中国华融资产管理股份有限公司

CHINA HUARONG ASSET MANAGEMENT CO., LTD.

(a joint stock limited liability company incorporated in the People's Republic of China)

Stock Code：2799

# 2019

# Interim Report

# Contents

# 1 Definitions

In this interim report, unless the context otherwise requires, the following expressions have the following meanings:

| | |
|---|---|
| AMC(s) | the four asset management companies approved for establishment by the State Council, namely the Company, China Great Wall Asset Management Co., Ltd., China Orient Asset Management Co., Ltd. and China Cinda Asset Management Co., Ltd. |
| Articles of Association | the articles of association of China Huarong Asset Management Co., Ltd. as amended from time to time |
| Board or Board of Directors | the board of directors of the Company |
| Board of Supervisors | the board of supervisors of the Company |
| CBIRC | China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) |
| China or PRC | the People's Republic of China, for the purpose of this interim report, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan |
| Company | China Huarong Asset Management Co., Ltd. |
| debt-to-equity swap(s) or DES | the practice of converting indebtedness owed by the obligors to equity |
| DES Assets | (1) the equity assets that the Company acquired as a result of equity swaps of distressed debt assets of a number of medium and large state-owned enterprises according to national policy prior to its restructuring; (2) additional equities of the aforementioned enterprises the Company subsequently acquired as part of asset packages it purchased; (3) additional investments by the Company in the aforementioned enterprises; (4) equities the Company received in satisfaction of debt and assets the Company acquired through distressed asset management; (5) the equity portfolio the Company received as part of its share capital when it was established in 1999; and (6) assets formed by the Company through conducting market-oriented DES business |
| DES Companies | the companies and enterprises whose distressed indebtedness held by the AMCs were swapped for equity |

# 1 Definitions

| | |
|---|---|
| Director(s) | director(s) of the Company |
| Domestic Share(s) | ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi |
| Excluded DES Companies | has the meaning as defined in the Prospectus |
| Group or our Group or China Huarong | China Huarong Asset Management Co., Ltd. and its subsidiaries |
| H Share(s) | ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Main Board of the Hong Kong Stock Exchange |
| HK$ or HKD | Hong Kong dollars, the lawful currency of Hong Kong |
| Hong Kong | the Hong Kong Special Administrative Region of the PRC |
| Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited |
| Huarong Consumer Finance | Huarong Consumer Finance Co., Ltd. |
| Huarong Financial Leasing | China Huarong Financial Leasing Co., Ltd. |
| Huarong Futures | Huarong Futures Co., Ltd. |
| Huarong International | China Huarong International Holdings Limited |
| Huarong Real Estate | Huarong Real Estate Co., Ltd. |
| Huarong Rongde | Huarong Rongde Asset Management Co., Ltd. |
| Huarong Securities | Huarong Securities Co., Ltd. |
| Huarong Trust | Huarong International Trust Co., Ltd. |
| Huarong Xiangjiang Bank | Huarong Xiangjiang Bank Corporation Limited |

# 1 Definitions

| | |
|---|---|
| IFRS | the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board |
| Listing Rules | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| MOF | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| non-performing loan(s) or NPL(s) | loan(s) classified as substandard, doubtful and loss under the five-category loan classification system (as applicable) adopted by financial institutions pursuant to applicable PRC guidelines |
| OFAC | the Office of Foreign Assets Control of U.S. |
| PRC GAAP | generally accepted accounting principles in the PRC |
| Prospectus | the prospectus for the Company's listing in Hong Kong dated October 16, 2015 |
| Protection of State Secret Laws | Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法》), Implementation Measures for the Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法實施條例》) and related laws and regulations |
| Relevant Persons | has the meaning as defined in the Prospectus |
| Reporting Period | the six months ended June 30, 2019 |
| RMB or Renminbi | Renminbi, the lawful currency of the PRC |
| ROAA | return on average assets |
| ROAE | return on average equity attributable to equity holders |
| SFO | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time |
| Share(s) | ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares |

# 1 Definitions

| | |
|---|---|
| Shareholder(s) | holder(s) of the Share(s) |
| State Council | the State Council of the PRC (中華人民共和國國務院) |
| Supervisor(s) | supervisor(s) of the Company |
| U.S. or United States | the United States of America |
| US$ or U.S. dollar or USD | United States dollars, the lawful currency of the United States |
| Value Estimation | has the meaning as defined in the Prospectus |

# 2 Corporate Information

| | |
|---|---|
| Official Chinese name | 中國華融資產管理股份有限公司 |
| Chinese abbreviation | 中國華融 |
| Official English name | China Huarong Asset Management Co., Ltd. |
| English abbreviation | China Huarong |
| Legal representative | Wang Zhanfeng |
| Authorized representatives | Li Xin, Yang Pei |
| Secretary to the Board | Yang Pei (The qualification is subject to the approval by the CBIRC) |
| Joint company secretaries | Yang Pei, Ngai Wai Fung |
| Registered address | No. 8 Financial Street, Xicheng District, Beijing, China |
| Postal code of place of registration | 100033 |
| Website | www.chamc.com.cn |
| Principal place of business in Hong Kong | 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong |
| Website of Hong Kong Stock Exchange for publishing the H Shares interim report | www.hkexnews.hk |
| Place for maintaining interim reports available for inspection | Board office of the Company |
| Place of listing of H Shares | The Stock Exchange of Hong Kong Limited |
| Stock name | China Huarong |
| Stock code | 2799 |
| H Share registrar | Computershare Hong Kong Investor Services Limited (Address: Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) |

# 2 Corporate Information

| | |
|---|---|
| Registration number of financial license | J0001H111000001 |
| Social Credit Code | 911100007109255774 |
| Legal advisor as to PRC Law and place of business | Haiwen & Partners<br>20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing, China |
| Legal advisor as to Hong Kong law and place of business | Clifford Chance<br>27th Floor Jardine House, One Connaught Place, Hong Kong |
| International accounting firm and office address | Deloitte Touche Tohmatsu<br>35/F, One Pacific Place, 88 Queensway, Hong Kong |
| Domestic accounting firm and office address | Deloitte Touche Tohmatsu Certified Public Accountants LLP<br>30/F, Bund Center, 222 Yan An Road East, Shanghai, China |

# 3 Financial Summary

The financial information contained in this interim report was prepared in accordance with IFRSs. Unless otherwise specified, it is consolidated financial information of the Group and presented in RMB. The Group initially adopted *IFRS 16 Leases* on January 1, 2019, but did not restate the comparative data of 2018 relating to the leasing arrangement within the scope of *IFRS 16*. Impact to net assets arising from the adoption of *IFRS 16* on the date of transition was directly reflected in the equity on January 1, 2019. The financial data as at and for the six months ended June 30, 2019 was prepared in accordance with the accounting policies revised as a result of adoption of *IFRS 16*, while the comparative figures were prepared in accordance with original accounting policies.

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 (unaudited) | 2018 (unaudited) |
| | (in millions of RMB) | |
| Income from distressed debt assets | 15,624.4 | 16,767.2 |
| Fair value changes on distressed debt assets | 4,851.0 | 2,969.2 |
| Fair value changes on other financial assets and liabilities | 9,320.3 | 3,158.5 |
| Interest income | 19,392.8 | 24,130.8 |
| Finance lease income | 3,400.3 | 3,245.9 |
| (Loss)/gain from derecognition of financial assets measured at amortized cost | (53.8) | 4.2 |
| Loss from derecognition of debt instruments at fair value through other comprehensive income ("**FVTOCI**") | (4.3) | (57.3) |
| Commission and fee income | 1,292.8 | 2,821.6 |
| Net gains on disposals of subsidiaries, associates and joint ventures | 109.0 | 379.6 |
| Dividend income | 890.0 | 732.3 |
| Other income and other net gains or losses | 1,987.7 | 2,295.0 |
| **Total income** | 56,810.2 | 56,447.0 |
| Interest expenses | (30,280.2) | (32,756.1) |
| Commission and fee expenses | (913.2) | (887.3) |
| Operating expenses | (5,845.9) | (6,484.2) |
| Impairment losses under expected credit loss ("**ECL**") model | (12,544.3) | (12,053.6) |
| Impairment losses on other assets | (581.7) | (885.7) |
| **Total expenses** | (50,165.3) | (53,066.9) |
| Change in net assets attributable to other holders of consolidated structured entities | (666.3) | (1,299.6) |
| Share of results of associates and joint ventures | 731.8 | 717.1 |
| **Profit before tax** | 6,710.4 | 2,797.6 |
| Income tax expense | (3,898.2) | (1,660.9) |
| **Profit for the period** | 2,812.2 | 1,136.7 |
| Profit attributable to: | | |
| Equity holders of the Company | 2,519.2 | 684.6 |
| Holders of perpetual capital instruments | 485.3 | 503.2 |
| Non-controlling interests | (192.3) | (51.1) |

# 3 Financial Summary

| | As at June 30, 2019 (unaudited) | As at December 31, 2018 (audited) |
|---|---|---|
| | (in millions of RMB, except for per share data and ratios) | |
| **Assets** | | |
| Cash and balances with central bank | **29,085.2** | 29,909.1 |
| Deposits with financial institutions | **137,376.2** | 107,500.2 |
| Placements with financial institutions | **851.2** | 843.6 |
| Financial assets at fair value through profit or loss ("**FVTPL**") | **380,032.3** | 391,181.0 |
| Financial assets held under resale agreements | **28,069.5** | 20,126.9 |
| Contract assets | **91.6** | 114.7 |
| Loans and advances to customers | **202,835.0** | 190,654.0 |
| Finance lease receivables | **83,553.0** | 99,002.9 |
| Debt instruments at fair value through other comprehensive income | **125,366.9** | 147,387.3 |
| Equity instruments at fair value through other comprehensive income | **3,136.7** | 3,244.3 |
| Inventories | **19,305.5** | 19,243.0 |
| Debt instruments at amortized cost | **613,582.5** | 612,133.1 |
| Interests in associates and joint ventures | **31,760.8** | 36,975.5 |
| Investment properties | **5,459.3** | 5,326.1 |
| Property and equipment | **12,139.2** | 10,684.5 |
| Right-of-use assets | **3,326.4** | — |
| Deferred tax assets | **13,882.1** | 15,018.7 |
| Other assets | **23,252.5** | 20,478.4 |
| Goodwill | **264.3** | 263.4 |
| **Total assets** | **1,713,370.2** | 1,710,086.7 |

# 3 Financial Summary

| | As at June 30, 2019 (unaudited) | As at December 31, 2018 (audited) |
|---|---|---|
| | (in millions of RMB, except for per share data and ratios) | |
| **Liabilities** | | |
| Borrowings from central bank | **1,413.6** | 2,402.2 |
| Deposits from financial institutions | **5,996.7** | 7,307.6 |
| Placements from financial institutions | **663.1** | 300.2 |
| Financial assets sold under repurchase agreements | **24,453.9** | 24,410.0 |
| Borrowings | **755,182.8** | 760,995.5 |
| Financial liabilities at fair value through profit or loss | **3,313.4** | 4,728.3 |
| Due to customers | **227,655.4** | 209,116.5 |
| Tax payable | **1,236.1** | 3,731.9 |
| Contract liabilities | **1,389.2** | 954.4 |
| Lease liabilities | **1,413.5** | — |
| Deferred tax liabilities | **492.8** | 605.8 |
| Bonds and notes issued | **367,872.1** | 353,305.3 |
| Other liabilities | **153,090.4** | 173,624.0 |
| **Total liabilities** | **1,544,173.0** | 1,541,481.7 |
| **Equity** | | |
| Share capital | **39,070.2** | 39,070.2 |
| Capital reserve | **19,029.5** | 19,107.4 |
| Surplus reserve | **6,971.8** | 6,971.8 |
| General reserve | **16,625.1** | 15,872.8 |
| Other reserves | **1,258.0** | 987.8 |
| Retained earnings | **39,727.3** | 38,630.2 |
| **Equity attributable to equity holders of the Company** | **122,681.9** | 120,640.2 |
| Perpetual capital instruments | **19,328.7** | 20,258.5 |
| Non-controlling interests | **27,186.6** | 27,706.3 |
| **Total equity** | **169,197.2** | 168,605.0 |
| **Total equity and liabilities** | **1,713,370.2** | 1,710,086.7 |

# 3 Financial Summary

| | As at June 30, 2019 (unaudited) | As at December 31, 2018 (audited) |
|---|---|---|
| **Financial ratios** | | |
| Liability to total asset ratio[(1)] | **90.1%** | 90.1% |

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 (unaudited) | 2018 (unaudited) |
| Annualized ROAE[(2)] | **4.1%** | 1.1% |
| Annualized ROAA[(3)] | **0.3%** | 0.1% |
| Cost-to-income ratio[(4)] | **21.9%** | 24.9% |
| Basic earnings per share[(5)] (RMB) | **0.06** | 0.02 |
| Diluted earnings per share[(6)] (RMB) | **N/A** | N/A |

(1) Represents the ratio of total liabilities to total assets at the end of the period.

(2) Represents the percentage of annualized net profit attributable to equity holders of the Company for the period in the average balance of equity attributable to Shareholders of the Company as at the beginning and the end of the period.

(3) Represents the percentage of annualized net profit for the period (including profit attributable to holders of perpetual capital instruments and non-controlling interests) in the average balance of total assets as at the beginning and the end of the period.

(4) Represents the ratio of the amount of operating expenses net of cost of properties development to the total income net of interest expenses, commission and fee expenses and cost of properties development.

(5) Represents the net profit attributable to equity holders of the Company during the period divided by the weighted average number of the outstanding Shares.

(6) Represents the earnings per share based on the basic earnings per share adjusted according to the dilutive potential ordinary Shares.

# 4 Management Discussion and Analysis

## 4.1 Economic, Financial and Regulatory Environment

In the first half of 2019, the growth of overall global economy slowed down with mounting uncertainties. Despite the complicated and changeable external environment, China's economy retained a stable performance while at the same time securing progress, which demonstrated the resilient nature of its development. The GDP achieved a 6.3% year-on-year growth during the same period, highlighting China among the world's major economies. Additionally, China's economy maintained reasonable and sufficient liquidity, moderate growth of social financing scale and major macroeconomic indicators at a proper level.

The Chinese government committed to the general principle of pursuing progress while ensuring stability, treating supply-side structural reform as its main task, and promoting work for high-quality development. In this regard, it applied counter-cyclical macro policy regulation in a timely manner as appropriate, with the efficiency of favorable fiscal policies increased as well as prudent monetary policies eased or tightened to the right degree. Along with its efforts in policies, the Chinese government has been working on addressing the difficulties faced by private enterprises as well as small and micro business in accessing affordable financing. Besides, it accelerated the clearing out of zombie enterprises while nurturing and developing new industrial clusters and enhancing the capability of financial systems to serve the real economy. Apart from the above, the Chinese government also took solid action in critical battle of forestalling and defusing major risks, while adhering to the policy-oriented structural deleveraging and preventing abnormal fluctuations and resonance in the financial market. Amid the structural deleveraging, commercial banks' risk exposure was beefed up. At the end of the first half of 2019, the balance of non-performing loans of commercial banks in China reached RMB2.24 trillion with a non-performing rate of 1.81%, and the balance of special mention loans amounted to RMB3.63 trillion, both representing an increase as compared with the first quarter. The industry of distressed asset management was present with a greater potential in market due to the adequate supply of distressed assets and the booming demand brought by default bond acquisition, enterprises in bankruptcy and restructuring crises, structural adjustment of state-owned enterprises, bailout of private enterprises, etc.

Taking serving supply-side structural reform as their main task, the regulatory authorities introduced a series of policies and measures to forward the legal and compliant operation of the financial sector and propel the sector's return to the fundamental purpose of serving the real economy. Specifically, the regulatory authorities made unremitting efforts to deal with the chaos in the financial market. The Notice on Work to Consolidate Gains in Tackling Financial Chaos and Promote Compliance Construction (《關於開展「鞏固治亂象成果 促進合規建設」工作的通知》) was issued with the objective to facilitate the deep-rooted compliance culture in financial institutions, guiding them to focus on their core businesses and achievement of high-quality development. Furthermore, the Notice on Further Serving Private Enterprises with Financial Services (《關於進一步加强金融服務民營企業有關工作的通知》) was issued with an aim to double efforts to provide financial services for private enterprises. The regulatory authorities drove financial institutions to bail private enterprises in crisis out, which brought new business opportunities to assets management firms. Save as mentioned above, the regulatory authorities also led commercial banks to the practice of assets classification. Moreover, the Interim Measures for Risk Classification of Financial Assets of Commercial Banks (《商業銀行金融資產風險分類暫行辦法》) was released to solicit public opinions. The scope of assets subject to risk classification was expanded, which will increase in the potential supply of distressed assets market.

For China Huarong, the opportunity ushered by the stable market environment, favorable macroeconomic policies, broad industry prospects and clear regulatory guidance is of significance to its transformation. With solidified foundation and clearer forward direction, the Company's operating results in the first half of 2019 achieved a better performance as compared with the same period of previous year as expected, showcasing a positive trend towards robust development.

## 4.2 Analysis of Financial Statements

### 4.2.1 Changes in Accounting Policies

In January 2016, the International Accounting Standards Board ("**IASB**") issued *IFRS 16 Leases,* which replaced *IAS 7 Leases* and related interpretations. The MOF revised and issued *Accounting Standards for Business Enterprises No. 21 — Leases* (hereinafter referred to as the "New Lease Standards") in December 2018. The New Lease Standards provide new guidance on the definition of lease, the recognition, measurement and disclosure of lease arrangement of a lessee, and sale and leaseback transactions. The Group adopted the above New Lease Standards from January 1, 2019 as required.

