities at the beginning and end of the indicated periods
- (2) Calculated by dividing interest expense by the average balance of interest-bearing liabilities, on an annualized basis.

The cost of sales of the financial and advisory segment decreased from RMB4,191,318,000 for the first half of 2019 to RMB3,980,399,000 for the first half of 2020. The average cost rate of the Group decreased to 4.80% for the first half of 2020 as compared with that for the first half of 2019, mainly due to the fact that:

(i) affected by the loose monetary policy in the first half of 2020, domestic financing costs dropped significantly, and new domestic bank withdrawals caused an average cost rate to decrease by 0.09% as compared to the first half of 2019; (ii) the Group made full use of diversified financing advantages, and increased the proportion of overseas withdrawals, and the average cost rate decreased by 0.04% as compared to the first half of 2019 due to new overseas bank withdrawals; (iii) the Group completed the issuance of various product such as corporate bonds, medium-term notes and super-short financial bonds, due to the overall decline in bond market yields in the first half of 2020, resulting in a decrease in average cost ratio of 0.14% as compared to the first half of 2019; (iv) the increase in stock cost. The cost of existing bank financing for 2020 increased by 0.03% as compared to the first half of 2019, which was due to the expiration of low-cost loans introduced in 2016 and 2017;

In the second half of 2020, under the "finance + industry" strategy, the Group will increase its efforts to support the development of the industries under the Group and connect financial resources in all directions. Our major measures are as follows: (i) deepen the cooperation with the mainstream domestic banks and non-bank institutions; (ii) pay close attention to the international market, strengthen the communication with rating agencies and investors, and extend the cooperation in overseas financial markets; (iii) continue to explore new channels and products, thereby further enhancing and enriching its financing structure.

Management Discussion and Analysis

2.3.2 Cost of the Industrial Operation Segment

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000	% of total	RMB' 000	% of total	
(Unaudited)		(Unaudited)			
Cost of the industrial operation segment	2,520,551	100.00%	1,970,904	100.00%	27.89%
Of which:					
Cost of hospital operation ⁽¹⁾	1,201,380	47.66%	997,930	50.63%	20.39%
Cost of equipment operation ⁽²⁾	699,620	27.76%	547,160	27.76%	27.86%
Cost of education institution operation	97,228	3.86%	100,558	5.10%	-3.31%

Note:

- (1) For details of cost of hospital operation, please see the discussion and analysis in paragraph 12.1 of this section;
- (2) For details of cost of equipment operation, please see the discussion and analysis in paragraph 13.1 of this section.

In the first half of 2020, the operating cost of educational institutions was RMB97,228,000, representing a decrease of 3.31% as compared to the first half of 2019. Due to the effects of the COVID-19, the kindergartens in the Group system failed to carry out teaching according to the original plan, and floating operating costs had fallen. In addition to the effects of fixed costs such as labor compensation, depreciation and amortization, the year-on-year decrease in costs was smaller than the year-on-year decrease in revenue.

Management Discussion and Analysis

2.4 Gross Profit

The gross profit of the Group for the first half of 2020 decreased by RMB1,244,789,000 or 15.52% to RMB6,774,416,000 from RMB8,019,205,000 in the corresponding period of the previous year. For the first half of 2020 and the first half of 2019, the gross profit margin of the Group was 51.03% and 56.55%, respectively, among which, the gross profit margin of industrial operation decreased by 3.28% to 30.37% for the first half of 2020 from 33.65% for the first half of 2019.

2.4.1 Gross Profit of the Financial and Advisory Segment

The gross profit margin of the financial and advisory segment of the Group for the first half of 2020 was 58.96%, down from 62.72% in the corresponding period of the previous year. The gross profit margin of the financial and advisory segment was affected by a change in net interest income and the level of net interest margin. The following table sets forth the interest income, interest expense, net interest income, net interest spread and net interest margin of the Group during the periods indicated.

	For the six months ended 30 June		Change %
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)	
Interest income ⁽¹⁾	7,730,045	8,163,767	-5.31%
Interest expense ⁽²⁾	3,980,399	4,191,318	-5.03%
Net Interest income	3,749,646	3,972,449	-5.61%
Net interest spread ⁽³⁾	2.44%	2.44%	-
Net interest margin ⁽⁴⁾	3.51%	3.64%	-0.13%

Note:

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

Management Discussion and Analysis

Net interest spread of the Group for the first half of 2020 was 2.44%, same as that for the corresponding period of the previous year, which was in line with the corresponding period of the previous year. The flat net interest spread was primarily due to the decrease of 24 basis points in the average yield on interest-earning assets of the Group and the decrease of 24 basis points in respect of the average cost rate on interest-bearing liabilities of the Group. For the details of the changes in respect of the average yield on interest-earning assets and the average cost rate on interest-bearing liabilities, please refer to the discussion and analysis in paragraphs 2.2.1 and 2.3.1 of this section. The net interest income of the Group decreased by 5.61% to RMB3,749,646,000 for the first half of 2020 from RMB3,972,449,000 for the first half of 2019. The average balance of interest-earning assets of the Group decreased by 2.22% year-on-year. Based on the above-mentioned reasons, the net interest margin of the Group decreased by 0.13 percentage point to 3.51% as compared to 3.64% for the corresponding period of the previous year.

2.4.2 Gross Profit of the Industrial Operation Segment

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000	% of total	RMB' 000	% of total	
(Unaudited)		(Unaudited)			
Gross profit of the industrial operation segment	1,099,547	100.00%	999,625	100.00%	10.00%
Of which:					
Gross profit of hospital operation ⁽¹⁾	333,180	30.30%	334,240	33.44%	-0.32%
Gross profit of equipment operation ⁽²⁾	698,730	63.55%	606,400	60.66%	15.23%
Gross profit of education institution operation	-9,132	-0.83%	8,619	0.86%	-205.95%

Note:

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

The gross profit of the industrial operation segment increased by 10.00% to RMB1,099,547,000 for the first half of 2020 from RMB999,625,000 for the first half of 2019. Among which, the gross profit of the hospital operation business and the equipment operation business was RMB333,180,000 and RMB698,730,000 respectively, accounting for 30.30% and 63.55% of the total gross profit of the industrial operation segment.

In the first half of 2020, the gross profit of the education institution operation business turned into a loss of RMB9,132,000, with gross profit margin of approximately -10.37% (in the first half of 2019: 7.89%). In the first half of 2020, affected by the COVID-19, the kindergartens in the Group system failed to carry out teaching according to the original plan, and the operating income of educational institutions declined as compared with the first half of 2019, while gross profit of the education institution operation business due to fixed costs such as wages and salary and depreciation and amortization.

Management Discussion and Analysis

2.5 Other Income/Gains

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

	For the six months ended 30 June		Change %
	2020	2019	
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	
Income from the holdings of off-balance-sheet assets ⁽¹⁾	510,310	155,970	227.18%
Bank interest income	69,259	60,223	15.00%
Gains from wealth management products	43,365	45,880	-5.48%
Government grants	44,791	10,399	330.72%
Equity investment income ⁽²⁾	253,552	49,778	409.37%
Gains from the transfer of financial assets ⁽³⁾	1,792	3,728	-51.93%
Other income	29,020	12,772	127.22%
Total	952,089	338,750	181.06%

Note:

- (1) For the holding of off-balance-sheet assets of the Group, the income of the year was recognized according to the expected yield and expected loss rate of such holding. For the changes in respect of the off-balance-sheet assets of the Group, please refer to the discussion and analysis in paragraph 3.3 of this section. In the first half of 2020, a total of RMB599 million of holding of off-balance-sheet assets expired and a gain of RMB335 million was obtained. In the first half of 2019, a total of RMB206 million of holding of off-balance-sheet assets expired and obtained RMB62 million in revenue.
- (2) The Group's equity investment income was mainly gains on changes and transfer of the fair value of equity investment.
- (3) The Group's gains from transfer of financial assets were the premium of interest-earning assets gained from issuing asset-backed securities of the Group.

Management Discussion and Analysis

2.6 Selling and Administrative Expenses

Selling and administrative expenses of the Group for the first half of 2020 were RMB2,361,302,000, representing a decrease of RMB457,994,000 or 16.24% from RMB2,819,296,000 in the corresponding period of the previous year, mainly due to the effects of the COVID-19 and the effective control of the Group's selling and administrative expenses, including business entertainment expenses, travel expenses and office expenses and other administrative expenses.

The cost regarding the remuneration and welfare of staff relating to the administrative expenses decreased by RMB499,688,000 or 22.92% from the corresponding period of the previous year, due to the effective control of the Group. The headcount of full-time staff of the Group increased from 14,771 for the first half of 2019 to 20,935 for the first half of 2020.

Cost to income ratio of the Group in the first half of 2020 was 34.86%, which decreased from 35.16% as compared to the corresponding period of the previous year.

2.7 Other Expenses and Losses

Other expenses of the Group in the first half of 2020 amounted to RMB304,975,000, representing an increase of RMB79,442,000 or 35.22% as compared to the corresponding period of the previous year. Other expenses and losses comprised foreign exchange loss of RMB48,856,000, representing an increase of RMB12,129,000 as compared to RMB36,727,000 in the corresponding period of the previous year.

2.8 Finance Costs

Finance costs of the Group in the first half of 2020 amounted to RMB325,086,000, representing an increase of RMB103,545,000 or 46.74% as compared to the corresponding period of the previous year. The finance costs were mainly financing-related costs for the Group's industrial operation segment.

2.9 Pre-provision Operating Profit

Pre-provision operation profit of the Group in the first half of 2020 amounted to RMB4,985,955,000, representing an increase of RMB196,943,000 or 3.80% from the corresponding period of the previous year. The decrease of 3.80% in pre-provision operating profit was mainly due to the decrease of 6.39% in the Group's revenue and the increase of 5.5% in cost of sales as compared to the corresponding period of the previous year, leading to the decrease of 15.52% in gross profit of the Group during the period as well as the increase of 181.06% in other income/gains, a decrease of 16.24% in selling and administrative expenses and the increase of 35.22% in other expenses and losses. For the details of the changes in respect of the revenue, cost of sales, gross profit, other income/gains, selling and administrative expenses and other expenses and losses, please refer to the discussion and analysis in paragraphs 2.2, 2.3, 2.4, 2.5, 2.6 and 2.7 of this section. In view of the above, facing the objective changes in the external environment, the Group proactively adopted prudent and stable development strategies. A slight narrowing of spreads appeared due to the complexity of macro factors such as the COVID-19. At the same time, industrial operation was at the early stage of rapid expansion and investment period, and hence the growth in costs and selling and administrative expenses were rapid, resulting in the decrease in the pre-provision operating profit. It is expected that with the gradual stabilization of the external market environment in the future, the gradual expansion of the industrial operating scale and the improvement in internal operating efficiency, the pre-provision operation profit of the Group will show a steady growing trend.

Management Discussion and Analysis

2.10 Provision for Assets

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Unaudited)	% of total	
Provision for interest-earning assets	1,056,114	63.76%	1,421,414	88.12%	
Provision for accounts receivable ⁽¹⁾	99,168	5.99%	62,657	3.88%	58.27%
Provision for other receivables ⁽¹⁾	(6,582)	-0.40%	1,023	0.06%	-743.40%
Provision for inventories	20,979	1.27%	–	–	N/A
Provision for fixed assets ⁽²⁾	449,956	27.17%	68,185	4.23%	559.91%
Provision for the holdings of off-balance-sheet assets ⁽³⁾	3,000	0.18%	8,000	0.50%	-62.50%
Other provisions	33,717	2.03%	51,726	3.21%	-34.82%
Total	1,656,352	100.00%	1,613,005	100.00%	2.69%

Note:

- (1) Provision for accounts receivable and other receivables was mainly the expected credit loss of the relevant receivables made by the Group;
- (2) Provision for fixed assets was mainly the impairment provisions made by the Group for the vessel assets and fixed asset of subsidiaries in education sector it owns;
- (3) Provision for the holdings of off-balance-sheet assets was mainly the expected credit loss of the holdings of off-balance-sheet assets made by the Group.

Management Discussion and Analysis

2.11 Income Tax Expense

Income tax expense of the Group in the first half of 2020 was RMB971,717,000, which decreased by RMB69,296,000 or 6.66% from the corresponding period of the previous year. The decrease was primarily due to a decrease in the operating profit of the Group during the relevant period.

Effective income tax rate of the Group in the first half of 2020 was 29.2%, which remained basically stable as compared to the corresponding period of the previous year. The following table sets forth a breakdown of particulars of the income tax rate:

	For the six months ended 30 June		Change %
	2020 (Unaudited)	2019 (Unaudited)	
Domestic statutory tax rate	25.0%	25.0%	–
Cross-border business withholding income tax ⁽¹⁾	1.7%	1.1%	0.6%
Others ⁽²⁾	2.5%	3.1%	-0.6%
Total	29.2%	29.2%	–

Note:

- (1) The increase in cross-border business withholding income tax was due to the increase of the withholding tax on the inter-group cross-border borrowings business;
- (2) The decrease of others was mainly due to the decrease in overseas income tax of the Group.

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

Based on the above discussion and analysis, profit for the period attributable to holders of ordinary shares of the Company was RMB2,055,682,000, which decreased by RMB177,754,000 or 7.96% from the corresponding period of the previous year.

2.13 Basic Earnings per Share

Basic earnings per share for the current period amounted to RMB0.54, representing a decrease of RMB0.04 or 6.90% from the corresponding period of the previous year.

Management Discussion and Analysis

3. Analysis of Financial Position

3.1 Assets (Overview)

As at 30 June 2020, the total assets of the Group increased by RMB28,746,868,000 or 11.03% from the end of the previous year to RMB289,317,456,000. Net interest-earning assets increased by RMB20,712,506,000 or 10.20% from the end of the previous year to RMB223,861,581,000.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Loans and accounts receivable	220,038,349	76.05%	201,120,901	77.18%	9.41%
Of which: interest-earning assets	216,506,013	74.83%	197,613,781	75.84%	9.56%
Cash and cash equivalents	7,972,789	2.76%	3,989,571	1.53%	99.84%
Restricted deposits	5,417,361	1.87%	5,966,661	2.29%	-9.21%
Holding of asset-backed securities/notes	5,388,583	1.86%	5,850,246	2.25%	-7.89%
Assets with continuing involvement	5,388,583	1.86%	5,850,246	2.25%	-7.89%
Prepayment and other accounts receivable	2,645,443	0.91%	2,595,975	1.00%	1.91%
Deferred tax assets	4,731,980	1.64%	4,181,252	1.60%	13.17%
Property, plant and equipment	14,315,137	4.95%	11,582,978	4.45%	23.59%
Investment in joint ventures/associates	7,382,935	2.55%	7,218,666	2.77%	2.28%
Financial assets at fair value through profit or loss	8,082,930	2.79%	4,442,688	1.70%	81.94%
Of which: interest-earning assets	1,154,041	0.40%	–	–	N/A
Derivative financial instruments	1,910,472	0.66%	1,565,836	0.60%	22.01%
Inventories	502,771	0.17%	403,838	0.15%	24.50%
Contract assets	21,185	0.01%	22,646	0.01%	-6.45%
Goodwill	2,383,880	0.82%	2,321,837	0.89%	2.67%
Right-of-use assets	3,106,168	1.09%	3,422,782	1.31%	-9.25%
Other assets	28,890	0.01%	34,465	0.01%	-16.18%
Total assets	289,317,456	100.00%	260,570,588	100.00%	11.03%

Management Discussion and Analysis

3.2 Interest-Earning Assets

The main component of the Group's assets was interest-earning assets, which accounted for 76.45% of the Group's total assets as at 30 June 2020. In the first half of 2020, the Group dynamically adjusted the promotion policies of each industry sector in accordance with the environment and industry patterns. While cultivating the market in depth, it also strengthened risk management and control in a prudent manner, strengthened the risk identification of sub-sectors and customer qualifications, and improved asset safety. Under the premise of steadily promoting the expansion of financial business, the Group's interest-earning assets maintain steady growth.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Interest-earning assets					
Included in loans and accounts receivable	222,707,540	99.48%	203,149,075	100.00%	9.63%
Included in financial assets at fair value through profit or loss	1,154,041	0.52%	–	–	N/A
Total net interest-earning assets	223,861,581	100.00%	203,149,075	100.00%	10.20%
Less: interest-earning assets provisions	(6,201,527)		(5,535,294)		12.04%
Net interest-earning assets	217,660,054		197,613,781		10.14%

Management Discussion and Analysis

3.2.1 Loans and Accounts Receivable

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Net interest-earning assets included in loans and accounts receivable	216,506,013	98.39%	197,613,781	98.26%	9.56%
Others ⁽¹⁾	3,532,336	1.61%	3,507,120	1.74%	0.72%
Net loans and accounts receivable	220,038,349	100.00%	201,120,901	100.00%	9.41%

Note:

(1) Others included notes receivables and accounts receivables.

Management Discussion and Analysis

3.2.2 Net Interest-earning Assets by Industry

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Healthcare	31,472,137	14.08%	31,239,825	15.38%	0.74%
Culture & tourism	29,075,722	12.99%	30,965,168	15.24%	-6.10%
Engineering construction	24,338,783	10.87%	21,985,553	10.82%	10.70%
Machinery	9,655,162	4.31%	8,546,849	4.21%	12.97%
Chemical & medicine	4,953,660	2.21%	4,107,624	2.02%	20.60%
Electronic information	9,247,445	4.13%	8,066,091	3.97%	14.65%
Livelihood & consumption	10,307,621	4.60%	8,960,246	4.41%	15.04%
Transportation & logistics	13,729,866	6.13%	13,608,446	6.70%	0.89%
Urban public utility	88,502,668	39.53%	73,732,725	36.30%	20.03%
Others	2,578,517	1.15%	1,936,548	0.95%	33.15%
Total	223,861,581	100.00%	203,149,075	100.00%	10.20%

Note:

- (1) Net interest-earning assets for chemical & medicine, urban public utility, livelihood & consumption, electronic information, machinery and engineering construction among the target industries of the Group maintained growth during the period from 31 December 2019 to 30 June 2020, which was attributable to (i) the Group's business expansion and in-depth exploration of their respective industries, expanding the customer base in the above industries and increasing the introduction of high-quality customers in the above industries; (ii) the Group's adaptation to the changes in the macro economy and the trend of the industrial environment and adjustments to the layout of key industries; and (iii) the Group's continuous maintenance of quality industries and customers and exploration of their needs for financial service.

Management Discussion and Analysis

3.2.3 Net Interest-earning Assets by Region

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

	30 June 2020		31 December 2019	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total
Northeast China	15,427,041	6.89%	16,605,784	8.17%
Northern China	25,758,474	11.51%	23,759,302	11.70%
Eastern China	68,924,628	30.79%	58,249,785	28.68%
Southern China	18,403,426	8.22%	15,202,665	7.48%
Central China	31,280,224	13.97%	29,350,086	14.45%
Northwest China	15,090,951	6.74%	13,535,142	6.66%
Southwest China	48,976,837	21.88%	46,446,311	22.86%
Total	223,861,581	100.00%	203,149,075	100.00%

Note: Of the interest-earning assets at June 2020, the net interest-earning assets from Hubei Province amounted to RMB6,823,521,000, accounting for 3.05% of the net interest-earning assets.

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3.2.4 Aging Analysis of Net Interest-earning Assets

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Net interest-earning assets					
Within 1 year	98,613,235	44.06%	82,278,512	40.50%	19.85%
1 to 2 years	43,507,368	19.43%	59,865,677	29.47%	-27.33%
2 to 3 years	50,150,262	22.40%	45,765,907	22.53%	9.58%
3 years and beyond	31,590,716	14.11%	15,238,979	7.50%	107.30%
Total	223,861,581	100.00%	203,149,075	100.00%	10.20%

Net interests-earning assets within one year represented net interest-earning assets the Group received, and were still valid as at the end of the year or the end of the period. As at 30 June 2020, net interest-earning assets within one year as set out in the table above represented 44.06% of net interest-earning assets of the Group, an increase as compared to the end of the previous year, which meant that the Group still maintained steady growth capacity of interest-earning assets.

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3.2.5 Maturity Profile of Net Interest-earning Assets

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Maturity date					
Within 1 year	105,604,344	47.17%	97,407,550	47.95%	8.41%
1 to 2 years	71,611,953	32.00%	61,747,869	30.39%	15.97%
2 to 3 years	33,248,266	14.85%	32,232,901	15.87%	3.15%
3 years and beyond	13,397,018	5.98%	11,760,755	5.79%	13.91%
Total	223,861,581	100.00%	203,149,075	100.00%	10.20%

Net interest-earning assets due within one year represented net interest-earning assets which the Group received within one year of the reporting date indicated. As at 30 June 2020, net interest-earning assets due within one year as set forth in the table above represented 47.17% of the Group's net interest-earning assets as of each of the respective dates, which slightly decreased as compared to the end of the previous year. This indicated that the maturity of the Group's net interest-earning assets was widely spread and could provide the Group with consistent and sustainable cash inflows to facilitate the matching of our liabilities.

3.2.6 Asset Quality of Net Interest-earning Assets

3.2.6.1 Five-category Classification of Net Interest-earning Assets

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

Classification criteria

In determining the classification of the interest-earning assets portfolio, the Group applies a series of criteria that is derived from the own internal regulations regarding the management of lease assets. These criteria are designed to assess the possibility of repayment by the borrower and the collectability of principal and interest on our interest-earning assets. The interest-earning assets classification criteria focus on a number of factors, if applicable. The asset classifications of the Group include:

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

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

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

Loss. After taking all possible steps or going through all necessary legal procedures, payments remain overdue or only a very limited portion has been recovered.

Asset management measures

In the first half of 2020, affected by the epidemic, the economy was on a downward trend in general. Some industries and enterprises in respect of the Group's customers were also affected by the epidemic, which brought certain risks to their economic operation. However, with the continuous improvement of the prevention and control situation and the accelerated recovery of production and living order, the effect was gradually recovering and showing a recovery trend. The Group took the initiative to investigate all customers at the first time of the outbreak, focusing on customer care, focusing on the time of resumption of work of customers, the extent of the effects of the epidemic, operation and financing liabilities, etc.; at the same time, further communication and on-site investigation were conducted for customers by layer and classification, and the overall effect of the epidemic on the assets of customers of the Group was under control as preliminary evaluation.

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The Group had adopted a series of optimization work including team upgrades, management optimization, and organizational changes. In the asset management stage, the Group strengthened regional asset management functions, subdivided nine regional management units, and continuously improved the professionalism and innovation of asset management. The Group upgraded the organizational team and optimized the comprehensive asset management system, and divided asset management into front, middle and back office management. The Group strengthened process supervision, strengthened research on industries, regions, and policies, accelerated the construction of information-based post-loan early warning systems, introduced more external monitoring and information platforms, achieved more efficient and accurate information transmission and situation judgment, and classified customers in layer adjustment of management measures. The Group optimized the decision-making and handling mechanisms for risky asset disposal, speeded up the timeliness of risk disposal, improved the management of disposal resources, and realized that the overall asset quality of the Group during the reporting period remained stable and under control.

Upgrade the team structure, optimize the management system, and implement comprehensive asset safety management

The Group continued to comprehensively review and optimized the asset operation system, forming a composite organization with clear responsibilities, clear functions, and unified goals, and building a complete front, middle and back office system. The front office unit focused on monitoring and handling to form a goal orientation; the middle office conducted process management to achieve professional management and decision-making checks and balances; the back office supported supervision, quality control and intensive support. The Group realized the hierarchical classification of processes, and block classification of systems, and continuously optimized internal forms and tools to form clearer rules, guidelines, and manuals to play a guiding role. In combination with regulatory requirements, the Group encouraged the Company's existing customers to report the authorization letter to the central bank credit reference system, increased the credit reporting rate, and strengthened customers' willingness to repay.

Deepen regional management, strengthen industry monitoring, and improve the overall effectiveness of monitoring

The Group continued to strengthen the territorial operation and management strategy of "close to assets, close to customers", continued to lay out localized asset management work, optimized the localization layout according to customer concentration, risk degree and regional differences, formed nine regional management units, and gave full play to the advantages of being rooted in the region, close to assets and rapid mobility. The Group carried out the revolution of monitoring methods, deepening the industry to collect risk information, accurately identified local risk information, and realized rapid identification, efficient diagnosis and right remedy. It also realized scientific and technological monitoring means, integrated internal and external information, collected AI big data, made logical judgment and accurate monitoring, realized information closed-loop, found and identified risks in time, took effective measures for disposal, and continuously gave play to the professional advantages of industry management.

Improving management of disposal resources, explore and develop ideas and enhancing risk disposal capabilities

We continued to consolidate the legal resources protection system, actively expanded regional disposal resources; continued to improve the nationwide resource disposal layout through cooperation with provincial AMC; meanwhile, continued to improve innovative methods and ideas for disposal; and established a risk management support system that serves the operation across the Group.

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

	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Pass	196,253,861	87.67%	178,912,873	88.07%	195,099,412	87.10%	174,404,617	89.91%
Special mention	25,071,740	11.20%	21,987,115	10.82%	26,737,919	11.94%	17,811,994	9.18%
Substandard	1,543,447	0.69%	1,689,815	0.83%	1,328,649	0.59%	1,202,699	0.62%
Doubtful	992,533	0.44%	559,272	0.28%	823,098	0.37%	558,273	0.29%
Loss	–	–	–	–	–	–	–	–
Net interest-earning assets	223,861,581	100.00%	203,149,075	100.00%	223,989,078	100.00%	193,977,583	100.00%
Non-performing assets	2,535,980		2,249,087		2,151,747		1,760,972	
Non-performing asset ratio	1.13%		1.11%		0.96%		0.91%	

The Group has established prudent asset quality control and adhered to a stringent and conservative asset classification policy. As at 30 June 2020, the Group's assets under special mention accounted for 11.20% of its net interest-earning assets, representing an increase of 0.38% from 10.82% at the end of 2019. Under the epidemic, customer operations were affected to a certain extent and were still in the stage of recovery. Therefore, the Group prudently adjusted some assets to the category of concern.

The assets under special mention in the urban public utility industry accounted for 35.49% of the total assets under special mention. This was mainly due to the reason that the large amount of assets in the urban public sector and the large number of individual customers. Most urban public utilities were public welfare enterprises with weak profitability. In the first half of the year, affected by the epidemic, customer operations in some industries (such as public transportation, heating) appeared volatile, and short-term capital position tightened. The Group prudently adjusted more of the assets of the segment to assets under special mention.

The assets under special mention in the culture & tourism industry accounted for 20.64% of the total assets under special mention, mainly in tourism, hotels, cinemas, etc. Local control measures and epidemic risks had not yet stabilized, and the supply and demand in the tourism market showed a weaker trend in the first half of the year. It took time to return to normal. Although the economic activities of first- and second-tier cities recovered rapidly, directly driving the consumption of hotels in and around the city, the ability of small and medium-sized customer groups to resist pressure was still weak. Although the theaters had opened successively, the possibility of a turnaround within this year was relatively small, and the risk had not been reduced. The Group prudently adjusted more of the assets of the segment to assets under special mention.

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The assets under special mention in the healthcare industry accounted for 18.01% of the total assets under special mention. The industry segment was directly affected by the epidemic, and some private medical industries (such as dentistry, medical aesthetics, health care, etc.) were basically in a state of shutting down in the first half of the year, and their revenue fell sharply. Affected by the overall economic environment, fiscal revenues in some areas declined, causing medical insurance settlement funds to be unable to arrive on time, leading to lengthened medical insurance settlement cycles in some public hospitals and tight hospital funds. Accordingly, the Group prudently strengthened the process control measures of the industry and prudently adjusted more of the assets of the segment to assets under special mention.

The assets under special mention in the transportation & logistics industry accounted for 7.73% of the total assets under special mention. On the one hand, the domestic epidemic prevention and control was strict, traffic was blocked, and some customers in the transportation and logistics industry were unable to operate and their results declined; at the same time, economic activities in various regions stagnated, and the logistics demand side had shrunk; on the other hand, foreign trade ships and logistics were affected by the international epidemic, and the overall demand for transportation capacity had declined; the prevalence of international trade protectionism had led to an increase in international trade barriers and a deterioration in the foreign trade environment. The Group prudently classified more of the assets of the segment to assets under special mention.

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

	30 June 2020		31 December 2019		31 December 2018	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Healthcare	4,515,974	18.01%	4,696,256	21.36%	4,605,468	17.22%
Culture & tourism	5,174,251	20.64%	4,761,246	21.65%	4,577,006	17.12%
Engineering construction	1,848,955	7.37%	2,334,046	10.62%	2,812,295	10.52%
Machinery	597,765	2.38%	924,872	4.21%	1,536,072	5.74%
Chemical & medicine	115,010	0.46%	73,200	0.33%	302,950	1.13%
Electronic information	586,754	2.34%	815,763	3.71%	1,739,667	6.51%
Livelihood & consumption	1,027,881	4.10%	604,632	2.75%	1,092,437	4.09%
Transportation & logistics	1,938,468	7.73%	1,247,384	5.67%	2,856,936	10.68%
Urban public utility	8,895,019	35.49%	6,529,716	29.70%	7,215,088	26.99%
Others	371,663	1.48%	–	–	–	–
Total	25,071,740	100.00%	21,987,115	100.00%	26,737,919	100.00%

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

	30 June 2020 % of total (Unaudited)	30 June 2019 % of total (Unaudited)	31 December 2019 % of total (Audited)	31 December 2018 % of total (Audited)	31 December 2017 % of total (Audited)
Pass	13.80%	27.81%	22.76%	24.82%	21.73%
Special mention	67.64%	52.91%	35.69%	29.68%	25.31%
Substandard	3.75%	1.92%	3.15%	0.63%	4.85%
Doubtful	0.38%	0.69%	0.05%	1.30%	0.47%
Loss	0.05%	0.25%	0.67%	0.10%	–
Recovery	14.38%	16.42%	37.68%	43.47%	47.64%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

The Group's non-performing asset ratio increased slightly, but the overall asset quality remained safe and under control. As at 30 June 2020, the non-performing asset ratio was 1.13%, which increased by 0.02% from 1.11% as at the end of last year.

The non-performing assets of the urban public utility industry accounted for 27.20% of the total non-performing assets. Due to the effects of individual projects with relatively high amounts, the indicators were on the high side. The main issues of non-performing projects in the urban public utility industry were management instability, the areas involved were all areas that were more severely affected by the epidemic, the new financing is promoted slowly and there were certain difficulties in repaying mature debts but the overall risk was under control. The Group categorized the assets into non-performing through careful consideration. The overall occurrence of non-performing situation in the industry was normal, loss prediction was low, and no systemic risk appeared.

The assets under special mention in the healthcare industry accounted for 18.90% of the total assets under special mention. The industry segment was directly affected by the epidemic, and the number of outpatients and hospitalizations in some hospitals had fallen sharply, and short-term cash flow was tight; some customers were designated as hospitals for confirmed and suspected cases of COVID-19, and other routine outpatients and hospitalizations were closed. Financial arrangements were given priority to guarantee COVID-19 prevention and control of related payments. With the gradual recovery of the epidemic, the overall risk was under control.

The non-performing assets of the culture & tourism industry accounted for 18.22% of the total non-performing assets, mainly concentrating on projects of the tourism and education segment, which had strong public attributes and affected by the epidemic with slow recovery rate. It took time to return to normal. In addition, the large scale of individual projects had resulted in large non-performing assets. The occurrence of adverse events in the industry as a whole is normal, there will be no disruptive risks in the prediction, and the loss prediction is low.

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The non-performing assets of the machinery industry accounted for 14.55% of the total non-performing assets. Affected by the pandemic, the sales volume of the automobile industry fell significantly. Hubei, as an important production and manufacturing base of the domestic automobile industry, was basically in the shutdown state due to the pandemic, and the key equipment suppliers in the automobile manufacturing supply chain could not resume production. After the periodical victory of epidemic prevention and control in Hubei Province and the restart, the recovery of automobile industry was relatively slow, which affected certain upstream and downstream customers and caused them unable to conduct normal operation. The Group prudently reclassified the assets of the segment into substandard and doubtful assets.

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

	30 June 2020		31 December 2019		31 December 2018	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Healthcare	479,338	18.90%	24,549	1.09%	167,180	7.77%
Culture & tourism	462,126	18.22%	560,214	24.91%	450,123	20.92%
Engineering construction	44,885	1.77%	73,092	3.25%	426,516	19.82%
Machinery	368,945	14.55%	198,660	8.83%	294,348	13.68%
Chemical & medicine	182,541	7.20%	117,177	5.21%	7,015	0.33%
Electronic information	80,350	3.17%	85,213	3.79%	73,065	3.40%
Livelihood & consumption	16,468	0.65%	152,750	6.79%	146,722	6.82%
Transportation & logistics	211,170	8.33%	213,539	9.49%	393,733	18.30%
Urban public utility	689,992	27.20%	823,893	36.64%	193,045	8.96%
Others	165	0.01%	–	–	–	–
Total	2,535,980	100.00%	2,249,087	100.00%	2,151,747	100.00%

Management Discussion and Analysis

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

	30 June 2020		31 December 2019		31 December 2018	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Healthcare	435,394	28.21%	22,444	1.33%	79,114	5.95%
Culture & tourism	290,621	18.83%	560,214	33.15%	288,895	21.74%
Engineering construction	21,471	1.39%	72,611	4.30%	162,229	12.21%
Machinery	221,749	14.37%	65,661	3.89%	294,348	22.15%
Chemical & medicine	76,946	4.99%	44,250	2.62%	7,015	0.53%
Electronic information	64,268	4.16%	85,213	5.04%	72,342	5.45%
Livelihood & consumption	13,532	0.88%	152,750	9.04%	120,570	9.08%
Transportation & logistics	87,968	5.70%	42,183	2.50%	304,136	22.89%
Urban public utility	331,448	21.47%	644,489	38.13%	–	–
Others	50	0.00%	–	–	–	–
Total	1,543,447	100.00%	1,689,815	100.00%	1,328,649	100.00%

Management Discussion and Analysis

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

	30 June 2020		31 December 2019		31 December 2018	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Healthcare	43,944	4.43%	2,105	0.38%	88,066	10.70%
Culture & tourism	171,505	17.28%	–	–	161,228	19.59%
Engineering construction	23,414	2.36%	481	0.09%	264,287	32.11%
Machinery	147,196	14.83%	132,999	23.78%	–	–
Chemical & medicine	105,595	10.64%	72,927	13.04%	–	–
Electronic information	16,082	1.62%	–	–	723	0.09%
Livelihood & consumption	2,936	0.30%	–	–	26,152	3.18%
Transportation & logistics	123,202	12.41%	171,356	30.64%	89,597	10.89%
Urban public utility	358,544	36.12%	179,404	32.07%	193,045	23.44%
Others	115	0.01%	–	–	–	–
Total	992,533	100.00%	559,272	100.00%	823,098	100.00%

Management Discussion and Analysis

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

	30 June 2020		31 December 2019		31 December 2018	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Healthcare	-	-	-	-	-	-
Culture & tourism	-	-	-	-	-	-
Engineering construction	-	-	-	-	-	-
Machinery	-	-	-	-	-	-
Chemical & medicine	-	-	-	-	-	-
Electronic information	-	-	-	-	-	-
Livelihood & consumption	-	-	-	-	-	-
Transportation & logistics	-	-	-	-	-	-
Urban public utility	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	-	-	-	-	-	-

Management Discussion and Analysis

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	31 December 2018 RMB'000 (Audited)
At the beginning of the year	2,249,087	2,151,747	1,760,972
Downgrades ⁽¹⁾	1,193,329	1,605,061	1,819,122
Upgrades	(141,440)	(28,232)	(190,602)
Recoveries	(397,314)	(612,339)	(631,871)
Write-off	(367,682)	(867,150)	(605,874)
At the end of the year	2,535,980	2,249,087	2,151,747
Non-performing assets ratio	1.13%	1.11%	0.96%
Non-performing loan formation ratio ⁽²⁾	0.33%	0.43%	0.52%

Note:

- (1) Represents downgrades of interest-earning assets classified as normal or special mention at the end of prior year and interest-earning assets newly classified in the period to non-performing categories.
- (2) Non-performing loan formation ratio = (the balance of non-performing loan at the end of year – the balance of non-performing loan at the beginning of year – write-off for the year)/(net normal interest-earning assets at the beginning of year + net interest-earning assets under special mention at the beginning of year)

Management Discussion and Analysis

3.2.6.2 Interest-earning Assets Provisions

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

	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total	RMB' 000 (Audited)	% of total
Interest-earning assets provisions:								
Provision for non-performing assets	628,448	10.13%	469,357	8.48%	759,991	14.92%	700,180	18.10%
Provision for pass and special mention assets	5,573,079	89.87%	5,065,937	91.52%	4,333,741	85.08%	3,168,838	81.90%
Total	6,201,527	100.00%	5,535,294	100.00%	5,093,732	100.00%	3,869,018	100.00%
Non-performing assets	2,535,980		2,249,087		2,151,747		1,760,972	
Provision coverage ratio	244.54%		246.11%		236.73%		219.71%	
Credit cost ratio ⁽¹⁾	0.49%		0.90%		0.90%		0.92%	

Note:

(1) Credit cost ratio = provision for interest-earning assets for the year/average balance of interest-earning assets.

Management Discussion and Analysis

3.2.6.3 Write-off of Interest-earning Assets

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)	31 December 2018 RMB' 000 (Audited)	31 December 2017 RMB' 000 (Audited)
Write-off	367,682	867,150	605,874	72,431
Non-performing assets as at the end of last year	2,249,087	2,151,747	1,760,972	1,389,124
Write-off ratio ⁽¹⁾	16.35%	40.30%	34.41%	5.21%

Note:

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

In the first half of 2020, according to the requirements of the accounting standards, the Group wrote off bad debts of RMB367,682,000, which were mainly distributed in the urban public utility, transportation & logistics, culture & tourism industries, accounting for RMB180,821,000, RMB86,982,000 and RMB77,132,000, respectively. Despite the Group's effort in collection through judicial means, actionable assets were unable to cover risk exposure of projects at the moment. Although the Group is required to write-off the bad debts of the relevant non-performing assets pursuant to the requirements of the accounting standards, the Group has not terminated the disposal of assets, and will continue to recover through the disposal of equipment/collateral, and recovery of guarantors. From 2011 to the first half of 2020, the written-off bad debts amounted to RMB2,651,296,000 and RMB274,873,000 has been recovered.

Management Discussion and Analysis

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

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)	31 December 2018 (Audited)	31 December 2017 (Audited)
Overdue ratio (over 30 days)	1.28%	1.29%	0.94%	0.72%

The Group adhered to the prudent strategies of risk control and asset management. The Group's overdue ratio (over 30 days) was 1.28% as at 30 June 2020, representing 0.01% lower than 1.29% as at the end of 2019.

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

	30 June 2020		31 December 2019	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total
Healthcare	400,194	13.93%	431,797	16.46%
Culture & tourism	599,161	20.86%	976,592	37.23%
Engineering construction	173,903	6.05%	479,784	18.29%
Machinery	91,349	3.18%	84,986	3.24%
Chemical & medicine	168,306	5.86%	117,178	4.47%
Electronic information	107,015	3.73%	8,911	0.34%
Livelihood & consumption	213,373	7.43%	39,924	1.52%
Transportation & logistics	105,493	3.67%	41,883	1.60%
Urban public utility	1,012,838	35.27%	442,070	16.85%
Others	515	0.02%	–	–
Total	2,872,147	100.00%	2,623,125	100.00%

Management Discussion and Analysis

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

	30 June 2020		31 December 2019	
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total
Special mention	1,626,423	56.63%	2,105,248	80.26%
Substandard	452,994	15.77%	400,345	15.26%
Doubtful	792,730	27.60%	117,532	4.48%
Loss	–	–	–	–
Total	2,872,147	100.00%	2,623,125	100.00%

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

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

	For the six months ended 30 June				
	2020		2019		Change %
	RMB million (Unaudited)	% of total	RMB million (Unaudited)	% of total	
Healthcare	720	8.72%	706	4.74%	1.98%
Culture & tourism	1,086	13.15%	1,345	9.03%	-19.26%
Engineering construction	467	5.66%	2,178	14.62%	-78.56%
Machinery	708	8.58%	1,676	11.25%	-57.76%
Chemical & medicine	816	9.88%	995	6.68%	-17.99%
Electronic information	525	6.36%	1,501	10.07%	-65.02%
Livelihood & consumption	501	6.07%	1,331	8.93%	-62.36%
Transportation & logistics	572	6.93%	918	6.16%	-37.69%
Urban public utility	2,861	34.65%	4,252	28.52%	-32.71%
Total	8,256	100.00%	14,902	100.00%	-44.60%

Note:

- (1) Among the RMB8.256 billion interest-earning assets of asset securitization in the first half of 2020, about RMB5.985 billion of interest-earning assets were issued for on-balance sheet asset securitization. In the first half of 2019, the issuance of RMB14.902 billion of interest-bearing assets was all off-balance asset securitization.

Management Discussion and Analysis

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

	30 June 2020		31 December 2019		Change %
	RMB million (Unaudited)	% of total	RMB million (Audited)	% of total	
Healthcare	3,320	12.92%	5,302	14.35%	-37.38%
Culture & tourism	4,297	16.72%	7,221	19.55%	-40.49%
Engineering construction	2,930	11.40%	5,562	15.06%	-47.32%
Machinery	1,180	4.59%	2,000	5.41%	-41.00%
Chemical & medicine	840	3.27%	1,213	3.28%	-30.75%
Electronic information	1,009	3.93%	1,990	5.39%	-49.30%
Livelihood & consumption	940	3.66%	2,021	5.47%	-53.49%
Transportation & logistics	1,282	4.99%	2,239	6.06%	-42.74%
Urban public utility	9,898	38.52%	9,396	25.43%	5.34%
Total	25,696	100.00%	36,944	100.00%	-30.45%

Note:

- (1) Exclude the balance of principal of interest-earning assets of the on-balance sheet asset securitization business.

The Group disposed of an aggregate of the principal amount of approximately RMB8,256 million of interest-earning assets through asset-backed securities/notes in the first half of 2020, representing a decrease of 44.60% as compared to RMB14,902 million in the corresponding period of last year. As at 30 June 2020, the balance of the holding of asset-backed securities/notes-related assets items amounted to RMB5,388,583,000, representing a decrease of RMB461,663,000 or 7.89% as compared to 31 December 2019. As an off-balance sheet asset management service provider, the Group implemented the same prudent asset management policy as the on-balance sheet asset and strengthened the monitoring process. The off-balance sheet assets were stable in the first half of 2020 with no significant anomalies of asset quality

The balance of assets with continuing involvement of the Group amounted to RMB5,388,583,000, representing a decrease of RMB461,663,000 or 7.89% as compared to the end of last year. Pursuant to specific requirements of accounting standards, for the asset-backed securities/notes business described above, the Group should continue to recognize assets and liabilities with continuing involvement in relation to such activities due to risk associated with subordinate and enhanced credit facilities held by the Group.

Management Discussion and Analysis

3.4 Other Assets

On 30 June 2020, cash and cash equivalents of the Group amounted to RMB7,972,789,000. The Group started to reserve relatively sufficient cash to sustain the business development and ensure the capital liquidity safety of the Group. Restricted deposits of the Group amounted to RMB5,417,361,000, which mainly comprised restricted bank deposits.

The balance of prepayments and other receivables of the Group amounted to RMB2,645,443,000, comprised mainly of prepayments for suppliers of machinery and equipment and deductible value-added tax etc.

The balance of deferred tax assets of the Group amounted to RMB4,731,980,000, mainly for the deferred income tax provided for the time difference between accounting and taxation.

The balance of property, plant and equipment of the Group amounted to RMB14,315,137,000, comprised mainly of equipment, tools and plant for equipment operation business amounted to approximately RMB8.199 billion, the plant and medical equipment of its affiliated hospitals amounted to approximately RMB3.792 billion, and medical equipment of subsidiary hospitals and the main office building of the Group.

The balance of investments in joint ventures/associates of the Group amounted to RMB7,382,935,000, comprised mainly of the equity investments of the Group in joint ventures/associates such as Guangzhou Kangda, Far Wing Capital, industrial fund engaged in entrusted financial leasing and entrusted loan business, provincial asset management companies and the invested hospitals

The balance of financial assets at fair value through profit or loss of the Group was RMB8,082,930,000, mainly due to the financial equity investment, interest-earning assets and wealth management products investment invested by the Group, among which the balance of interest-earning assets and wealth management products as at 30 June 2020 was RMB1,154,041,000 and RMB4,085,974,000, respectively.

The balance of derivative financial instruments of the Group is RMB1,910,472,000, which was mainly the financial instruments such as exchange rate forwards and currency swaps of the Group. These instruments are mainly used to hedge the foreign exchange exposure of the Group.

The balance of the Group's goodwill amounted to RMB2,383,880,000, which was mainly the goodwill recognized by the Group for the acquisition of medical and other institutions.

The Group's right-of-use assets amounted to RMB3,106,168,000, which was mainly the land use rights of the corresponding lands of the Group's main office building and its subsidiary hospitals' buildings and the assets recognized in the use rights of the premises leased by subsidiary hospitals and educational institutions.

Management Discussion and Analysis

3.5 Liabilities (Overview)

On 30 June 2020, total liabilities of the Group amounted to RMB243,624,474,000, representing an increase of RMB24,588,661,000 or 11.23% as compared to the end of last year, among which, the interest-bearing bank and other borrowings were the main component of the Group's total liabilities, accounting for 77.24% of the total, which has increased as compared to 74.14% at the end of last year.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Interest-bearing bank and other borrowings	188,182,819	77.24%	162,396,266	74.14%	15.88%
Other payables, accruals and other liabilities	38,611,487	15.85%	41,710,446	19.04%	-7.43%
Liabilities for continuing involvement	5,388,583	2.21%	5,850,246	2.67%	-7.89%
Trade and bills payables	7,571,930	3.11%	4,473,428	2.04%	69.26%
Tax payables	1,068,227	0.44%	1,256,882	0.57%	-15.01%
Derivative financial instruments	156,058	0.06%	184,514	0.09%	-15.42%
Deferred tax liabilities	191,634	0.08%	236,648	0.11%	-19.02%
Deferred revenue	613,459	0.25%	1,054,306	0.48%	-41.81%
Lease liabilities	1,840,277	0.76%	1,873,077	0.86%	-1.75%
Total liabilities	243,624,474	100.00%	219,035,813	100.00%	11.23%

Management Discussion and Analysis

3.6 Interest-bearing Bank and Other Borrowings

Being faced with the complicated financial environment at home and overseas, the Group adhered to the established strategy of “finance + industry” and made good progress in both indirect financing and direct financing with an improved liability structure, and the financing costs have been maintained a clear advantage as compared to the peers.

With respect to direct financing market, the Group further enriched the bond portfolios, optimized product structure, introduced new innovative products such as renewable corporate bonds and short-term corporate bonds, adjusted the scale of securitization issuance in a timely manner, made full use of the characteristics of financial market demand and reduced overall costs. At the same time, in July 2020, the Group successfully issued US\$300 million convertible bonds (for details, please refer to paragraph 3.8 of this section). The issuance of the bond was not only the first convertible bond of an overseas financial leasing company, but also raised low-cost funds for the Company.

With respect to indirect financing market, the Group achieved cross-platform facility on the basis of the current financing channel as required by its strategic development, and strengthened its co-operation relationship with key banks and launched comprehensive cooperation in finance and industry with the six major banks and some policy banks, forming a deep strategic partnership.

During the pandemic, the Group screened out projects in the direction of promoting the development of the real economy and helping to resume work and production, and cooperated with banks on special loans for epidemic prevention, which conformed to national policies and reduced the Company’s capital costs. At the same time, the Group successfully completed the first issuance of RMB2 billion of renewable epidemic prevention and control bonds in February 2020, and the funds raised were used to support the development of enterprises in epidemic areas and pharmaceutical companies. The Group actively responded to the call of the state finance to support epidemic prevention and control, and took practical actions to effectively serve the real economy, reflecting the Group’s social responsibility to actively participate in epidemic prevention.

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

As at 30 June 2020, the total sum of the Group’s interest-bearing bank and other borrowings amounted to RMB188,182,819,000, representing an increase of 15.88% as compared with RMB162,396,266,000 as at the end of last year. The Group’s borrowings were mainly denominated in RMB and USD.

Management Discussion and Analysis

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Current	101,661,363	54.02%	87,744,845	54.03%	15.86%
Non-current	86,521,456	45.98%	74,651,421	45.97%	15.90%
Total	188,182,819	100.00%	162,396,266	100.00%	15.88%

As at 30 June 2020, 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 54.02%, which was roughly the same as compared to 31 December 2019, with a sound financing strategy and reasonable liability structure as a whole.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Secured	18,278,128	9.71%	11,766,200	7.25%	55.34%
Unsecured	169,904,691	90.29%	150,630,066	92.75%	12.80%
Total	188,182,819	100.00%	162,396,266	100.00%	15.88%

The Group carefully managed its funding risk in the first half of 2020. As at 30 June 2020, the proportion of the Group's interest-bearing bank and other borrowings that were unsecured accounted for 90.29% of the Group's total interest-bearing bank and other borrowings, which decreased as compared with that of the end of last year, mainly because the Group continued to optimize its financing conditions and acquired high-quality financing resources.

Management Discussion and Analysis

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Bank loans	98,281,702	52.23%	85,561,053	52.69%	14.87%
Other loans	89,901,117	47.77%	76,835,213	47.31%	17.01%
Total	188,182,819	100.00%	162,396,266	100.00%	15.88%

As at 30 June 2020, the proportion of the Group's loans as a percentage to the Group's total bank and other borrowings was roughly the same as compared with 31 December 2019, as the Group continued to deepen its financing cooperation with banks and other institutions with a sound financing strategy.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Domestic	143,796,258	76.41%	133,900,943	82.45%	7.39%
Overseas	44,386,561	23.59%	28,495,323	17.55%	55.77%
Total	188,182,819	100.00%	162,396,266	100.00%	15.88%

As at 30 June 2020, the proportion of the Group's domestic bank and other borrowings as a percentage to the Group's total borrowings was 76.41%, which decreased as compared with that at the end of last year as the Group proactively expanded various financing channels overseas to satisfy the funding needs.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
RMB	146,334,755	77.76%	122,898,556	75.68%	19.07%
USD	37,012,051	19.67%	35,544,152	21.89%	4.13%
Borrowings in other currencies	4,836,013	2.57%	3,953,558	2.43%	22.32%
Total	188,182,819	100.00%	162,396,266	100.00%	15.88%

As at 30 June 2020, the Group's activities in RMB accounted for 77.76% of its total interest-bearing bank and other borrowings, representing a slightly increase from the end of last year. In the first half of the year, the Group timely introduced diversified currency financing according to the market.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Direct financing	80,590,417	42.83%	67,077,413	41.30%	20.15%
Indirect financing	107,592,402	57.17%	95,318,853	58.70%	12.88%
Total	188,182,819	100.00%	162,396,266	100.00%	15.88%

As at 30 June 2020, Group's direct borrowings accounted for 42.83% of the total, which slightly increased as compared to the end of last year on account of the Group's deep participation and good cooperation records in both direct and indirect financing markets, and the balanced financing structure ensured the financial resources needed for the future development of the Company.

Management Discussion and Analysis

3.7 Shareholders' Equity

As at 30 June 2020, the total equity of the Group was RMB45,692,982,000, representing an increase of RMB4,158,207,000 or 10.01% from the end of last year.