The Group changed its accounting policies as result of adoption of the New Lease Standards. According to the original lease standards, a lessee applied different accounting treatments for operating and financial leases, while lessees no longer have to distinguish between operating and financial leases under the New Lease Standards. Except for the exemptions stipulated in the New Lease Standards, right-of-use assets and lease liabilities have to be recognized for all lease arrangements. Impacts to net assets arising from the adoption of IFRS 16 were directly reflected in the equity on January 1, 2019. Please refer to the Financial Summary and interim condensed consolidated financial statements for the amount impact of the adoption of the IFRS 16.

### 4.2.2 Operating Results of the Group

In the first half of 2019, despite the complicated and tightening macroeconomic condition and tight regulatory environment, the Group's operating results achieved a stable recovery, resulting from its proactive return to the core businesses, downsizing and risk resolution, along with continual efforts in risk management and business capacity enhancement, as the Group pursued stability in overall operation and advancement in core business. The operating results of the Group embodied that progress has been achieved and stability ensured.

In the first half of 2019, the Group recorded a total income of RMB56,810.2 million, representing an increase of 0.6% as compared with the same period of last year; total expenses of RMB50,165.3 million, representing a decrease of 5.5% as compared with the same period of last year; a net profit of RMB2,812.2 million, representing an increase of 147.4% as compared with the same period of last year; a net profit attributable to equity holders of the Company of RMB2,519.2 million, representing an increase of 268.0% as compared with the same period of last year; an annualized ROAE of 4.1% and an annualized ROAA of 0.3%.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Income from distressed debt assets | **15,624.4** | 16,767.2 | (1,142.8) | (6.8%) |
| Fair value changes on distressed debt assets | **4,851.0** | 2,969.2 | 1,881.8 | 63.4% |
| Fair value changes on other financial assets and liabilities | **9,320.3** | 3,158.5 | 6,161.8 | 195.1% |
| Interest income | **19,392.8** | 24,130.8 | (4,738.0) | (19.6%) |
| Finance lease income | **3,400.3** | 3,245.9 | 154.4 | 4.8% |
| (Loss)/gain from derecognition of financial assets measured at amortized cost | **(53.8)** | 4.2 | (58.0) | (1,381.0%) |
| Loss from derecognition of debt instruments at fair value through other comprehensive income | **(4.3)** | (57.3) | 53.0 | (92.5%) |
| Commission and fee income | **1,292.8** | 2,821.6 | (1,528.8) | (54.2%) |
| Net gains on disposals of subsidiaries, associates and joint ventures | **109.0** | 379.6 | (270.6) | (71.3%) |
| Dividend income | **890.0** | 732.3 | 157.7 | 21.5% |
| Other income and other net gains or losses | **1,987.7** | 2,295.0 | (307.3) | (13.4%) |
| **Total income** | **56,810.2** | 56,447.0 | 363.2 | 0.6% |
| Interest expenses | **(30,280.2)** | (32,756.1) | 2,475.9 | (7.6%) |
| Commission and fee expenses | **(913.2)** | (887.3) | (25.9) | 2.9% |
| Operating expenses | **(5,845.9)** | (6,484.2) | 638.3 | (9.8%) |
| Impairment losses under ECL model | **(12,544.3)** | (12,053.6) | (490.7) | 4.1% |
| Impairment losses on other assets | **(581.7)** | (885.7) | 304.0 | (34.3%) |
| **Total expenses** | **(50,165.3)** | (53,066.9) | 2,901.6 | (5.5%) |
| Change in net assets attributable to other holders of consolidated structured entities | **(666.3)** | (1,299.6) | 633.3 | (48.7%) |
| Share of results of associates and joint ventures | **731.8** | 717.1 | 14.7 | 2.0% |
| **Profit before tax** | **6,710.4** | 2,797.6 | 3,912.8 | 139.9% |
| Income tax expense | **(3,898.2)** | (1,660.9) | (2,237.3) | 134.7% |
| **Profit for the period** | **2,812.2** | 1,136.7 | 1,675.5 | 147.4% |
| Profit attributable to: | | | | |
| Equity holders of the Company | **2,519.2** | 684.6 | 1,834.6 | 268.0% |
| Holders of perpetual capital instruments | **485.3** | 503.2 | (17.9) | (3.6%) |
| Non-controlling interests | **(192.3)** | (51.1) | (141.2) | 276.3% |

#### 4.2.2.1 Total income

The table below sets forth the components of total income of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Income from distressed debt assets | **15,624.4** | 16,767.2 | (1,142.8) | (6.8%) |
| Fair value changes on distressed debt assets | **4,851.0** | 2,969.2 | 1,881.8 | 63.4% |
| Fair value changes on other financial assets and liabilities | **9,320.3** | 3,158.5 | 6,161.8 | 195.1% |
| Interest income | **19,392.8** | 24,130.8 | (4,738.0) | (19.6%) |
| Finance lease income | **3,400.3** | 3,245.9 | 154.4 | 4.8% |
| (Losses)/gains from derecognition of financial assets at amortized cost | **(53.8)** | 4.2 | (58.0) | (1,381.0%) |
| Loss from derecognition of debt instruments at fair value through other comprehensive income | **(4.3)** | (57.3) | 53.0 | (92.5%) |
| Commission and fee income | **1,292.8** | 2,821.6 | (1,528.8) | (54.2%) |
| Net gains on disposals of subsidiaries, associates and joint ventures | **109.0** | 379.6 | (270.6) | (71.3%) |
| Dividend income | **890.0** | 732.3 | 157.7 | 21.5% |
| Other income and other net gains or losses | **1,987.7** | 2,295.0 | (307.3) | (13.4%) |
| **Total income** | **56,810.2** | 56,447.0 | 363.2 | 0.6% |

In the first half of 2019, total income of the Group increased slightly by 0.6% from RMB56,447.0 million in the first half of 2018 to RMB56,810.2 million in the first half of 2019. In particular, the fair value changes on distressed debt assets (acquisition-and-disposal model) and the fair value changes on other financial assets and liabilities increased significantly, while the interest income, commission and fee income and the income from distressed debt assets (acquisition-and-restructuring model) decreased.

#### *4.2.2.1.1 Income from distressed debt assets*

Income from distressed debt assets derives from the acquisition-and-restructuring business of the Group, which is one of the core businesses of the Group. In the first half of 2019, the Group pushed ahead with the development and transformation of acquisition-and-restructuring business, adjusted and optimized business structure, focused more on the compliance in operations as well as risk prevention and control, continuously optimized customer structure and industry structure and adjusted the pace of investment in sync with market environment as appropriate. The amount of new investment for the period and the number of existing projects at the end of the period were reduced, and accordingly, the income from distressed debt assets decreased. The Group's income from distressed debt assets decreased by 6.8% from RMB16,767.2 million in the first half of 2018 to RMB15,624.4 million in the first half of 2019. However, the overall trend towards stability in the structural adjustment.

#### *4.2.2.1.2 Fair value changes on distressed debt assets*

The table below sets forth the components of fair value changes on distressed debt assets of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Fair value changes on distressed debt assets | | | | |
| — Realized | 3,946.4 | 2,440.1 | 1,506.3 | 61.7% |
| — Unrealized | 904.6 | 529.1 | 375.5 | 71.0% |
| **Total** | 4,851.0 | 2,969.2 | 1,881.8 | 63.4% |

Fair value changes on distressed debt assets derive from the acquisition-and-disposal business of the Group, including the realized net income from disposal of acquisition-and-disposal distressed debt assets and the unrealized fair value changes on such assets. Any interest income generated from such assets is also included in the fair value changes. Acquisition-and-disposal business is one of the core businesses of the Group. In the first half of 2019, with the core business of distressed assets as its continuous focus, the Group optimized the resource allocation around the core business, actively participated in market competition, and practically improved the efficiency of asset disposal, resulting in a significant increase in the income of acquisition-and-disposal business. The fair value changes on distressed debt assets of the Group increased by 63.4% from RMB2,969.2 million in the first half of 2018 to RMB4,851.0 million in the first half of 2019. In particular, the realized income increased by 61.7% from RMB2,440.1 million in the first half of 2018 to RMB3,946.4 million in the first half of 2019.

### *4.2.2.1.3 Fair value changes on other financial assets and liabilities*

The table below sets forth the components of fair value changes on other financial assets and liabilities of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Fair value changes on other financial assets and liabilities | | | | |
| — Realized | 6,656.4 | 6,897.8 | (241.4) | (3.5%) |
| — Unrealized | 2,663.9 | (3,739.3) | 6,403.2 | (171.2%) |
| **Total** | 9,320.3 | 3,158.5 | 6,161.8 | 195.1% |

Fair value changes on other financial assets and liabilities derive from the financial assets and financial liabilities at fair value through profit or loss, excluding the ones in relation to the acquisition-and-disposal business of the Group. The fair value changes comprise both realized gains or losses from disposal and settlement of other financial assets and liabilities and unrealized fair value changes on such assets and liabilities. And interest income arising from such assets is also included in fair value changes. Fair value changes on other financial assets and liabilities of the Group increased significantly by 195.1% from RMB3,158.5 million in the first half of 2018 to RMB9,320.3 million in the first half of 2019, mainly due to:

(1) The valuation of some equity investments of the Group increased significantly over the end of 2018 due to the continued downturn in the domestic stock market in 2018 and the rally in the stock market in the first half of 2019.

(2) The decrease in realized interest income for the period due to the Group's ongoing shrinkage of non-core businesses and non-advantages businesses, which caused the investment scale of funds and trust products to decline consecutively.

#### *4.2.2.1.4 Interest income*

The table below sets forth the components of the interest income of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Debt instruments at amortized cost other than distressed debt assets | **9,066.0** | 14,279.1 | (5,213.1) | (36.5%) |
| Loans and advances to customers | | | | |
| Corporate loans and advances | **4,202.7** | 4,026.0 | 176.7 | 4.4% |
| Personal loans and advances | **2,513.4** | 1,657.0 | 856.4 | 51.7% |
| Loans to margin clients | **413.6** | 579.8 | (166.2) | (28.7%) |
| Debt instruments at FVTOCI other than distressed debt assets | **1,355.7** | 919.6 | 436.1 | 47.4% |
| Deposits with financial institutions | **885.3** | 1,090.0 | (204.7) | (18.8%) |
| Financial assets held under resale agreements | **614.3** | 1,090.2 | (475.9) | (43.7%) |
| Balances with central bank | **209.3** | 239.8 | (30.5) | (12.7%) |
| Placements with financial institutions | **132.5** | 249.3 | (116.8) | (46.9%) |
| **Total** | **19,392.8** | 24,130.8 | (4,738.0) | (19.6%) |

Interest income derives from the Group's debt investment, which is measured at amortized cost and at fair value through other comprehensive income, excluding that from the acquisition-and-restructuring businesses of the Group. Following by the strategy of promoting the return of the core business, downsizing and risk resolution, the Group continued to decline the investment scale of the debt assets of the parent company and some non-financial subsidiaries, which result in a relatively sharp decrease in the interest income. The Group's interest income decreased by 19.6% from RMB24,130.8 million in the first half of 2018 to RMB19,392.8 million in the first half of 2019. In particular, the Group's interest income from both the debt instruments measured at amortized cost other than distressed debt assets and the debt instruments at FVTOCI other than distressed debt assets decreased by 31.4% from RMB15,198.7 million in the first half of 2018 to RMB10,421.7 million in the first half of 2019.

The banking business of the Group developed steadily, and the income scale increased continuously. Interest income from loans and advances to customers increased by 13.8% from RMB6,262.8 million in the first half of 2018 to RMB7,129.7 million in the first half of 2019.

#### *4.2.2.1.5 Finance lease income*

The finance lease income of the Group mainly derives from Huarong Financial Leasing. The finance lease income increased by 4.8% from RMB3,245.9 million in the first half of 2018 to RMB3,400.3 million in the first half of 2019.

#### *4.2.2.1.6 Commission and fee income*

The table below sets forth the components of the commission and fee income of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Securities and futures brokerage business | **434.3** | 702.2 | (267.9) | (38.2%) |
| Asset management business | **410.9** | 1,344.8 | (933.9) | (69.4%) |
| Banking and consumer finance business | **214.1** | 231.7 | (17.6) | (7.6%) |
| Trust business | **209.0** | 497.8 | (288.8) | (58.0%) |
| Fund management business | **24.5** | 45.1 | (20.6) | (45.7%) |
| **Total** | **1,292.8** | 2,821.6 | (1,528.8) | (54.2%) |

Commission and fee income of the Group decreased by 54.2% from RMB2,821.6 million in the first half of 2018 to RMB1,292.8 million in the first half of 2019, mainly due to the decrease in commission and fee income from the asset management business, trust business, and securities and futures brokerage business of the Group.

Commission and fee income from asset management business decreased by 69.4% from RMB1,344.8 million in the first half of 2018 to RMB410.9 million in the first half of 2019, mainly due to the significant decline in commission and fee income from non-financial subsidiaries caused by the continuous reduction of the Group's non-core businesses and uncompetitive businesses.

Commission and fee income from securities and futures brokerage business decreased by 38.2% from RMB702.2 million in the first half of 2018 to RMB434.3 million in the first half of 2019, commission and fee income from the trust business decreased by 58.0% from RMB497.8 million in the first half of 2018 to RMB209.0 million in the first half of 2019. The decrease of revenue is mainly caused by the strict control of Huarong Securities and Huarong Trust for their brokerage business, promoting business transformation and upgrading and slowing down of business expansion following the regulatory requirement.

#### *4.2.2.1.7 Other income and other net gains or losses*

The table below sets forth the components of other income and other net gains or losses of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Revenue from properties development | 552.9 | 1,076.5 | (523.6) | (48.6%) |
| Rental income | 534.9 | 424.2 | 110.7 | 26.1% |
| Revenue from construction services | 300.8 | 261.1 | 39.7 | 15.2% |
| Net gains on exchange differences | 67.2 | 95.2 | (28.0) | (29.4%) |
| Government grants | 31.0 | 179.4 | (148.4) | (82.7%) |
| Others | 500.9 | 258.6 | 242.3 | 93.7% |
| **Total** | 1,987.7 | 2,295.0 | (307.3) | (13.4%) |

Other income and other net gains or losses of the Group decreased by 13.4% from RMB2,295.0 million in the first half of 2018 to RMB1,987.7 million in the first half of 2019, mainly due to the decrease of the revenue from properties development of the Group for the period.

#### 4.2.2.2 Total expenses

Total expenses of the Group decreased by 5.5% from RMB53,066.9 million in the first half of 2018 to RMB50,165.3 million in the first half of 2019, mainly due to the decrease in interest expenses and operating expenses.

The table below sets forth the components of the total expenses of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Interest expenses | (30,280.2) | (32,756.1) | 2,475.9 | (7.6%) |
| Commission and fee expenses | (913.2) | (887.3) | (25.9) | 2.9% |
| Operating expenses | (5,845.9) | (6,484.2) | 638.3 | (9.8%) |
| Impairment losses under ECL model | (12,544.3) | (12,053.6) | (490.7) | 4.1% |
| Impairment losses on other assets | (581.7) | (885.7) | 304.0 | (34.3%) |
| **Total expenses** | (50,165.3) | (53,066.9) | 2,901.6 | (5.5%) |

#### *4.2.2.2.1 Interest expenses*

The table below sets forth the major components of the interest expenses of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Borrowings | **(19,650.0)** | (23,382.6) | 3,732.6 | (16.0%) |
| Bonds and notes issued | **(7,619.8)** | (6,745.3) | (874.5) | 13.0% |
| Due to customers | **(2,245.8)** | (1,443.9) | (801.9) | 55.5% |
| Financial assets sold under repurchase agreements | **(374.4)** | (777.6) | 403.2 | (51.9%) |
| Deposits from financial institutions | **(221.4)** | (217.6) | (3.8) | 1.7% |
| Lease liabilities | **(36.2)** | — | (36.2) | — |
| Borrowings from central bank | **(28.4)** | (58.5) | 30.1 | (51.5%) |
| Placements from financial institutions | **(11.9)** | (56.5) | 44.6 | (78.9%) |
| Other liabilities | **(92.3)** | (74.1) | (18.2) | 24.6% |
| **Total** | **(30,280.2)** | (32,756.1) | 2,475.9 | (7.6%) |

In the first half of 2019, the Group continued to reduce leverage and optimize debt structure to reduce the financing scale and average interest rates, which decrease the interest expenses. Interest expenses of the Group decreased by 7.6% from RMB32,756.1 million in the first half of 2018 to RMB30,280.2 million in the first half of 2019.

The interest expenses of borrowings of the Group decreased by 16.0% from RMB23,382.6 million in the first half of 2018 to RMB19,650.0 million in the first half of 2019, mainly due to the continuous decline in the total borrowings and financing costs of the Group, and interest expenses of bonds and notes issued of the Group increased by 13.0% from RMB6,745.3 million in the first half of 2018 to RMB7,619.8 million in the first half of 2019, mainly because the Group grasped the positive market financing opportunities and devoted greater effort in bonds issuance, making the total bonds issued increased.