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

	30 June 2020		31 December 2019		Change %
	RMB' 000 (Unaudited)	% of total	RMB' 000 (Audited)	% of total	
Share capital ⁽¹⁾	10,299,965	22.54%	10,281,212	24.75%	0.18%
Reserve	20,700,211	45.30%	19,847,224	47.79%	4.30%
Equity attributable to ordinary shareholders of the Company ⁽²⁾	31,000,176	67.84%	30,128,436	72.54%	2.89%
Perpetual securities ⁽³⁾	12,724,852	27.85%	9,860,211	23.74%	29.05%
Non-controlling interests	1,967,954	4.31%	1,546,128	3.72%	27.28%
Total equity	45,692,982	100.00%	41,534,775	100.00%	10.01%

Notes:

- (1) The Group's share capital increased by RMB18,753,000 in the first half of 2020. It is the exercise price charged for the exercise of share options during the year under the Group's Share Option Scheme and the fair value of the corresponding share options.
- (2) The Group's equity attributable to the ordinary shareholders of the Company was RMB30,128,436,000 in the end of 2019. The Group's profit for the period attributable to the ordinary shareholders of the Company was RMB2,055,682,000 in the first half of 2020. The final dividend of HK\$0.33 per share for the year ended 31 December 2019 was approved at the annual general meeting on 10 June 2020 and paid on 31 July 2020. As at 30 June 2020, the equity attributable to the ordinary shareholders of the Company was RMB31,000,176,000.
- (3) On 14 June 2017, the Group issued US\$300,000,000 perpetual capital securities at an initial distribution rate of 4.35%. The perpetual securities have no fixed maturity date and are callable at the Group's option in whole on 14 June 2022 ("First Call Date") or any distribution payment date falling after the First Call Date at their principal amounts together with any accrued, unpaid or deferred distributions. The applicable distribution rate will be reset, on the First Call Date and every three years after the First Call Date, to the sum of the initial spread of 2.62%, the treasury rate and a step-up margin of 5.00% per annum.

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

Management Discussion and Analysis

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

On 24 July 2019, the Group completed the issuance of perpetual trust securities in an amount of RMB49,850,000 in the PRC. The basic term of the perpetual trust securities will be 5 years (the Group is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 6.0% per annum.

On 18 February 2020, the Group completed the issuance of renewable corporate bonds (epidemic prevention and control securities) (phase one) in an amount of RMB2,000,000,000 in the PRC. The bonds are divided into two types, the basic term of type one will be 2 years (the Group is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period) with coupon rate of 3.87% per annum and amount of RMB1,500,000,000, and the basic term of type two is 3 years (the Group is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period) with coupon rate of 4.13% per annum and amount of RMB500,000,000.

On 18 June 2020, the Group completed the issuance of renewable corporate bonds (phase two) in an amount of RMB700,000,000 in the PRC. The basic term of the bonds will be 2 years (the Group is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period). The coupon rate is 3.98% per annum.

Management Discussion and Analysis

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

On 8 July 2020, the issuance of U.S.\$300,000,000 2.50% guaranteed convertible bonds due 2025 was completed by Universe Trek Limited (a wholly-owned subsidiary of the Company) and guaranteed by the Company (the "Convertible Bonds") and listed on the Stock Exchange. The Convertible Bonds were issued at 100.00% of the principal amount of the bonds as the issue price, and were issued in registered form and in denominations U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof. The Company issued the Convertible Bonds for the purpose of supplementing liquidity and intended to use the net proceeds from the bond issuance for working capital and general corporate purposes. The Convertible Bonds can be converted into conversion shares based on relevant conditions. Based on the net proceeds from the issuance of the Convertible Bonds (after deducting the fees, commission and expenses) amounting to approximately US\$296.6 million, the net price of each conversion share of the Convertible Bonds amounted to approximately HK\$8.24 (at the predetermined exchange rate of US\$1.00 to HK\$7.7503). The Convertible Bonds were offered and sold to no less than six independent placees (who were independent individuals, corporates and/or institutional investors).

Based on the initial conversion price of HK\$8.33 per share of the Convertible Bonds and assuming full conversion of the Convertible Bonds, the Convertible Bonds will be convertible into 279,122,448 conversion shares, representing approximately 7.04% of the issued share capital of the Company on 17 June 2020 (the date of the subscription agreement) and approximately 6.58% of the issued share capital of the Company as enlarged by the issuance of such conversion shares (assuming that there is no other change in the issued share capital of the Company); these conversion shares will be issued in accordance with the general mandate granted by the shareholders of the Company at the annual general meeting on 10 June 2020. The initial conversion price of the Convertible Bonds was HK\$8.33 per conversion share; the conversion price was adjusted to HK\$7.92 per conversion share on 31 July 2020 due to the payment of dividend; the closing price quoted by the Company on the Stock Exchange was HK\$6.85 per share on 17 June 2020 (the date of the subscription agreement); the quoted closing price was HK\$6.38 per share on 31 July 2020 (the effective date of the above conversion price adjustment).

As at the disclosure date of this report, the Company used all the net proceeds. The actual uses were as follows: (1) approximately US\$169.5 million for domestic business operations, and (2) approximately US\$127.1 million for working capital and other general corporate purposes, consistent with the previously disclosed use of proceeds.

For the principal terms and other details of the Convertible Bonds, please refer to the announcements of the Company dated 17 June, 18 June, 19 June, 8 July and 21 July 2020.

(I) Adjustment of Conversion Price of the Convertible Bonds

Effective date of conversion price adjustment	Adjusted conversion price	Disclosure date	Explanation of conversion price adjustment
31 July 2020	HK\$7.92	21 July 2020	Adjust the conversion price based on the 2019 final dividend payment

Management Discussion and Analysis

(II) Impact of the Convertible Bonds on Earnings per Share and Share Dilution

As at the disclosure date of this report, the total outstanding principal of the Convertible Bonds was US\$300,000,000, and no share conversion had occurred. According to the adjusted conversion price of HKD7.92 per share, if the convertible bonds are fully converted, the maximum number of shares that the Company can issue will be 293,571,970 shares, representing approximately 7.41% of the issued share capital of the Company as at the disclosure date of this report and approximately 6.90% of the issued share capital of the Company as enlarged by the issue of such conversion shares. The maximum number of these issuable shares are also within the scope of the general authorization granted by the Company at the annual general meeting on 10 June 2020 to issue shares. As at 30 June 2020, the issuance of the Convertible Bonds has not yet been completed and no conversion price adjustment has occurred. Therefore, there is no immediate dilutive impact on the Company's earnings per share and equity structure during the reporting period.

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

During the reporting period, the Company's liabilities and credit status did not change significantly, and the credit ratings assigned to the Company by various credit rating agencies remained unchanged. The Company has sufficient cash flow. At the same time, the banks have granted sufficient credit lines to the Company. Even if investors hold the convertible bonds to maturity and require payment of the principal, the Company is fully capable of paying in cash.

Management Discussion and Analysis

4. Capital Management

The primary objective of the Group's capital management activities is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. In the first half of 2020, no change was made to the objectives, policies or processes for managing capital.

4.1 Gearing Ratio

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Total assets (A)	289,317,456	260,570,588
Total liabilities (B)	243,624,474	219,035,813
Total equity	45,692,982	41,534,775
Gearing ratio (C=B/A)	84.21%	84.06%

In the first half of 2020, the Group made full use of capital leverage for our operations to keep the Group's gearing ratio relatively high while at the same time closely managed the Group's gearing ratio to avoid potential liquidity risk. As at 30 June 2020, the Group's gearing ratio was 84.21%.

4.2 Ratio of Assets at Risk to Equity

According to Article 27 of the Interim Measures for the Supervision and Management of Financial Leasing Companies issued by the China Banking Regulatory Commission in May 2020, the total risky assets of a financial leasing company must not exceed 8 times of the net assets.

As at 30 June 2020, the ratios of risk assets to equity of International Far Eastern Financial Leasing Co., Ltd., Far Eastern Horizon (Tianjin) Financial Leasing Co., Ltd. and Far Eastern Horizon Financial Leasing Co., Ltd., the domestic finance leasing operations entities of the Group, were 5.65, 4.99 and 4.91 respectively, which were in compliance with the ratio of risk assets to equity requirements of the measures. The Group will ensure that all domestic finance leasing operations entities will continue to meet the above regulatory requirements through allocation of internal resource.

Management Discussion and Analysis

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

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Total assets	209,340,919	197,945,934
Less: Cash	7,026,888	5,865,515
Total assets at risk	202,314,031	192,080,419
Equity	35,834,795	31,608,628
Ratio of assets at risk to equity	5.65	6.08

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Total assets	76,749,479	66,375,364
Less: Cash	3,643,661	2,407,459
Total assets at risk	73,105,818	63,967,905
Equity	14,639,301	15,360,169
Ratio of assets at risk to equity	4.99	4.16

Management Discussion and Analysis

Far Eastern Horizon Financial Leasing Co., Ltd.

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Total assets	23,747,610	17,433,115
Less: Cash	166,383	125,838
Total assets at risk	23,581,227	17,307,277
Equity	4,806,990	4,291,405
Ratio of assets at risk to equity	4.91	4.03

5. Capital Expenditures

The Group's capital expenditure was RMB3,715,481,000 in the first half of 2020, which was mainly used as the expenditures for additions of property, plant and equipment, and external equity investments.

6. Risk Management

6.1 Credit Risk

In the first half of 2020, the COVID-19 epidemic swept the world. As a result, the GDP growth rate in China during the first quarter fell by 6.8%. The vitality of economic activities and trade exchanges in most major economies in the world has been lost. In the second quarter, the epidemic in China was quickly and effectively controlled. Effective policies, such as guiding interest rate declines, credit support, and fiscal and tax reductions and exemptions, were implemented to hedge risks. Through the "six stability" and "six security" initiatives including "stabilizing foreign capital", "stabilizing foreign trade", "securing market entities" and "securing industrial chain and supply chain stability", China has stabilized its economic fundamentals. The GDP in China has achieved a growth rate of 3.2%, outperforming other major economies in the world.

In the face of the sudden COVID-19 epidemic, on the foundation of a careful study on the epidemic prevention and control situation, the Company predicted the adverse impacts of the epidemic on its operations and management in advance, and actively adopted effective remedial and preventive measures, i.e. conducting risk investigation on stock and assets. The Company took quick measures to effectively stop losses, conducted research on risk plans for new businesses and strictly implemented the planned proposals. In the first half of the year, the operations of the Company progressed in an orderly manner, and asset quality was safe and controllable.

Management Discussion and Analysis

(I) Increase policy research efforts

After the outbreak of the COVID-19 epidemic, the domestic and international epidemic situation has changed rapidly, differentiation of business operations has been intensified, and various national hedging policies have been intensively introduced. In response, the Company continued to put greater efforts on the collection, sorting and analysis of information in respect of the development and prevention and control of the epidemic, the benefits and relief policies of various national departments, the new risks in different industries and regions, and the survival status of the key enterprise groups. The Company also predicted the short-term and long-term impacts of the epidemic on market demand, customer operations and credit risk, so as to provide a basis for the formulation of the Company's management and control strategy.

(II) Optimize asset allocation strategies

In response to the outbreak of the epidemic, the Company promptly and decisively initiated the risk investigation of client assets in the severely affected stock industries, and tried every means to stop losses in a timely manner. At the same time, the Company made timely, appropriate and necessary adjustments to its asset allocation strategy for new businesses.

In view of the significant impacts of the COVID-19 epidemic on tourism, catering, accommodation, offline film and television and entertainment, large supermarkets, public transportation and passenger transportation, offline education and training institutions as well as other industries, on the one hand, the Company segmented industrial customers and carried out key management and control of risks. On the other hand, it imposed appropriate restrictions on the growth rate of new businesses in related industries, and made periodic assessments and adjustments based on the development of the epidemic.

Meanwhile, it is determined to further increase the coverage of public utilities and enterprises related to the national economy and people's livelihood, such as water, electricity, heat, gas, and other public utilities and enterprises according to research results. At the same time, it was determined to further increase the coverage of state-owned enterprise customers with strong ability to resist risks, and further increased its efforts on asset allocation and investment intensity of existing high-quality customers.

(III) Raise standard for customer introduction

The Company expanded the application scope of the list system, especially intensified the selection and development of customers who meet the requirements for introduction, thus forming a whitelist and encouraging cooperation. For customers having negative information, entering into the scope of attention with long overdue time and high frequency, they will be included in the greylist, and should be dealt with caution. For discredited customers who defaulted in the open market, they will be blacklisted and resolutely refrained from entry.

For industrial customers that have been severely affected by the epidemic but are still seen as a promising customer in the long-term, the Company should carefully study, effectively screen, carefully analyze, and reasonably evaluate the recovery of the market and the stage they are in. While formulating long-term response plans, the Company will implement a more stringent introduction standard in the short run.

(IV) Adjust credit operation requirements

During the epidemic period, in areas with low accessibility, the Company selects quality customers in the pool for cooperation, focusing on credit evaluation of such stock customers.

For customers affected by the epidemic who meet the introduction conditions, the Company will enhance effort in customer review, including the introduction of multiple third-party verification tools, which further strengthens multi-dimensional cross-validation; on the basis of the original queries during the credit-granting stage, it has been expanded to multiple inquires and verifications during the lending and post-loan stages, in order to deal with the complex external environment related to credit risks and operational risks that are magnified and rapidly changing during the epidemic.

Management Discussion and Analysis

According to the classification of national COVID-19 epidemic risk levels, on-site due diligence and review work are carried out in different levels. For customers who are difficult to reach due to isolation and inconvenience of travel, under the premise of ensuring reliable quality, and safety and controllability, the Company adopts evidence obtaining through telephone, electronic means and videos to respond flexibly.

(V) Strengthen decision-making mechanism in respect of epidemic prevention and control

The Company strengthens the joint prevention and control mechanism. It establishes multi-departmental business information synchronization and joint risk prevention and control mechanisms, strengthens risk management and business collaboration, collaboration before, during, and after lending, collaboration between risk management and revenue management, and collaboration in management of various aspects of operational risk, etc., and implements “joint prevention and control”, “group prevention and group control”. With all employees performing their duties, the Company weaved a solid and reliable “protective net” for risks.

The Company strengthens the rapid decision-making mechanism. For the rapidly changing external environment, on the basis of strengthening policy research, the Company establishes a regular exchange mechanism with respect to management and control policy on a monthly basis, listens to the opinions of various departments, carefully reviews and timely and reasonably adjusts the risk management strategy. For emergencies, special meetings are initiated at any time for research and discussion so as to make quick decisions and respond effectively.

6.2 Interest Rate Risk

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

A principal part of the Group’s management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group aims to continuously monitor the impact of prospective interest rate movements which could reduce future net interest income, while actively using interest rate swaps and other financial instruments to hedge interest rate risk exposure. The distribution of interest rate sensitive assets and liabilities of the Group is as follows:

	As of 30 June 2020 RMB’ 000 (Unaudited)	As of 31 December 2019 RMB’ 000 (Audited)
Variable interest bearing assets	40,668,617	58,285,143
Variable interest bearing liabilities	(84,983,174)	(79,083,968)
Monetary funds and others	14,466,624	11,733,432
Derivative financial instruments	45,395,759	23,365,166
Net exposure	15,547,826	14,299,773

Management Discussion and Analysis

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

	Increase/(decrease) in profit before tax of the Group	
	As of 30 June 2020 RMB' 000 (Unaudited)	As of 31 December 2019 RMB' 000 (Audited)
Change in basis points		
+ 100 basis points	73,102	30,798
- 100 basis points	(73,102)	(30,798)

6.3 Currency Risk

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

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US\$, and to a lesser extent, other currencies. The Group's treasury operations exposure mainly arises from its transactions in currencies other than RMB. In order to control currency fluctuation risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. The Group proactively hedged against foreign exchange exposure based on the currency and terms through using the operation of financial instruments such as foreign exchange forwards and currency swaps. According to relevant statistics, as of 30 June 2020, the Group's actual exposure to foreign exchange risk (excluding perpetual securities) approximately amounted to US\$5,548 million, hedges against foreign exchange exposure amounted to US\$5,551 million with the hedge ratio (percentage of the aforesaid two items) of 100.05% (approximately 101.48% as of 31 December 2019). The Group's actual exposure to foreign exchange risk is limited. As at 30 June 2020, the Group's foreign exchange risk exposure (including perpetual securities) was approximately US\$6,248 million and the hedge ratio was approximately 88.84% (approximately 89.43% as of 31 December 2019).

Management Discussion and Analysis

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

	Change in RMB currency rate	Increase/(decrease) in equity interest excluding perpetual securities of the Group	
		As of 30 June 2020 RMB' 000 (Unaudited)	As of 31 December 2019 RMB' 000 (Audited)
Effect on the profit before tax	+1%	(223)	(5,354)
Direct effect of perpetual securities on the equity in the event of future redemption	+1%	49,557	48,833
		49,334	43,479

The effect above was based on the assumption that the Group's foreign exchange exposures as of the end of each reporting period are kept unchanged and the average percentage of foreign exchange exposure with hedges remained as above so as to calculate the effect of exchange rate change on equity interest.

6.4 Liquidity Risk

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

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

Management Discussion and Analysis

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

	On demand RMB' 000	Within 3 months RMB' 000	3 to 12 months RMB' 000	1 to 5 years RMB' 000	Over 5 years RMB' 000	Undated RMB' 000	Total RMB' 000
As of 30 June 2020							
Total financial assets	10,777,451	39,827,363	92,394,566	134,634,130	1,512,262	859,178	280,004,950
Total financial liabilities	409,483	38,177,715	89,860,702	108,256,953	2,387,291	–	239,092,144
Net liquidity gap	10,367,968	1,649,648	2,533,864	26,377,177	(875,029)	859,178	40,912,806
As of 31 December 2019							
Total financial assets	6,067,982	36,894,249	83,155,331	122,988,209	1,048,429	816,405	250,970,605
Total financial liabilities	294,128	32,354,472	78,316,047	100,533,590	2,616,051	–	214,114,288
Net liquidity gap	5,773,854	4,539,777	4,839,284	22,454,619	(1,567,622)	816,405	36,856,317

6.5 Operational Risk

The Group continuously enhanced the internal control mechanism of various industrial groups and continued to improve the management over HSE major risks. The Group further strengthened the headquarters' effectiveness of implementation of policies and professional guidance and management, ensuring that the overall operational process risks were under control.

Management Discussion and Analysis

7. Charge on Group Assets

The Group had lease receivables of RMB9,034,069,000, long-term receivables of RMB4,476,282,000, cash of RMB503,677,000, property, plant and equipment of RMB1,367,659,000 and right-of-use asset of RMB874,516,000 pledged to the bank as of 30 June 2020 in order to secure or pay the bank borrowings, cash of RMB639,385,000 was pledged for bank acceptances, letter of credit and etc.

8. Material Investments, Acquisitions and Disposals

In the first half of 2020, the Group continued to accelerate the investment rate for the hospitals and further explored the layout of hospitals. Currently, 31 holding hospitals were completed and delivered, among them, the newly added hospital project during the period is Pizhou Dongda Hospital. The Group had initially formed national hospitals operation network covering East China, South China, North China, Southwest China and Northeast China. Through the vertical and horizontal linkage, the Group will explore the operating pattern of the administration offices, improve the operational efficiency of the subject units, and constantly improve the content of the business to establish a hospital group under the operation of "One system, One network, One hospital".

In the first half of 2020, the Group operated 14 kindergartens and 3 schools. Due to the tightening of education industry policies, the Group recently has no plan to acquire or open new schools and kindergartens, and will make extension on original sites, improve the quality of education and fineness of operation management, adhere to the idea of exquisite schools, and continue to work hard for the private and boutique education system with high reputation brand, strong service capability and the most distinctive characteristics.

In the first half of 2020, the Group did not conduct any material investment as defined under Rule 32(4A) of Appendix 16 of the Listing Rules.

9. Human Resources

As of 30 June 2020, the Group had 20,935 full-time employees, an increase of 6,164 full-time employees as compared to 14,771 in the corresponding period of 2019. Most of them are mainly grassroots personnel in medical institutions and equipment operation sectors.

The Group believes that it has a high quality work force with specialized industry expertise. As at 30 June 2020, approximately 44.70% of the Group's employees had bachelor's degrees or above, and approximately 17.50% had master's degrees or above.

Management Discussion and Analysis

9.1 Incentive Schemes

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

With a view of promoting the Group to establish and complete the medium-long term stimulation and restriction system for fully arousing the enthusiasm of the management, attracting and retaining the excellent management talents, and effectively integrating the interests of shareholders, the Company and the management to guarantee the long, stable and healthy development, the board of the Company considered and passed the program of setting up the equity incentive plans.

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

Management Discussion and Analysis

9.1.1 2014 Share Option Scheme

During the reporting period, the Company did not grant any options under the 2014 Share Option Scheme. A summary of the movements of the outstanding share options under the 2014 Share Option Scheme during the reporting period is as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding	Number of share options			Outstanding	
		(Note 1)	(Note 2)	per share HK\$	as at	Exercised	Lapsed	Cancelled	as at	
				(Note 3-7)	1 January 2020	Granted	(Note 8)			30 June 2020
KONG Fanxing CEO and executive Director	11 July 2014	11 July 2016 - 11 July 2018	11 July 2016 - 11 July 2024	5.86	1,316,960	-	-	-	-	1,316,960
KONG Fanxing CEO and executive Director	3 July 2015	3 July 2017 - 3 July 2019	3 July 2017 - 3 July 2025	7.17	1,856,913	-	-	-	-	1,856,913
KONG Fanxing CEO and executive Director	15 June 2016	15 June 2018 - 15 June 2020	15 June 2018 - 15 June 2026	5.714	3,292,400	-	-	-	-	3,292,400
KONG Fanxing CEO and executive Director	20 June 2017	20 June 2019 - 20 June 2021	20 June 2019 - 20 June 2027	6.82	3,292,400	-	-	-	-	3,292,400
KONG Fanxing CEO and executive Director	18 July 2018	18 July 2020 - 18 July 2022	18 July 2020 - 18 July 2028	7.36	3,410,926	-	-	-	-	3,410,926

Management Discussion and Analysis

Grantee	Date of grant	Vesting period	Exercise period	Exercise price per share HK\$ (Note 3-7)	Outstanding as at 1 January 2020	Number of share options				Outstanding as at 30 June 2020
		(Note 1)	(Note 2)			Granted	Exercised (Note 8)	Lapsed	Cancelled	
WANG Mingzhe CFO and executive Director	11 July 2014	11 July 2016 - 11 July 2018	11 July 2016 - 11 July 2024	5.86	460,936	-	-	-	-	460,936
WANG Mingzhe CFO and executive Director	3 July 2015	3 July 2017 - 3 July 2019	3 July 2017 - 3 July 2025	7.17	594,212	-	-	-	-	594,212
WANG Mingzhe CFO and executive Director	15 June 2016	15 June 2018 - 15 June 2020	15 June 2018 - 15 June 2026	5.714	1,053,568	-	-	-	-	1,053,568
WANG Mingzhe CFO and executive Director	20 June 2017	20 June 2019 - 20 June 2021	20 June 2019 - 20 June 2027	6.82	1,037,106	-	-	-	-	1,037,106
WANG Mingzhe CFO and executive Director	18 July 2018	18 July 2020 - 18 July 2022	18 June 2020 - 18 June 2028	7.36	1,074,442	-	-	-	-	1,074,442
SUBTOTAL FOR DIRECTORS					17,389,863	-	-	-	-	17,389,863

Management Discussion and Analysis

Grantee	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding	Number of share options			Outstanding	
		(Note 1)	(Note 2)	per share HK\$	as at	Exercised	Lapsed	Cancelled	as at	
				(Note 3-7)	1 January 2020	Granted	(Note 8)			30 June 2020
Employees	11 July 2014	11 July 2016 - 11 July 2018	11 July 2016 - 11 July 2024	5.86	6,060,667	-	479,392	-	48,219	5,533,056
Employees	3 July 2015	3 July 2017 - 3 July 2019	3 July 2017 - 3 July 2025	7.17	10,821,904	-	262,252	-	735,969	9,823,683
Employees	15 June 2016	15 June 2018 - 15 June 2020	15 June 2018 - 15 June 2026	5.714	22,114,019	-	1,740,396	-	1,133,307	19,240,316
Employees	20 June 2017	20 June 2019 - 20 June 2021	20 June 2019 - 20 June 2027	6.82	24,797,110	-	304,616	-	2,653,963	21,838,531
Employees	18 July 2018	18 July 2020 - 18 July 2022	18 June 2020 - 18 June 2028	7.36	27,611,446	-	-	-	3,233,559	24,377,887
TOTAL					108,795,009	-	2,786,656	-	7,805,017	98,203,336

Management Discussion and Analysis

- Note 1: Subject to the rules of the 2014 Share Option Scheme, the options granted on 11 July 2014 will be vested to the grantees at the second, third and fourth anniversary of the date of grant at an average amount.
- Note 2: According to the 2014 Share Option Scheme, the options shall be exercised within the Option Period. "Option Period" shall mean, in respect of any particular option, a period (which may not be later than 10 years from the offer date of that option) to be determined and notified by the Board or the Administration Committee to the grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses; and (ii) 10 years from the offer date of that option. There is no minimum period for which any vested option must be held before it can be exercised and no performance target which need to be achieved by a grantee before the vested options can be exercised.
- Note 3: The exercise price is not less than the higher of (i) the closing price of HK\$5.86 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 11 July 2014 (i.e. the grant date) and (ii) the average closing price of HK\$5.81 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 11 July 2014. The Share does not carry nominal value.
- Note 4: The exercise price is not less than the higher of (i) the closing price of HK\$6.88 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 3 July 2015 (i.e. the grant date) and (ii) the average closing price of HK\$7.17 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 3 July 2015. The Share does not carry nominal value.
- Note 5: The exercise price is not less than the higher of (i) the closing price of HK\$5.60 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 15 June 2016 (i.e. the grant date) and (ii) the average closing price of HK\$5.714 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 15 June 2016. The share does not carry nominal value.
- Note 6: The exercise price is not less than the higher of (i) the closing price of HK\$6.820 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 20 June 2017 (i.e. the grant date) and (ii) the average closing price of HK\$6.714 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 20 June 2017. The share does not carry nominal value. The closing price of shares immediately before the date on which the options were granted is HK\$6.8 per share.
- Note 7: The exercise price is not less than the higher of (i) the closing price of HK\$7.36 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 18 July 2018 (i.e. the grant date) and (ii) the average closing price of HK\$7.032 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 18 July 2018. The share does not carry nominal value. The closing price of shares immediately before the date on which the options were granted is HK\$7.18 per share.
- Note 8: The weighted average closing price of shares immediately before the dates on which the options were exercised by directors and employees is HK\$6.9797.