*4.2.2.2.2 Operating expenses*

The table below sets forth the components of the operating expenses of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentage) | | | |
| Employee benefits | **(2,354.0)** | (2,592.8) | 238.8 | (9.2%) |
| Turnover tax and surcharges | **(396.9)** | (380.4) | (16.5) | 4.3% |
| Others | **(3,095.0)** | (3,511.0) | 416.0 | (11.8%) |
| Including: | | | | |
| Depreciation of property and equipment | **(406.9)** | (324.3) | (82.6) | 25.5% |
| Depreciation of right-of-use assets | **(303.3)** | — | (303.3) | — |
| Cost of properties development | **(285.9)** | (801.0) | 515.1 | (64.3%) |
| Depreciation of investment properties | **(148.3)** | (60.9) | (87.4) | (143.5%) |
| Amortization | **(136.4)** | (105.6) | (30.8) | 29.2% |
| Rental for short-term leases | **(120.6)** | — | (120.6) | — |
| Rental and management fee for leases | **(68.9)** | (496.9) | 428.0 | (86.1%) |
| **Total** | **(5,845.9)** | (6,484.2) | 638.3 | (9.8%) |

Operating expenses of the Group decreased by 9.8% from RMB6,484.2 million in the first half of 2018 to RMB5,845.9 million in the first half of 2019.

In the first half of 2019, affected by the operating results, the employee remuneration of the Group decreased by 9.2% from RMB2,592.8 million in the first half of 2018 to RMB2,354.0 million in the first half of 2019.

Cost of properties development of the Group decreased by 64.3% from RMB801.0 million in the first half of 2018 to RMB285.9 million in the first half of 2019, which was basically in line with the downtrend of the revenue from properties development.

In the first half of 2019, the Group implemented IFRS 16, resulting in additional depreciation of right-of-use assets of the Group in the period, while reducing the rental for leases.

#### *4.2.2.2.3 Impairment losses under ECL model*

The table below sets forth the major components of impairment losses under ECL model of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentage) | | | |
| Debt instruments at amortized cost | **(8,134.9)** | (9,154.1) | 1,019.2 | (11.1%) |
| Loans and advances to customers | **(2,518.2)** | (1,614.5) | (903.7) | 56.0% |
| Debt instruments at FVTOCI | **(870.8)** | (174.6) | (696.2) | 398.7% |
| Financial assets held under resale agreements | **(668.2)** | (944.7) | 276.5 | (29.3%) |
| Financial lease receivables | **(242.7)** | (57.8) | (184.9) | 319.9% |
| Other financial assets | **(109.5)** | (107.9) | (1.6) | 1.5% |
| **Total** | **(12,544.3)** | (12,053.6) | (490.7) | 4.1% |

The impairment losses under ECL model of the Group increased by 4.1% from RMB12,053.6 million in the first half of 2018 to RMB12,544.3 million in the first half of 2019. On one hand, the Group made additional provisions for impairment according to the requirements under the ECL model of IFRS 9, because of the increasing downward pressure on the domestic economy and risk exposure of projects. On the other hand, the Group increased efforts for project recovery and risk resolution according to the general arrangement for downsizing and risk resolution for the period, resulting in reversal of certain impairment provisions. Affected by the above two factors jointly, the impairment losses under ECL model of the Group in the first half of 2019 slightly increased.

#### *4.2.2.2.4 Impairment losses on other assets*

The table below sets forth the components of impairment losses on other assets of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentage) | | | |
| Interests in associates and joint ventures | **(552.8)** | (780.9) | 228.1 | (29.2%) |
| Foreclosed assets | **(28.9)** | (104.8) | 75.9 | (72.4%) |
| **Total** | **(581.7)** | (885.7) | 304.0 | (34.3%) |

Impairment losses on other assets of the Group decreased by 34.3% from RMB885.7 million in the first half of 2018 to RMB581.7 million in the first half of 2019.

#### 4.2.2.3 Income tax expense

The table below sets forth the components of income tax expense of the Group for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Current income tax | | | | |
| PRC enterprise income tax | **(3,153.6)** | (3,986.1) | 832.5 | (20.9%) |
| Hong Kong profits tax | **0.5** | (23.3) | 23.8 | (102.1%) |
| Deferred income tax | **(745.1)** | 2,348.5 | (3,093.6) | (131.7%) |
| **Total** | **(3,898.2)** | (1,660.9) | (2,237.3) | 134.7% |

Income tax expense of the Group increased by 134.7% from RMB1,660.9 million in the first half of 2018 to RMB3,898.2 million in the first half of 2019, mainly because the Group recognized deferred income tax expenses from gains arising from changes in fair value for the period.

#### 4.2.2.4 Segment operating results

Each business segment of the Group is subject to different risks and returns. The Group reports financial results in three segments:

(1) distressed asset management segment: mainly includes distressed debt asset management business of the Company, policy-based DES asset management through commercial buy-out of the DES asset management business of the Company, distressed asset management business conducted by our subsidiaries, distressed asset-based special situations investments business and distressed asset-based property development business as well as market-oriented DES business of the Group.

(2) financial services segment: mainly includes securities and futures business, financial leasing business, banking services business and consumer finance business.

(3) asset management and investment segment: mainly includes trust business, private equity funds business, financial investments business, international business and other businesses.

The table below sets forth the total income of each of the Group's segments for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Distressed asset management segment | **34,543.5** | 34,679.0 | (135.5) | (0.4%) |
| Financial services segment | **17,130.4** | 15,315.2 | 1,815.2 | 11.9% |
| Asset management and investment segment | **7,698.3** | 10,029.1 | (2,330.8) | (23.2%) |
| Inter-segment elimination | **(2,562.0)** | (3,576.3) | 1,014.3 | (28.4%) |
| **Total** | **56,810.2** | 56,447.0 | 363.2 | 0.6% |

The table below sets forth the profit before tax of each of the Group's segments for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change in percentage |
| | (in millions of RMB, except for percentages) | | | |
| Distressed asset management segment | **9,197.1** | 5,621.2 | 3,575.9 | 63.6% |
| Financial services segment | **2,970.9** | 2,654.9 | 316.0 | 11.9% |
| Asset management and investment segment | **(5,188.0)** | (3,923.6) | (1,264.4) | 32.2% |
| Inter-segment elimination | **(269.6)** | (1,554.9) | 1,285.3 | (82.7%) |
| **Total** | **6,710.4** | 2,797.6 | 3,912.8 | 139.9% |

The table below sets forth the total assets for each of the Group's segments for the periods indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Distressed asset management segment | **891,144.0** | 866,250.1 | 24,893.9 | 2.9% |
| Financial services segment | **567,401.6** | 545,778.9 | 21,622.7 | 4.0% |
| Asset management and investment segment | **335,936.3** | 355,404.8 | (19,468.5) | (5.5%) |
| Inter-segment elimination | **(94,993.8)** | (72,365.8) | (22,628.0) | 31.3% |
| **Total** | **1,699,488.1** | 1,695,068.0 | 4,420.1 | 0.3% |

The table below sets forth the annualized pre-tax return on average net assets ("**Annualized Pre-tax ROAE**") for each of the Group's segments for the periods indicated. The Annualized Pre-tax ROAE of each segment is calculated based on profit before tax divided by the average balances of net assets at the beginning and the end of the period.

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Distressed asset management segment | 16.6% | 11.5% |
| Financial services segment | 12.2% | 11.2% |
| Asset management and investment segment | (123.0%) | (23.7%) |

Distressed asset management business is the core business of the Group and a main source of income and profit of the Group. In the first half of 2019, the Group further focused on the core business of distressed assets, optimized the allocation of resources based on the core business, which made distressed asset management segment remained stable with slight growth. In particular, the total income decreased by 0.4% from RMB34,679.0 million in the first half of 2018 to RMB34,543.5 million in the first half of 2019; the profit before tax increased by 63.6% from RMB5,621.2 million in the first half of 2018 to RMB9,197.1 million in the first half of 2019; and the total assets increased by 2.9% from RMB866,250.1 million on December 31, 2018 to RMB891,144.0 million on June 30, 2019.

As an important part of the Group's business, the financial services business plays an important role in overall business collaboration. In the first half of 2019, the Group's financial services segment posted relative stable performance, effectively exerting its financial services function. In particular, the total income increased by 11.9% from RMB15,315.2 million in the first half of 2018 to RMB17,130.4 million in the first half of 2019; the profit before tax increased by 11.9% from RMB2,654.9 million in the first half of 2018 to RMB2,970.9 million in the first half of 2019; and the total assets increased by 4.0% from RMB545,778.9 million on December 31, 2018 to RMB567,401.6 million on June 30, 2019.

The asset management and investment business is supplement and extension of the business of the Group. In the first half of 2019, the Group continuously standardized its asset management and investment business and reduced non-advantageous businesses, which resulted in a substantial decline in the performance of asset management and investment segments. In particular, the total income decreased by 23.2% from RMB10,029.1 million in the first half of 2018 to RMB7,698.3 million in the first half of 2019; the loss before tax increased by 32.2% from RMB3,923.6 million in the first half of 2018 to RMB5,188.0 million in the first half of 2019; and the total assets decreased by 5.5% from RMB355,404.8 million as at December 31, 2018 to RMB335,936.3 million on June 30, 2019.

### 4.2.3 Financial Positions of the Group

In the first half of 2019, the Group's assets, liabilities and equities were remained the same as that at the end of 2018. As at December 31, 2018 and June 30, 2019, the total assets of the Group amounted to RMB1,710,086.7 million and RMB1,713,370.2 million, respectively, representing an increase of 0.2%. Total liabilities amounted to RMB1,541,481.7 million and RMB1,544,173.0 million, respectively, representing an increase of 0.2%. Total equity amounted to RMB168,605.0 million and RMB169,197.2 million, respectively, representing an increase of 0.4%.

The table below sets forth the major items of consolidated statement of financial position of the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Movements | Percentage of movements |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Cash and balances with central bank | **29,085.2** | 29,909.1 | (823.9) | (2.8%) |
| Deposits with financial institutions | **137,376.2** | 107,500.2 | 29,876.0 | 27.8% |
| Placements with financial institutions | **851.2** | 843.6 | 7.6 | 0.9% |
| Financial assets at fair value through profit or loss | **380,032.3** | 391,181.0 | (11,148.7) | (2.9%) |
| Financial assets held under resale agreements | **28,069.5** | 20,126.9 | 7,942.6 | 39.5% |
| Contract assets | **91.6** | 114.7 | (23.1) | (20.1%) |
| Loans and advances to customers | **202,835.0** | 190,654.0 | 12,181.0 | 6.4% |
| Financial lease receivables | **83,553.0** | 99,002.9 | (15,449.9) | (15.6%) |
| Debt instruments at fair value through other comprehensive income | **125,366.9** | 147,387.3 | (22,020.4) | (14.9%) |
| Equity instruments at fair value through other comprehensive income | **3,136.7** | 3,244.3 | (107.6) | (3.3%) |
| Inventories | **19,305.5** | 19,243.0 | 62.5 | 0.3% |
| Debt instruments at amortized cost | **613,582.5** | 612,133.1 | 1,449.4 | 0.2% |
| Interests in associates and joint ventures | **31,760.8** | 36,975.5 | (5,214.7) | (14.1%) |
| Investment properties | **5,459.3** | 5,326.1 | 133.2 | 2.5% |
| Property and equipment | **12,139.2** | 10,684.5 | 1,454.7 | 13.6% |
| Right-of-use assets | **3,326.4** | — | 3,326.4 | — |
| Deferred tax assets | **13,882.1** | 15,018.7 | (1,136.6) | (7.6%) |
| Other assets | **23,252.5** | 20,478.4 | 2,774.1 | 13.5% |
| Goodwill | **264.3** | 263.4 | 0.9 | 0.3% |
| **Total assets** | **1,713,370.2** | 1,710,086.7 | 3,283.5 | 0.2% |

| | As at June 30, 2019 | As at December 31, 2018 | Movements | Percentage of movements |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Borrowings from central bank | **1,413.6** | 2,402.2 | (988.6) | (41.2%) |
| Deposits from financial institutions | **5,996.7** | 7,307.6 | (1,310.9) | (17.9%) |
| Placements from financial institutions | **663.1** | 300.2 | 362.9 | 120.9% |
| Financial assets sold under repurchase agreements | **24,453.9** | 24,410.0 | 43.9 | 0.2% |
| Borrowings | **755,182.8** | 760,995.5 | (5,812.7) | (0.8%) |
| Financial liabilities at fair value through profit or loss | **3,313.4** | 4,728.3 | (1,414.9) | (29.9%) |
| Due to customers | **227,655.4** | 209,116.5 | 18,538.9 | 8.9% |
| Tax payable | **1,236.1** | 3,731.9 | (2,495.8) | (66.9%) |
| Contract liabilities | **1,389.2** | 954.4 | 434.8 | 45.6% |
| Lease liabilities | **1,413.5** | — | 1,413.5 | — |
| Deferred tax liabilities | **492.8** | 605.8 | (113.0) | (18.7%) |
| Bonds and notes issued | **367,872.1** | 353,305.3 | 14,566.8 | 4.1% |
| Other liabilities | **153,090.4** | 173,624.0 | (20,533.6) | (11.8%) |
| **Total liabilities** | **1,544,173.0** | 1,541,481.7 | 2,691.3 | 0.2% |
| Share capital | **39,070.2** | 39,070.2 | — | — |
| Capital reserve | **19,029.5** | 19,107.4 | (77.9) | (0.4%) |
| Surplus reserve | **6,971.8** | 6,971.8 | — | — |
| General reserve | **16,625.1** | 15,872.8 | 752.3 | 4.7% |
| Other reserves | **1,258.0** | 987.8 | 270.2 | 27.4% |
| Retained earnings | **39,727.3** | 38,630.2 | 1,097.1 | 2.8% |
| **Equity attributable to equity holders of the Company** | **122,681.9** | 120,640.2 | 2,041.7 | 1.7% |
| Perpetual capital instruments | **19,328.7** | 20,258.5 | (929.8) | (4.6%) |
| Non-controlling interest | **27,186.6** | 27,706.3 | (519.7) | (1.9%) |
| **Total equity** | **169,197.2** | 168,605.0 | 592.2 | 0.4% |
| **Total equity and liabilities** | **1,713,370.2** | 1,710,086.7 | 3,283.5 | 0.2% |

#### 4.2.3.1 Assets

As at December 31, 2018 and June 30, 2019, the total assets of the Group amounted to RMB1,710,086.7 million and RMB1,713,370.2 million, respectively. On June 30, 2019, the Group's major assets consist of: (i) deposits with financial institutions; (ii) financial assets at fair value through profit or loss; (iii) loans and advances to customers; (iv) finance lease receivables; (v) debt instruments at fair value through other comprehensive income; (vi) debt instruments at amortized cost.

***4.2.3.1.1 Deposits with financial institutions***

As at December 31, 2018 and June 30, 2019, the Group's deposits with financial institutions amounted to RMB107,500.2 million and RMB137,376.2 million, respectively, representing an increase of 27.8%.

***4.2.3.1.2 Financial assets at fair value through profit or loss***

The Group's financial assets that fail to meet the classification standards to be classified as debt instruments at amortized cost or at FVTOCI, or equity instruments at FVTOCI shall be classified as at FVTPL.

The table below sets forth the major components of the Group's financial assets at FVTPL as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Distressed debt assets | **169,814.5** | 166,370.3 | 3,444.2 | 2.1% |
| Funds | **48,122.6** | 59,361.7 | (11,239.1) | (18.9%) |
| Trust products | **35,624.7** | 42,867.0 | (7,242.3) | (16.9%) |
| Equity instruments | | | | |
| — Listed | **28,234.3** | 23,149.5 | 5,084.8 | 22.0% |
| — Unlisted | **29,380.4** | 28,001.6 | 1,378.8 | 4.9% |
| Debt securities | | | | |
| — Corporate bonds | **10,246.9** | 15,797.5 | (5,550.6) | (35.1%) |
| — Financial institution bonds | **1,080.5** | 648.5 | 432.0 | 66.6% |
| — Public sector and quasi-government bonds | **464.3** | 413.5 | 50.8 | 12.3% |
| Wealth management products | **19,488.2** | 13,347.1 | 6,141.1 | 46.0% |
| Convertible bonds | **12,403.2** | 12,819.7 | (416.5) | (3.2%) |
| Asset management plans | **9,078.1** | 10,307.9 | (1,229.8) | (11.9%) |
| Structured products | **7,824.7** | 8,580.9 | (756.2) | (8.8%) |
| Other debt assets | **3,233.1** | 5,179.6 | (1,946.5) | (37.6%) |
| Negotiable certificates of deposit | **4,283.7** | 2,668.3 | 1,615.4 | 60.5% |
| Entrusted loans | **579.1** | 742.5 | (163.4) | (22.0%) |
| Asset-backed securities | **174.0** | 264.6 | (90.6) | (34.2%) |
| Others | **—** | 660.8 | (660.8) | (100.0%) |
| **Total** | **380,032.3** | 391,181.0 | (11,148.7) | (2.9%) |

As at December 31, 2018 and June 30, 2019, the financial assets at FVTPL of the Group amounted to RMB391,181.0 million and RMB380,032.3 million, respectively, representing a decrease of 2.9%.

In the first half of 2019, the Group constantly focused on the core business of distressed assets, optimized resource allocation around the core business, actively participated in market competition, and the asset scale of the acquisition-and-disposal business grew steadily. As at December 31, 2018 and June 30, 2019, the acquisition-and-disposal distressed debt assets amounted to RMB166,370.3 million and RMB169,814.5 million, respectively, representing an increase of 2.1%.

In the first half of 2019, the Group continued to deleverage and reduce non-core business, uncompetitive businesses, and the investment scale of funds, trust products, asset management plans and structured products decreased.