Management Discussion and Analysis

9.1.2 2019 Share Option Scheme

No share options were granted under the 2019 Share Option Scheme during the reporting period. A summary of the movements of the outstanding share options under the 2019 Share Option Scheme during the reporting period is as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding	Number of share options				Outstanding
		(Note 1)	(Note 2)	per share	as at	Granted	Exercised	Lapsed	Cancelled	as at
				HK\$ (Note 3)	1 January 2020		(Note 8)			30 June 2020
KONG Fanxing CEO and executive Director	19 July 2019	19 July 2020 - 19 July 2022	19 July 2020 - 19 July 2029	7.618	3,163,358	-	-	-	-	3,163,358
WANG Mingzhe CFO and executive Director	19 July 2019	19 July 2020 - 19 July 2022	19 July 2020 - 19 July 2029	7.618	996,458	-	-	-	-	996,458
SUBTOTAL FOR DIRECTORS					4,159,816	-	-	-	-	4,159,816
Employees	19 July 2019	19 July 2020 - 19 July 2022	19 July 2020 - 19 July 2029	7.618	26,262,200	-	-	-	2,622,425	23,639,775
TOTAL					30,422,016	-	-	-	2,622,425	27,799,591

Note 1: Subject to the rules of the 2019 Share Option Scheme, the options granted on 19 July 2019 will vest to the grantees at the first, second and third anniversary of the date of grant at an average amount.

Note 2: According to the 2019 Share Option Scheme, the options shall be exercised within the Option Period. "Option Period" shall mean, in respect of any particular option, a period (which may not be later than 10 years from the offer date of that option) to be determined and notified by the Board or the Administration Committee to the grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses; and (ii) 10 years from the offer date of that option. There is no minimum period for which any vested option must be held before it can be exercised and no performance target which needs to be achieved by a grantee before the vested options can be exercised.

Note 3: The exercise price is not less than the higher of (i) the closing price of HK\$7.40 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on 19 July 2019 (i.e. the grant date) and (ii) the average closing price of HK\$7.618 per share on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 19 July 2019. The share does not carry nominal value.

Management Discussion and Analysis

9.1.3 2014 Restricted Share Award Scheme

During the reporting period, the Company did not grant any Shares under the 2014 Restricted Share Award Scheme, and as of 30 June 2020, the Company had granted an aggregate of 246,254,407 Shares thereunder. The 2014 Restricted Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules.

9.2 Employee Benefits

In accordance with applicable PRC regulations, the Group has made contributions to social security insurance funds including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance and housing funds for our employees. The Group also provides supplemental commercial medical insurance, property insurance and safety insurance in addition to those required under the PRC regulations. As of 30 June 2020, the Group complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

Management Discussion and Analysis

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

10.1 Contingent Liabilities

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Legal proceedings:		
Claimed amounts	13,668	15,417

10.2 Capital Commitments and Credit Commitments

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Contracted, but not provided for:		
Capital expenditure for acquisition of property and equipment	186,590	248,141
Capital expenditure for equity investment ⁽¹⁾	10,000	10,000
Irrevocable credit commitments ⁽²⁾	6,511,410	9,713,667

Notes:

- (1) Capital expenditure for equity investment mainly represents investment in equity joint ventures with hospitals.
- (2) The Group's irrevocable credit commitments represent leases that have been signed but the term of the lease has not started.

Management Discussion and Analysis

11. Future Outlook

At the beginning of 2020, the sudden spread of the COVID-19 epidemic has caused the global economy to encounter an unprecedentedly huge impact. According to the latest World Economic Outlook Report issued by International Monetary Fund (IMF), it is predicted that the global economy will shrink by 4.9% this year, facing the worst recession since the Great Depression in the 1930s. The pace of economic recovery in 2021 will be slower than expected.

Under its strong and unified leadership, the Chinese economy has recovered rapidly, and major strategic results have been achieved in epidemic prevention and control. The economy has recovered steadily, and the resumption of work and production has improved month by month. The economic growth in the second quarter was significantly better than expected. At the same time, the current economic situation is still complicated and severe, with relatively high level of uncertainties and instability.

Amid this backdrop, the Group maintains its strategic determination and exerts all efforts to respond to the short-term negative impacts of the epidemic by actively resuming work and production, optimizing asset layout, refining operation and management, and ensuring resource supply and taking other means, so as to ensure a sound operating foundation, controllable asset risks, and the healthy and sustainable business development in long-term. The Group will continue to pay close attention to the development of the epidemic and economic recovery. The Group will, on a best effort basis, make progress and create optimal return for shareholders amid the uncertain environment in the future.

In respect of financial business, the Group will constantly strengthen its customer base, dig deeper into industry regions, and achieve more accurate, measurable and efficient marketing communications. At the same time, the Group will strengthen internal and external business synergy, establish business collaboration and enrich business operations. Lastly, it will continue to promote new business layouts in multiple dimensions, such as customer base, products, regions and business formats, to cultivate new momentum for business development.

In respect of industrial operations, adhering to provide services for China's infrastructure construction while focusing on its major business of equipment operation as usual, Horizon Construction Development will continually consolidate the advantage of scale, continue to explore and extend the upstream and downstream industrial chains and provide new service. The hospital group will rely on an extensive hospital network and consolidate its capital, technology and abundant global resources, thereby establishing a medical service system featured with Far East characteristics.

Looking forward, the Group will firmly uphold the development strategy of "finance + industry". With the vision of "creating outstanding enterprises with great efforts", the Group constantly strives to promote financial innovation, continues to promote the development of the real industry, achieves organic synergy between financial business and industrial operations, and makes additional contributions to the progress of the industry upgrade in China.

Management Discussion and Analysis

12. Hospital Operation Segment Report

12.1 Profit Statement Analysis of Hospital Operation Segment

	For six months ended 30 June		Change %
	2020 RMB'million (Unaudited)	2019 RMB'million (Unaudited)	
Total Revenue	1,534.56	1,332.16	15.19%
Revenue from hospital operation	1,500.84	1,289.58	16.38%
Other relevant revenue from hospital operation	33.72	42.58	-20.81%
Total Cost	(1,203.38)	(999.71)	20.37%
Cost from hospital operation ⁽³⁾	(1,201.38)	(997.93)	20.39%
Other cost	(2.00)	(1.78)	12.36%
Gross profit	331.18	332.45	-0.38%
Gross profit from hospital operation ⁽⁴⁾	333.18	334.24	-0.32%
Others	(2.00)	(1.79)	11.73%
Labor cost	(85.09)	(118.42)	-28.15%
Other administrative and selling expenses ⁽⁵⁾	(124.48)	(91.82)	35.57%
Provision for assets	(29.26)	(21.37)	36.92%
Other profit	6.18	42.99	-85.62%
Profit before tax	98.53	143.83	-31.50%
Income tax expense	(45.23)	(37.77)	19.75%
Profit for the period	53.30	106.06	-49.75%

Management Discussion and Analysis

Notes:

- (1) In the first half of 2020, the Group, under the premise of improving hospital operation efficiency, continued to develop its hospital territory, with a total of approximately 60 invested medical institutions and more than 20,000 available beds under institutions operated by the Company. The number of contracted holding or shareholding hospitals and clinics that have actually been put into operation has reached 53. During the period, the newly added hospital project of the Group was Pizhou Dongda Hospital. The number of beds available in the 53 medical institutions amounted to approximately 19,000. According to the operation needs of various hospitals, the actual number of beds available at the end of the period amounted to about 12,000. In terms of operation capacity, in the first half of 2020, the hospital operation revenue of the 53 medical institutions amounted to approximately RMB1.9 billion in total. With the gradual standardization of service models, hospitals in stock have gradually increased their local influence, and their revenue has shown a steady growth. The newly acquired hospitals/clinics still have large room for discipline management and business integration. The Group will continue to plan for future operation with the principle of “one network, one system and one hospital” and incorporate the above hospitals into a unified operation and management model, focusing on the development of disciplines, increasing the core competitiveness and achieving income growth. In the first half of 2020, the hospitals of the Group actively responded to the government’s call and fully supported the epidemic prevention and control work. Although the revenue from hospital operation was affected by the epidemic during the period, with its large-scale and intensive resource integration capabilities, operations in the first half of the year have been recovering steadily.
- (2) Other external revenue mainly comprises of the Group’s income from medical institution management and consulting services, which are recognized in stages according to the completion progress of business.
- (3) The costs of hospital operation shown in the Group’s consolidated financial statements of the first half of 2020 increased from approximately RMB998 million of the first half of 2019 to RMB1,201 million. On 30 June 2020, the number of completed and delivered controlling hospitals was 31 (30 June 2019: 28), showing growth in volume and size compared to the past. The completion and delivery of the new hospitals in the initial stage of operation concentrated during the period. Thus, the overall operating cost growth rate was more obvious than the income growth rate. At present, the Group has formed a prototype of certain disciplines. The Group will focus on the full cost accounting of the department, gradually clarify the standardized cost of the department, and adopt a more objective and scientific cost management model to intensify efficiency, control costs, and improve economic output.
- (4) The gross profit margin of the Group’s hospital operation in the first half of 2020 was approximately 22%, which was mainly due to the impact of COVID-19 epidemic and therefore declined from 26% in the first half of 2019. Currently, with the control of the epidemic and the recovery of hospital operations, gross profit will gradually rise.
- (5) As the number of completed and delivered controlling hospitals in the first half of 2020 increased to 31 from 28 of the corresponding period of the previous year, the Group continued to strengthen the construction of medical teams, improve the professional quality of medical staff, and enhance the integrated management level; combined with the introduction of senior management talents in the upper level and local hospitals, the strengthening of market promotion, and the optimization and adjustment to the structure of the Group’s top information system, other selling and management expenses increased significantly.
- (6) This analysis of hospital operation sector profit statement has not taken into account the impact of shareholders’ borrowing.
- (7) According to the actual situation of the hospital operation sector, the scope of the hospital operation sector has been adjusted and the comparative data has been restated this year.

Management Discussion and Analysis

12.2 Asset Analysis of Hospital Operation Segment

	30 June 2020		31 December 2019		Change %
	RMB million (Unaudited)	% of total	RMB million (Audited)	% of total	
Monetary fund	147.89	1.75%	113.16	1.47%	30.69%
Amount of the Group's cash pool	656.85	7.78%	387.99	5.03%	69.30%
Bill receivables	499.13	5.92%	466.85	6.04%	6.91%
Prepayments ⁽¹⁾	93.44	1.11%	137.33	1.78%	-31.96%
Other receivables	202.34	2.40%	123.16	1.60%	64.29%
Entrusted loans	110.09	1.30%	251.48	3.26%	-56.22%
Inventories	132.98	1.58%	156.43	2.03%	-14.99%
Fixed asset and intangible assets ⁽²⁾	3,792.07	44.94%	3,320.08	43.00%	14.22%
Goodwill ⁽³⁾	2,377.94	28.18%	2,315.86	29.99%	2.68%
Investments in joint ventures/associates ⁽⁴⁾	276.60	3.28%	289.52	3.75%	-4.46%
Deferred income tax assets	27.85	0.33%	23.80	0.31%	17.02%
Right-of-use assets ⁽⁵⁾	120.16	1.42%	128.99	1.67%	-6.85%
Other assets	0.56	0.01%	5.57	0.07%	-89.95%
Total assets	8,437.90	100.00%	7,720.22	100.00%	9.30%

Notes:

- (1) Prepayments mainly comprised prepayments for drugs and consumables and transitional purchase fee for equipment;
- (2) Fixed asset and intangible assets mainly comprised medical equipment, buildings and prepaid land lease payments of each hospital;
- (3) Mainly comprised goodwill generated from acquisition of medical institutions;
- (4) Investments in joint ventures/associates mainly comprised the investments in Kunming Broad Healthcare Group, Fengyang Gulou Hospital, Hangzhou Dental Group etc;
- (5) Right-of-use assets mainly represented leased sites for hospitals.

Management Discussion and Analysis

13. Equipment Operation Segment Report

13.1 Profit Statement Analysis of Equipment Operation Segment

	Six months ended 30 June		Change %
	2020	2019	
	RMB million (Unaudited)	RMB million (Unaudited)	
Total Revenue	1,398.35	1,153.56	21.22%
Revenue from operating lease ⁽¹⁾	1,175.26	944.62	24.42%
Revenue from construction services	182.20	156.10	16.72%
Revenue from trading business	37.66	45.90	-17.95%
Other revenue	3.23	6.94	-53.46%
Total Cost	(699.62)	(547.16)	27.86%
Cost of operating lease ⁽¹⁾	(526.31)	(442.50)	18.94%
Cost of construction services	(136.61)	(53.46)	155.54%
Cost of trading business	(33.87)	(51.20)	-33.85%
Other cost	(2.83)	–	N/A
Gross Profit	698.73	606.40	15.23%
Gross profit of operating lease ⁽¹⁾	648.95	502.12	29.24%
Gross profit of construction services	45.59	102.64	-55.58%
Gross profit of trading business	3.79	(5.30)	-171.51%
Other gross profit	0.40	6.94	-94.24%
Administrative and selling expenses	(270.87)	(163.44)	65.73%
Provision for assets	(62.35)	(59.81)	4.25%
Other profit	11.36	8.27	37.36%
Profit before interest and tax	376.87	391.42	-3.72%
Finance costs	(126.50)	(116.53)	8.56%
Profit before tax	250.37	274.89	-8.92%
Income tax expense	(43.86)	(51.84)	-15.39%
Profit for the period	206.51	223.05	-7.42%

Management Discussion and Analysis

Note:

- (1) Horizon Construction Development is a comprehensive equipment service provider established by the Group in the construction sector in China, which is mainly engaged in the lease of equipment and engineering construction in the fields of industrial equipment, turnover materials, pavement equipment and electric power equipment. Relying on its nationwide operating network and compound operation capabilities as well as the advantages such as a full range of equipment with remarkable scale, complete specifications, and a large number of fleets, it is able to fully exert its outstanding expertise in equipment operation, its maintenance and professional service to meet the customers' needs for one-stop service and improved operational efficiency and create value for them. By now, it has served more than 20,000 customers, involving large projects such as the construction of the Terminals at Beijing Daxing Airport, construction and installation of Shanghai National Convention and Exhibition Center, decoration of the Bird's Nest in Beijing, construction of Shenyang Metro, and construction of Hangzhou East Railway Station, etc.

As at 30 June 2020, Horizon Construction Development owned more than 40,000 pieces of equipment and over 1,000,000 tons of turnover materials, with the total original value of its operating assets ranking No.1 in China. Specifically, its industrial equipment consists of scissor-type and boom-type aerial work platforms, which are used in construction, installation and subsequent maintenance of industrial buildings, municipal venues, commercial sites, petrochemical and metallurgical structures, with a stock of more than 40,000. The turnover materials consist of temporary steel structures for construction purpose such as socket type scaffolding, steel support, Larsen pile and structural steel, which are widely used in facade construction and foundation pit support in subways, overpasses, tunnels, municipal pipelines and ditches, housing construction, water channels, ports, factory buildings, high-speed rail and other construction fields. The pavement equipment consists of paving machines, road rollers and milling machines, which are used in the construction and maintenance of asphalt concrete pavements such as high-grade roads, airport runways, test-drive tracks and municipal roads. The electric power equipment consists of generators and load boxes, which are mainly used in temporary power supply for engineering construction, large-scale exhibitions, advertising campaigns, marine engineering, urban construction, field engineering, and mining.

As at 30 June 2020, Horizon Construction Development had 186 business outlets, covering East China, South China, North China, Southwest China and Northeast China, and providing high quality and convenient services for its corporate customers. In addition, it offers tailored design and research services for its customers, with many of its independently-developed products holding a leading position in China. By now, it has obtained 133 authorized patents, 13 invention patents and 8 software copyrights. In recent years, it ranked 39th among the top 100 global leasing companies in 2020, received numerous honorable awards such as the top ten chinese leasing companies, the most influential enterprise in China's aerial work platform leasing industry, and the Pioneer in the International Aerial Work Platform Industry, which made it a leading company in the field of equipment operation in China.

As at 30 June 2020, the operating lease income of the Group amounted to RMB1,175 million, representing an increase of 24.42% over the same period of the previous year. Its gross profit amounted to RMB649 million, representing an increase of 29.24% over the same period of the previous year, while the net profit amounted to RMB207 million, representing a decrease of 7.42% over the same period of the previous year, which was mainly due to: (i) its asset scale continued to expand, which strongly supported the expansion of its business scale; (ii) achieving economic advantages by leveraging its nationwide operating network and constantly enhanced management expertise; (iii) in the first half of the year, net profit fell year-on-year due to the impact of the COVID-19 epidemic; (iv) the Group promoted the upgrade of its overall digital strategy. With Horizon E Mall as the online incremental channel, it has gradually implemented standardization and digitalization, and upgraded traditional offline bills to online electronic bills, so as to improve the collaboration efficiency between the Company and customers. In the first half of 2020, the number of bills signed online for the high-altitude vehicle business has exceeded 69,000, with a penetration rate of electronic settlement slips exceeding 86%; and the penetration rate of electronic lease contracts has exceeded 78%, while the penetration rate of electronic entry and exit orders has reached 88%.

Management Discussion and Analysis

As a leading comprehensive equipment operation service provider in the field of infrastructure construction in China, Horizon Construction Development actively participated in the battle against the epidemic. It has employed more than 800 aerial work platforms, participated in the construction of Leishenshan, Huoshenshan and mobile cabin hospitals in Wuhan, and guaranteed power provision for 40 hospitals in Wuhan, becoming part of the national strategic mobilization capacity. Upon resumption of work and production, Horizon Construction Development has mobilized stores on a nationwide basis to support the construction of new national infrastructure, actively supported local economies to resume production, and achieved steady growth in its own performance in the first half of the year. Looking forward, Horizon Construction Development, taking 40,000 high-altitude vehicles as a new starting point, will focus on equipment management and service improvement, provide customers with better products and rental experience, and strive to become a “trustworthy equipment operation service provider”.

13.2 Asset Analysis of Equipment Operation Segment

	30 June 2020		31 December 2019		Change %
	RMB million (Unaudited)	% of total	RMB million (Audited)	% of total	
Monetary fund	94.70	0.73%	46.93	0.52%	101.79%
Amount of the Group's cash pool	1,239.22	9.61%	122.65	1.36%	910.37%
Trade and bill receivables	1,905.66	14.78%	1,665.67	18.53%	14.41%
Prepayments	280.26	2.17%	365.65	4.07%	-23.35%
Other receivables	508.71	3.94%	655.29	7.29%	-22.37%
Inventories	296.76	2.30%	168.20	1.87%	76.43%
Entrusted loans	0.99	0.01%	5.66	0.06%	-82.51%
Fixed assets	8,199.43	63.58%	5,607.65	62.40%	46.22%
Right-of-use assets	199.73	1.55%	202.09	2.25%	-1.17%
Deferred income tax assets	153.10	1.19%	131.95	1.47%	16.03%
Other assets	17.62	0.14%	15.96	0.18%	10.40%
Total assets	12,896.18	100.00%	8,987.70	100.00%	43.49%

Disclosure of Interests

Directors' and Chief Executive's 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 2020, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were detailed as follows:

Name of shareholder	Name of corporation	Capacity/nature of interest	Total number of ordinary shares ⁽¹⁾	Approximate percentage of interest in the Company
KONG Fanxing	The Company	Beneficial owner	41,702,395(L) ⁽²⁾	1.05%
WANG Mingzhe	The Company	Beneficial owner	13,527,805(L) ⁽³⁾	0.34%
LIU Haifeng David	The Company	Interest in a controlled corporation	415,155,100(L) ⁽⁴⁾	10.47%
LIU Jialin	The Company	Beneficial owner	125,000(L)	0.00%
		Interest of spouse	125,000(L)	0.00%

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) The interest includes 13,169,599 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme, 3,163,358 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 24,499,438 underlying shares in respect of the awarded shares granted pursuant to the Company's 2014 Restricted Share Award Scheme. In addition to the share interest in respect of the share options and awarded shares granted, to the best of the directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Kong Fanxing is interested in 870,000 ordinary shares of the Company as at 30 June 2020. Please refer to the section headed "Incentive Scheme".
- (3) The interest includes 4,220,264 underlying shares in respect of the share options granted pursuant to the Company's 2014 Share Option Scheme, 996,458 underlying shares in respect of the share options granted pursuant to the Company's 2019 Share Option Scheme and 7,925,083 underlying shares in respect of the awarded shares granted pursuant to the Company's 2014 Restricted Share Award Scheme. In addition to the share interest in respect of the share options and awarded shares granted, to the best of the directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Wang Mingzhe is interested in 386,000 ordinary shares of the Company as at 30 June 2020. Please refer to the section headed "Incentive Scheme".

Disclosure of Interests

- (4) The interests includes (1) 1,067,000 ordinary shares of the Company held directly by New Trace Limited which is 100% controlled by Mr. Liu Haifeng David; (2) 32,055,000 ordinary shares of the Company held directly by Capital Bridge Limited; (3) 332,033,100 ordinary shares of the Company held directly by Capital Rise Limited; and (4) 50,000,000 ordinary shares of the Company held directly by Capital Lead Limited. Capital Bridge Limited holds the entire share capital of Capital Rise Limited and Capital Lead Limited respectively. Capital Bridge Limited is 100% controlled by DCP Capital Partners, L.P., which is 100% controlled by DCP General Partner, Ltd, which in turn is 100% controlled by DCP Partners Limited. DCP Partners Limited is 100% controlled by DCP, Ltd., which is 50% controlled by Mr. Julian Juul Wolhardt and 50% controlled by Mr. Liu Haifeng David.

Save as disclosed above, as at 30 June 2020, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in the Shares

Based on the information available to the directors of the Company, as at 30 June 2020 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 30 June 2020, the entities or individuals who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares ⁽¹⁾	Approximate percentage of interest
Sinochem Capital Investment Management (Hong Kong) Limited ⁽²⁾	Beneficial owner	919,914,440(L)	23.20%
Sinochem Capital Investment Management Limited ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	23.20%
Sinochem Corporation ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	23.20%
Sinochem Group Co., Ltd ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	23.20%
The State-owned Assets Supervision and Administration Commission of the State Council ⁽²⁾	Interest in a controlled corporation	919,914,440(L)	23.20%

Disclosure of Interests

Name of shareholder	Capacity/nature of interest	Number of ordinary Shares ⁽¹⁾	Approximate percentage of interest
JPMorgan Chase & Co. ⁽³⁾	Interest in a controlled corporation	19,089,684(L)	0.48%
		9,699,427(S)	0.24%
	Investment manager	7,705,000(L)	0.19%
	Person having a security interest in shares	17,065,534(L)	0.43%
Cathay Financial Holding Co., Ltd.	Approved lending agent	358,564,811(P)	9.04%
		Beneficial owner	326,407,000(L)
Aim Future Limited	Interest in a controlled corporation	307,899,000(L) ⁽⁴⁾	7.76%
Gold Stone Enterprise Limited ⁽⁴⁾	Interest in a controlled corporation	307,899,000(L)	7.76%
Cantrust (Far East) Limited ⁽⁴⁾	Trustee	307,899,000(L)	7.76%
UBS Group AG ⁽⁵⁾	Interest in a controlled corporation	335,260,824(L)	8.45%
LIU Haifeng David	Interest in a controlled corporation	415,155,100(L) ⁽⁶⁾	10.47%
Capital Rise Limited ⁽⁶⁾	Beneficial owner	332,033,100(L)	8.37%
Capital Bridge Limited ⁽⁶⁾	Interest in a controlled corporation	382,033,100 (L)	9.63%
		Beneficial owner	32,055,000 (L)
DCP Capital Partners, L.P. ⁽⁶⁾	Interest in a controlled corporation	414,088,100(L)	10.44%
DCP General Partner, Ltd ⁽⁶⁾	Interest in a controlled corporation	414,088,100(L)	10.44%
DCP, Ltd. ⁽⁶⁾	Interest in a controlled corporation	414,088,100(L)	10.44%
Julian Juul WOLHARDT ⁽⁶⁾	Interest in a controlled corporation	414,088,100(L)	10.44%

Disclosure of Interests

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company. The letter "S" denotes the person's short position in the shares of the Company. The letter "P" denotes the person's shares of the Company by approved lending agent.
- (2) Sinochem Capital Investment Management (Hong Kong) Limited is 100% controlled by Sinochem Capital Investment Management Limited, which is 100% controlled by Sinochem Corporation, which is in turn controlled as to 98% by Sinochem Group Co., Ltd. Sinochem Group Co., Ltd is 100% controlled by the State-owned Assets Supervision and Administration Commission of the State Council.
- (3) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 25 June 2020 for further details of the shareholding structure.
- (4) The interest is held directly by Will of Heaven HK Limited, Swallow Gird HK Limited and Powerful Force HK Limited. Will of Heaven HK Limited, Swallow Gird HK Limited and Powerful Force HK Limited are 100% controlled by Aim Future Limited, which is in turn 100% controlled by Gold Stone Enterprise Limited. Cantrust (Far East) Limited is the trustee of The Gold Stone I Trust and holds 100% interest in Gold Stone Enterprise Limited.
- (5) Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 25 June 2020 for further details of the shareholding structure.
- (6) Please refer to Note (4) of the section headed "Directors' and Chief Executive's Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations" for further details of the shareholding structure.

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

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 2020 to 30 June 2020, except for Code Provision E.1.2 as explained below.

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

At the annual general meeting of the Company held on 10 June 2020 (the “2020 AGM”), Mr. Ning Gaoning (Chairman of the Board) and Mr. Liu Haifeng David (Chairman of the Strategy and Investment Committee) were unable to be present due to other important business engagements or travelling restrictions under the COVID-19 outbreak. In order to ensure smooth holding of the 2020 AGM, Mr. Liu Jialin (independent non-executive director and Chairman of the Remuneration and Nomination Committee) chaired the 2020 AGM and answered questions where necessary.

Model Code for Securities Transactions

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

Specific enquiry had been made to all the directors and the directors have confirmed that they had complied with the Code of Conduct throughout the six months ended 30 June 2020.

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

No incident of non-compliance with the Employees Written Guidelines by the employees was noted by the Company for the six months ended 30 June 2020.

Corporate Governance

Independent Non-Executive Directors

During the period from 1 January 2020 to 30 June 2020, the board of directors had been 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 at least one-third of the board of directors.

Audit and Risk Management Committee

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

The Audit and Risk Management Committee has reviewed, with the management and the external auditors, the condensed consolidated financial statements for the six months ended 30 June 2020 of the Group, including the accounting principles and practices adopted by the Group.

Other Information

Implementation of Distribution of 2019 Final Dividend

According to the proposal in relation to dividend distribution, which was considered and passed at the AGM on 10 June 2020, the Group has paid a dividend of HK\$0.33 per share to shareholders whose names appear on the register of members of the Company on 22 July 2020, thereby resulting in a total dividend payment amount of HK\$1,252,503,778.68.

Interim Dividends

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020.

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

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any shares of the Company for the six months ended 30 June 2020.

Changes in Directors' Biographical Details

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

Name of director	Details of changes
John LAW	Resigned as the independent non-executive director of IntelliCentrics Global Holdings Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 6819) with effect from 23 January 2020.
Liu Haifeng David	Resigned as the non-executive director of China International Capital Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 3908) with effect from 28 February 2020.
YIP Wai Ming	Appointed as the independent non-executive director of Peijia Medical Limited (a company listed on the Hong Kong Stock Exchange, stock code: 9996) with effect from 15 May 2020 ⁽¹⁾ .

Note:

(1) Mr. YIP was appointed as the independent non-executive director of Peijia Medical Limited on 21 January 2020, with effect from 15 May 2020.

Independent Review Report



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

Introduction

We have reviewed the interim financial information set out on pages 98 to 180, which comprises the condensed consolidated statement of financial position of Far East Horizon Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
26 August 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest Income	5	7,730,045	8,163,767
Revenue from operating lease	5	1,175,517	944,624
Revenue from contracts with customers	5	4,413,748	5,104,683
Tax and surcharges		(43,944)	(31,647)
Cost of sales		(6,500,950)	(6,162,222)
Other income and gains	5	993,144	335,021
Selling and distribution costs		(941,631)	(1,320,048)
Administrative expenses		(1,924,323)	(1,619,956)
Impairment losses on financial and contract assets		(1,151,700)	(1,492,297)
Losses on disposal of financial assets measured at amortised cost		(102,882)	(164,200)
Other expenses		(243,148)	(57,604)
Finance costs		(325,086)	(221,541)
Share of net profits of:			
Associates		321,156	112,572
Share of net losses of:			
Joint ventures		(70,343)	(21,259)
PROFIT BEFORE TAX	6	3,329,603	3,569,893
Income tax expense	7	(971,717)	(1,041,013)
PROFIT FOR THE PERIOD		2,357,886	2,528,880
Attributable to:			
Ordinary shareholders of the Company		2,055,682	2,233,436
Holders of perpetual securities	21	278,928	259,216
Non-controlling interests		23,276	36,228
		2,357,886	2,528,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	9	RMB	RMB
Basic and diluted			
– For profit for the period		0.54	0.58

Details of the dividends payable and proposed for the period are disclosed in Note 8 to the interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	2,357,886	2,528,880
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	526,108	72,136
Reclassification adjustment for losses included in the consolidated statement of profit or loss	(561,345)	(57,045)
Income tax effect	5,383	(5,283)
	(29,854)	9,808
Exchange differences on translation of foreign operations	(819)	(171)
Net other comprehensive income that will be reclassified to profit or loss in subsequent periods	(30,673)	9,637
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(30,673)	9,637
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,327,213	2,538,517
Attributable to:		
Ordinary shareholders of the Company	2,025,009	2,243,073
Holders of perpetual securities	278,928	259,216
Non-controlling interests	23,276	36,228
	2,327,213	2,538,517

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	14,315,137	11,582,978
Right-of-use assets		3,106,168	3,422,782
Goodwill		2,383,880	2,321,837
Other intangible assets		28,890	34,465
Investments in joint ventures	13	2,229,155	2,230,724
Investments in associates	14	5,153,780	4,987,942
Financial assets at fair value through profit or loss		4,262,251	4,130,091
Derivative financial instruments	12	301,027	906,710
Loans and accounts receivables	11	114,481,265	102,379,882
Prepayments, other receivables and other assets		10,553,222	11,580,604
Deferred tax assets	18	4,731,980	4,181,252
Restricted deposits	15	3,054	3,871
Total non-current assets		161,549,809	147,763,138
CURRENT ASSETS			
Inventories		502,771	403,838
Derivative financial instruments	12	1,609,445	659,126
Loans and accounts receivables	11	105,557,084	98,741,019
Contract assets		21,185	22,646
Prepayments, other receivables and other assets		2,869,387	2,715,863
Restricted deposits	15	5,414,307	5,962,790
Cash and cash equivalents	15	7,972,789	3,989,571
Financial assets at fair value through profit or loss		3,820,679	312,597
Total current assets		127,767,647	112,807,450
CURRENT LIABILITIES			
Trade and bills payables	16	7,571,930	4,473,428
Other payables and accruals		17,438,514	17,469,463
Derivative financial instruments	12	2,853	28,982
Interest-bearing bank and other borrowings	17	101,661,363	87,744,845
Lease liabilities		254,816	236,375
Income tax payable		1,068,227	1,256,882
Total current liabilities		127,997,703	111,209,975
NET CURRENT (LIABILITIES)/ASSETS		(230,056)	1,597,475

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		161,319,753	149,360,613
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	86,521,456	74,651,421
Lease liabilities		1,585,461	1,636,702
Derivative financial instruments	12	153,205	155,532
Deferred tax liabilities	18	191,634	236,648
Other payables and accruals		21,374,243	24,521,974
Deferred revenue		613,459	1,054,306
Other non-current liabilities		5,187,313	5,569,255
Total non-current liabilities		115,626,771	107,825,838
Net assets		45,692,982	41,534,775
EQUITY			
Equity attributable to ordinary shareholders of the parent			
Share capital	19	10,299,965	10,281,212
Reserves	20	20,700,211	19,847,224
		31,000,176	30,128,436
Holders of perpetual securities	21	12,724,852	9,860,211
Non-controlling interests		1,967,954	1,546,128
Total equity		45,692,982	41,534,775

Kong Fanxing

Director

Wang Mingzhe

Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 19)	Capital reserve RMB'000 (Note 20)	Shares held for share award scheme RMB'000 (Note 20)	Share-based compensation reserve RMB'000 (Note 20)	Special reserve RMB'000 (Note 20)	Reserve fund RMB'000 (Note 20)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 21)	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2020 (Audited)	10,281,212	1,535,462	(1,070,078)	407,015	8,346	121,913	(311,956)	611,888	18,544,634	30,128,436	9,860,211	1,546,128	41,534,775
Profit for the period	-	-	-	-	-	-	-	-	2,055,682	2,055,682	278,928	23,276	2,357,886
Other comprehensive income for the year:													
Cash flow hedges, net of tax	-	-	-	-	-	-	(29,854)	-	-	(29,854)	-	-	(29,854)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(819)	-	(819)	-	-	(819)
Total comprehensive income	-	-	-	-	-	-	(29,854)	(819)	2,055,682	2,025,009	278,928	23,276	2,327,213
Final 2019 dividend declared (net of dividends received from shares held for share award scheme) (Note 8)	-	-	-	-	-	-	-	-	(1,143,486)	(1,143,486)	-	-	(1,143,486)
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	(108,287)	-	(108,287)
Transfer of share option reserve upon exercise of share options	18,753	-	-	(3,743)	-	-	-	-	-	15,010	-	-	15,010
Recognition of equity-settled share-based payments	-	-	-	118,870	-	-	-	-	-	118,870	-	-	118,870
Special reserve – safety fund appropriation	-	-	-	-	3,624	-	-	-	(3,743)	(119)	-	119	-
Capital injection by non-controlling shareholders	-	(786)	-	-	-	-	-	-	-	(786)	-	374,675	373,889
Purchase of non-controlling interests	-	(142,758)	-	-	-	-	-	-	-	(142,758)	-	(154,641)	(297,399)
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,303)	(1,303)
Issue of perpetual securities	-	-	-	-	-	-	-	-	-	-	2,694,000	-	2,694,000
Acquisition of a subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	-	-	179,700	179,700
At 30 June 2020 (Unaudited)	10,299,965	1,391,918*	(1,070,078)*	522,142*	11,970*	121,913*	(341,810)*	611,069*	19,453,087*	31,000,176	12,724,852	1,967,954	45,692,982

* These reserve accounts comprise the consolidated reserves of RMB20,700,211,000 (31 December 2019: RMB19,847,224,000) in the consolidated statement of financial position.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to ordinary shareholders of the parent												
	Share capital RMB'000 (Note 19)	Capital reserve RMB'000 (Note 20)	Shares held for share award scheme RMB'000 (Note 20)	Share-based compensation reserve RMB'000 (Note 20)	Special reserve RMB'000 (Note 20)	Reserve fund RMB'000 (Note 20)	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual securities RMB'000 (Note 21)	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2019 (Audited)	10,235,373	2,104,975	(673,079)	404,663	2,426	121,913	(392,491)	621,310	15,304,653	27,729,743	9,789,593	1,573,168	39,092,504
Profit for the period	-	-	-	-	-	-	-	-	2,233,436	2,233,436	259,216	36,228	2,528,880
Other comprehensive income for the year:													
Cash flow hedges, net of tax	-	-	-	-	-	-	9,808	-	-	9,808	-	-	9,808
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(171)	-	(171)	-	-	(171)
Total comprehensive income	-	-	-	-	-	-	9,808	(171)	2,233,436	2,243,073	259,216	36,228	2,538,517
Final 2018 dividend declared (net of dividends received from shares held for share award scheme) (Note 8)	-	-	-	-	-	-	-	-	(1,001,447)	(1,001,447)	-	-	(1,001,447)
Distribution paid to holders of perpetual securities	-	-	-	-	-	-	-	-	-	-	(122,145)	-	(122,145)
Shares vested under restricted share award scheme	-	-	209,645	(147,676)	-	-	-	-	(61,969)	-	-	-	-
Purchase of shares under share award scheme	-	-	(580,397)	-	-	-	-	-	-	(580,397)	-	-	(580,397)
Transfer of share option reserve upon exercise of share options	28,452	-	-	(5,864)	-	-	-	-	-	22,588	-	-	22,588
Recognition of equity-settled share-based payments	-	-	-	159,237	-	-	-	-	-	159,237	-	-	159,237
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	32,244	32,244
Purchase of non-controlling interests	-	(29,096)	-	-	-	-	-	-	-	(29,096)	-	(33,994)	(63,090)
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(9,315)	(9,315)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	115,123	115,123
At 30 June 2019 (Unaudited)	10,263,825	2,075,879	(1,043,831)	410,360	2,426	121,913	(382,683)	621,139	16,474,673	28,543,701	9,926,664	1,713,454	40,183,819

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,329,603	3,569,893
Adjustments for:			
Finance costs and bank charges		3,980,399	4,412,859
Bank interest income	5	(69,259)	(60,223)
Share of net profits of associates		(321,156)	(112,572)
Share of net losses of joint ventures		70,343	21,259
Gains on structured financial products	5	(31,680)	(45,880)
Losses/(Profits) on disposal of property, plant and equipment, net		2,500	(1,779)
Gains on disposal of subsidiaries	5	(9,251)	–
Gains on disposal of a joint venture	5	–	(36,364)
Depreciation of property, plant and equipment		785,698	469,294
Depreciation of right-of-use assets		123,724	98,367
Provision for impairment of loans and accounts receivables	6	1,155,282	1,484,071
Provision for impairment of inventories	6	20,979	52,523
Provision for impairment of prepayments, other receivables and other assets	6	(3,582)	9,023
Impairment of other intangible assets	6	4,463	–
Provision for impairment of property, plant and equipment	6	449,956	68,185
Impairment of credit commitments	6	–	(797)
Impairment of right-of-use assets	6	29,221	–
Impairment of goodwill	6	33	–
Amortisation of intangible assets and other assets	6	18,200	12,164
Equity-settled share-based payment expenses	6	118,870	159,237
Foreign exchange loss, net		48,856	36,727
Interest expense on lease liabilities		42,953	25,752
Interest income from subordinated tranches of asset-backed securities/notes		(321,590)	(155,970)
Realised gains on derecognition of financial assets at fair value through profit or loss		(4,295)	(1,074)
Fair value gains from financial liabilities at fair value through profit or loss		42,751	–
Fair value gains from financial assets at fair value through profit or loss		(192,038)	(5,629)
Dividends from financial assets at fair value through profit or loss	5	–	(1,756)
Interest income from financial assets at fair value through profit or loss		(6,226)	–
		9,264,754	9,997,310

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
(Increase)/decrease in inventories		(111,161)	34,263
Decrease in contract assets		1,461	3,005
(Increase)/decrease in loans and accounts receivables		(19,464,767)	9,721,992
Decrease in prepayments, other receivables and other assets		127,046	20,275
Decrease/(increase) in restricted cash related to asset-backed securitisations and collective fund trusts		869,653	(206,920)
Increase in trade and bills payables		3,065,388	1,237,077
Decrease in other payables and accruals		(4,934,671)	(1,820,406)
(Decrease)/increase in other liabilities		(440,946)	212,633
Net cash flows (used in)/provided by operating activities before tax and interest		(11,623,243)	19,199,229
Interest paid		(3,499,916)	(4,540,809)
Interest received		69,259	60,223
Income tax paid		(1,751,269)	(2,070,825)
Net cash flows (used in)/provided by operating activities		(16,805,169)	12,647,818
CASH FLOWS FROM INVESTING ACTIVITIES			
Gain on structured financial products	5	31,680	45,880
Proceeds from disposal of property, plant and equipment		60,217	46,494
Purchase of items of property, plant and equipment, intangible assets and other long term assets		(3,574,159)	(1,261,045)
Acquisition of subsidiaries		(6,301)	(98,156)
Proceeds from disposal of associates		18,000	327,399
Purchase of shareholding for joint ventures		(135,021)	–
Purchase of shareholding for associates		–	(634,723)
Dividend received from joint ventures		16,307	6,053
Dividend received from associates		44,818	19,182
Dividend received from financial assets at fair value through profit or loss		106,193	–
Proceeds from disposal of financial assets at fair value through profit or loss		211,056	316,297
Proceeds from disposal of interests in joint ventures		55,918	138,591
Disposal of subsidiaries		192,924	–
Purchase of financial assets at fair value through profit or loss		(3,805,781)	(2,116,126)
Net cash flows used in investing activities		(6,784,149)	(3,210,154)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from exercise of share options		15,010	22,588
Capital injection from non-controlling shareholders		512,338	32,244
Acquisition of non-controlling interests		(22,194)	(63,090)
Cash received from borrowings		74,598,485	31,887,574
Repayments of borrowings		(49,727,935)	(41,291,448)
Principal portion of lease payments/finance lease rental payments		(208,817)	(90,340)
Increase in pledged deposits		(320,353)	(79,771)
Distribution paid to holders of perpetual securities	21	(108,287)	(122,145)
Issue of perpetual capital securities		2,694,000	–
Dividends paid to non-controlling shareholders		(13,988)	–
Realised fair value gains from derivative financial instruments in hedges for borrowings		141,931	83,013
Purchase of shares under share award scheme		–	(580,397)
Net cash flows provided by/(used in) financing activities		27,560,190	(10,201,772)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period		3,989,571	5,269,392
Effect of exchange rate changes on cash and cash equivalents		12,346	2,267
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	15	7,972,789	4,507,551

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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 address of the Company changed from Room 6305, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong to Unit 6608, 66/F, International Commerce Centre, 1 Austin Road West, Kowloon with effect from 31 July 2020.

The Company’s shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 March 2011.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

The financial information relating to the year ended 31 December 2019 that is included in the interim condensed consolidated statement of financial position as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company’s auditors have reported on the financial statements for the year ended 31 December 2019. The auditor’s report was unqualified; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

The interim condensed consolidated financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any material impact on the financial position and performance of the Group.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. Since there were no rent concessions occurring as a direct consequence of the COVID-19 pandemic within the Group during the period ended 30 June 2020, the amendment to HKFRS 16 had no significant impact on the financial position and performance of the Group.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. BUSINESS COMBINATIONS

In May 2020, the Group acquired 54.6744% of the voting shares of Pizhou Dongda Hospital Co., Ltd ("Pizhou Dongda Hospital").

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

3. BUSINESS COMBINATIONS (continued)

Acquisition of Pizhou Dongda Hospital

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

	Fair value recognised on acquisition (Unaudited) RMB'000
<u>Assets</u>	
Property, plant and equipment	329,522
Cash	49,467
Accounts receivable	25,264
Prepayments, other receivables and other assets	49,111
Inventories	8,549
Right-of-use assets	64,997
	526,910
<u>Liabilities</u>	
Trade payables	(32,346)
Other payables and accruals	(16,658)
Interest-bearing bank and other borrowings	(45,259)
Taxes payable	(1,936)
Lease liabilities	(34,247)
	(130,446)
Total identifiable net assets at fair value	396,464
Non-controlling interests	(179,700)
Goodwill arising on acquisition	62,076
Purchase consideration transferred	278,840
Including: Consideration paid upon acquisition	55,768
Consideration to be paid after acquisition	223,072
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	49,467
Cash paid	(55,768)
Net outflow of cash and cash equivalents (included in cash flows from investing activities)	(6,301)
Transaction costs of the acquisition (included in cash flows from operating activities)	(200)
	(6,501)

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

3. BUSINESS COMBINATIONS (continued)

Acquisition of Pizhou Dongda Hospital (continued)

Since the acquisition, Pizhou Dongda Hospital has contributed RMB26,385,000 to the Group's revenue and a net profit of RMB1,917,000 to the consolidated profit for the six-month period ended 30 June 2020.

If the acquisition had taken place at the beginning of the period, revenue of the Group would have been RMB13,408,562,000 and the net profit of the Group for the period would have been RMB2,351,159,000.

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

Transaction costs of RMB410,000 have been expensed and are included in administrative expenses in the statement of profit or loss.

The assessment of the fair values of the identifiable assets and liabilities of Pizhou Dongda Hospital is still ongoing and the information of the fair values of the identifiable assets and liabilities is provisional. The finalised information will be disclosed in the consolidated financial statements of the Group for the year ending 31 December 2020.

The Group acquired Hongwen Montessori Academy Changsha Campus, Chengdu Jinsha Hospital, Guangzhou JP-WH precision Circuit Co, Ltd, Ningbo Qixu New Energy Technology Company Limited, Taizhou Dehong New Energy Technology Company Limited and Ningbo Zhenhai Second Hospital during the six months ended 30 June 2019.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two operating segments, namely the financial, lease and advisory business and the industrial operation and management business, based on the internal organisational structure, management requirement and internal reporting system:

- The financial, lease and advisory business comprises primarily (a) direct finance leasing; (b) sale-leaseback; (c) factoring; (d) entrusted loans; (e) operating leases and (f) advisory services.
- The industrial operation and management business comprises primarily (a) import and export trade and domestic trade of medical equipment, as well as the provision of trade agency services primarily within the machinery industry; (b) ship brokerage services; (c) medical engineering; (d) hospital and healthcare management and (e) education consulting and management.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

4. OPERATING SEGMENT INFORMATION (continued)

Segment revenue, results and assets mainly include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Intersegment transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

As at and for the six months ended 30 June 2020 (Unaudited)	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue: (Note 5)				
Sales to external customers	11,122,064	2,153,302	–	13,275,366
Intersegment sales	106,474	11,176	(117,650)	–
Cost of sales	(4,728,832)	(1,772,118)	–	(6,500,950)
Other income and gains	673,402	343,188	(23,446)	993,144
Selling and distribution costs and administrative expenses	(2,283,056)	(594,468)	11,570	(2,865,954)
Other expenses	(237,482)	(22,068)	16,402	(243,148)
Finance costs	(274,648)	(163,562)	113,124	(325,086)
Impairment losses on financial and contract assets	(1,107,356)	(44,344)	–	(1,151,700)
Losses on disposal of financial assets measured at amortised cost	(102,882)	–	–	(102,882)
Share of profits of associates	158,392	162,764	–	321,156
Share of losses of joint ventures	(1,404)	(68,939)	–	(70,343)
Profit before tax	3,324,672	4,931	–	3,329,603
Income tax expense	(942,492)	(29,225)	–	(971,717)
Profit/(loss) after tax	2,382,180	(24,294)	–	2,357,886
Segment assets	282,998,204	17,637,034	(11,317,782)	289,317,456
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,126,888	529,464	–	1,656,352
Depreciation and amortisation	547,509	380,113	–	927,622
Capital expenditure	3,426,712	288,769	–	3,715,481

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the six months ended 30 June 2019 (Unaudited)	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue: (Note 5)				
Sales to external customers	12,370,320	1,811,107	–	14,181,427
Intersegment sales	79,183	546	(79,729)	–
Cost of sales	(4,745,574)	(1,416,727)	79	(6,162,222)
Other income and gains	273,510	64,596	(3,085)	335,021
Selling and distribution costs and administrative expenses	(2,559,225)	(382,002)	1,223	(2,940,004)
Other expenses	(43,015)	(14,589)	–	(57,604)
Finance costs	(186,668)	(116,385)	81,512	(221,541)
Impairment losses on financial and contract assets	(1,471,254)	(21,043)	–	(1,492,297)
(Losses)/profits on disposal of financial assets measured at amortised cost	(165,274)	1,074	–	(164,200)
Share of profits of associates	102,913	9,659	–	112,572
Share of profits/(losses) of joint ventures	3,242	(24,501)	–	(21,259)
Profit/(loss) before tax	3,658,158	(88,265)	–	3,569,893
Income tax expense	(1,022,683)	(18,330)	–	(1,041,013)
Profit/(loss) after tax	2,635,475	(106,595)	–	2,528,880
As at 31 December 2019 (Audited)				
Segment assets	251,726,756	17,390,785	(8,546,953)	260,570,588
For the six months ended 30 June 2019 (Unaudited)				
Other segment information:				
Impairment losses recognised in the statement of profit or loss	1,485,872	127,133	–	1,613,005
Depreciation and amortisation	321,503	258,322	–	579,825
Capital expenditure	1,256,866	737,058	–	1,993,924

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Mainland China	13,123,009	14,062,299
Hong Kong	7,776	106,564
Other countries or regions	144,581	12,564
	13,275,366	14,181,427

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

(b) Non-current assets

	30 June	31 December
	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Mainland China	30,587,125	29,251,244
Hong Kong	1,768,786	1,318,977
	32,355,911	30,570,221

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

Information about major customers

There was no single customer from whom the revenue derived amounted to 10% or more of the total revenue of the Group during the period.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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

An analysis of interest income, revenue from operating lease, revenue from contracts with customers, other income and gains is as follows:

	Note	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest Income			
Interest income from finance lease, factoring and loan		7,723,819	8,163,767
Interest income from financial assets at fair value through profit or loss		6,226	–
Revenue from operating lease		1,175,517	944,624
Revenue from contracts with customers	(i)	4,413,748	5,104,683
Tax and surcharges		(43,944)	(31,647)
		13,275,366	14,181,427

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2020

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Types of goods or services			
Sale of goods	61,219	254,774	315,993
Construction services	187,135	–	187,135
Service fee income	1,969,167	–	1,969,167
Healthcare service income	–	1,500,345	1,500,345
Education service income	–	88,096	88,096
Chartering and brokerage income	–	203,250	203,250
Other income	33,594	116,168	149,762
Total revenue from contracts with customers	2,251,115	2,162,633	4,413,748
Geographical markets			
Hong Kong	1,530	343	1,873
Mainland China	2,249,585	2,017,709	4,267,294
Other countries or regions	–	144,581	144,581
Total revenue from contracts with customers	2,251,115	2,162,633	4,413,748
Timing of revenue recognition			
Goods or services transferred at a point in time	1,649,894	915,167	2,565,061
Services transferred over time	601,221	1,247,466	1,848,687
Total revenue from contracts with customers	2,251,115	2,162,633	4,413,748

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the six months ended 30 June 2019

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Types of goods or services			
Sale of goods	48,038	177,897	225,935
Construction services	156,096	4,178	160,274
Service fee income	3,078,778	–	3,078,778
Healthcare service income	–	1,291,523	1,291,523
Education service income	–	109,177	109,177
Chartering and brokerage income	–	139,146	139,146
Other income	10,081	89,769	99,850
Total revenue from contracts with customers	3,292,993	1,811,690	5,104,683
Geographical markets			
Hong Kong	12,353	90,458	102,811
Mainland China	3,280,640	1,708,668	4,989,308
Other countries or regions	–	12,564	12,564
Total revenue from contracts with customers	3,292,993	1,811,690	5,104,683
Timing of revenue recognition			
Goods or services transferred at a point in time	2,767,420	778,242	3,545,662
Services transferred over time	525,573	1,033,448	1,559,021
Total revenue from contracts with customers	3,292,993	1,811,690	5,104,683

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the six months ended 30 June 2020

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	2,251,115	2,162,633	4,413,748
Intersegment sales	–	11,176	11,176
Intersegment adjustments and eliminations	–	(11,176)	(11,176)
Total revenue from contracts with customers	2,251,115	2,162,633	4,413,748

For the six months ended 30 June 2019

Segments	Financial, lease and advisory RMB'000	Industrial operation and management RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	3,292,993	1,811,690	5,104,683
Intersegment sales	283	546	829
Intersegment adjustments and eliminations	(283)	(546)	(829)
Total revenue from contracts with customers	3,292,993	1,811,690	5,104,683

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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

	Note	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<u>Other income and gains</u>			
Bank interest income		69,259	60,223
Gains on structured financial products		31,680	45,880
Gains on disposal of property, plant and equipment		9,911	4,067
Government grants	5a	44,791	10,399
Gains on disposal of subsidiaries		9,251	–
Interest income from subordinated tranches of asset-backed securities/notes		510,310	155,970
Dividends from financial assets at fair value through profit or loss		–	1,756
Gains on disposal of a joint venture		–	36,364
Fair value gains from financial assets at fair value through profit or loss		294,538	5,629
Realised gains on derecognition of financial assets at fair value through profit or loss		4,295	–
Others		19,109	14,733
		993,144	335,021

5a. GOVERNMENT GRANTS

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Government special subsidies	44,791	10,399
	44,791	10,399

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Cost of borrowings included in cost of sales	3,980,399	4,191,318
Cost of inventories sold	295,019	222,328
Cost of construction contracts	136,450	57,868
Cost of operating leases	526,289	442,501
Cost of chartering	130,674	83,160
Cost of healthcare service	1,199,756	1,001,568
Cost of education service	97,228	100,558
Cost of others	135,135	62,921
Depreciation of property, plant and equipment		
Current year expenditure	93,851	100,005
Less: Government grants released*	(349)	–
	93,502	100,005
Depreciation of right-of-use assets	114,334	69,598
Amortisation of intangible assets and other assets	18,200	12,164
Auditors' remuneration – other services	2,760	4,210
Employee benefit expense (including directors' remuneration)		
– Wages and salaries		
Current year expenditure	2,078,817	1,864,299
Less: Government grants released*	(640,751)	(28,179)
	1,438,066	1,836,120
– Equity-settled share-based payment expenses	118,870	159,237
– Pension scheme contributions	21,988	56,389
– Other employee benefits	101,827	128,693
	242,685	344,319

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

6. PROFIT BEFORE TAX (continued)

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Impairment of goodwill	33	–
Impairment of loans and accounts receivables (Note 11)	1,155,282	1,484,071
Impairment of financial assets included in prepayments, other receivables and other assets	(3,582)	9,023
Impairment of credit commitments	–	(797)
Impairment of inventories	20,979	52,523
Impairment of property, plant and equipment	449,956	68,185
Impairment of right-of-use assets	29,221	–
Impairment of other intangible assets	4,463	–
Lease payments not included in the measurement of lease liabilities	5,911	3,679
Entertainment expenses	30,837	55,035
Business travelling expenses	79,967	103,365
Consultancy fees	84,404	98,445
Office expenses	22,407	20,434
Advertising and promotion expenses	13,178	10,202
Transportation expenses	21,341	13,073
Communication expenses	9,287	12,313
Litigation expenses	8,352	7,996
Other miscellaneous expenses:		
Current year expenditure	177,437	128,620
Less: Government grants released*	(1,366)	(282)
	176,071	128,338

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

6. PROFIT BEFORE TAX (continued)

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
Losses on disposal of property, plant and equipment	12,411	2,288
Donation	1,283	21
Bank commission expenses	23,413	13,945
Foreign exchange (gains)/losses, net:		
Cash flow hedges (transfer from equity to offset foreign exchange)	(580,838)	(81,798)
Others	629,694	118,525
Fair value losses from financial assets at fair value through profit or loss	102,500	–
Fair value losses from financial liabilities at fair value through profit or loss***	42,751	–
Other expenditure	11,934	4,623
Finance costs	325,086	221,541
Realised gains on derecognition of financial assets at fair value through profit or loss	–	1,074
Losses on derecognition of loans and accounts receivables measured at amortised cost**	102,882	165,274

* Government grants have been received by subsidiaries of the Company from the local government for improvement of technology, staff training and development, and others. The government grants received have been deducted from the expenses to which they related. Government grants received for which related expenditure has yet been undertaken are included in deferred income in the statement of financial position.