#### *4.2.3.1.3 Loans and advances to customers*

The table below sets forth the major components of loans and advances to customers of the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Loans and advances to customers at amortized cost | | | | |
| Corporate loans and advances | **124,702.4** | 119,311.2 | 5,391.2 | 4.5% |
| Personal loans and advances | | | | |
| — Loans for business operations | **13,077.7** | 12,740.8 | 336.9 | 2.6% |
| — Mortgages | **21,768.0** | 18,511.7 | 3,256.3 | 17.6% |
| — Personal consumption loans | **30,079.9** | 27,562.9 | 2,517.0 | 9.1% |
| — Others | **2,604.0** | 2,802.7 | (198.7) | (7.1%) |
| **Subtotal** | **67,529.6** | 61,618.1 | 5,911.5 | 9.6% |
| Loans to margin clients | **6,312.7** | 6,282.4 | 30.3 | 0.5% |
| **Gross amount of loans and advances to customers at amortized cost** | **198,544.7** | 187,211.7 | 11,333.0 | 6.1% |
| Less: Allowance for impairment losses | | | | |
| — 12-month ECL | **(2,399.4)** | (1,967.7) | (431.7) | 21.9% |
| — Lifetime ECL | **(3,958.5)** | (3,158.6) | (799.9) | 25.3% |
| **Subtotal** | **(6,357.9)** | (5,126.3) | (1,231.6) | 24.0% |
| **Net amount of loans and advances to customers at amortized cost** | **192,186.8** | 182,085.4 | 10,101.4 | 5.5% |
| Loans and advances to customers at fair value through other comprehensive income | | | | |
| — Discounted bills | **10,648.2** | 8,568.6 | 2,079.6 | 24.3% |
| **Net amount of loans and advances to customers** | **202,835.0** | 190,654.0 | 12,181.0 | 6.4% |

As at December 31, 2018 and June 30, 2019, the loans and advances to customers of the Group amounted to RMB190,654.0 million and RMB202,835.0 million, respectively, representing an increase of 6.4%. The increase was mainly due to the stable development of Huarong Xiangjiang Bank's business, with corporate loans increasing amid stability, and personal consumption loans, mortgages and loans for business operations continued growth.

As at December 31, 2018 and June 30, 2019, the provision for impairment losses for loans and advances to customers at amortized cost of the Group was RMB5,126.3 million and RMB6,357.9 million, respectively, representing an increase of 24.0%.

#### *4.2.3.1.4 Finance lease receivables*

The table below sets forth the major components of finance lease receivables of the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Minimum finance lease receivables | | | | |
| Within 1 year (inclusive) | **32,741.4** | 39,607.5 | (6,866.1) | (17.3%) |
| 1 year to 5 years (inclusive) | **55,670.6** | 66,137.9 | (10,467.3) | (15.8%) |
| Over 5 years | **8,815.7** | 8,942.5 | (126.8) | (1.4%) |
| Gross amount of finance lease receivables | **97,227.7** | 114,687.9 | (17,460.2) | (15.2%) |
| Less: Unrealized finance income | **(10,979.9)** | (13,232.8) | 2,252.9 | (17.0%) |
| Net amount of finance lease receivables | **86,247.8** | 101,455.1 | (15,207.3) | (15.0%) |
| Less: Allowance of impairment losses | **(2,694.8)** | (2,452.2) | (242.6) | 9.9% |
| **Carrying amount of finance lease receivables** | **83,553.0** | 99,002.9 | (15,449.9) | (15.6%) |
| Present value of minimum finance lease receivables: | | | | |
| Within 1 year (inclusive) | **28,132.4** | 34,044.0 | (5,911.6) | (17.4%) |
| 1 year to 5 years (inclusive) | **49,745.9** | 58,967.2 | (9,221.3) | (15.6%) |
| Over 5 years | **8,369.5** | 8,443.9 | (74.4) | (0.9%) |
| **Total** | **86,247.8** | 101,455.1 | (15,207.3) | (15.0%) |

As at December 31, 2018 and June 30, 2019, the Group's balance of finance lease receivables amounted to RMB101,455.1 million and RMB86,247.8 million, respectively, representing a decrease of 15.0%. The decrease was mainly due to the Group reclassified the sale and leaseback business, for which was presented in the finance lease receivables under the original standards, to the debt instruments measured at amortized cost after the implementation of the New Lease Standards in the period, involving an amount of RMB20,263.4 million.

As at December 31, 2018 and June 30, 2019, the Group's balance of impairment allowance provided for finance lease receivables based on the ECL model were RMB2,452.2 million and RMB2,694.8 million, respectively, representing an increase of 9.9%.

#### *4.2.3.1.5 Debt instruments at fair value through other comprehensive income*

Debt instruments at FVTOCI are debt instruments held by the Group that meet the following conditions: (1) the debt instruments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and (2) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The table below sets forth the major components of debt instruments at FVTOCI of the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | | (in millions of RMB) | | |
| Distressed debt assets | **80,165.0** | 100,445.9 | (20,280.9) | (20.2%) |
| Bonds | | | | |
| — Corporate bonds | **25,658.8** | 26,494.8 | (836.0) | (3.2%) |
| — Public sector and quasi-government bonds | **5,656.9** | 6,144.6 | (487.7) | (7.9%) |
| — Government bonds | **480.1** | 284.5 | 195.6 | 68.8% |
| — Financial institution bonds | **250.9** | 319.2 | (68.3) | (21.4%) |
| Entrusted loans | **4,290.1** | 4,421.1 | (131.0) | (3.0%) |
| Asset management plans | **4,250.1** | 4,255.4 | (5.3) | (0.1%) |
| Trust products | **2,156.6** | 2,490.6 | (334.0) | (13.4%) |
| Debt instruments | **1,936.6** | 1,902.2 | 34.4 | 1.8% |
| Asset-backed securities | **521.8** | 629.0 | (107.2) | (17.0%) |
| **Total** | **125,366.9** | 147,387.3 | (22,020.4) | (14.9%) |

As at December 31, 2018 and June 30, 2019, the Group's debt instruments at FVTOCI were RMB147,387.3 million and RMB125,366.9 million, respectively, representing a decrease of 14.9%.

The distressed debt assets at FVTOCI were acquisition-and-restructuring distressed debt assets of the Group. As at December 31, 2018 and June 30, 2019, the Group's distressed debt assets at FVTOCI amounted to RMB100,445.9 million and RMB80,165.0 million, respectively, representing a decrease of 20.2%.

Other debt instruments at FVTOCI included various bonds, asset management plans, trust products and entrusted loans invested by the Group. As at December 31, 2018 and June 30, 2019, the Group's other debt instruments at FVTOCI amounted to RMB46,941.4 million and RMB45,201.9 million, respectively, representing a decrease of 3.7%.

Debt instruments at FVTOCI are measured at fair value in the financial statements, and the allowance for impairment losses based on the ECL model for such debt instruments are recognised in other comprehensive income ("**OCI**") and accumulated under the heading of investment revaluation reserve, impairment losses are recognised in profit or loss with corresponding adjustments to OCI without reducing the carrying amounts of these debt instruments. As at December 31, 2018 and June 30, 2019, the allowance for impairment for debt instruments at FVTOCI presented under the investment revaluation reserve amounted to RMB3,259.4 million and RMB4,130.0 million, respectively, representing an increase of 26.7%.

#### *4.2.3.1.6 Debt instruments at amortized cost*

Debt instruments at amortized cost are debt instruments held by the Group that meet the following conditions: (1) the debt instruments are held within a business model whose objective is to collect contractual cash flows; and (2) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The table below sets forth the components of debt instruments at amortized cost of the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | (in millions of RMB) | | | |
| Distressed debt assets | | | | |
| Loans acquired from financial institutions | **23,283.8** | 24,042.6 | (758.8) | (3.2%) |
| Other debt assets acquired from non-financial institutions | **274,528.4** | 265,041.7 | 9,486.7 | 3.6% |
| **Subtotal** | **297,812.2** | 289,084.3 | 8,727.9 | 3.0% |
| Less: Allowance for impairment losses | | | | |
| — 12-month ECL | **(1,683.2)** | (2,748.3) | 1,065.1 | (38.8%) |
| — Lifetime ECL | **(22,386.8)** | (20,178.2) | (2,208.6) | 10.9% |
| **Subtotal** | **(24,070.0)** | (22,926.5) | (1,143.5) | 5.0% |
| **Carrying amount of distressed debt assets** | **273,742.2** | 266,157.8 | 7,584.4 | 2.8% |

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | | (in millions of RMB) | | |
| Other debt assets | | | | |
| Trust products | **112,762.2** | 114,321.4 | (1,559.2) | (1.4%) |
| Debt instruments | **90,973.8** | 84,360.8 | 6,613.0 | 7.8% |
| Debt securities | **75,786.4** | 86,699.4 | (10,913.0) | (12.6%) |
| Entrusted loans | **62,605.2** | 78,871.3 | (16,266.1) | (20.6%) |
| Receivables arising from sales and lease back arrangement | **20,263.4** | — | 20,263.4 | — |
| Asset management plans | **9,272.9** | 7,076.2 | 2,196.7 | 31.0% |
| Others | **3,221.0** | 2,649.2 | 571.8 | 21.6% |
| **Subtotal** | **374,884.9** | 373,978.3 | 906.6 | 0.2% |
| Less: Allowance for impairment losses | | | | |
| — 12-month ECL | **(3,194.8)** | (3,970.3) | 775.5 | (19.5%) |
| — Lifetime ECL | **(31,849.8)** | (24,032.7) | (7,817.1) | 32.5% |
| **Subtotal** | **(35,044.6)** | (28,003.0) | (7,041.6) | 25.1% |
| **Carrying amount of other debt assets** | **339,840.3** | 345,975.3 | (6,135.0) | (1.8%) |
| **Total** | **613,582.5** | 612,133.1 | 1,449.4 | 0.2% |

As at December 31, 2018 and June 30, 2019, the Group's debt instruments at amortized cost were RMB612,133.1 million and RMB613,582.5 million, respectively, representing an increase of 0.2%, remaining basically flat in comparison.

The distressed debt assets at amortized cost were acquisition-and-restructuring distressed debt assets of the Group. As at December 31, 2018 and June 30, 2019, the Group's distressed debt assets at amortized cost were RMB266,157.8 million and RMB273,742.2 million, respectively, representing an increase of 2.8%.

Other debt instruments at amortized cost included various bonds, asset management plans, trust products and entrusted loans invested by the Group, as well as receivables arising from the Group's sale and leaseback arrangement after adopting the New Lease Standards. As at December 31, 2018 and June 30, 2019, the Group's debt instruments at amortized cost were RMB345,975.3 million and RMB339,840.3 million, respectively, representing a decrease of 1.8%.

As at December 31, 2018 and June 30, 2019, based on the ECL model, the Group's allowance for impairment losses for debt instruments at amortized cost were RMB50,929.5 million and RMB59,114.6 million, respectively, representing an increase of 16.1%. The allowance for impairment losses for distressed debt assets at amortized cost were RMB22,926.5 million and RMB24,070.0 million, respectively, representing a provision rate of 7.9% and 8.1%, respectively. The allowance for impairment losses for other debt assets at amortized cost were RMB28,003.0 million and RMB35,044.6 million, representing a provision rate of 7.5% and 9.3%, respectively.

#### 4.2.3.2 Liabilities

Liabilities of the Group mainly include: (i) borrowings, including those from banks and other financial institutions; (ii) due to customers; (iii) bonds and notes issued; and (iv) other liabilities.

##### *4.2.3.2.1 Borrowings*

As at December 31, 2018 and June 30, 2019, the balance of borrowings of the Group amounted to RMB760,995.5 million and RMB755,182.8 million, respectively, representing a decrease of 0.8%. The Group continued to optimize debt structure and reduce leverage and the scale of borrowing.

##### *4.2.3.2.2 Due to customers*

The table below sets forth the components of due to customers of the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 | Change | Change in percentage |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| Demand deposits | | | | |
| Corporate | **74,758.7** | 82,228.4 | (7,469.7) | (9.1%) |
| Individual | **20,103.1** | 19,092.9 | 1,010.2 | 5.3% |
| Time deposits | | | | |
| Corporate | **67,156.4** | 55,072.1 | 12,084.3 | 21.9% |
| Individual | **45,092.2** | 30,477.9 | 14,614.3 | 48.0% |
| Pledged deposits | **7,745.3** | 7,364.1 | 381.2 | 5.2% |
| Others | **12,799.7** | 14,881.1 | (2,081.4) | (14.0%) |
| **Total** | **227,655.4** | 209,116.5 | 18,538.9 | 8.9% |

As at December 31, 2018 and June 30, 2019, the balance due to customers of the Group were RMB209,116.5 million and RMB227,655.4 million, respectively, representing an increase of 8.9%, mainly attributable to an increase in time deposits from the corporate and individual customers absorbed by Huarong Xiangjiang Bank.

#### *4.2.3.2.3 Bonds and notes issued*

As at December 31, 2018 and June 30, 2019, the balance of the Group's bonds and notes issued amounted to RMB353,305.3 million and RMB367,872.1 million, respectively, representing an increase of 4.1%. It was mainly due to the continuous efforts of the Group to optimize debt structure, expand financing channels, seize positive market financing opportunities and promote bond financing.

The newly issued bonds and notes for the period mainly included: (i) US$2.35 billion mid-term notes issued by Huarong International for the period; (ii) RMB37.0 billion negotiable certificates of deposit and RMB6.5 billion financial bonds issued by Huarong Xiangjiang Bank for the period; (iii) RMB2.5 billion subordinated bonds and RMB0.3 billion beneficiary certificates issued by Huarong Securities for the period; (iv) RMB3.0 billion financial bonds issued by Huarong Financial Leasing for the period; (v) RMB6.0 billion corporate bonds issued by Huarong Rongde for the period; and (vi) RMB1.5 billion of debt financing plan issued by Huarong Real Estate for the period.

### 4.2.4 Contingent Liabilities

Due to the nature of business, the Group is involved in certain legal proceedings in the normal business operations, including litigation and arbitration. The Group makes provision, from time to time, for the probable losses with respect to those claims when the senior management can reasonably estimate the outcome of the proceedings, in light of the legal opinions. The Group does not make provision for pending litigation when the outcome of the litigation cannot be reasonably estimated or when the senior management believes that the probability of loss is remote or that any resulting liabilities will not have a material adverse effect on our financial condition or operating results.

As at June 30, 2019, total claim amount of pending litigations was RMB2,080 million (December 31, 2018: RMB1,796 million) for the Group (as defendant). Total provision of RMB110 million (December 31, 2018: RMB112 million) was made by the Group based on court judgments and lawyer's opinions. The Company believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

### 4.2.5 Difference between Financial Statements Prepared under the PRC GAAP and IFRS

There is no difference in net profit and Shareholders' equity for the Reporting Period between the consolidated financial statements prepared by the Company under the PRC GAAP and IFRS.

## 4.3 Business Overview

The Group's business segments are comprised of (i) distressed asset management segment; (ii) financial services segment; and (iii) asset management and investment segment.

The table below sets forth the total income and profit before tax of each of the Group's business segments for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| **Total income** | | | | |
| Distressed asset management segment | **34,543.5** | **60.8%** | 34,679.0 | 61.4% |
| Financial services segment | **17,130.4** | **30.2%** | 15,315.2 | 27.1% |
| Asset management and investment segment | **7,698.3** | **13.6%** | 10,029.1 | 17.8% |
| Inter-segment elimination | **(2,562.0)** | **(4.6%)** | (3,576.3) | (6.3%) |
| **Total** | **56,810.2** | **100.0%** | 56,447.0 | 100.0% |
| **Profit before tax** | | | | |
| Distressed asset management segment | **9,197.1** | **137.1%** | 5,621.2 | 200.9% |
| Financial services segment | **2,970.9** | **44.3%** | 2,654.9 | 94.9% |
| Asset management and investment segment | **(5,188.0)** | **(77.3%)** | (3,923.6) | (140.2%) |
| Inter-segment elimination | **(269.6)** | **(4.1%)** | (1,554.9) | (55.6%) |
| **Total** | **6,710.4** | **100.0%** | 2,797.6 | 100.0% |

In the first half of 2019, income from the Group's distressed asset management segment, financial services segment and asset management and investment segment accounts for 60.8%, 30.2% and 13.6% of the Group's total income, respectively; and profit before tax from the above segments accounts for 137.1%, 44.3% and -77.3% of the Group's profit before tax, respectively.

### 4.3.1 Distressed Asset Management

The Group's distressed asset management segment is mainly comprised of (i) distressed debt asset management business of the Company; (ii) policy-oriented debt-to-equity swap business through commercial buyout of the Company; (iii) market-oriented debt-to-equity swap business; (iv) distressed debt asset management business conducted by our subsidiaries; (v) distressed asset-based special situations investments business conducted by our subsidiaries; and (vi) distressed asset-based property development business conducted by our subsidiaries.

# 4 Management Discussion and Analysis

Distressed asset management business is the foundation of all product business systems of the Group and an important source of income and profit of the Group. In the first half of 2019, by following the overall keynote of "maintaining stability over the overall situation and promoting the core business", the Group actively returned to its core business and continued to lead the industry in the size of investment in the core business; actively explored the business model of its core business, optimized the structure of its core business, and expanded the extensive business pattern in distressed assets, realizing steady development of its core business and maintaining steady growth under the tightening market environment and increasingly strict regulation.

In the first half of 2018 and 2019, total income from the distressed asset management segment was RMB34,679.0 million and RMB34,543.5 million, accounting for 61.4% and 60.8% of our total income, respectively; and its profit before tax was RMB5,621.2 million and RMB9,197.1 million, accounting for 200.9% and 137.1% of the total profit before tax of the Group, respectively.

The table below sets forth key financial indicators of the distressed asset management segment of the Group as at the dates and for the periods indicated.