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

*** The fair value losses from a financial liability at fair value through profit or loss is accounted for the fair value change linked to the investments by Limited Partners other than the Group in Tianjin Tongli Hongyang No.3 Management Center (Limited Partnership), Shanghai Xiangfu Equity Fund Center (Limited Partnership), and Tianjin Yuanyi Yongxuan Management Center (Limited Partnership) that are classified as financial liabilities in the consolidated financial statements of the Group.

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7. INCOME TAX

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Current – Hong Kong		
Charge for the period	60,333	43,632
Current – Mainland China		
Charge for the period	1,501,684	1,171,847
Deferred tax (Note 18)	(590,300)	(174,466)
Total tax charge for the period	971,717	1,041,013

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 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 its operations in Mainland China has been calculated at the tax rate of 25% (six months ended 30 June 2019: 25%) on the estimated assessable profits for the period, based on existing legislation, interpretations and practices in respect thereof.

Notes to Interim Condensed Consolidated Financial Information

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7. INCOME TAX (continued)

Corporate Income Tax ("CIT") (continued)

The State Administration of Taxation announced that enterprises of encouraged industries in the Western Region of the PRC could use a preferential tax rate of 15% from 1 January 2011 to 31 December 2020. Deyang The Fifth Hospital Co., Ltd, Chongqing Yudong Hospital Co., Ltd Nayong Xinli Hospital Co., Ltd and Chengdu Jinsha Hospital Co., Ltd were recognised to fulfil the aforesaid preferential taxation policy and thus have enjoyed a preferential tax rate of 15% since 2016. Zhaotong Renan Hospital Co., Ltd and Qiaojia Renan Hospital Co., Ltd were recognised to fulfil the aforesaid preferential taxation policy and thus have enjoyed a preferential tax rate of 15% since 2017. Qinghai Kangle Hospital Company Ltd. was recognised to fulfil the aforesaid preferential taxation policy and thus has enjoyed a preferential tax rate of 15% since 2020.

On 30 October 2015, Shanghai Horizon Equipment & Engineering Co., Ltd. was recognised as a high-technology enterprise by the Shanghai Science and Technology Commission. Since then, Shanghai Horizon Equipment & Engineering Co., Ltd. has enjoyed a preferential tax rate of 15%. Guangzhou Jinpeng was recognised as a high-technology enterprise in 2017. Since then, Guangzhou Jinpeng has enjoyed a preferential tax rate of 15%.

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Profit before tax	3,329,603	3,569,893
Tax at the statutory income tax rates	916,603	903,010
Expenses not deductible for tax	33,647	67,467
Income not subject to tax	(127,161)	(32,512)
Adjustment on current income tax in respect of prior years	(30,158)	(3,287)
Unrecognised tax losses	120,838	66,084
Effect of withholding tax on interest on intra-group balances	57,948	40,251
Income tax expense reported in the interim condensed consolidated statement of profit or loss	971,717	1,041,013

The share of tax attributable to associates and joint ventures amounting to approximately RMB50,179,000 (six months ended 30 June 2019: RMB37,524,000) and a credit amount of RMB33,932,000 (six months ended 30 June 2019: a credit amount of RMB6,209,000) are included in "Share of net profits of associates" and "Share of net losses of joint ventures" on the face of the interim condensed consolidated statement of profit or loss.

Notes to Interim Condensed Consolidated Financial Information

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8. DIVIDENDS

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Dividends	1,143,486	1,001,447

Pursuant to a resolution passed at the general meeting on 10 June 2020, the Company declared a final dividend of HK\$0.33 per share in respect of the year ended 31 December 2019 to its shareholders whose names appear on the register of members of the Company on 22 July 2020. Based on the total number of outstanding ordinary shares of 3,798,252,652 (excluding the 165,353,030 shares held for the share award scheme), cash dividends declared of approximately HK\$1,253,423,000 (equivalent to RMB1,143,486,000) were recognised in the financial statements.

The board of directors does not recommend the payment of an interim dividend to shareholders in respect of the period for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2020 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 3,797,360,143 (30 June 2019: 3,817,901,428) outstanding during the period.

The calculation of the diluted earnings per share amount is based on the consolidated net profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, namely share options, and the number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted earnings per share are based on:

Earnings

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	2,055,682	2,233,436

Shares

	Number of shares	
	For the six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Weighted average number of ordinary shares outstanding during the period, used in the basic earnings per share calculation	3,797,360,143	3,817,901,428
Effect of dilution – weighted average number of ordinary shares:		
Share options	3,107,026	8,123,574
Weighted average number of ordinary shares for diluted earnings per share	3,800,467,169	3,826,025,002

During the six months ended 30 June 2020, the unvested share options under the Share Option Scheme and the unvested restricted shares under the Restricted Share Award Scheme have no dilutive effect on earnings per share. The Group had no other potentially dilutive ordinary shares in issue. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these financial statements.

Notes to Interim Condensed Consolidated Financial Information

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10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment at a total cost of RMB3,934,895,000 (six months ended 30 June 2019: RMB1,369,611,000), including those through acquisition of subsidiaries.

Property, plant and equipment with a net book value of RMB72,878,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB44,715,000), resulting in a net loss on disposal of RMB2,500,000 (six months ended 30 June 2019: a net gain of RMB1,779,000).

As at 30 June 2020, the Group has not obtained the property ownership certificates for five buildings (31 December 2019: four) with a net book value of RMB581,278,000 (31 December 2019: RMB347,023,000).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 30 June 2020.

As at 30 June 2020, property, plant and equipment with a net carrying amount of RMB1,367,659,000 (31 December 2019: RMB1,296,147,000) were pledged to secure general banking facilities granted to the Group (see Note 17(c)).

11. LOANS AND ACCOUNTS RECEIVABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Loans and accounts receivables due within 1 year	105,557,084	98,741,019
Loans and accounts receivables due after 1 year	114,481,265	102,379,882
	220,038,349	201,120,901

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11a. Loans and accounts receivables by nature

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Lease receivables (Note 11b)*	226,090,797	207,655,800
Less: Unearned finance income	(22,742,477)	(20,786,899)
Net lease receivables (Note 11b)**	203,348,320	186,868,901
Interest receivables */**	1,721,514	1,561,187
Factoring receivable (Note 11g)**	6,402,831	4,156,059
Entrusted loans (Note 11h)*/**	2,915,060	4,317,303
Long-term receivables */**	8,025,826	5,999,560
Secured loans **	293,989	246,065
Subtotal of interest-earning assets	222,707,540	203,149,075
Less:		
Provision for lease receivables **	(5,848,410)	(5,257,671)
Provision for factoring receivable **	(107,546)	(92,895)
Provision for entrusted loans **	(117,470)	(100,753)
Provision for long-term receivables **	(124,401)	(79,492)
Provision for secured loans **	(3,700)	(4,483)
Provision for interest-earning assets	(6,201,527)	(5,535,294)
Notes receivable	872,833	230,438
Accounts receivable (Note 11e)*	3,291,570	3,830,788
Provision for accounts receivable (Note 11f)	(632,067)	(554,106)
Total of loans and accounts receivables	220,038,349	201,120,901

* These balances included balances with related parties which are disclosed in Note 11j.

** These balances are included in the interest-earning assets disclosed in Note 11c and Note 11d.

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11b (1). An aging analysis of lease receivables, determined based on the age of the receivables since the effective date of the relevant lease contracts, as at the end of the reporting period is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Lease receivables:		
Within 1 year	95,010,025	81,010,823
1 to 2 years	44,602,341	65,639,866
2 to 3 years	54,791,307	47,787,535
3 to 5 years	31,687,124	13,217,576
Total	226,090,797	207,655,800

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Net lease receivables:		
Within 1 year	85,242,966	72,921,942
1 to 2 years	40,416,009	58,141,813
2 to 3 years	48,837,030	43,374,076
3 to 5 years	28,852,315	12,431,070
Total	203,348,320	186,868,901

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11b (2). The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following five or more than five consecutive accounting years:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Lease receivables:		
Due within 1 year	109,221,349	101,704,090
Due in 1 to 2 years	71,529,480	63,404,839
Due in 2 to 3 years	33,906,684	32,945,840
Due in 3 to 5 years	10,809,357	9,231,836
Due after 5 years	623,927	369,195
Total	226,090,797	207,655,800

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Net lease receivables:		
Due within 1 year	95,677,930	88,949,526
Due in 1 to 2 years	65,283,736	58,017,342
Due in 2 to 3 years	31,717,904	30,863,293
Due in 3 to 5 years	10,098,028	8,696,248
Due after 5 years	570,722	342,492
Total	203,348,320	186,868,901

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at the end of the reporting period.

As at 30 June 2020, the Group's lease receivables pledged or charged as security for the Group's bank and other borrowings amounted to RMB9,034,069,000 (31 December 2019: RMB11,535,047,000) (see Note 17(a)).

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11c. Analysis of interest-earning assets

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Total RMB'000
As at 30 June 2020				
Interest-earning assets	198,350,827	21,820,733	2,535,980	222,707,540
Allowance for impairment losses	(3,314,301)	(2,258,777)	(628,449)	(6,201,527)
Interest-earning assets, net	195,036,526	19,561,956	1,907,531	216,506,013

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Total RMB'000
As at 31 December 2019				
Interest-earning assets	182,252,157	18,647,831	2,249,087	203,149,075
Allowance for impairment losses	(3,438,649)	(1,627,288)	(469,357)	(5,535,294)
Interest-earning assets, net	178,813,508	17,020,543	1,779,730	197,613,781

11d. Movement in provision for interest-earning assets

The Group has applied the general approach to providing for expected credited losses (“ECL”) prescribed by HKFRS 9 from 1 January 2018, which permits the use of either a twelve-month basis or a lifetime basis to record expected credit losses based on an expected credit loss model for interest-earning assets.

The Group has conducted an assessment of ECL according to forward-looking information and used appropriate models and a large number of assumptions in its measurement of expected credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower’s creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group has adopted judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as criteria for judging significant increases in credit risk, definition of credit-impaired financial asset, parameters for measuring ECL and forward-looking information.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11d. Movement in provision for interest-earning assets (continued)

In response to the COVID-19 pandemic, the Group has rolled out certain relief measures on a commercial basis to customers impacted by the coronavirus to support their immediate cash flow and liquidity by offering principal moratorium or tenor extension. Because of the relief measure, the Group may not have the same level of credit risk information about repayment records as compared to what they had in the past. Therefore, the Group extended its effort done to obtain additional information for credit assessment, including those in COVID-19 vulnerable sectors. The Group has paid special attention to the application of macroeconomic data and forward-looking information to ensure that the effect of COVID-19 has been sufficiently reflected.

	For the six months ended 30 June 2020			
	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III** (Lifetime ECL – impaired) RMB'000	Total RMB'000
At beginning of the period	3,438,649	1,627,288	469,357	5,535,294
Impairment losses for the period	(126,249)*	755,975	426,388	1,056,114
Disposal	(59,813)	–	–	(59,813)
Conversion to Stage I	225,021	(225,021)	–	–
Conversion to Stage II	(163,647)	184,102	(20,455)	–
Conversion to Stage III	–	(83,567)	83,567	–
Write-off	–	–	(367,682)	(367,682)
Recoveries of interest-earning assets previously written off	–	–	37,274	37,274
Exchange differences	340	–	–	340
At end of the period	3,314,301	2,258,777	628,449	6,201,527

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11d. Movement in provision for interest-earning assets (continued)

	Year ended 31 December 2019			Total RMB'000
	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III** (Lifetime ECL – impaired) RMB'000	
At beginning of the year	3,145,672	1,188,069	759,991	5,093,732
Impairment losses for the year	928,499*	574,832	409,422	1,912,753
Disposal	(711,143)	–	–	(711,143)
Conversion to Stage I	291,617	(291,617)	–	–
Conversion to Stage II	(216,870)	220,110	(3,240)	–
Conversion to Stage III	–	(64,106)	64,106	–
Write-off	–	–	(867,150)	(867,150)
Recoveries of interest-earning assets previously written off	–	–	106,228	106,228
Exchange differences	874	–	–	874
At end of the year	3,438,649	1,627,288	469,357	5,535,294

* This includes RMB1,163,706,000 (31 December 2019: RMB1,470,030,000) loss allowance provided for newly originated interest-bearing assets, and RMB1,289,955,000 (31 December 2019: RMB541,531,000) of loss allowances reversed as a result of repayment of existing interest-earning assets.

** The majority of the interest-earning assets are finance lease receivables, under which the lessor owns the related leased asset, so the finance leases are similar to secured lendings. Among these interest-bearing assets, 94%(31 December 2019: 94%) of the credit-impaired assets falling into Stage III in the table above are finance lease receivables, and hence the related leased assets owned by the Group, such leased assets are similar to security and constitute the main source of collection of impaired assets.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11e. An aging analysis of accounts receivable as at the end of the reporting period is as follows:

Accounts receivable are non-interest-earning and are generally on 60-day terms, while the credit terms for major customers can be extended to 180 days.

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 1 year	2,728,338	3,211,588
More than 1 year	563,232	619,200
Total	3,291,570	3,830,788

11f. Movement in provision for accounts receivable

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
At beginning of period/year	554,106	407,873
Charge for the period/year	99,168	105,593
Acquisition of a subsidiary/subsidiaries	13,690	48,030
Write-off	(34,897)	(7,390)
At end of period/year	632,067	554,106

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on aging for groupings of various customer segments with similar loss patterns.

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11f. Movement in provision for accounts receivable (continued)

Set out below is the information about the credit risk exposure on the Group's accounts receivable using a provision matrix:

As at 30 June 2020

	Aging				Total
	Within 1 year	1-2 years	2-3 years	3-5 years	
Gross carrying amount (RMB'000)	2,728,338	284,278	144,139	134,815	3,291,570
Expected credit loss (RMB'000)	265,180	112,577	119,495	134,815	632,067
Average expected credit loss rate	9.72%	39.60%	82.90%	100.00%	

As at 31 December 2019

	Aging				Total
	Within 1 year	1-2 years	2-3 years	3-5 years	
Gross carrying amount (RMB'000)	3,211,588	345,339	147,650	126,211	3,830,788
Expected credit loss (RMB'000)	199,950	118,085	109,860	126,211	554,106
Average expected credit loss rate	6.23%	34.19%	74.41%	100.00%	

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 1 year	5,189,263	3,464,599
More than 1 year	1,213,568	691,460
Total	6,402,831	4,156,059

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11h (1). An aging analysis of entrusted loans, determined based on the age of the receivables since the effective dates of the relevant loan contracts, as at the end of the reporting period is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Entrusted loans:		
Within 1 year	183,081	257,810
1 to 2 years	156,593	141,643
2 to 3 years	120,627	1,392,674
3 to 5 years	2,454,759	2,525,176
Total	2,915,060	4,317,303

11h (2). The table below illustrates the amounts of entrusted loans the Group expects to receive in the following five or more than five consecutive accounting years:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Entrusted loans:		
Due within 1 year	2,033,531	2,807,883
Due in 1 to 2 years	815,895	1,213,791
Due in 2 to 3 years	65,634	295,629
Total	2,915,060	4,317,303

11i. Long term receivables

As at 30 June 2020, the carrying value of long term receivables pledged or charged as collateral for the Group's borrowings amounted to RMB4,476,282,000 (31 December 2019: RMB3,788,115,000) (Note 17(a)).

Notes to Interim Condensed Consolidated Financial Information

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11. LOANS AND ACCOUNTS RECEIVABLES (continued)

11j. Balances with related parties

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Joint ventures:			
– Guangzhou Kangda Industrial Technology Co., Ltd.			
Entrusted loan	(i)	60,000	60,000
Long-term receivables	(ii)	135,000	135,000
Interest receivables		19,325	17,514
– Kunming Broadhealthcare Investment Co., Ltd.			
Entrusted loan	(i)	50,000	50,000
– Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.			
Entrusted loan	(i)	51,480	50,553
– Fengyang Gulou Hospital Co., Ltd.			
Accounts receivable		14,295	14,295
Associates:			
– Tianjin FIS Asset Management Co., Ltd.			
Long-term receivables	(ii)	999,800	814,600
Interest receivables		24,509	622
Provision		(24,195)	(24,449)
		1,330,214	1,118,135

(i) Balances of entrusted loans interest-earning at annual interest rates ranging from 5.81% to 8% (31 December 2019: from 6% to 13%).

(ii) Balances of long-term receivables interest-earning at annual interest rates ranging from 4.75% to 5.81% (31 December 2019: from 4.85% to 9%).

Notes to Interim Condensed Consolidated Financial Information

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12.DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020 (Unaudited) RMB'000		31 December 2019 (Audited) RMB'000	
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swaps	1,907,427	(108,236)	1,528,354	(142,678)
Forward currency contracts	–	(2,909)	24,513	(24,482)
Interest rate swaps	3,045	(44,913)	12,969	(17,354)
Total	1,910,472	(156,058)	1,565,836	(184,514)
Portion classified as non-current				
Cross-currency interest rate swaps	298,090	(108,155)	895,090	(138,891)
Forward currency contracts	–	(739)	–	–
Interest rate swaps	2,937	(44,311)	11,620	(16,641)
	301,027	(153,205)	906,710	(155,532)
Current portion	1,609,445	(2,853)	659,126	(28,982)
Total	1,910,472	(156,058)	1,565,836	(184,514)

Cash flow hedges under HKFRS 9

At 30 June 2020, the Group designated 74 (2019: 62) cross-currency interest rate swap contracts, 4 (2019: 14) forward currency contracts and 19 (2019: 4) interest rate swap contracts as hedges of future cash flows arising from foreign currency borrowings, details of which are as follows:

At 30 June 2020, the Group had 12 (2019: 10) cross-currency interest rate swaps in place with notional amounts of HK\$3,744,000,000 (2019: HK\$3,354,000,000) whereby the Group receives floating rate interest on the HK\$ notional amount at HKD-HIBOR-HKAB and pays fixed rate interest on the RMB notional amount at 3.15% to 4.38% (2019: 3.91% to 4.38%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 12 floating rate long-term borrowings denominated in HK\$ with the total face value of HK\$3,744,000,000 (2019: HK\$3,354,000,000).

At 30 June 2020, the Group had 56 (2019: 50) cross-currency interest rate swaps in place with notional amounts of US\$4,488,672,000 (2019: US\$4,122,708,000) whereby the Group receives floating rate interest on the US\$ notional amount at USD-LIBOR-BBA and pays fixed rate interest on the RMB notional amount at 2.70% to 4.38% (2019: 3.35% to 5.70%) per annum. The swaps are being used to hedge the foreign currency and interest rate exposure of 56 floating rate long-term borrowings denominated in US\$ with the total face value of US\$4,488,672,000 (2019: US\$4,122,708,000).

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges under HKFRS 9 (continued)

At 30 June 2020, the Group had 5 (2019: 2) cross-currency interest rate swaps in place with notional amounts of US\$400,000,000 (2019: US\$200,000,000) whereby the Group receives fixed rate interest on the US\$ notional amount at 3.38% to 4.38% p.a. and pays fixed rate interest on the RMB notional amount at 4.50% to 5.88% (2019: 5.84% and 5.88%) per annum. The swaps are being used to hedge the foreign currency exposure of 5 fixed rate long-term borrowings denominated in US\$ with the total face value of US\$400,000,000 (2019: US\$200,000,000).

At 30 June 2020, the Group had 1 (2019: Nil) cross-currency interest rate swap in place with a notional amount of JPY6,500,000,000 (2019: Nil) whereby the Group receives floating rate interest on the JPY notional amount at JPY-LIBOR-BBA and pays fixed rate interest on the RMB notional amount at 3.83% (2019: Nil) per annum. The swap is being used to hedge the foreign currency and interest rate exposure of 1 floating rate long-term borrowing denominated in JPY with the total face value of JPY6,500,000,000 (2019: Nil).

At 30 June 2020, the Group had 4 (2019:14) forward currency contracts with a total notional amount of US\$121,141,000 (2019: US\$517,906,000) as hedges of future cash flows arising from foreign currency borrowings with the total face value of US\$121,141,000 (2019: US\$517,906,000) which will be settled in US\$.

At 30 June 2020, the Group had 5 (2019: 4) interest rate swaps in place with notional amounts of US\$315,000,000 (2019: US\$215,000,000) whereby the Group receives floating rate interest on the US\$ notional amount at USD-LIBOR-BBA and pays fixed rate interest on the US\$ notional amount at 0.45% to 2.47% (2019: 2.34% to 2.47%) per annum. The swaps are being used to hedge interest rate exposure of 5 floating rate long-term borrowings denominated in US\$ with the total face value of US\$315,000,000 (2019: US\$215,000,000).

At 30 June 2020, the Group had 14 (2019:Nil) interest rate swaps in place with a total notional amount of RMB7,840,491,000 (2019:Nil) whereby the Group receives interest at variable rates equal to the Loan Prime Rate on the notional amount and pays a fixed rate of interest on the RMB notional amount at 3.70% to 3.80% (2019:Nil) per annum. The swaps are being used to hedge interest rate exposure of 14 floating rate long-term borrowings denominated in RMB with the total face value of RMB7,840,491,000 (2019:Nil).

There is an economic relationship between the hedged items and the hedging instruments as the terms of the cross-currency interest rate swap contracts, forward currency contracts and interest rate swaps match the terms of the borrowing contracts (i.e., notional amount, expected payment date and interest rate). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the cross-currency interest rate swap contracts, forward currency contracts and interest rate swaps are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges under HKFRS 9 (continued)

Hedge ineffectiveness can arise from:

- differences in the timing of the cash flows of the hedged items and the hedging instruments
- different interest rate curves applied to discount the hedged items and hedging instruments
- the counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items

The Group holds the following cross-currency interest rate swap contracts and forward currency contracts and interest rate swaps:

	Maturity						Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	
As at 30 June 2020							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	3,863,655	5,542,038	5,517,933	2,750,820	11,629,428	3,375,401	32,679,275
Average forward exchange rate (US\$/RMB)	6.5775	6.6133	6.3087	6.7213	6.9630	6.8957	
Notional amount (in RMB'000)	-	128,809	1,569,905	-	1,485,029	-	3,183,743
Average forward exchange rate (HK\$/RMB)	-	0.8257	0.8061	-	0.9073	-	
Notional amount (in RMB'000)	-	-	-	-	-	428,350	428,350
Average forward exchange rate (JPY/RMB)	-	-	-	-	-	0.0659	
Forward currency contracts							
Notional amount (in RMB'000)	424,888	-	-	154,441	-	298,384	877,713
Average forward exchange rate (US\$/RMB)	7.1361	-	-	7.1833	-	7.4410	
Interest rate swaps							
Notional amount (in RMB'000)	256,193	-	-	-	2,415,900	7,398,441	10,070,534
Average forward exchange rate	N/A	-	-	-	N/A	N/A	
Hedge rate	1	1	1	1	1	1	

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges under HKFRS 9 (continued)

The Group holds the following cross-currency interest rate swap contracts and forward currency contracts and interest rate swaps: (continued)

	Maturity						Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	
As at 31 December 2019							
Cross-currency interest rate swap contracts							
Notional amount (in RMB'000)	–	931,216	3,863,655	5,542,038	10,503,827	7,758,223	28,598,959
Average forward exchange rate (US\$/RMB)	–	6.2920	6.5775	6.6133	6.5544	6.9758	
Notional amount (in RMB'000)	–	–	–	128,809	1,569,905	1,128,527	2,827,241
Average forward exchange rate (HK\$/RMB)	–	–	–	0.8257	0.8061	0.9035	
Forward currency contracts							
Notional amount (in RMB'000)	1,855,836	1,337,156	424,888	–	–	–	3,617,880
Average forward exchange rate (US\$/RMB)	6.8540	7.0338	7.1361	–	–	–	
Interest rate swaps							
Notional amount (in RMB'000)	–	–	104,643	1,395,240	–	–	1,499,883
Average forward exchange rate	–	–	N/A	N/A	–	–	
Hedge rate	1	1	1	1	1	1	

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges under HKFRS 9 (continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the period RMB'000
As at 30 June 2020				
Forward currency contracts	–	–	Derivative financial instruments (Assets)	(24,513)
Forward currency contracts	877,713	(2,909)	Derivative financial instruments (Liabilities)	21,573
Cross-currency interest rate swaps	27,671,103	1,907,427	Derivative financial instruments (Assets)	379,073
Cross-currency interest rate swaps	8,620,265	(108,236)	Derivative financial instruments (Liabilities)	34,442
Interest rate swaps	5,233,710	2,937	Derivative financial instruments (Assets)	2,937
Interest rate swaps	4,836,824	(44,913)	Derivative financial instruments (Liabilities)	(27,736)
As at 31 December 2019				
Forward currency contracts	382,295	24,513	Derivative financial instruments (Assets)	(18,786)
Forward currency contracts	3,235,584	(24,482)	Derivative financial instruments (Liabilities)	180,055
Cross-currency interest rate swaps	22,992,909	1,528,354	Derivative financial instruments (Assets)	543,475
Cross-currency interest rate swaps	8,433,292	(142,678)	Derivative financial instruments (Liabilities)	(142,678)
Interest rate swaps	1,499,883	(17,177)	Derivative financial instruments (Liabilities)	(17,177)

Notes to Interim Condensed Consolidated Financial Information

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges under HKFRS 9 (continued)

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring hedge ineffectiveness for the period RMB'000	Cash flow hedge reserve RMB'000
As at 30 June 2020		
Foreign currency bank loans amounting to RMB equivalent 41,544,684,000	526,108	(341,810)

	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000	Cash flow hedge reserve RMB'000
As at 31 December 2019		
Foreign currency bank loans amounting to RMB equivalent 38,273,419,000	469,783	(311,956)

Notes to Interim Condensed Consolidated Financial Information

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12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges under HKFRS 9 (continued)

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

For the six months ended 30 June 2020	Total hedging gain/(loss) recognised in other comprehensive income		Hedged ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from other comprehensive income to profit or loss		Line item (gross amount) loss in the statement of profit or loss
	Gross amount	Tax effect			Gross amount	Tax effect	
Forward currency contracts	22,322	(3,570)	–	N/A	(16,112)	2,113	(13,999)
Cross-currency interest rate swaps	530,184	(104,163)	–	N/A	(545,233)	106,647	(438,586)
Interest rate swaps	(26,398)	4,356	–	N/A	–	–	–
Total	526,108	(103,377)	–	N/A	(561,345)	108,760	(452,585)

For the six months ended 30 June 2019	Total hedging gain/(loss) recognised in other comprehensive income		Hedged ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from other comprehensive income to profit or loss		Line item (gross amount) loss in the statement of profit or loss
	Gross amount	Tax effect			Gross amount	Tax effect	
Forward currency contracts	(28,507)	4,817	–	N/A	4,855	(1,815)	3,040
Cross-currency interest rate swaps	100,643	(17,870)	–	N/A	(61,900)	9,585	(52,315)
Total	72,136	(13,053)	–	N/A	(57,045)	7,770	(49,275)

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges under HKFRS 9 – Interest rate risk

At 30 June 2020, the Group had 1 (2019:12) interest rate swap agreement in place with a total notional amount of RMB300,000,000 (2019: RMB9,900,000,000) whereby it receives interest at a fixed rate of 4.80% (2019: 4.36% to 4.80%) per annum and pays interest at a variable rate equal to the benchmark interest rate of Renminbi loans of the People's Bank of China on the notional amount. The swap is used to hedge the exposure to changes in the fair value of the fixed rate long-term bond. The critical terms of the interest rate swap substantially match the terms of the borrowing. This hedge was assessed to be highly effective.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the long-term bonds (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to that of the hedged risk component. In assessing the hedge effectiveness, the Group notes that the critical terms of the hedged items and the hedging instruments match each other, and therefore the changes in the fair value of the hedging instrument exactly offset the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- differences in the timing of interest cash flows of the hedged item and the hedging instrument
- the counterparties' credit risks differently impacting the fair value movements of the hedging instruments

Notes to Interim Condensed Consolidated Financial Information

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges under HKFRS 9 – Interest rate risk (continued)

The impact of the hedging instrument on the statement of financial position is as follows:

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the period RMB'000
As at 30 June 2020				
Interest rate swap	300,000	108	Derivative financial instruments (Assets)	(12,861)
Interest rate swap	–	–	Derivative financial instruments (Liabilities)	177

	Notional amount RMB'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
Interest rate swap	8,900,000	12,969	Derivative financial instruments (Assets)	(1,632)
Interest rate swap	1,000,000	(177)	Derivative financial instruments (Liabilities)	3,140

Notes to Interim Condensed Consolidated Financial Information

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12.DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges under HKFRS 9 – Interest rate risk (continued)

The impact of the hedged item on the statement of financial position is as follows:

	Carrying amount RMB'000	Accumulated fair value adjustments RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the period RMB'000
As at 30 June 2020				
Bonds amounting to RMB equivalent 300,000,000	300,108	108	Interest-bearing bank and other borrowings	(12,684)

	Carrying amount RMB'000	Accumulated fair value adjustments RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
Bonds amounting to RMB equivalent 9,900,000,000	9,912,792	12,792	Interest-bearing bank and other borrowings	1,508

13.INVESTMENTS IN JOINT VENTURES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Share of net assets	2,305,518	2,307,087
Excess of consideration over share of net assets acquired	93,637	93,637
Impairment losses	(170,000)	(170,000)
	2,229,155	2,230,724

Notes to Interim Condensed Consolidated Financial Information

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13. INVESTMENTS IN JOINT VENTURES (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of (%)		Principal activities
			Ownership interest	Profit sharing	
Kunming Broadhealthcare Investment Co., Ltd. (昆明博健醫療投資有限公司)	Registered capital of RMB14,333,328	PRC/Mainland China	33.3837	33.3837	Healthcare investment and management
Guangzhou Kangda Industrial Technology Co., Ltd. ("Kangda") (廣州康大工業科技產業有限公司)	Registered capital of HK\$200,000,000	PRC/Mainland China	60*	60	Development and construction
Skycity (Shanghai) Business Co., Ltd. (天空之城(上海)實業有限公司)	Registered capital of RMB7,576,000	PRC/Mainland China	41.4	41.4	Electronic products
Kunming Boyue Maternal and Infant Care Co., Ltd. (昆明博悅母嬰護理有限責任公司)	Registered capital of RMB5,555,600	PRC/Mainland China	28.36	28.36	Medical service
Grand Flight Holdings Co., Ltd. (遠翼控股有限公司)	Authorised capital of US\$50,000	British Virgin Islands	70*	70	Investment holding
Grand Flight Hooyoung Investment Management Co., Ltd. (遠翼宏揚投資管理有限公司)	Authorised capital of US\$50,000	Cayman Islands	70*	70	Investment holding
Grand Flight Hooyoung Investment L.P. (遠翼宏揚投資有限合夥)	US\$73,329,460.54	Cayman Islands	55*	55	Investment holding
Teamway Shipping Limited (匯聯船務有限公司)	HK\$10,000	Hong Kong	50	50	Shipping service
Gold Chance Shipping Limited (金運船務有限公司)	HK\$10,000	Hong Kong	50	50	Shipping service
Fengyang Gulou Hospital Co., Ltd. (鳳陽縣鼓樓醫院有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	35	35	Medical service
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. (蘇州高新康復醫院有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	61*	61	Medical service
Grand Flight Investment Management Co., Ltd. (遠翼投資管理有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	90*	90	Investment holding
Tianjin Yuanyi Kaiyuan Asset Management Centre ("Yuanyi Kaiyuan") (Limited Partnership) (天津遠翼開元資產管理中心(有限合夥))	Registered capital of RMB1,505,420,000	PRC/Mainland China	39.856	39.856	Investment holding

Notes to Interim Condensed Consolidated Financial Information

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13. INVESTMENTS IN JOINT VENTURES (continued)

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

Name	Particulars of issued shares held	Place of registration and business	Percentage of (%)		Principal activities
			Ownership interest	Profit sharing	
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd. (廣州藝美天成裝飾工程有限公司)	Registered capital of RMB5,000,000	PRC/Mainland China	60*	60	Decoration engineering
Wuhan Matang Hospital of Traditional Chinese Medicine Co., Ltd. (武漢麻塘中醫醫院有限公司)	Registered capital of RMB16,040,000	PRC/Mainland China	49	49	Medical service
Shanghai Xiangyun Enterprise Management Partnership (Limited Partnership) (上海襄雲企業管理合夥企業(有限合夥))	Registered capital of RMB350,010,000	PRC/Mainland China	51.9985*	51.9985	Management consulting
Shanghai Jinghong Yuanyu Apartment Management Co., Ltd. (上海景閩遠寓公寓管理有限公司)	Registered capital of RMB40,000,000	PRC/Mainland China	51*	51	Property management
Wuhan Hongye Construction Development Co., Ltd. (武漢泓冶建設發展有限公司)	Registered capital of RMB328,000,000	PRC/Mainland China	47	47	Drainage works
Guixi Hongyu Infrastructure Investment Co., Ltd. (貴溪市宏宇基礎設施投資有限公司)	Registered capital of RMB146,280,748	PRC/Mainland China	48	48	Infrastructure construction
Xi'an Chuxin Investment Construction Co., Ltd. (西安楚信投資建設有限公司)	Registered capital of RMB100,000,000	PRC/Mainland China	46	46	Municipal engineering
Guixi Hongye Infrastructure Investment Co., Ltd. (貴溪市宏毅基礎設施投資有限公司)	Registered capital of RMB151,294,129	PRC/Mainland China	48	48	Infrastructure construction
Sichuan Hongcheng City Construction Investment Co., Ltd. (四川宏鑄城市建設投資有限公司)	Registered capital of RMB10,000,000	PRC/Mainland China	60	60	Construction investment
Shanghai Shengji Investment Management Co., Ltd. (上海盛疆投資管理有限公司)	Registered capital of RMB50,000,000	PRC/Mainland China	51	51	Investment management
Qingdao Co-e-Wins Venture Capital Limited Partnership (青島同歷並贏創業投資合夥企業(有限合夥))	Registered capital of RMB100,000,000	PRC/Mainland China	50	50	Investment management

* The decisions about the relevant activities that most significantly affect the returns of these investees would be subject to the consent of other parties (e.g. other shareholders or directors), and hence, the ownership interests and power held by the Group in those investees do not currently grant the Group the unilateral ability to direct the relevant activities in these investees.

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13. INVESTMENTS IN JOINT VENTURES (continued)

The Group's loans and accounts receivable balances due from the joint ventures are disclosed in Note 11j to the financial statements. There was no recent history of default and past due amounts for loans to joint ventures. As at 30 June 2020 and 31 December 2019, the loss allowance was assessed to be minimal.

Kangda and Yuanyi Kaiyuan, which are considered material joint ventures of the Group, are mainly engaged in the development, construction and investment holding in Mainland China respectively. The aforementioned companies are accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Kangda adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	30 June 2020 RMB'000	31 December 2019 RMB'000
Cash and cash equivalents	109,089	56,685
Other current assets	2,623,360	2,556,516
Current assets	2,732,449	2,613,201
Non-current assets	28,425	22,733
Financial liabilities, excluding other payables and accruals	(43,000)	(43,000)
Other payables and accruals	(643,395)	(618,732)
Current liabilities	(686,395)	(661,732)
Non-current liabilities	(540,000)	(520,000)
Net assets	1,534,479	1,454,202
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	60%	60%
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	920,687	872,521
Cumulative impairment	(170,000)	(170,000)
Carrying amount of the investment	750,687	702,521

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13. INVESTMENTS IN JOINT VENTURES (continued)

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue	111,883	–
Cost of sales	(117,140)	–
Administrative expenses	(4,819)	(4,967)
Other expenses	(3,914)	(3,318)
Loss and total comprehensive income for the period	(13,990)	(8,285)

The following table illustrates the summarised financial information in respect of Yuanyi Kaiyuan adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

	30 June	31 December
	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	83,787	127,825
Other current assets	1,453,777	1,929,228
Current assets	1,537,564	2,057,053
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–
Net assets	1,537,564	2,057,053
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	39.856%	39.856%
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	612,812	819,859
Capital to be injected to the joint venture	–	(53,061)
Carrying amount of the investment	612,812	766,798

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13. INVESTMENTS IN JOINT VENTURES (continued)

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Other expenses	(15,087)	(16,884)
Other income and gains	(240,234)	–
Loss and total comprehensive income for the period	(255,321)	(16,884)
Dividend received	16,307	–

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

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Share of the joint ventures' gain/(loss) for the period	39,812	(9,559)
Aggregate carrying amount of the Group's investments in the joint ventures	865,656	761,405

14. INVESTMENTS IN ASSOCIATES

	30 June	31 December
	2020 RMB'000	2019 RMB'000
Share of net assets	4,471,070	4,305,232
Excess of consideration over share of net assets acquired	682,710	682,710
	5,153,780	4,987,942

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14. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the material associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of (%)		Principal activities
			Ownership interest	Profit sharing	
Shanghai Yijia Construction Development Co., Ltd. (上海藝佳建設發展有限公司)	Registered capital of RMB14,285,800	PRC/Mainland China	30	30	Development and construction
Hangzhou Guoya Stomatological Hospital Co., Ltd. (杭州國雅口腔醫院有限公司)	Registered capital of RMB32,574,700	PRC/Mainland China	34.98	34.98	Medical service

As at 30 June 2020, the Group also invested in six companies which are mainly engaged in investment holding in Mainland China, with the registered capital of RMB2,600,000,000, RMB3,000,000,000, RMB7,097,107,212, RMB4,508,514,000, RMB1,000,000,000 and RMB3,000,000,000 respectively. The percentages of ownership interest and profit sharing of the Group in these companies are 27.20%, 19.50%, 8.5011%, 13.3082%, 10.00% and 17.00% respectively. The aforementioned companies are accounted for using the equity method.

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

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Share of the associates' profit for the period	321,156	112,572

	30 June	31 December
	2020 RMB'000	2019 RMB'000
Aggregate carrying amount of the Group's investments in the associates	5,153,780	4,987,942

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14. INVESTMENTS IN ASSOCIATES (continued)

The above balances include a total of RMB435,462,000 (31 December 2019: RMB529,379,000) investments held by the Group as an investor in sub-ordinated tranches of several collective fund trusts, whose total funds raised amounted to RMB2,147,750,000 (31 December 2019: RMB2,700,250,000), and the Group had significant influence in these trusts. These trusts conduct entrusted finance lease and entrusted loan businesses. The maximum exposure of the Group to losses from those investments approximates their carrying amounts.

The Group's loans and accounts receivable balances due from the associates are disclosed in Note 11j to the financial statements.

15. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Cash and bank balances	13,390,150	9,930,952
Time deposits	–	25,280
	13,390,150	9,956,232
Less:		
Pledged deposits	1,143,062	822,709
Restricted bank deposits related to asset-backed securitisations	4,175,968	4,955,344
Restricted bank deposits related to collective fund trusts	98,331	188,608
Cash and cash equivalents	7,972,789	3,989,571

At 30 June 2020, the cash and bank balances of the Group denominated in RMB amounted to RMB12,742,375,000 (31 December 2019: RMB9,459,552,000). 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 2020, cash of RMB503,677,000 (31 December 2019: RMB523,609,000) was pledged for bank and other borrowings (see Note 17(b)).

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15. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS (continued)

As at 30 June 2020, cash of RMB639,385,000 (31 December 2019: RMB284,181,000) was pledged for bank acceptances, letters of credit and others.

As at 30 June 2020, no cash (31 December 2019: RMB14,919,000) was pledged for collective fund trusts.

As at 30 June 2020, cash of RMB256,785,000 (31 December 2019: RMB253,606,000) was deposited with Sinochem Finance Co., Ltd., a subsidiary of the ultimate holding company of a shareholder with significant influence.

16. TRADE AND BILLS PAYABLES

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Current:			
Bills payable		5,251,715	2,523,404
Trade payables		2,135,238	1,489,063
Due to related parties	16a	184,977	460,961
		7,571,930	4,473,428

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

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 1 year		7,316,680	4,192,034
1 to 2 years		141,806	174,710
2 to 3 years		31,616	27,286
3 years and beyond		81,828	79,398
		7,571,930	4,473,428

Notes to Interim Condensed Consolidated Financial Information

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16. TRADE AND BILLS PAYABLES (continued)

16a. BALANCES WITH RELATED PARTIES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Due to related parties:		
Subsidiary of the ultimate holding company of a shareholder with significant influence:		
Sinochem Finance Co., Ltd.	184,977	460,761
Associate:		
Shanghai Yijia Construction Development Co., Ltd.	–	200
	184,977	460,961

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

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17.INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current:						
Current portion of long term bank loans – secured	3.83~6.41	2020~2021	5,074,452	3.92~6.41	2020	5,414,006
Bank loans – secured	2.00~5.00	2020~2021	157,209	3.30~5.44	2020	156,610
Bank loans – unsecured	1.58~5.10	2020~2021	13,290,208	2.88~5.10	2020	12,544,331
Loans from subsidiaries of the ultimate holding company of a shareholder with significant influence – unsecured	3.60~3.92	2020~2021	479,000	–	–	–
Current portion of long term bank loans – unsecured	2.02~5.70	2020~2021	34,570,455	2.43~6.50	2020	28,299,097
Other loans – unsecured	6.10~6.80	2020~2021	6,176,700	6.10~6.80	2020	2,626,800
Bonds – secured*	2.60~4.75	2020~2021	1,814,979	–	–	–
Bonds – unsecured*	1.50~6.40	2020~2021	40,098,360	2.30~5.90	2020	38,704,001
			101,661,363			87,744,845
Non-current:						
Bank loans – secured	3.83~6.41	2021~2031	7,534,084	3.92~6.41	2021~2032	5,795,584
Bank loans – unsecured	1.01~5.70	2021~2026	37,655,294	2.43~5.70	2021~2026	33,351,425
Other loans – secured	6.78	2021	400,000	6.78	2021	400,000
Other loans – unsecured	5.90~6.71	2021~2022	2,255,000	5.90~6.71	2021~2022	6,731,000
Bonds – secured*	3.15~4.50	2021~2023	3,297,404	–	–	–
Bonds – unsecured*	3.10~6.20	2021~2025	35,379,674	3.69~6.40	2021~2023	28,373,412
			86,521,456			74,651,421
			188,182,819			162,396,266

* includes the effect of fair value gains/losses on the hedged item attributable to the hedged risk in the fair value hedge as further detailed in Note 12 to the financial statements.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

17.INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	53,092,324	46,414,044
In the second year	31,766,148	23,318,321
In the third to fifth years, inclusive	12,105,857	14,827,507
Beyond five years	1,317,373	1,001,181
	98,281,702	85,561,053
Loans from subsidiaries of the ultimate holding company of a shareholder repayable:		
Within one year or on demand	479,000	–
In the second year	–	–
In the third to fifth years, inclusive	–	–
	479,000	–
Other borrowings repayable:		
Within one year or on demand	48,090,039	41,330,801
In the second year	15,002,524	26,576,996
In the third to fifth years, inclusive	26,329,554	8,927,416
	89,422,117	76,835,213
	188,182,819	162,396,266

- (a) As at 30 June 2020, the Group's bank and other borrowings secured by the pledge of or the transfer of certain of the Group's lease receivables and long term receivables amounted to RMB13,908,044,000 (31 December 2019: RMB8,131,017,000) and RMB3,536,407,000 (31 December 2019: RMB2,706,346,000), respectively.
- (b) As at 30 June 2020, the Group's bank and other borrowings amounting to RMB152,209,000 (31 December 2019: RMB127,610,000) were secured by the pledge of cash.
- (c) As at 30 June 2020, the Group's bank and other borrowings secured by the Group's leasehold land, and property, plant and equipment amounted to RMB681,470,000 (31 December 2019: RMB801,227,000). The Group had not provided any guarantees for other entities (31 December 2019: Nil).

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18. DEFERRED TAX

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

Deferred tax assets

	Fee income received in advance RMB'000	Government special subsidy RMB'000	Share- based payments RMB'000	Allowances for impairment losses RMB'000	Salaries and welfare payables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Cash flow hedge RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at at 1 January 2020 (Audited)	262,280	790,325	82,900	1,719,551	1,267,843	94,445	73,539	11,808	4,302,691
Credited to the statement of profit or loss during the period	10,049	45,282	51,836	242,233	189,469	43,829	-	1,619	584,317
Credited to reserve	-	-	-	-	-	-	5,383	-	5,383
Exchange differences	-	-	-	56	-	3	-	-	59
Gross deferred tax assets at 30 June 2020 (Unaudited)	272,329	835,607	134,736	1,961,840	1,457,312	138,277	78,922	13,427	4,892,450

	Fee income received in advance RMB'000	Government special subsidy RMB'000	Share- based payments RMB'000	Allowances for impairment losses RMB'000	Salaries and welfare payables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Cash flow hedge RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2019	381,518	636,245	143,566	1,652,968	1,074,297	144,834	98,238	10,159	4,141,825
(Charged)/credited to the statement of profit or loss during the year	(119,238)	154,080	(60,666)	65,590	193,546	(50,390)	-	986	183,908
Acquisition of subsidiaries	-	-	-	877	-	-	-	663	1,540
Charged to reserve	-	-	-	-	-	-	(24,699)	-	(24,699)
Exchange differences	-	-	-	116	-	1	-	-	117
Gross deferred tax assets at 31 December 2019	262,280	790,325	82,900	1,719,551	1,267,843	94,445	73,539	11,808	4,302,691

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

18. DEFERRED TAX (continued)

Deferred tax liabilities

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2020 (Audited)	89,363	–	133,419	9,385	125,920	358,087
(Charged)/credited to the statement of profit or loss during the period	(2,038)	–	(50,373)	–	46,428	(5,983)
Arising from acquisition of subsidiaries	–	–	–	–	–	–
Gross deferred tax liabilities at 30 June 2020 (Unaudited)	87,325	–	83,046	9,385	172,348	352,104

	Asset revaluation RMB'000	Cash flow hedge RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Withholding income tax RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2019	59,416	–	76,190	9,385	114,579	259,570
(Charged)/credited to the statement of profit or loss during the year	(8,176)	–	57,229	–	11,341	60,394
Arising from acquisition of subsidiaries	38,123	–	–	–	–	38,123
Gross deferred tax liabilities at 31 December 2019	89,363	–	133,419	9,385	125,920	358,087

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

18. DEFERRED TAX (continued)

For the purpose of the presentation of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Net deferred tax assets recognised in the consolidated statement of financial position	4,731,980	4,181,252
Net deferred tax liabilities recognised in the consolidated statement of financial position	191,634	236,648

As at 30 June 2020, the Group had tax losses arising in Hong Kong of RMB559,190,000 (31 December 2019: RMB363,410,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB150,054,000 (31 December 2019: RMB103,938,000) that will expire in one to five years for offsetting against future taxable profits. The Group has recognised deferred tax assets in respect of the tax losses mentioned above. Aside from this, as at 30 June 2020, the Group did not recognise deferred tax assets arising in Mainland China and Hong Kong in respect of unutilised tax losses of RMB1,773,376,000 (31 December 2019: RMB1,266,992,000) and RMB520,171,000 (31 December 2019: RMB555,064,000), respectively, due to uncertainty in their recoverability.

Pursuant to a resolution of the Company in 2019, it is decided that the dividends paid by the Mainland China subsidiaries from 2018 onwards shall be limited to the direct investment in subsidiaries in the Mainland China. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not reverse in the foreseeable future. As at 30 June 2020, the aggregate amount of unrecognised deferred tax liabilities (i.e. withholding taxes relating to such temporary differences) was approximately RMB982,476,000 (31 December 2019: RMB903,896,000).

Notes to Interim Condensed Consolidated Financial Information

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19.SHARE CAPITAL

	Number of shares	Amounts HK\$
Issued and fully paid ordinary shares:		
At 31 December 2019 (Audited) (Note (i))	3,960,819,026	13,085,638,000
At 30 June 2020 (Unaudited) (Note (i))	3,963,605,682	13,106,830,000

Note:

- (i) The Company purchased its own shares through a trust under a share award scheme, which were presented as shares held for the share award scheme.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000	Share capital equivalent to RMB'000
At 1 January 2020 and 31 December 2019	3,960,819,026	13,085,638	10,281,212
Share options exercised (Note (ii))	2,786,656	21,192	18,753
As at 30 June 2020 (Unaudited)	3,963,605,682	13,106,830	10,299,965

Note:

- (ii) The subscription rights attaching to 479,392, 262,252, 1,740,396 and 304,616 share options were exercised at the subscription prices of HK\$5.86, HK\$7.17, HK\$5.714 and HK\$6.82 per share, respectively, resulting in the issue of 2,786,656 shares for a total cash consideration, before expenses, of HK\$16,711,000. An amount of HK\$4,481,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

Notes to Interim Condensed Consolidated Financial Information

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20. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the interim condensed consolidated statement of changes in equity.