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions of RMB) | |
| **Distressed debt asset management business of the Company** | | |
| Acquisition cost of newly added distressed debt assets | **83,688.1** | 92,513.7 |
| Total income from distressed debt assets | | |
| Operating income from distressed debt assets[1] | **20,044.1** | 17,994.3 |
| Financial advisory income from acquisition-and-restructuring business | **57.5** | 351.2 |
| **Total** | **20,101.6** | 18,345.5 |
| **Policy-based debt-to-equity swap business through commercial buyout of the Company** | | |
| Dividend income from DES Assets | **76.7** | 47.1 |
| Acquisition cost of DES Assets disposed | **834.6** | 151.0 |
| Net gain from the disposal of DES Assets | **284.5** | 560.6 |
| **Market-oriented debt-to-equity swap business[2]** | | |
| Income from market-oriented debt-to-equity swap business[3] | **1,628.6** | (614.2) |
| **Distressed debt asset management business conducted by our subsidiaries** | | |
| Income from distressed debt assets | **374.8** | 1,593.3 |
| **Distressed asset-based special situations investments business conducted by our subsidiaries[4]** | | |
| Income from Huarong Rongde | **962.0** | 974.9 |
| **Distressed asset-based property development business conducted by our subsidiaries** | | |
| Income from property sales and primary land development of Huarong Real Estate | **552.9** | 1,076.5 |

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB) | |
| **Distressed debt asset management business of the Company** | | |
| Gross amount of distressed debt assets[5] | **532,614.9** | 532,946.4 |
| Less: Allowance for impairment losses for distressed debt assets[6] | **(26,850.1)** | (24,514.7) |
| Net carrying amount of distressed debt assets | **509,323.1** | 511,350.5 |
| **Policy-based debt-to-equity swap business through commercial buyout of the Company** | | |
| Carrying amount of DES Assets | **16,139.0** | 16,732.6 |
| **Market-oriented debt-to-equity swap business** | | |
| Total accumulative investment in market-oriented debt-to-equity swap business | **21,375.1** | 19,916.0 |
| **Distressed debt asset management business conducted by our subsidiaries** | | |
| Gross amount of distressed debt assets | **12,218.5** | 19,729.0 |

(1) Operating income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets (acquisition-and-disposal model); and (ii) income from distressed debt assets (acquisition-and-restructuring model), as shown in the condensed consolidated financial statements.

(2) Market-oriented debt-to-equity swap is primarily conducted by the Company and Huarong Ruitong Equity Investment Management Co., Ltd (華融瑞通股權投資管理有限公司) ("**Huarong Ruitong**") and other subsidiaries.

(3) Income from market-oriented debt-to-equity swap includes realized income and unrealized income arising from market-oriented debt-to-equity swap business.

(4) Distressed asset-based special situations investments business conducted by our subsidiaries was primarily conducted by Huarong Rongde, China Huarong Western Development Investment Co., Ltd. ("**China Huarong Western**"), Huarong (Tianjin Free Trade Zone) Investment Co., Ltd. ("**Huarong Tianjin Investment**"), Huarong Guangdong Free Trade Zone Investment Holdings Co., Ltd. ("**Huarong Guangdong Holdings**") and other subsidiaries.

(5) Gross amount of distressed debt assets equals the sum of the Company's (i) distressed debt assets presented under financial assets at FVTPL (acquisition-and-disposal model); and (ii) distressed debt assets presented under debt instruments at amortized costs and at FVTOCI (acquisition-and-restructuring model), as shown in the condensed consolidated financial statements.

(6) Allowance for impairment losses for distressed debt assets equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortized costs and at FVTOCI, as shown in the condensed consolidated financial statements, of which, the allowance for impairment losses for distressed debt assets is presented under the debt instruments at FVTOCI as a part of the investment revaluation reserve, which has no effect on the net carrying amount of distressed debt assets.

#### 4.3.1.1 Distressed debt asset management business of the Company

The Company acquires distressed debt assets from financial institutions and non-financial enterprises through competitive biddings, public auctions, blind auctions or negotiated acquisitions. Based on the characteristics of acquiring the distressed debt assets and the operational and financial performance, the conditions of the collaterals and pledges as well as the credit risks of the debtors, the Company realizes value preservation and appreciation of these assets through disposal or restructuring, and obtains cash proceeds or assets with operational value. The Company primarily finances its acquisition of distressed debt assets through our own fund, commercial bank borrowings and bond issuances.

##### *4.3.1.1.1 Sources for acquisition of distressed debt assets*

Classified by the source of acquisition, the Company's distressed debt assets mainly include: (i) distressed assets acquired from financial institutions ("FI Distressed Assets"); and (ii) distressed assets from non-financial enterprises ("NFE Distressed Assets").

The table below sets forth some key financial indicators of distressed debt assets of the Company by source of acquisition as at the dates and for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| **Acquisition cost of newly added distressed debt assets** | | | | |
| FI Distressed Assets | **17,106.2** | **20.4%** | 20,849.1 | 22.5% |
| NFE Distressed Assets | **66,581.9** | **79.6%** | 71,664.6 | 77.5% |
| **Total** | **83,688.1** | **100.0%** | 92,513.7 | 100.0% |
| **Operating income from distressed debt assets for the period(1)** | | | | |
| FI Distressed Assets | **5,066.4** | **25.3%** | 3,212.8 | 17.9% |
| NFE Distressed Assets | **14,977.7** | **74.7%** | 14,781.5 | 82.1% |
| **Total** | **20,044.1** | **100.0%** | 17,994.3 | 100.0% |

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | (in millions of RMB) | | | |
| **Gross amount of distressed debt assets at the end of the period**[(2)] | | | | |
| FI Distressed Assets | **158,924.5** | **29.8%** | 169,819.1 | 31.9% |
| NFE Distressed Assets | **373,690.4** | **70.2%** | 363,127.3 | 68.1% |
| **Total** | **532,614.9** | **100.0%** | 532,946.4 | 100.0% |

(1) Operating income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets (acquisition-and-disposal model); and (ii) income from distressed debt assets (acquisition-and-restructuring model), as shown in the condensed consolidated financial statements.

(2) Gross amount of distressed debt assets equals the sum of the Company's (i) distressed debt assets presented under financial assets at FVTPL (acquisition-and-disposal model); and (ii) distressed debt assets presented under debt instruments at amortized cost and at FVTOCI (acquisition-and-restructuring model), as shown in the condensed consolidated financial statements.

4.3.1.1.1.1 FI Distressed Assets

The FI Distressed Assets acquired by the Company primarily include NPLs and other distressed debt assets from large commercial banks, joint stock commercial banks, city and rural commercial banks and non-banking financial institutions.

The table below sets forth a breakdown of our FI Distressed Assets acquired from various financial institutions based on acquisition costs during the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| **Banking** | | | | |
| Large commercial banks | **5,134.0** | **30.0%** | 7,773.4 | 37.3% |
| Joint stock commercial banks | **8,226.2** | **48.1%** | 7,801.7 | 37.4% |
| City and rural commercial banks | **314.4** | **1.9%** | 1,044.9 | 5.0% |
| Other banks | **468.6** | **2.7%** | 77.3 | 0.4% |
| **Subtotal** | **14,143.2** | **82.7%** | 16,697.3 | 80.1% |
| **Non-banking financial institutions** | **2,963.0** | **17.3%** | 4,151.8 | 19.9% |
| **Total** | **17,106.2** | **100.0%** | 20,849.1 | 100.0% |

4.3.1.1.1.2 NFE Distressed Assets

The NFE Distressed Assets currently acquired by the Company mainly include accounts receivable and other distressed debts of NFEs. These distressed debt assets include: (i) overdue receivables; (ii) receivables expected to be overdue; and (iii) receivables from debtors with liquidity issues.

***4.3.1.1.2 Business models of distressed debt asset management***

Categorizing by business model, the Company's distressed debt asset management business can be classified into the acquisition-and-disposal model and the acquisition-and-restructuring model.

The table below sets forth the breakdown of the Company's distressed debt asset management business by business model for the dates and periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| **Acquisition cost of newly added distressed debt assets** | | | | |
| Acquisition-and-disposal | 16,884.7 | 20.2% | 19,540.4 | 21.1% |
| Acquisition-and-restructuring | 66,803.4 | 79.8% | 72,973.3 | 78.9% |
| **Total** | 83,688.1 | 100.0% | 92,513.7 | 100.0% |
| **Income from distressed debt assets for the period** | | | | |
| Acquisition-and-disposal(1) | 4,797.7 | 23.9% | 2,891.0 | 15.8% |
| Acquisition-and-restructuring(2) | 15,303.9 | 76.1% | 15,454.5 | 84.2% |
| **Total** | 20,101.6 | 100.0% | 18,345.5 | 100.0% |

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | (in millions of RMB, except for percentages) | | | |
| **Gross amount of distressed debt assets at the end of the period** | | | | |
| Acquisition-and-disposal(3) | 167,710.5 | 31.5% | 162,691.0 | 30.5% |
| Acquisition-and-restructuring(4) | 364,904.4 | 68.5% | 370,255.4 | 69.5% |
| **Total** | 532,614.9 | 100.0% | 532,946.4 | 100.0% |

(1) The income from acquisition-and-disposal distressed debt assets is the Company's fair value changes on distressed debt assets, as shown in the condensed consolidated financial statements.

(2) The income from acquisition-and-restructuring distressed debt assets is the sum of the Company's income from distressed debt assets and financial advisory income from acquisition-and-restructuring model presented under commission and fee income, as shown in the condensed consolidated financial statements.

(3) The gross amount of acquisition-and-disposal distressed debt assets is the amount of the Company's distressed debt assets presented under financial assets at FVTPL, as shown in the condensed consolidated financial statements.

(4) The gross amount of acquisition-and-restructuring distressed debt assets is the sum of the Company's distressed debt assets presented under debt instruments at amortized cost and debt instruments at FVTOCI, as shown in the condensed consolidated financial statements.

#### 4.3.1.1.2.1 Acquisition-and-disposal model

As a major participant of the primary market and an important participant and supplier of the secondary market for distressed debt assets, the Company acquires distressed assets packages in batches from bank-based distressed asset market through public bidding or negotiated transfers. To maximize the recovery value of the distressed assets, the Company chooses different disposal methods for these assets based on the comprehensive assessment of the characteristics of the distressed assets, the conditions of the debtors and the conditions of the collaterals and pledges. Disposal methods include: interim participation in operations, asset restructuring, debt-to-equity swaps, individual transfer, package-and-transfer, discounted collection from debtors, liquidation, regular collection, collection through litigation, receipts of other assets in satisfaction of debts and debt restructuring. As the professional distressed asset management company, the Company's core competitive advantage under the acquisition-and-disposal model is our ability to price and professionally dispose of distressed assets, which has been accumulated from the long-term market operation.

In the first half of 2019, the Company continued to focus on the core business of distressed assets. In terms of acquisition of assets, the Company focused on the allocation of resources on the core business, actively participated in market competition, priced rationally and continued to lead the industry in the accumulative bid-winning size. The total assets of the acquisition-and-disposal model increased by 12.6% from RMB148,889.7 million in the first half of 2018 to RMB167,710.5 million in the first half of 2019. In terms of disposal of assets, the Company effectively intensified efforts to dispose of assets, improved the efficiency of disposal of assets, and actively explored the upgrading and innovation of business model, which significantly increased the yield of the acquisition-and-disposal model. Net gain or loss from the acquisition-and-disposal model increased by 66.0% from RMB2,891.0 million in the first half of 2018 to RMB4,797.7 million in the first half of 2019.

The table below sets forth certain details of the general operation of the acquisition-and-disposal model of the Company for the periods indicated.

| | For the six months ended June 30, 2019 | 2018 |
|---|---|---|
| | (in millions of RMB, except for percentages) | |
| Gross amount of distressed debt assets at the beginning of the period | **162,691.0** | 140,667.2 |
| Acquisition cost of newly added distressed debt assets | **16,884.7** | 19,540.4 |
| Gross amount of distressed debt assets disposed | **12,783.2** | 11,823.3 |
| Gross amount of distressed debt assets at the end of the period[1] | **167,710.5** | 148,889.7 |
| Net gain or loss from distressed debt assets[2] | | |
| Realized gain | **3,879.7** | 2,385.6 |
| Unrealized fair value changes | **918.0** | 505.4 |
| **Total** | **4,797.7** | 2,891.0 |
| IRR on completed projects[3] | **11.2%** | 15.5% |

(1) Gross amount of distressed debt assets as at the end of the period is the gross amount of the Company's distressed debt assets presented under financial assets at FVTPL, as shown in the condensed consolidated financial statements.

(2) Net gain or loss from distressed debt assets is the Company's fair value changes on distressed debt assets, as shown in the condensed consolidated financial statements.

(3) IRR on completed projects is the discount rate that makes the net present value of all cash inflows and outflows from all the acquisition-and-disposal projects completed in the current period from the time of acquisition to the time of disposal equal to zero.

The table below sets forth a breakdown of the gross amount of the Company's acquisition-and-disposal distressed debt assets by the geographic location of the sources of acquisitions of distressed asset packages as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Yangtze River Delta[1] | **51,071.0** | **30.5%** | 53,319.4 | 32.8% |
| Pearl River Delta[2] | **25,510.0** | **15.2%** | 21,099.3 | 13.0% |
| Bohai Rim Region[3] | **24,375.3** | **14.5%** | 20,220.5 | 12.4% |
| Central Region[4] | **22,413.5** | **13.4%** | 23,778.8 | 14.6% |
| Western Region[5] | **38,069.6** | **22.7%** | 38,425.4 | 23.6% |
| Northeastern Region[6] | **6,271.1** | **3.7%** | 5,847.6 | 3.6% |
| **Total** | **167,710.5** | **100.0%** | 162,691.0 | 100.0% |

(1) Yangtze River Delta is comprised of Shanghai, Jiangsu and Zhejiang.

(2) Pearl River Delta is comprised of Guangdong and Fujian.

(3) Bohai Rim Region is comprised of Beijing, Tianjin, Hebei and Shandong.

(4) Central Region is comprised of Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan.

(5) Western Region is comprised of Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Tibet.

(6) Northeastern Region is comprised of Liaoning, Heilongjiang and Jilin.

The Company's acquisition-and-disposal distressed debt assets were mainly sourced from Yangtze River Delta, Western Region, Pearl River Delta, and Bohai Rim Region.

4.3.1.1.2.2 Acquisition-and-restructuring model

Focusing on enterprises with temporary liquidity issues, the Company adopts personalized and professional customized restructuring approaches to reassess the debtors' credit risks, front-load the elimination of credit risks, redeploy distressed debt assets with operational value and restore the debtors' enterprise credit profile. The Company carries out assessments on the value and operational value of the customers' core assets in order to realize value discovery and enhancement for these assets and achieve considerable returns with controlled risks. The Company's core competitive advantage under the acquisition-and-restructuring model is the ability to discover, reassess and enhance the overall value of the debts for the debtors through professional operating.

Given the tightening market environment and increasingly strict regulatory landscape in the first half of 2019, the Group stepped up efforts to promote the transformation and development of acquisition-and-restructuring businesses, adjust and optimize the business structure, diversify the source of acquisition of financial debts and seek reorganization of problematic enterprises. During the period, the financial assets in the newly acquired assets were RMB2,911.9 million, representing an increase of 37.9% as compared with the same period of last year. The income from financial assets was RMB848.9 million, representing an increase of 21.8% as compared with the same period of last year. Furthermore, new investments in and the percentage of restructuring problematic enterprises staged a growth. Meanwhile, the industrial structure of debtors under the acquisition-and-restructuring model kept improving, and the percentage of real estate business continued to decline.

The table below sets forth certain details of the general operation of the acquisition-and-restructuring model of the Company for the dates and periods indicated.

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions of RMB, except for percentages) | |
| Number of new projects (quantity) | 251 | 258 |
| Acquisition cost of newly added distressed debt assets | 66,803.4 | 72,973.3 |
| Income from distressed debt assets | | |
| Operating income from distressed debt assets[1] | 15,246.4 | 15,103.3 |
| Financial advisory income | 57.5 | 351.2 |
| **Total** | 15,303.9 | 15,454.5 |
| Annualized return on monthly average gross amount of distressed debt assets (excluding financial advisory income)[2] | 8.2% | 8.7% |

# 4 Management Discussion and Analysis

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB, except for percentages) | |
| Number of existing projects as of the end of the period (quantity) | **1,567** | 1,565 |
| Gross amount of distressed debt assets(3) | **364,904.4** | 370,255.4 |
| Allowance for impairment losses(4) | **(26,850.1)** | (24,514.7) |
| Net carrying amount of distressed debt assets(5) | **341,612.6** | 348,659.5 |
| Allowance to distressed debt assets ratio(6) | **7.4%** | 6.6% |
| Gross amount of stage III distressed debt assets(7) | **41,946.0** | 36,199.2 |
| Allowance for impairment losses for stage III distressed debt assets(8) | **(20,828.7)** | (19,009.7) |
| Distressed debt assets collateral ratio(9) | **36.3%** | 37.1% |

(1) The operating income from distressed debt assets equals the Company's income from distressed debt assets, as shown in the condensed consolidated financial statements.

(2) Annualized return on monthly average gross amount of distressed debt assets equals the annualized operating income from distressed debt assets divided by the average gross amount of distressed debt assets at the end of each month of that period.

(3) Gross amount of distressed debt assets equals the sum of the Company's gross amount of distressed debt assets presented under debt instruments at amortized cost and at FVTOCI, as shown in the condensed consolidated financial statements.

(4) Allowance for impairment losses equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortized cost and at FVTOCI, as shown in the condensed consolidated financial statements, of which, allowance for impairment losses for the distressed debt assets presented under debt instruments at FVTOCI are presented as a part of the investment revaluation reserve.

(5) Net carrying amount of distressed debt assets equals the gross amount of the Company's net amount of distressed debt assets presented under debt instruments at amortized costs and balance of distressed debt assets presented under debt instruments at FVTOCI.

(6) Allowance to distressed debt assets ratio equals the allowance for impairment losses divided by the gross amount of distressed debt assets.

(7) Gross amount of stage III distressed debt assets is balance of stage III distressed debt assets based on the stage division model.

(8) Allowance for impairment losses for stage III distressed debt assets is the allowance for impairment losses for distressed debt assets which is classified as stage III.

(9) Distressed debt assets collateral ratio equals the percentage of the total amount of collateralized distressed debt assets to the total appraised value of the collateral securing these assets.

The table below sets forth a breakdown of the Company's gross amount of acquisition-and-restructuring distressed debt assets by the geographic location of the debtors as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Yangtze River Delta[1] | 63,284.2 | 17.3% | 68,533.3 | 18.5% |
| Pearl River Delta[2] | 51,181.5 | 14.0% | 55,419.9 | 15.0% |
| Bohai Rim Region[3] | 57,558.7 | 15.8% | 55,323.1 | 14.9% |
| Central Region[4] | 79,946.4 | 21.9% | 75,554.5 | 20.4% |
| Western Region[5] | 96,976.9 | 26.6% | 99,105.5 | 26.8% |
| Northeastern Region[6] | 15,956.7 | 4.4% | 16,319.1 | 4.4% |
| **Total** | 364,904.4 | 100.0% | 370,255.4 | 100.0% |

(1) Yangtze River Delta is comprised of Shanghai, Jiangsu and Zhejiang.

(2) Pearl River Delta is comprised of Guangdong and Fujian.

(3) Bohai Rim Region is comprised of Beijing, Tianjin, Hebei and Shandong.

(4) Central Region is comprised of Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan.

(5) Western Region is comprised of Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Tibet.

(6) Northeastern Region is comprised of Liaoning, Heilongjiang and Jilin.

The table below sets forth a breakdown of the Company's gross amount of acquisition-and-restructuring distressed debt assets by the industrial composition of the ultimate debtors as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Total | Percentage | Total | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Real estate | 184,089.0 | 50.6% | 194,340.6 | 52.5% |
| Manufacturing | 42,124.4 | 11.5% | 41,460.0 | 11.2% |
| Leasing and commercial services | 30,002.0 | 8.2% | 29,057.9 | 7.8% |
| Construction | 28,268.8 | 7.7% | 27,164.0 | 7.3% |
| Water, environment and public utilities management | 17,197.5 | 4.7% | 17,654.0 | 4.8% |
| Mining | 5,212.4 | 1.4% | 5,545.7 | 1.5% |
| Transportation, logistics and postal services | 4,986.8 | 1.4% | 4,708.7 | 1.3% |
| Others | 53,023.5 | 14.5% | 50,324.5 | 13.6% |
| **Total** | 364,904.4 | 100.0% | 370,255.4 | 100.0% |

#### 4.3.1.2 Policy-based DES business through commercial buyout of the Company

The Company obtains DES Assets through debt-to-equity swaps, receipt of equities in satisfaction of debts and follow-on investments. The Company enhances the value of DES Assets by improving the business operations of the DES Companies. The Company exits from such investments primarily through asset swaps, merger and acquisition, restructuring and listing of DES Companies and realizes the appreciation of DES Assets. The Company's DES Assets are classified as shares of unlisted DES Companies ("Unlisted DES Assets") and shares of listed DES Companies ("Listed DES Assets"). As at June 30, 2019, the Company held Unlisted DES Assets in 138 DES Companies, with carrying amount of RMB10,040.2 million; and Listed DES Assets in 23 DES Companies, with carrying amount of RMB6,098.8 million.

The table below sets forth certain details of the DES Assets portfolio by category of listing condition as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB, except for number of companies) | |
| Composition of existing DES Assets portfolio | | |
| Number of DES companies | **161** | 174 |
| Unlisted | **138** | 150 |
| Listed | **23** | 24 |
| Carrying amount | **16,139.0** | 16,732.6 |
| Unlisted | **10,040.2** | 11,324.7 |
| Listed | **6,098.8** | 5,407.9 |

The Company derives the following income from its DES asset management business: (i) disposal income, which is the income from transfer of the Company's equities in DES Companies; (ii) restructuring income, which is the income the Company recognizes when exchanging the equities in DES Companies into equities in related parties of the DES Companies based on the fair value of the equities; (iii) dividend income, which are dividends and other distributions from DES Companies; (iv) investment income, gains and losses from follow-on investments, which is the income from transfer of additional equities acquired through private placements of DES Companies; and (v) financial services income, which is the income from providing various financial services to the DES Companies through our financial services subsidiaries.

The table below sets forth certain details of our disposal of DES Assets for the periods indicated.

| | For the six months ended June 30, 2019 | 2018 |
|---|---|---|
| | (in millions of RMB, except for number of companies) | |
| Number of DES Companies disposed | **13** | 5 |
| Acquisition cost of DES Assets disposed | **834.6** | 151.0 |
| Net gains on DES Assets disposed | **284.5** | 560.6 |
| Exit multiple of DES Assets disposed[(1)] | **1.3 times** | 4.7 times |
| Dividend income from DES Companies | **76.7** | 47.1 |

(1) Exit multiple of DES Assets disposed equals the sum of the net gains on DES Assets disposed in the period and the acquisition costs of DES Assets disposed divided by the acquisition costs of the DES Assets disposed.

In the first half of 2018 and the first half of 2019, the Company's net gains on DES Assets disposed were RMB560.6 million and RMB284.5 million, respectively, and the average exit multiples were 4.7 times and 1.3 times, respectively.

#### 4.3.1.3 Market-oriented DES business

The Group conducted the market-oriented DES business through the Company and its subsidiaries including Huarong Ruitong. The Group's market-oriented DES business mainly includes the following three business models:

(1) The model of "issuing shares for repaying debts": By participating in the private placement of listed companies for repayment of bank loans, the Group increased the efficiency of DES implementation and effectively supported the development of real economy.

(2) The model of "changing debt collection to equity": The Group specified real enterprise clients to ease liquidity problems and helped enterprises "de-leverage" by changing debt collection to equity.

(3) The model of "offsetting debts with equity": An enterprise helps real enterprises reduce debts and ease liquidity problems through debt restructuring, i.e. offsetting debts with high-quality equities including equity of listed companies.

The table below sets forth the accumulative investment for market-oriented DES business conducted by the Group as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB) | |
| Issuing shares for repaying debts | 9,311.0 | 8,657.0 |
| Changing debt collection to equity | 11,800.0 | 11,000.0 |
| Offsetting debts with equity | 264.1 | 259.0 |
| **Total** | 21,375.1 | 19,916.0 |

Market-oriented DES business have the national policy advantage and is one of the core businesses of the Group. In the first half of 2019, the Group actively grasped the policies and market opportunities for market-oriented DES, served the national strategy, supported the real economy and actively developed the market-oriented DES business. 7 newly market-oriented DES projects have completed in this period, and accumulative investments amount to RMB21,375.1 million. At the same time, we actively explored a variety of operating means for existing projects, actively promoted the bailout projects of listed companies, and increased the comprehensive income of our DES business, which has made contribution to our performance preliminarily. In the first half of 2019, the income from the market-oriented DES business amounted to RMB1,628.6 million.

#### 4.3.1.4 Distressed debt asset management business conducted by our subsidiaries

The Group conducts distressed debt asset management business through Huarong Huitong Asset Management Co., Ltd. ("**Huarong Huitong**") and its subsidiaries. For the first half of 2019, Huarong Huitong recorded the income from its distressed debt assets of RMB374.8 million.

The table below sets forth the distressed asset management business carried out by Huarong Huitong and its subsidiaries as at the dates indicated.

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB, except for percentages) | |
| Gross amount of distressed debt assets | 12,218.5 | 19,729.0 |
| Allowance for impairment losses | (531.7) | (994.2) |
| Net carrying amount of distressed debt assets | 11,686.9 | 18,736.0 |

#### 4.3.1.5 Distressed asset-based special situations investment business conducted by the subsidiaries

The Group's distressed asset-based special situations investment business invests through debt, equity or mezzanine capital in assets with value appreciation potential and enterprises with short-term liquidity issues, which the Group has identified during the course of its distressed asset management business. Through debt restructuring, asset restructuring, business restructuring and management restructuring, the Group then improves the capital structure, management and operation of the enterprises, and exits and realizes asset appreciation income through debt collection, share transfers, share repurchases, listing and mergers and acquisitions.

The Group primarily conducts our distressed asset-based special situations investment business through Huarong Rongde, China Huarong Western, Huarong Tianjin Investment, Huarong Guangdong Holdings and other subsidiaries. In the first half of 2019, the Group continued to optimize, classify and integrate the organizations, actively resolve stock risks and further adjust the development direction of such business, so as to continuously strengthen the synergies with the distressed asset business of the parent company.

The table below sets forth the basic operating information of Huarong Rongde as at the dates and for the periods indicated.

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB) | |
| **Total assets** | 42,551.6 | 41,146.1 |

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions of RMB) | |
| Income | 962.0 | 974.9 |
| Net profit | 330.8 | 15.9 |

#### 4.3.1.6 Distressed asset-based property development business conducted by the subsidiaries

The Group's distressed-asset-based property development business restructures, invests in and develops high quality property projects acquired in the course of its distressed asset management business and generates profits from appreciation of the related assets. Through its property development business, the Group discovers the value of existing property projects, provides liquidity to existing distressed assets, extends the value chain of distressed asset management, and further enhances the value of our distressed assets.

The Group conducts distressed assets-based property development business through Huarong Real Estate. In the first half of 2018 and the first half of 2019, revenue from property development business of Huarong Real Estate amounted to RMB1,076.5 million and RMB552.9 million, respectively.

### 4.3.2 Financial Services

By leveraging the Group's multiple financial licenses, the Group provides its clients with flexible, customized and diversified financing channels and financial products through a comprehensive financial services platform composed of Huarong Securities, Huarong Futures, Huarong Financial Leasing, Huarong Xiangjiang Bank and Huarong Consumer Finance. This creates a comprehensive financial service system which covers the different business life cycles and the entire value chain of clients. In the first half of 2018 and the first half of 2019, the total income from the Group's financial services segment accounted for 27.1% and 30.2% of our total income, respectively. Profit before tax accounted for 94.9% and 44.3% of the total profit before tax of the Group, respectively.

The table below sets forth the key financial data of the business lines of our financial services segment for the dates and periods indicated.

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB) | |
| **Securities and Futures Business** | | |
| Total assets | 76,212.4 | 79,618.4 |
| Total equity | 12,065.9 | 11,884.9 |
| **Financial Leasing Business** | | |
| Total assets | 131,615.6 | 124,458.4 |
| Total equity | 15,315.3 | 14,860.1 |
| **Banking Services Business** | | |
| Total assets | 355,449.7 | 335,451.9 |
| Total equity | 23,535.9 | 21,961.0 |
| **Consumer Finance Business** | | |
| Total assets | 6,092.7 | 8,152.2 |
| Total equity | 505.4 | 680.7 |

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions of RMB) | |
| **Securities and Futures Business** | | |
| Total income | **3,001.4** | 2,262.6 |
| Profit before tax | **66.3** | (300.0) |
| **Financial Leasing Business** | | |
| Total income | **4,144.6** | 3,738.9 |
| Profit before tax | **1,162.2** | 1,100.8 |
| **Banking Services Business** | | |
| Total income | **9,418.6** | 8,754.4 |
| Profit before tax | **1,977.0** | 1,789.8 |
| **Consumer Finance Business** | | |
| Total income | **566.9** | 559.5 |
| Profit before tax | **(233.7)** | 54.7 |

**4.3.2.1 Securities and futures business**

The Group conducts securities and futures businesses through Huarong Securities and Huarong Futures. The Group's securities business mainly includes proprietary trading, securities brokerage and wealth management, investment banking and asset management businesses. The financial data for Huarong Securities disclosed in this section is consolidated financial data that includes information of Huarong Futures, its subsidiary. During the first half of 2019, Huarong Securities focused more on its core businesses such as investment banking and brokerage, strengthened the internal management, reshaped its business system, and continued to deepen the transformation and adjustment. For the first half of 2018 and first half of 2019, Huarong Securities recorded a total income of RMB2,262.6 million and RMB3,001.4 million, respectively, and profit before tax of RMB-300.0 million and RMB66.3 million, respectively.

The table below sets forth certain key indicators of Huarong Securities as at the dates and for the periods indicated.

| | For the six months ended June 30, | | |
|---|---|---|---|
| | | | Regulatory |
| | 2019 | 2018 | requirements |
| Profitability indicators[1] | | | |
| Net profit margin[2] | **1.9%** | (13.3%) | — |
| Annualized ROAE[3] | **0.9%** | (4.6%) | — |
| Annualized ROAA[4] | **0.1%** | (0.5%) | — |

| | As at June 30, 2019 | As at December 31, 2018 | Regulatory requirements |
|---|---|---|---|
| Risk control indicators[5] | | | |
| Net capital to total risks ratio | **179.6%** | 182.3% | Not lower than 100% |
| Net capital to net assets ratio | **119.6%** | 133.8% | Not lower than 40% |
| Net capital to liabilities ratio | **51.5%** | 48.5% | Not lower than 8% |
| Net assets to liabilities ratio | **43.0%** | 36.2% | Not lower than 20% |
| Equity securities and derivatives of proprietary trading to net capital ratio | **5.0%** | 4.9% | Not higher than 100% |
| Fixed income securities of proprietary trading to net capital ratio | **167.9%** | 159.7% | Not higher than 500% |

(1) Profitability indicators are calculated based on the consolidated financial information of Huarong Securities.

(2) Net profit margin equals the profit for the period divided by total income.

(3) Annualized ROAE equals the annualized net profit attributable to shareholders as a percentage of the average balance of shareholders' equity as of the beginning and the end of the period.

(4) Annualized ROAA equals the annualized net profit for the period divided by the average of total assets as of the beginning and the end of the period.

(5) Risk control indicators are calculated in accordance with the latest regulatory requirements, and several indicators are calculated based on management data.

The table below sets forth the breakdown of the Group's revenue from securities business by business line for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Proprietary trading | **1,858.2** | **61.9%** | 546.5 | 24.2% |
| Securities brokerage and wealth management | **690.6** | **23.0%** | 1,105.0 | 48.8% |
| Investment banking | **107.4** | **3.6%** | 190.4 | 8.4% |
| Asset management business | **115.6** | **3.9%** | 198.3 | 8.8% |
| Others | **229.6** | **7.6%** | 222.4 | 9.8% |
| **Total** | **3,001.4** | **100.0%** | 2,262.6 | 100.0% |

#### 4.3.2.2 Financial leasing business

The Group operates its financial leasing business through Huarong Financial Leasing. During the first half of 2019, with a focus on the supply side structural reform and based on its core business, Huarong Financial Leasing has vigorously supported the development of the real economy; provided adequate financial support for the major development strategies, major reform measures and major project constructions of the state; actively docked with strategic emerging industries, equipment manufacturing, green and environmental protection and other areas; strengthened our financial services for weak areas such as private enterprises and small and micro enterprises; increased our development efforts in the markets including the Yangtze River Economic Belt, Beijing-Tianjin-Hebei, which have helped us achieve good economic and social benefits.

As at December 31, 2018 and June 30, 2019, the total assets of Huarong Financial Leasing amounted to RMB124,458.4 million and RMB131,615.6 million, respectively. In the first half of 2018 and first half of 2019, the profit before tax of Huarong Financial Leasing amounted to RMB1,100.8 million and RMB1,162.2 million, respectively. Both the operating results and management level of Huarong Financial Leasing have maintained the leading position in the industry.

The table below sets forth certain key indicators of Huarong Financial Leasing as at the dates and for the periods indicated.

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Profitability indicators | | |
| Annualized ROAA[(1)] | 1.4% | 1.3% |
| Annualized ROAE[(2)] | 11.6% | 11.7% |
| Net interest spread[(3)] | 2.0% | 1.4% |
| Net interest margin[(4)] | 2.6% | 2.0% |

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Asset quality indicators | | |
| Distressed asset ratio[(5)] | 1.56% | 1.49% |
| Provision coverage ratio[(6)] | 160.3% | 156.0% |
| Capital adequacy indicators | | |
| Core capital adequacy ratio[(7)] | 12.1% | 12.3% |
| Capital adequacy ratio[(7)] | 12.9% | 13.0% |

(1) Annualized ROAA equals the annualized net profit for the period divided by the average of total assets as of the beginning and the end of the period.

(2) Annualized ROAE equals the annualized net profit attributable to shareholders for the period as a percentage of the average balance of shareholder's equity as of the beginning and the end of the period.

(3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.

(4) Net interest margin equals net interest income divided by the average daily balance of interest-earning assets.

(5) Distressed asset ratio equals the balance of distressed assets divided by finance lease receivables. Distressed assets are defined as those initially recognized finance lease receivables which have objective evidence of impairment as a result of one or more events and such events have had an impact on the expected future cash flows of finance lease receivables that can be reliably estimated.

(6) Provision coverage ratio equals the balance of allowance for impairment losses divided by the balance of distressed assets.

(7) Disclosed by the means reported to CBIRC.