The Group's capital reserve represents the excess of the carrying amounts of capital and capital reserve of the subsidiaries acquired pursuant to the Reorganisation as defined in the Prospectus, over the nominal value of the Company's shares issued as consideration plus the amount of borrowings capitalised in excess of the nominal value of the shares issued.

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC are required to transfer no less than 10% of their profits after taxation, as determined under the PRC Company Law, to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to this statutory reserve fund must be made before the distribution of dividends to shareholders.

Special reserve mainly represents funds set aside for the purpose of certain safety production activities. Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the subsidiary Shanghai Horizon Construction Engineering Equipment Co., Ltd. has set aside funds mainly for construction service activities at prescribed rates. These funds can be used for maintenance and/or improvements of safety of these activities, and are not available for distribution to shareholders.

Share-based compensation reserve of the Group comprises the recognition of the equity-settled share-based payments under the Share Option Scheme and the Share Award Scheme which are yet to be exercised. The amount will be transferred to share capital or shares held for the Share Award Scheme when the related Share Options are exercised or Restricted Shares are vested.

21. PERPETUAL SECURITIES

On 14 June 2017, the Company issued US\$300,000,000 perpetual capital securities (the "Perpetual Capital Securities") at an initial distribution rate of 4.35% under the US\$4,000,000,000 medium term note and perpetual securities programme updated on 1 June 2017 by the Company. The Perpetual Securities are unsecured.

Distributions of the Perpetual Securities may be paid semi-annually in arrears on 14 June and 14 December of each year (the "Distribution Payment Date") and may be deferred at the discretion of the Company unless a compulsory distribution payment event (including distributions to ordinary shareholders of the Company) has occurred. Following a deferral, arrears of distributions are cumulative.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

21. PERPETUAL SECURITIES (continued)

The Perpetual Capital Securities have no fixed maturity date and are callable at the Company's option in whole on 14 June 2022 (the "First Call Date") or on any Distribution Payment Date falling after the First Call Date at their principal amounts together with any distribution accrued to the date fixed for redemption (including any arrears of distribution and any additional distribution amounts). The applicable distribution rate will be reset, (i) in respect of the period from, and including, the Issue Date to, but excluding, 14 June 2022 (the "First Call Date"), 4.35% per annum (the "Initial Distribution Rate"); and (ii) in respect of the period (A) from, and including, the First Call Date to, but excluding, the immediately following reset date (the "Reset Date") and (B) from, and including, each Reset Date falling after the First Call Date to, but excluding, the immediately following Reset Date, the relevant reset distribution rate shall be the specified US treasury rate as at each relevant Reset Date plus the initial spread 2.62% plus 5.00% per annum.

On 6 July 2017, International Far Eastern Leasing Co., Ltd. ("Far Eastern Leasing"), a wholly-owned subsidiary of the Company, completed the issuance of renewable corporate bonds (the "Renewable Bonds") in an amount of RMB5 billion in the PRC. The basic term of the Renewable Bonds will be 3 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 5.5% per annum.

Distributions of the Renewable Bonds may be paid annually in arrears on 6 July of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

On 4 December 2017, King Talent Management Limited ("King Talent"), a wholly-owned subsidiary of the Company, issued US\$400,000,000 guaranteed subordinated perpetual capital securities (the "Guaranteed Perpetual Securities") at an initial distribution rate of 5.60% per annum. The Company has guaranteed on a subordinated basis all sums falling due under the terms of the Guaranteed Perpetual Securities.

The Company may, at its sole discretion, elect to defer (in whole or in part) a distribution which is otherwise scheduled to be paid by King Talent on a Distribution Payment Date (i.e. 4 June and 4 December of each year, starting from June 4, 2018) to the next Distribution Payment Date prior to the relevant Distribution Payment Date, unless a compulsory distribution payment event (including distributions to ordinary shareholders of the Company) has occurred.

The Guaranteed Perpetual Securities have no fixed maturity date, which may be redeemed at the option of King Talent in whole, but not in part, on the First Reset Date or on any Distribution Payment Date thereafter at their principal amount together with all outstanding arrears of distribution and any Additional Distribution Amounts (if any) and any Distribution accrued to the date fixed for redemption. The distribution rate will be reset for the period (A) from and including the Issue date to, but excluding 4 December 2022 (the "First Reset Date"), the initial distribution rate; (B) for each reset distribution period from and including the First Reset Date to, but excluding 4 December 2037, the relevant reset distribution rate; and (C) for each reset distribution period from and including 4 December 2037 to, but excluding the redemption date of the securities, if any, the relevant reset distribution rate plus 5.00 percent per annum. The relevant reset distribution rate shall be the specified US treasury rate as at each relevant Reset Date plus the initial spread of 3.521%.

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21. PERPETUAL SECURITIES (continued)

On 24 July 2019, Far Eastern Leasing completed the issuance of perpetual trusted loans (the "Perpetual Loans") in an amount of RMB49,850,000 in the PRC. The basic term of the Perpetual Loans will be 5 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 6.0% per annum.

Distributions of the Perpetual Loans may be paid annually in arrears on 24 July of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

On 18 February 2020, Far Eastern Leasing completed the issuance of renewable corporate bonds (Epidemic Prevention and Control Securities) (the "Renewable") (Phase One) in an amount of RMB2,000,000,000 in the PRC. The Renewable (Phase One) consists of Variety One and Variety Two. The issue size of Variety One was RMB1,500,000,000 and the basic term will be 2 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 3.87% per annum. The issue size of Variety Two was RMB500,000,000 and the basic term will be 3 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 4.13% per annum.

Distributions of the Renewable (Phase One) may be paid annually in arrears on 18 February of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

On 18 June 2020, Far Eastern Leasing completed the issuance of renewable corporate bonds (the "Renewable") (Phase Two) in an amount of RMB700,000,000 in the PRC. The basic term of the Renewable (Phase Two) will be 2 years (Far Eastern Leasing is entitled to exercise its renewable option at the end of the stipulated basic term and at the end of each renewal period), with a coupon distribution rate of 3.98% per annum.

Distributions of the Renewable (Phase Two) may be paid annually in arrears on 18 June of each year and may be deferred at the discretion of Far Eastern Leasing unless a compulsory distribution payment event (including distributions to shareholders of Far Eastern Leasing) has occurred. Following a deferral, arrears of distributions are cumulative.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of the Perpetual Capital Securities, the Renewable Bonds, the Guaranteed Perpetual Securities, the Perpetual Loans and the Renewable other than an unforeseen liquidation of the Company.

The direct transaction costs attributable to the Perpetual Capital Securities, the Renewable Bonds, the Guaranteed Perpetual Securities, the Perpetual Loans and the Renewable amounted to RMB5,451,000, RMB14,892,000, RMB16,309,000, RMB64,000 and RMB6,000,000, respectively.

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21. PERPETUAL SECURITIES (continued)

For the six months ended 30 June 2020, the profits attributable to the holders of the Perpetual Capital Securities, the Renewable Bonds, the Guaranteed Perpetual Securities, the Perpetual Loans, the Renewable (Phase One) and the Renewable (Phase Two) (collectively the “Perpetual Securities”) based on the applicable distribution rates, were RMB46,707,000 (six months ended 30 June 2019: RMB45,107,000), RMB121,542,000 (six months ended 30 June 2019: RMB138,264,000), RMB78,867,000 (six months ended 30 June 2019: RMB75,845,000), RMB1,512,000 (six months ended 30 June 2019: Nil) and RMB29,294,000 (six months ended 30 June 2019: Nil) and RMB1,006,000 (six months ended 30 June 2019: Nil), respectively, and the distribution made by the Group to the holders of Perpetual Securities was RMB108,287,000 (six months ended 30 June 2019: RMB122,145,000).

22. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Claimed amounts	13,668	15,417

23. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings are included in Notes 10, 11, 15 and 17, respectively, to the financial statements.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

24.COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Contracted, but not provided for:		
Capital expenditure for acquisition of property, plant and equipment	186,590	248,141
Purchase of shareholding	10,000	10,000
	196,590	258,141

(b) Credit commitments

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Irrevocable credit commitments	6,511,410	9,713,667

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

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25. RELATED PARTY TRANSACTIONS

Relationship between the Group and its related parties:

Ultimate holding company of a shareholder with significant influence

Sinochem Group

A shareholder with significant influence

Greatpart Limited

Subsidiaries of the ultimate holding company of a shareholder with significant influence

Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")

Sinochem Finance Co., Ltd.

China Jin Mao Group Co., Ltd.

Beijing Chemsunny Property Co., Ltd.

Jin Mao (Shanghai) Property Management Service Co., Ltd.

Sinochem Jinmao Property Management (Beijing) Co., Ltd.

Sinochem Corporation

Sinochem International (Overseas) Pte. Ltd.

Sinochem International Tendering Co., Ltd. ("Sinochem Tendering")

Joint ventures

Guangzhou Kangda Industrial Technology Co., Ltd.

Kunming Broadhealthcare Investment Co., Ltd.

Teamway Shipping Limited

Gold Chance Shipping Limited

Fengyang Gulou Hospital Co., Ltd.

Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.

Grand Flight Investment Management Co., Ltd.

Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd. *

Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.

Weihai Haida Hospital Co., Ltd.**

Associates

Tianjin FIS Asset Management Co., Ltd.

Shanghai Yijia Construction Development Co., Ltd.

Halcyon Ocean Limited

Hua Bao – Far Eastern Leasing portfolio investment collective fund trust

CITIC – Far Eastern Leasing portfolio investment collective fund trust

XMITIC – Far Eastern Leasing portfolio investment collective fund trust

SCHTRUST – Far Eastern Leasing portfolio investment collective fund trust

* Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd. is the subsidiary of Grand Flight Hooyoung Investment Management Co., Ltd., one joint venture of the Group

** jointly controlled by the Group until 25 March 2019

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25. RELATED PARTY TRANSACTIONS (continued)

- a. In addition to the balances in Notes 11,15,16 and 17 to the financial statements, at the end of the reporting period, the Group had the following balances with its related parties:
- (i) Prepayments, other receivables and other assets

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<u>Due from related parties</u>		
Beijing Chemsunny Property Co., Ltd.	2,493	2,493
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	175	175
Gold Chance Shipping Limited	24,253	24,806
Teamway Shipping Limited	24,217	25,119
Fengyang Gulou Hospital Co., Ltd.	422	422
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	1,256	1,181
Halcyon Ocean Limited	70,796	–
	123,612	54,196

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

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30 June 2020

25.RELATED PARTY TRANSACTIONS (continued)

- a. In addition to the balances in Notes 11,15,16 and 17 to the financial statements, at the end of the reporting period, the Group had the following balances with its related parties: (continued)

(ii) Other payables and accruals

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<u>Due to related parties</u>		
Sinochem Finance Co., Ltd.	1,147	4,676
Fengyang Gulou Hospital Co., Ltd.	268	588
Kunming Broadhealthcare Investment Co., Ltd.	1	1
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	6,232	13,104
Grand Flight Investment Management Co., Ltd.	37,335	35,915
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	2,023	2,003
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.	–	32,378
Hua Bao – Far Eastern Leasing portfolio investment collective fund trust	7,210	–
CITIC – Far Eastern Leasing portfolio investment collective fund trust	43,063	61,925
XMITIC – Far Eastern Leasing portfolio investment collective fund trust	44,905	103,401
SCHTRUST – Far Eastern Leasing portfolio investment collective fund trust	1,829	1,829
	144,013	255,820

Except for the amounts due to Fengyang Gulou Hospital Co., Ltd., Kunming Broadhealthcare Investment Co., Ltd., Grand Flight Investment Management Co., Ltd., Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd. and Suzhou Gaoxin Rehabilitation Hospital Co., Ltd. which bear interest at an interest rate of 1.485%, amounts due to other related parties are unsecured and non-interest-bearing.

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25. RELATED PARTY TRANSACTIONS (continued)

- a. In addition to the balances in Notes 11,15,16 and 17 to the financial statements, at the end of the reporting period, the Group had the following balances with its related parties: (continued)

(iii) Lease liabilities

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Beijing Chemsunny Property Co., Ltd.	6,026	9,944

Lease liabilities at 30 June 2020 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 4.9% (31 December 2019: 4.9%).

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

(i) Interest income from cash at banks

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Sinochem Finance Co., Ltd.	1,744	2,091

The interest was charged at rates ranging from 0.35% to 1.495% per annum.

(ii) Service fee income

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Kunming Broadhealthcare Investment Co., Ltd.	–	1,830
Guangzhou Kangda Industrial Technology Co., Ltd.	31	–
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	1,151	–
	1,182	1,830

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

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

25. RELATED PARTY TRANSACTIONS (continued)

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

(iii) Interest expenses on borrowings

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	7,327	26,562

The interest expenses were charged at rates ranging from 3.60% to 4.00% per annum.

(iv) Interest expenses

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Grand Flight Investment Management Co., Ltd.	226	156
Tian Jin Grand Flight Hooyoung Asset Management Co., Ltd.	14	14
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	37	17
Tianjin FIS Asset Management Co., Ltd.	–	263
Guangzhou Yimei Tiancheng Decoration Engineering Co., Ltd.	575	599
Beijing Chemsunny Property Co., Ltd.	–	356
	852	1,405

The interest expenses were charged at rates 1.485% per annum.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

25. RELATED PARTY TRANSACTIONS (continued)

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

(v) Rental as a lessee

	For the six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
China Jin Mao Group Co., Ltd.	–	37
Beijing Chemsunny Property Co., Ltd.	4,070	4,070
Sinochem Jinmao Property Management (Beijing) Co., Ltd.	281	280
Jin Mao (Shanghai) Property Management Services Co., Ltd.	–	34
	4,351	4,421

These rentals were charged based on rates mutually agreed between the parties.

(vi) Commission fee expense

	For the six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
Sinochem Finance Co., Ltd.	5,735	6,630

(vii) Consultancy fee

	For the six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
Sinochem Finance Co., Ltd.	717	755

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

25. RELATED PARTY TRANSACTIONS (continued)

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

(viii) Interest income

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Weihai Haida Hospital Co., Ltd.	–	893
Guangzhou Kangda Industrial Technology Co., Ltd.	3,292	5,979
Kunming Broadhealthcare Investment Co., Ltd.	1,699	1,883
Tianjin FIS Asset Management Co., Ltd.	22,535	11,540
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	1,821	1,078
	29,347	21,373

(ix) Sales of goods

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Suzhou Gaoxin Rehabilitation Hospital Co., Ltd.	61	5,992

(x) Tendering service fee

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sinochem Finance Co., Ltd.	–	40

c. Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Employee benefits	51,507	59,020

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

26. FINANCIAL INSTRUMENTS BY CATEGORY

	As of 30 June 2020 (Unaudited) RMB'000	As of 31 December 2019 (Audited) RMB'000
Financial assets as per the statement of financial position		
Financial assets at amortised cost:		
Loans and accounts receivables	220,038,349	201,120,901
Financial assets included in prepayments, other receivables and other assets	6,734,914	6,939,042
Restricted deposits	5,417,361	5,966,661
Cash and cash equivalents	7,972,789	3,989,571
Financial assets at fair value through profit or loss:		
Derivative financial instruments designated as hedging instruments in fair value hedges	108	12,969
Financial assets at fair value through profit or loss	8,082,930	4,442,688
Hedging instruments designated in cash flow hedges:		
Derivative financial instruments designated as hedging instruments in cash flow hedges	1,910,364	1,552,867
Total	250,156,815	224,024,699
Financial liabilities as per the statement of financial position		
Financial liabilities at amortised cost:		
Trade and bills payables	7,571,930	4,473,428
Financial liabilities included in other payables and accruals	34,689,777	37,211,827
Interest-bearing bank and other borrowings	188,182,819	162,396,266
Lease liabilities	1,840,277	1,873,077
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments designated as hedging instruments in fair value hedges	-	177
Hedging instruments designated in cash flow hedges:		
Derivative financial instruments designated as hedging instruments in cash flow hedges	156,058	184,337
Total	232,440,861	206,139,112

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

27. FAIR VALUE HIERARCHY

Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, restricted deposits, loans and accounts receivables, financial assets included in deposits, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and borrowings.

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable:

Cash and cash balances, current portion of financial assets included in deposits and other receivables, trade and bills payables, short term borrowings and current portion of financial liabilities included in other payables and accruals

Substantially all of the financial assets and liabilities mature within one year from the end of each reporting period and their carrying values approximate to their fair values.

Loans and accounts receivables, interest-bearing bank and other borrowings except for bonds issued and short term borrowings and restricted deposits

Substantially all of the loans and accounts receivables, restricted deposits and interest-bearing bank and other borrowings, except for bonds issued and short term borrowings, are on floating rate terms and bear interest at prevailing market interest rates and their carrying values approximate to their fair values.

Bonds issued

The fair values of the bonds issued are calculated based on a discounted cash flow model that is used based on a current yield curve appropriate for the remaining term to maturity.

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2020 RMB'000	31 December 2019 RMB'000	30 June 2020 RMB'000	31 December 2019 RMB'000
Financial liabilities				
Bonds issued	80,590,417	67,077,413	80,293,880	67,832,131

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

27. FAIR VALUE HIERARCHY (continued)

Financial instruments not measured at fair value (continued)

Non-current portion of financial assets included in prepayments deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals

The fair values of the non-current portion of financial assets included in prepayment deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The difference between the carrying amounts and the fair values of those financial assets and liabilities is not significant.

Financial instruments measured at fair value

Non-deliverable cross-currency swaps and interest rate swaps

Non-deliverable cross-currency swaps and interest rate swaps are measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets at fair value through profit or loss

The valuations of the financial assets at fair value through profit or loss were based on information known to the Group and market conditions existing at the end of the reporting period. The fair values were determined by using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions, referring to the current market value of another instrument that is substantially the same and making as much use of available and supportable market data as possible.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1:	fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3:	fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

27. FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value

As at 30 June 2020

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – assets	–	1,907,427	–	1,907,427
Forward currency contracts – assets	–	–	–	–
Interest rate swaps – assets	–	3,045	–	3,045
Cross-currency interest rate swaps – liabilities	–	(108,236)	–	(108,236)
Forward currency contracts – liabilities	–	(2,909)	–	(2,909)
Interest rate swaps – liabilities	–	(44,913)	–	(44,913)
Financial assets at fair value through profit or loss	–	8,082,930	–	8,082,930

As at 31 December 2019

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Cross-currency interest rate swaps – assets	–	1,528,354	–	1,528,354
Forward currency contracts – assets	–	24,513	–	24,513
Interest rate swaps – assets	–	12,969	–	12,969
Cross-currency interest rate swaps – liabilities	–	(142,678)	–	(142,678)
Forward currency contracts – liabilities	–	(24,482)	–	(24,482)
Interest rate swaps – liabilities	–	(17,354)	–	(17,354)
Financial assets at fair value through profit or loss	–	4,442,688	–	4,442,688

During the six months ended 30 June 2020, there were no transfer at fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (six months ended 30 June 2019: Nil).

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

27. FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed

As at 30 June 2020

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	80,293,880	–	80,293,880

As at 31 December 2019

	Level 1 Quoted prices in active markets RMB'000	Level 2 Significant observable inputs RMB'000	Level 3 Significant unobservable inputs RMB'000	Total RMB'000
Bonds issued	–	67,832,131	–	67,832,131

28. EVENTS AFTER THE REPORTING PERIOD

In July 2020, the board of directors (the “Board”) announced that, the Company has resolved to offer to grant share options (the “Options”) to certain qualified participants (the “Grantees”) under the share option scheme (the “Share Option Scheme”) of the Company adopted on 5 June 2019 to subscribe for a total of 24,990,529 ordinary shares in the capital of the Company under the Share Option Scheme, subject to the acceptance of such offer by the Grantees. Subject to the rules of the Share Option Scheme, the Options granted will vest to the Grantees at the first, second and third anniversaries of the date of grant at an average amount. The validity period of the Options is within 10 years from the date of grant.

In July 2020, the Board resolved to grant 37,485,793 restricted shares (the “Restricted Shares”) to certain qualified participants (the “Selected Grantees”) under the award scheme (the “Award Scheme”) of the Company adopted on 11 June 2014 and amended on 20 March 2019. Under the Award Scheme, some restricted shares (the “Restricted Shares”) will be held on trust for the Grantees until such Restricted Shares are vested with the relevant Selected Grantees in accordance with the rules of the Award Scheme.

On 8 July 2020, the Group, through Universe Trek Limited, a wholly-owned subsidiary of the Company, conducted an international offering of the US dollar-denominated, 2.5%-coupon convertible bonds in an aggregate principal amount of US\$300,000,000 with maturity date on 8 July 2025. The convertible bonds were unconditionally and irrevocably guaranteed by the Company.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

29. 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 26 August 2020.

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 data and financial statements is set out below.

	For the six months ended 30 June		For the year ended 31 December		
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)	2019 RMB' 000 (Audited)	2018 RMB' 000 (Audited)	2017 RMB' 000 (Audited)
Revenue	13,275,366	14,181,427	26,856,461	25,378,612	18,782,314
Cost of sales	(6,500,950)	(6,162,222)	(12,525,041)	(11,484,055)	(8,106,962)
Gross profit	6,774,416	8,019,205	14,331,420	13,894,557	10,675,352
Other income/gains	952,089	338,750	1,157,073	739,058	637,738
Selling and administrative expenses	(2,361,302)	(2,819,296)	(4,805,301)	(4,913,015)	(3,911,745)
Other expenses and losses	(304,975)	(225,533)	(497,393)	(395,474)	(422,743)
Finance costs	(325,086)	(221,541)	(460,632)	(459,849)	(225,372)
Gains and loss on investment in joint ventures/associates	250,813	91,313	192,233	287,524	(13,673)
Pre-provision operating profit	4,985,955	5,182,898	9,917,400	9,152,801	6,739,557
Provision for assets	(1,656,352)	(1,613,005)	(2,772,570)	(2,660,234)	(1,952,369)
Profit before tax	3,329,603	3,569,893	7,144,830	6,492,567	4,787,188
Income tax expense	(971,717)	(1,041,013)	(2,316,573)	(2,104,442)	(1,377,623)
Profit for the period/year	2,357,886	2,528,880	4,828,257	4,388,125	3,409,565
Attributable to:					
Holders of ordinary shares of the Company	2,055,682	2,233,436	4,337,602	3,927,472	3,229,057
Holders of perpetual securities	278,928	259,216	511,335	502,735	231,264
Non-controlling interests	23,276	36,228	(20,680)	(42,082)	(50,756)
	2,357,886	2,528,880	4,828,257	4,388,125	3,409,565

Financial Summary

The following table sets forth the results of the Group converted into US\$ at the respective average exchange rate as at the end of each period⁽¹⁾ as of the dates indicated.

	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	US\$' 000 (Unaudited)	US\$' 000 (Unaudited)	US\$' 000 (Audited)	US\$' 000 (Audited)	US\$' 000 (Audited)
Revenue	1,888,952	2,064,555	3,881,160	3,788,588	2,788,514
Cost of sales	(925,020)	(897,106)	(1,810,055)	(1,714,371)	(1,203,599)
Gross profit	963,932	1,167,449	2,071,105	2,074,217	1,584,915
Other income/gains	135,473	49,316	167,214	110,329	94,682
Selling and administrative expenses	(335,990)	(410,438)	(694,438)	(733,428)	(580,757)
Other expenses and losses	(43,395)	(32,833)	(71,882)	(59,037)	(62,762)
Finance costs	(46,256)	(32,252)	(66,568)	(68,648)	(33,460)
Gains and loss on investment in joint ventures/associates	35,688	13,293	27,781	42,922	(2,030)
Pre-provision operating profit	709,452	754,535	1,433,212	1,366,355	1,000,588
Provision for assets	(235,682)	(234,824)	(400,678)	(397,127)	(289,858)
Profit before tax	473,770	519,711	1,032,534	969,228	710,730
Income tax expense	(138,266)	(151,552)	(334,779)	(314,157)	(204,529)
Profit for the period/year	335,504	368,159	697,755	655,071	506,201
Attributable to:					
Holders of ordinary shares of the Company	292,503	325,148	626,848	586,304	479,402
Holders of perpetual securities	39,689	37,737	73,896	75,049	34,335
Non-controlling interests	3,312	5,274	(2,989)	(6,282)	(7,536)
	335,504	368,159	697,755	655,071	506,201

Financial Summary

	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Audited)	RMB' 000 (Audited)	RMB' 000 (Audited)
Total assets	289,317,456	259,235,096	260,570,588	265,969,794	227,454,273
Total liabilities	(243,624,474)	(219,051,277)	(219,035,813)	(226,877,290)	(191,046,481)
Perpetual securities	(12,724,852)	(9,926,664)	(9,860,211)	(9,789,593)	(9,797,723)
Non-controlling interests	(1,967,954)	(1,713,454)	(1,546,128)	(1,573,168)	(1,269,200)
	31,000,176	28,543,701	30,128,436	27,729,743	25,340,869

The following table sets forth the assets, liabilities and non-controlling interests of the Group converted into US\$ at the respective exchange rate as at the end of each period(1) as of the dates indicated.

	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	US\$' 000 (Unaudited)	US\$' 000 (Unaudited)	US\$' 000 (Audited)	US\$' 000 (Audited)	US\$' 000 (Audited)
Total assets	40,866,934	37,708,569	37,351,364	38,753,030	34,809,812
Total liabilities	(34,412,667)	(31,863,394)	(31,397,582)	(33,057,071)	(29,237,930)
Perpetual securities	(1,797,422)	(1,443,941)	(1,413,407)	(1,426,389)	(1,499,453)
Non-controlling interests	(277,980)	(249,241)	(221,629)	(229,218)	(194,239)
	4,378,865	4,151,993	4,318,746	4,040,352	3,878,190

Financial Summary

Note:

(1) Exchange rate

	Exchange rate as at the end of the period	Average exchange rate
30 June 2017	6.7744	6.8557
31 December 2017	6.5342	6.7356
30 June 2018	6.6166	6.5754
31 December 2018	6.8632	6.6987
30 June 2019	6.8747	6.8690
31 December 2019	6.9762	6.9197
30 June 2020	7.0795	7.0279