The business of Huarong Financial Leasing mainly involves direct leasing and sale and lease-back. The table below sets forth the components of the income from the business of Huarong Financial Leasing by business line for the periods indicated.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Sale and lease-back | **3,436.1** | **82.9%** | 2,960.3 | 79.2% |
| Direct leasing | **447.2** | **10.8%** | 407.2 | 10.9% |
| Others | **261.3** | **6.3%** | 371.4 | 9.9% |
| **Total** | **4,144.6** | **100.0%** | 3,738.9 | 100.0% |

The business of Huarong Financial Leasing mainly involves water, environment and public utilities management, manufacturing, transportation, logistics, postal services and other industries. The table below sets forth the components of the total finance lease receivables of Huarong Financial Leasing by industry as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Manufacturing | **20,538.3** | **19.5%** | 19,381.3 | 19.4% |
| Water, environment and public utilities management | **37,712.8** | **35.8%** | 40,297.9 | 40.3% |
| Transportation, logistics and postal services | **10,999.6** | **10.5%** | 10,318.1 | 10.3% |
| Construction | **7,083.5** | **6.7%** | 5,830.2 | 5.8% |
| Mining | **2,977.3** | **2.8%** | 3,251.3 | 3.2% |
| Leasing and commercial services | **3,640.9** | **3.5%** | 1,995.7 | 2.0% |
| Others | **22,335.3** | **21.2%** | 18,987.4 | 19.0% |
| Total | **105,287.7** | **100.0%** | 100,061.9 | 100.0% |

(1) Some of the above finance lease receivables were presented under "debt instruments at amortized cost" on the condensed consolidated financial statement because of the adoption of IFRS 16.

#### 4.3.2.3 Banking services business

The Group conducts its banking services business through Huarong Xiangjiang Bank. In the first half of 2019, Huarong Xiangjiang Bank targeted the market of Hunan Province, served the real economy, supported small and micro enterprises, implemented green credit business, attached great importance to risk prevention and internal control compliance, accelerated the transformation and quality improvement, and strived to improve the application level of fintech, so as to ensure its stable, steady and compliant development.

As at December 31, 2018 and June 30, 2019, total assets of Huarong Xiangjiang Bank were RMB335,451.9 million and RMB355,449.7 million, respectively; total loans and advances to customers were RMB183,045.7 million and RMB197,972.1 million, respectively; total due to customers were RMB209,361.5 million and RMB228,151.5 million, respectively. In the first half of 2018 and the first half of 2019, the profit before tax of Huarong Xiangjiang Bank was RMB1,789.8 million and RMB1,977.0 million, respectively, with an increase of 10.5%.

As at June 30, 2019, the non-performing loan ratio and provision coverage ratio of Huarong Xiangjiang Bank were 1.59% and 155.6%, respectively. Its core tier-1 capital adequacy ratio was 9.6% and its capital adequacy ratio was 12.6%, and all major businesses indicators of Huarong Xiangjiang Bank either satisfied or outperformed regulatory requirements. The rating of Huarong Xiangjiang Bank was "AAA" as assessed by China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級公司).

The table below sets forth certain key indicators of Huarong Xiangjiang Bank as at the dates and for the periods indicated.

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | **2018** |
| Profitability indicators | | |
| Annualized ROAA[(1)] | **0.9%** | 0.9% |
| Annualized ROAE[(2)] | **13.8%** | 13.7% |
| Net interest spread[(3)] | **2.3%** | 2.6% |
| Net interest margin[(4)] | **2.6%** | 2.8% |

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Asset quality indicators | | |
| Non-performing loan ratio(5) | 1.59% | 1.58% |
| Provision coverage ratio(6) | 155.6% | 153.9% |
| Allowance to total loans(7) | 2.5% | 2.4% |
| Capital adequacy indicators | | |
| Core tier-1 capital adequacy ratio(8) | 9.6% | 9.6% |
| Capital adequacy ratio(8) | 12.6% | 12.7% |
| Other indicators | | |
| Liquidity ratio(9) | 60.9% | 63.8% |

(1) Annualized ROAA equals the annualized net profit for the period divided by the average of total assets at the beginning and end of the period.

(2) Annualized ROAE equals the annualized net profit attributable to shareholders for the period as a percentage of the average balance of shareholders' equity at the beginning and end of the period.

(3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.

(4) Net interest margin equals net interest income divided by the average daily interest-earning assets.

(5) Non-performing loan ratio equals the balance of non-performing loans divided by total loans and advances to customers.

(6) Provision coverage ratio equals the balance of allowance for impairment losses divided by the balance of non-performing loans.

(7) Allowance to total loans equals the balance of allowance for impairment losses divided by total loans and advances to customers.

(8) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBIRC regulations.

(9) Liquidity ratio is calculated according to CBIRC regulations.

Corporate banking business: Huarong Xiangjiang Bank provides diversified financial products and services, such as corporate loans, discounted bills, corporate deposits, and fee and commission based services, for corporate banking clients under the brand of "Cai Zhi Rong" (財智融). The balance of corporate loans of Huarong Xiangjiang Bank was RMB129,263.7 million and RMB136,535.0 million respectively as at December 31, 2018 and June 30, 2019, representing an increase of 5.6%. The balance of corporate deposits was RMB137,545.6 million and RMB142,411.2 million, respectively, representing an increase of 3.5%.

Retail banking business: Huarong Xiangjiang Bank provides diversified products and services to retail banking clients, such as retail loans, retail deposits, bank cards as well as fee and commission based services. The balance of retail loans of Huarong Xiangjiang Bank was RMB53,782.0 million and RMB61,437.1 million respectively as at December 31, 2018 and June 30, 2019, representing an increase of 14.2%; the balance of retail deposits was RMB49,570.7 million and RMB65,195.4 million, representing an increase of 31.5%.

As at December 31, 2018 and June 30, 2019, the balance of loans to small and micro enterprises of Huarong Xiangjiang Bank amounted to RMB49,246.2 million and RMB51,137.5 million, respectively, representing an increase of 3.8%.

The table below sets forth the breakdown of the balance of loans within the retail banking business of Huarong Xiangjiang Bank by loan category as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Loans for business operations | 13,077.7 | 21.3% | 12,740.8 | 23.7% |
| Mortgage | 21,768.1 | 35.4% | 18,511.7 | 34.4% |
| Others | 26,591.3 | 43.3% | 22,529.5 | 41.9% |
| **Total** | 61,437.1 | 100.0% | 53,782.0 | 100.0% |

Financial market business: As at December 31, 2018 and June 30, 2019, the balance of placements with financial institutions and financial assets held under resale agreements of Huarong Xiangjiang Bank was RMB4,531.2 million and RMB7,587.0 million, respectively, and the balance of placements from financial institutions and financial assets sold under repurchase agreements was RMB11,803.8 million and RMB14,330.2 million, respectively.

#### 4.3.2.4 Consumer finance business

In 2016, the Group established Huarong Consumer Finance to provide consumer finance services. Since its inception, Huarong Consumer Finance aims to provide financial services to the general public, featuring small-sized loans, based on the Internet "big data", and supported by its online to offline platform. It is the policy of Huarong Consumer Finance to carry on its retail banking business as a wholesale operation and integrate its online and offline services, in order to enhance its role as a leading provider of financial services to the general public. Since its establishment, it has accumulatively served 7.2388 million customers and issued 20.0444 million loans.

As at December 31, 2018 and June 30, 2019, the total assets of Huarong Consumer Finance amounted to RMB8,152.2 million and RMB6,092.7 million, respectively, decreasing by 25.3%, and the total loans amounted to RMB7,836.1 million and RMB6,092.5 million, respectively, decreasing by 22.3%. In the first half of 2018 and 2019, Huarong Consumer Finance achieved the profit before tax of RMB54.7 million and RMB-233.7 million, respectively, decreasing by 527.2%.

### 4.3.3 Asset Management and Investment Business

The asset management and investment business of the Group is an extension and supplement of its distressed asset management business. In the first half of 2018 and 2019, the total income from asset management and investment segment was RMB10,029.1 million and RMB7,698.3 million, respectively, representing 17.8% and 13.6%, respectively, of our total income.

The table below sets forth key financial data of the Group's asset management and investment business as at the dates and for the periods indicated.

| | As at June 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | (in millions of RMB) | |
| **Trust business** | | |
| Outstanding trust AUM | **162,999.5** | 189,293.8 |
| **Financial investments of the Company** | | |
| Balance of financial investments(1) | **39,483.1** | 42,563.4 |
| **International business** | | |
| Total assets | **244,223.3** | 237,912.8 |

| | For the six months ended June 30, 2019 | 2018 |
|---|---|---|
| | (in millions of RMB) | |
| **Trust business** | | |
| Total trust income | **730.7** | 863.9 |
| Including: trust commission and fee income | **209.2** | 497.8 |
| Profit before tax | **(80.7)** | 47.6 |
| **Private fund** | | |
| Total income | **(808.5)** | 592.3 |
| **Financial investments of the Company** | | |
| Investment income from financial investments(2) | **943.7** | 1,862.8 |
| **International business** | | |
| Total income | **5,098.8** | 6,464.5 |
| Profit before tax | **(4,547.5)** | (1,638.6) |

(1) Balance of financial investments including non-distressed debt assets presented under financial assets at FVTPL, debt instruments at FVTOCI and amortized cost, and each type of financial assets in consolidated structured entities, attributable to the Company in the condensed consolidated financial statements.

(2) Investment income from financial investments equals to the relevant income presented under fair value changes on other financial assets and interest income, attributable to the Company in the condensed consolidated financial statements.

#### 4.3.3.1 Trust business

The Group is engaged in trust business through Huarong Trust. The business of Huarong Trust mainly involves: (1) acting as a trustee to manage, operate and dispose of trust assets and receiving trust business income; and (2) providing financial advisory and other consulting services and receiving commission and fee income.

As at December 31, 2018 and June 30, 2019, the total trust assets under management of Huarong Trust were RMB189,293.8 million and RMB162,999.5 million, respectively, representing a decrease of 13.9%; Huarong Trust managed 266 and 240 existing trust projects, respectively.

In the first half of 2018 and 2019, the income generated from trust business was RMB863.9 million and RMB730.7 million, respectively.

The table below sets forth the breakdown of the distribution of trust products of Huarong Trust, by industry, as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Industry and commerce enterprise | 33,361.0 | 20.5% | 33,335.8 | 17.6% |
| Financial institutions | 45,917.7 | 28.2% | 60,431.4 | 31.9% |
| Securities investment | 19,728.5 | 12.1% | 22,882.9 | 12.1% |
| Infrastructure | 22,475.4 | 13.8% | 24,722.3 | 13.1% |
| Real estate | 37,368.1 | 22.9% | 42,851.6 | 22.6% |
| Others | 4,148.8 | 2.5% | 5,069.8 | 2.7% |
| **Total** | 162,999.5 | 100.0% | 189,293.8 | 100.0% |

#### 4.3.3.2 Private fund business

Private fund business of the Group covers equity investment, equity investment management, fixed income investment and investment advisory services. The Group conducts private fund business mainly through Huarong Yufu Equity Investment Fund Management Co., Ltd. ("**Huarong Yufu**").

The funds managed by Huarong Yufu cover major private fund categories including high-yield funds, merger and acquisition funds, growth capital funds and industry funds. Principal investors in the funds managed by the Group include various types of investment companies, fund companies, banks, insurance companies, industry leading enterprises, real estate companies, trading companies and individuals.

#### 4.3.3.3 Financial investment business of the Company

Financial investment business of the Group mainly refers to the fixed income investments and equity investments conducted by the Company. In the first half of 2019, based on the Group's strategy of returning to its core businesses and risk resolution, the Group continued to shrink its uncompetitive and non-core businesses, and the assets scale and income scale of the Company's financial investment showed a continuous decline. As at December 31, 2018 and June 30, 2019, the balance of our financial investments was RMB42,563.4 million and RMB39,483.1 million respectively, representing a decrease of 7.2%. In the first half of 2018 and 2019, the income from financial investment business was RMB1,862.8 million and RMB943.7 million respectively, representing a decrease of 49.3%.

The table below sets forth the breakdown of balance of financial investments by investment type as at the dates indicated.

| | As at June 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (in millions of RMB, except for percentages) | | | |
| Fixed income investments | 37,099.4 | 94.0% | 40,676.4 | 95.6% |
| Equity investments | 2,383.7 | 6.0% | 1,887.0 | 4.4% |
| **Total** | 39,483.1 | 100.0% | 42,563.4 | 100.0% |

#### 4.3.3.4 International business

The Group conducts its international business mainly through Huarong International and other overseas subsidiaries. As the overseas investment and financing platform of the Group, Huarong International takes advantage of the developed capital markets and legal environment in Hong Kong, penetrates multi-level overseas financing channels and broadly conducts equity, debt and mezzanine capital investment and financing business. The Group will continue to strengthen its support for Huarong International. In the first half of 2019, the general meeting of the Company considered and approved to increase its capital to Huarong International by US$0.3 billion to further stabilize Huarong International's business development.

As at December 31, 2018 and June 30, 2019, the total assets of Huarong International were RMB205,891.2 million and RMB208,634.7 million, respectively. The total income for the first half of 2018 and 2019 of Huarong International was RMB4,961.1 million and RMB4,646.9 million, respectively.

### 4.3.4 Business Synergy

Sticking to the strategy aiming at "two returns", the Group perfected its mechanism of synergetic development with a deep belief in synergy, gave full play to such advantages as complete types of licenses held by the Group, numerous service outlets and complementary businesses, and also constantly deepened the synergetic cooperation in the domains of distressed asset management, its principal business, among which are reorganization of problematic enterprises, bailout of listed companies, distressed asset package and market-oriented debt-to-equity swaps, etc., so as to provide customers with diversified and integrated financial service packages. Through product collaboration, customer collaboration, information synergy as well as risk management and control synergy among its operation units, the Group realized the resource sharing, complementarity of strength and synergetic development between its Head Office and its branches and subsidiaries.

In the first half of 2019, the Group actively promoted business cooperation between the Head Office and its branches and subsidiaries. The value of projects implemented by each operation unit through synergetic cooperation between (1) branches and subsidiaries; (2) branches and branches; (3) branches and the business department of the Head Office; (4) subsidiaries and subsidiaries; and (5) subsidiaries and the business department of the Head Office and other synergetic and cooperative relations amounted to RMB14,683.64 million, and the revenue from all projects under synergetic cooperation amounted to RMB3,963.03 million.

### 4.3.5 Human Resources Management

In the first half of 2019, the Group strived to build a team of high quality and professional talents, thus to provide a solid talent guarantee for the construction of a new Huarong with high-quality development. **Establishing a correct direction for the personnel selection and employment** represents that we must select employees worldwide by insisting on putting equal stress on integrity and ability and considering integrity as the first, as well as appointing people on their merits, in order to vigorously select loyal, clean and responsible cadres and staff members. **Concerning about the growth of employees** represents that we shall increase efforts to cultivate and train employees, pay attention to the cultivation of outstanding young cadres and professionals, and continue to strengthen the echelon building and optimize the structure of the team. **Paying attention to inspection and appraisal** represents that we shall set up a scientific inspection and appraisal mechanism to reflect the assessment orientation of emphasizing on responsibility and obligations, and establish an appointment system to "promote the competent, demote the mediocre and eliminate the unqualified". **Building a learning organization actively** represents that we shall strengthen staff knowledge and ability training and strive to create an enterprise culture atmosphere that advocates professionalism and artisan spirit. **Motivating the employees' initiatives for working and entrepreneurship** represents that we standardize and optimize remuneration management, motivate employees positively, encourage employees' dutifulness and maximize stimulation of the employees' creativity. **Caring for employees sincerely** represents that we actively response to employees' concerns, protect employees' individual interests, listen to employees' opinions and constantly enhance the cohesiveness and effectiveness of our team.

**Employees**

The Group had a total of 11,274 employees as of June 30, 2019, including 2,648 employees working for the Company and 8,626 employees working for subsidiaries at various levels.

The Group's employees hold over 50 types of professional qualifications, including Certified Public Accountant, Chartered Financial Analyst, sponsor representative, attorney, financial risk manager, public valuer, banking practice qualification and securities practice qualification.

The table below sets forth the number of employees by age as at June 30, 2019.

| | Number | Percentage (%) |
|---|---|---|
| Aged 35 and below | 5,913 | 53% |
| Age 36–45 | 2,855 | 25% |
| Age 46–55 | 2,119 | 19% |
| Aged above 55 | 387 | 3% |
| **Total** | 11,274 | 100% |

The table below sets forth the number of employees by education level as at June 30, 2019.

| | Number | Percentage (%) |
|---|---|---|
| Doctoral degree or doctoral candidate, and above | 210 | 2% |
| Master's degree or master candidate | 3,635 | 32% |
| Bachelor's degree or undergraduate | 6,248 | 55% |
| Junior college and below | 1,181 | 11% |
| **Total** | 11,274 | 100% |

**Remuneration policy**

The Group's remuneration management is combined with the Group's strategies, business development and talent introduction. It adhered to the efficiency-centric principle and optimized the distribution system where work efficiency links to wages to promote the realization of the Group's operation objectives. The Group adhered to the employee remuneration management mechanism with remuneration based on the post and bonus based on performance, and reasonably allocated employee remuneration according to post duties, capabilities and performance contribution. The Group continued to strengthen the incentive and restraint mechanism oriented to operation contribution, and established and improved a remuneration management system that was competitive in the market, matched performance and took into account internal fairness, in accordance with the principle of matching revenue and risk, and coordinating long-term and short-term incentives.

**Education and training**

In the first half of 2019, the Group further strengthened the construction of a comprehensive training system, and carried out various efficient and pragmatic trainings with rich contents and diversified forms for personnel at various levels and different business lines of the Company, including improvement trainings on the professional ability of business backbones and special trainings about corporate governance, which provided a strong talent support and intellectual guarantee for the sustained healthy development of the Group.

### 4.3.6 No material Changes

Save as disclosed in this interim report, there are no material events affecting the Company's performance which are required to be disclosed under Appendix 16 of the Listing Rules since the publication of the last annual report.

## 4.4 Risk Management

In the first half of 2019, facing complex and changeable internal and external environment, the Group deeply advanced the construction of comprehensive risk management system, practically strengthened asset quality control, took solid steps to conduct risk dissolution and continued to improve risk management mechanism and tools, so as to provide guarantee for the building of new Huarong with high-quality development.

### 4.4.1 Comprehensive Risk Management System

Comprehensive risk management refers to, centering on the overall operational objectives, the establishment of a risk governance structure with effective checks and balances, the fosterage of excellent risk culture, the formation and implementation of unified risk management strategies, risk appetite, risk limits and risk management policies, and the adoption of both qualitative and quantitative methods to effectively identify, measure, assess, monitor, report, control or mitigate various risks taken, in order to provide a secured process and method for achieving the Group's operational and strategical objectives.

In the first half of 2019, the Group further improved the organizational structure of comprehensive risk management through the institutional reform of its headquarters, optimized the management and control responsibilities of Risk Management Department, highlighted the positioning of comprehensive risk management, strengthened the vertical management of risk lines, and improved the professionalism of risk management; newly established the Internal Control and Compliance Department to improve the independence and professionalism of internal control and compliance management; further standardized the responsibilities of relevant departments in comprehensive risk management, clearly defined the responsibility boundaries of risk management in the Group and subsidiary levels and improved the "Three Lines of Defense" of risk management. The Group has earnestly strengthened risk appetite and risk limits management. Based on the principles of stability and prudence, the Group formulated the 2019 Risk Management Strategies and Risk Appetite Policy (《2019 年度風險管理策略和風險偏好政策》) and 2019 Risk Limits Plan (《2019 年度風險限額方案》), giving full play to the guiding and binding role of appetite and limits. The Group strengthened the monitoring, analysis, and management and control of the its risk status, closely tracked changes in asset quality, liquidity risk, capital market volatility, operational risk, reputation risk, etc., and took effective measures to control and defuse risks, so as to provide strong guarantee for the Company's steady operation.

In the first half of 2019, the Group further improved the risk management system and mechanism, strengthened the system construction of market risk, reputation risk, etc., further strengthened the management of authorization, customer risk limits and large-sum risk exposure, enhanced the management of assets and liabilities structure, conducted the inspection of operating risk in key areas and optimized the system for risk appraisal and evaluation, so as to strengthen the pertinence and effectiveness of risk management. At the same time, it actively promoted the construction of risk management information system, effectively integrated internal and external data, carried out the construction of big data risk warning system, optimized the limits and concentration management, related party transactions, anti-money laundering and other system functions.

### 4.4.2 Credit Risk Management

Credit risk refers to the risk of loss due to the failure of debtors or counterparties to perform their contractual obligations or adverse changes in their credit condition. Credit risk of the Group mainly involves the distressed debt asset management business, trust business, securities business, financial leasing business, banking business and consumer finance business.

In the first half of 2019, the Group continued to promote the construction of credit risk management mechanism and tools, further improved the business authorization policies and strengthened the dynamic adjustment to and management on supervision of authorization in accordance with the management concept of "Classified Management, Overall Tightening and Dynamic Adjustment"; improved the management on customer risk limits and large-sum risk exposure, standardized management process and approval authority, raised the requirements for penetrative identification and effectively control concentration risk; promoted and continued to optimize the internal rating to improve the level of credit risk measurement; further improved the system for credit risk monitoring and management and control indicators to improve the comprehensiveness and accuracy of the Group's risk monitoring; and completed the functions of asset risk classification system to improve the accuracy of the classification. In addition, strictly implementing the requirements of IFRS 9, the Group constantly optimized relevant systems, measurement model and application systems and scientifically made provisions for impairment of credit risk assets.

In the first half of 2019, the Group actively conducted the disposal and mitigation of the hidden risk assets, implemented classified management, applied them on well-chosen targets and strengthened the centralized management of risk disposal. The asset preservation department organized, coordinated and promoted risk dissolution of key and difficult projects with all its forces, point by point and area by area, and sped up work progress of risk dissolution. In the first half of the year, the whole Group worked in concert and achieved positive effect in risk disposal.

### 4.4.3 Market Risk Management

Market risk refers to the risk of loss caused to the Group's business due to adverse changes in market prices, such as interest rates, exchange rates and stock and commodities prices. The market risk of the Group mainly involves effects of stocks, bonds and other investment businesses and changes in exchange rates.

In the first half of 2019, the Group strengthened and improved the construction of market risk management system and completed the Measures for Market Risk Management (《市場風險管理辦法》); strengthened the monitoring for daily volatility of market risk relying on market risk system construction and data collection, to improve the quality and efficiency of market risk monitoring; continuously identified, evaluated, monitored and measured the Group's stock, interest rate and foreign exchange risks to accurately provide for market risk capital.

With regard to stock risk, the Group implemented the overall planning and centralized management of stock investment, and strengthened the monitoring and analysis of stock volatility. The Group closely monitored the macroeconomic situation at home and abroad, changes in industry fundamentals, changes in interest rates and liquidity of major economies, operation of capital market, changes in regulatory policies and other factors and their influence on the business development, financing environment and valuation of listed companies, to formulate and adjust corresponding equity market value management strategy of listed companies. The Group set different trading portfolios for different types of assets and daily monitored the fluctuations in market value. The Group promptly disclosed stock asset reduction arrangements subject to relevant policies and requirements of regulatory authorities and exchanges and the shareholding reduction plan of the Company and took opportunities to reduce shareholding based on the daily monitoring of stock public opinion and stock price fluctuations of the listed companies.

With regard to interest rate risk, the Group refined the risk management framework, formulated the Administrative Measures for Interest Rate Risks of the Company's Trading Accounts (Provisional) (《公司交易賬戶利率風險管理辦法（試行）》), Administrative Measures for Interest Rate Risks of Non-trading Accounts (《非交易賬簿利率風險管理辦法》) and other management policies, which further standardized and improved the interest rate risk management mechanism, defined the organizational structure, responsibility system, management process and method, and measured and analyzed interest rate risks on a regular basis to continuously improve its capability to cope with interest rate risks.

Regarding foreign exchange risk, the Group standardized the organizational structure and management mechanism of foreign exchange risk management through the Administrative Measures on Foreign Exchange Risk (《外匯風險管理辦法》) and clarified the mechanism for foreign exchange risk identification, measurement, monitoring and control. The Group, operating mainly in China, adopts Renminbi as the recording currency. The part of proceeds from listing with exchange rate unsettled will be settled flexibly according to use of proceeds and exchange rate fluctuations. Some overseas subsidiaries issued USD bonds and carried out overseas businesses. Relevant assets invested are mainly stated in USD or HKD linked with the USD exchange rate, and foreign exchange risks are mainly hedged by the Group through foreign exchange forwards, currency swaps and other methods.

### 4.4.4 Liquidity Risk Management

Liquidity risk refers to the risks associated with the failure to obtain sufficient funds promptly or at reasonable cost to repay mature debts or fulfil other payment obligations or support the asset growth or other business development, including financing liquidity risks and market liquidity risks. Financing liquidity risk refers to the risk where the Company fails to meet the funding requirement effectively without affecting the daily operations or financial conditions. Market liquidity risk refers to the risk where the Group fails to dispose of assets at a reasonable market price to obtain funds due to the limited depth of the market or market fluctuations. The Group's liquidity risks arise primarily from the delay in payment by its debtors, mismatch of asset and liability structure, difficulty in asset monetization, operational loss, lack of liquidity reserves and financing capacity that is unable to meet the needs of business development.

The Group actively implemented the requirements of the regulatory authorities for liquidity management, adopted a centralized and unified liquidity management mechanism and enhanced the initiative and forward-looking of liquidity management to make sure the mismatch of assets and liabilities maintained within an acceptable liquidity risk level. The Group effectively controlled the degree of leverage and guaranteed its long-term liquidation safety through the setup of target leverage ratio complying with regulatory requirements. The Group established a working capital planning system and made full use of the internal fund transfer pricing system to speed up turnover of funds and improve the fund utilization efficiency. Besides, the Group constantly expanded financing channels and established multi-term, multi-variety and market-oriented financing methods, which were mainly based on interbank borrowings, bond issuance and other types of financing, and complemented with interbank lending and pledge-style repo, to reasonably arrange debt term and effectively improve debt structure.

The methods for monitoring and controlling of liquidity risks of the Group include indicator monitoring, alert management, stress testing and contingency plans. The Group set up and monitored liquidity risk monitoring indicators according to regulatory requirements and its actual situation to dynamically monitor, analyze and control liquidity risks. The Group also conducted regular stress tests for liquidity risk, established sound hypothetical scenarios and test models, developed and improved liquidity risk contingency plans, and continuously optimized early-warning management of liquidity risk and risk resolution mechanisms.

### 4.4.5 Operation Risk Management

Operation risk refers to the risk of losses caused by imperfect or problematic internal procedures, staff and IT systems, and external events, including legal risks.

In the first half of 2019, the Group further strengthened operational risk appetite and limits management, reinforced investigation of operational risk problems in key areas, improved internal systems and optimized management and contract process by centering on source management and process control and focusing on risk prevention and quality improvement.

The Group attached great importance to the building of a prevention and control system of legal risk covering all processes, all systems and all directions, continuously improved the legal work system and kept optimizing the legal review process and strengthening contract management, enhanced legal risk prevention and control and made headway in the innovation of working mechanism for case management so as to fully prevent and control the legal risks in its operation management activities.

The Group continuously improved its information technology risks prevention mechanism, formulated Information Technology Service Management Manual, Computer Information Security Management Manual and other information technology systems and carried out risk analysis and network security self-examination and special governance work based on the importance ranking of information system to further improve the refinement level of technology risk control and the prevention and control level of network security risk. In the first half of 2019, the Group did not have any significant event in relation to information security and technology risk.

### 4.4.6 Reputation Risk Management

Reputation risk refers to the risk of negative comments of relevant interested parties on the Group resulting from the Group's operations, management and other activities or external events.

In the first half of 2019, the Group further improved reputation risk management system and mechanism. The Group issued Measures for Reputation Risk Management (《聲譽風險管理辦法》) and formulated supporting Emergency Plans for Major Reputation Risk Events (《重大聲譽風險事件應急預案》), organized trainings on understanding of reputation risk management system and response to public opinion, to enhance reputation risk management ability of the Group as a whole. The Group strengthened identification, monitoring and anticipation of reputation risk events or hazards based on proactive, prudent, full process and full coverage management principle, and took initiative measures to prevent, control and mitigate potential reputation risk. In the first half of 2019, the Group did not have any significant events in relation to reputation risk.

### 4.4.7 Internal Audit

The Group has adopted an internal audit system and has professional auditors responsible for independent and objective supervision, evaluation and recommendation of conditions such as financial revenues and expenditures, business activities, risk conditions and internal control. The auditors shall report to the Party Committee of the Company, the Board or the Audit Committee of the Board and the Board of Supervisors if material problems are discovered during audits.

In the first half of 2019, the Group duly performed its internal audit duties, continuously improved the construction of internal audit systems, strengthened the basic work of internal audit to promote the supervision and assessment for internal control of internal audit. The internal audit of the Group carried out routine audits and special audits on its branches and subsidiaries in such aspects as corporate governance, major businesses, financial management, risk management, internal control, etc., and conducted economic responsibility audits of the middle and senior management of the Group with regard to their performance. The Group paid attention to the construction of its audit talent team, strengthened business training from multiple angles and levels to enhance its internal audit team's ability in performing duties and give full play to the role of internal audit.

### 4.4.8 Anti-money Laundering Work

The Group strictly complied with the anti-money laundering laws and regulations, duly fulfilled its statutory obligations of anti-money laundering, and continuously improved its anti-money laundering management system and working mechanism to ensure the effective enforcement of the laws and regulations regarding anti-money laundering and relevant rules of the Company.

To strengthen the implementation of the anti-money laundering regulatory requirements, in the first half of 2019, the Group further improved the monitoring and control mechanism for anti-money laundering blacklist, and optimized system of anti-money laundering and relevant information systems. Through anti-money laundering training and promotion, the Group stimulated all employees to enhance awareness of anti-money laundering and ability to prevent and control risks in relation to money laundering.

## 4.5 Capital Management

In accordance with relevant requirements by the CBIRC, such as the Measures on Management of Financial Asset Management Companies (Provisional) (Yin Jian Fa [2017] No. 56), the Company furthered its principle of capital constraint and optimized the capital management system based upon its development strategy of "Observing its original mind and focusing on its core business". The Company formed effective closed-loop of capital management through improving mechanisms such as capital planning and allocation, monitoring and measurement, evaluation and analysis, and utilization and assessment. It proceeded to explore and promote the economic capital management and utilization, striving to optimize resources allocation constantly and boost return on capital. Meanwhile, taking into account regulatory requirements, industrial development trend and its own actual situation, the Company periodically conducted stress test, and duly carried out research on multi-way and multi-level capital replenishment plan to ensure that its capital position was sound and in compliance with laws and regulations and to support its high-quality development.

As at December 31, 2018 and June 30, 2019, the capital adequacy ratio of the Company was 13.62% and 14.15%, respectively.

As at December 31, 2018 and June 30, 2019, the leverage ratio[①] of the Company was 10.2:1 and 9.8:1, respectively.

① Calculate based on the standard specified in the Measures on Management of Financial Asset Management Companies (Provisional) (Yin Jian Fa [2017] No. 56).

## 4.6 Outlook

Looking forward to the second half of the year, the global economic situation will remain complicated, and the risks and challenges at home and abroad will increase significantly. Centering on the main task of supply-side structural reform, the Chinese government will promote high-quality development and by adhering to the general idea of stable macro policies and flexible micro policies with social policies as foundation, it will make overall arrangements to stabilize growth, promote reform, adjust structure, benefit livelihood, prevent risks and ensure stability. China's economy will maintain steady progress and march forward under pressure, which will bring challenges to the transformation and development of China Huarong but will also bring major opportunities to achieve the goal of construction of new Huarong.

China Huarong will move to the new period for the development. From a macro-economic perspective, during economic transformation and structural reform, as the demand for counter-cyclical and diversified supportive financial services increases, the regulatory authorities encourage asset management companies to explore distressed assets business model and expand business space for distressed assets management industry. From industrial development trend perspective, under the situation of risk prevention and deleveraging of financial industry, as the balance of non-performing loans in banks increases, and in the meanwhile, the regulatory authorities require banks to implement loans classification and truly reflect the risks of assets, it is expected that the market supply of distressed assets will become more abundant in the near future.

China Huarong has stepped to the deep-water zone of reform and development. With unchanged trust and support from upper organizations, unchanged confidence of employees to build a new Huarong and unchanged determination of the Party Committee of the Company to overcome difficulties, we know the difficulties and have the confidence to overcome them without fear. From the perspective of the external environment, China's economy maintains the momentum of steady and sound development in the medium-and-long term; however, the market fluctuation intensifies in the short term, and asset management companies are required to consider the situation, capture opportunities, improve long-term layout judgement capability and quick adjustment and response capability. From the industry environment perspective, the participants in distressed assets industry increase, and the diversified competition landscape gradually forms. Meanwhile, the regulatory authorities strengthen supervision on assets management companies to make them observe their original mind and focus on the core business. As a result, China Huarong faces higher requirements to consolidate its advantages in the core business and maintain its market position.

China Huarong will continue to uphold the strategy of making progress while maintaining stability, grasp market opportunities and keep abreast with the pace and give full play to the advantages in core business team, financial license and diversified products, so as to comprehensively realize preset operation goal and stably boost high-quality development. **Firstly**, the Group will enhance the strategic guidance, improve corporate governance, allocate resources in a lean manner, strengthen encouragement and guidance, based on functional layout and lay a solid foundation for high-quality transformation and development. **Secondly**, the Group will strengthen and operate core business precisely, consolidate its core advantages, actively explore new commercial mode based on a steady basis centering on “extensive distressed assets”, do best and work hard and play the role of pioneer in the distressed assets industry. **Thirdly**, the Group will explore new direction of business development, deepen the synergy effect across the Group through strengthening management and control, promote innovation in major projects and cultivate new business growth. **Fourthly**, the Group will boost the risk resolution and downsizing, and enhance the management of capital and liquidity to continually optimize segment layout and continually improve its risk prevention capability.

Looking forward, China Huarong will focus on its core business, leverage on its strong concentration and dedicated and professional spirit to raise the Company’s value with results of business development and risk resolution, reward the investors with good performance, and strive to build a new Huarong with high-quality development.

# 5 Changes in Share Capital and Information on Substantial Shareholders

## 5.1 Changes in Share Capital

As at June 30, 2019, the share capital of the Company was as follows:

| Class of Shares | Number of Shares | Approximate percentage to the total issued share capital |
|---|---|---|
| H Shares | 25,043,852,918 | 64.10% |
| Domestic Shares | 14,026,355,544 | 35.90% |
| Total | 39,070,208,462 | 100.00% |

# 5 Changes in Share Capital and Information on Substantial Shareholders

## 5.2 Substantial Shareholders

### 5.2.1 Interests and Short Positions held by the Substantial Shareholders and Other Parties

As at June 30, 2019, the Company received notices from the following persons about their notifiable interests or short positions held in the Company's Shares and underlying Shares pursuant to Divisions 2 and 3 of Part XV of the SFO, which were recorded in the register pursuant to Section 336 of the SFO as follows:

| Name of Shareholder | Class of Shares | Capacity | Number of Shares held or deemed to be held | Approximate percentage to the same class of Shares of the Company (%)[6] | Approximate percentage to the total share capital of the Company (%)[7] |
|---|---|---|---|---|---|
| MOF | Domestic Shares | Beneficial Owner | 12,376,355,544 (L) | 88.24 (L) | 31.68 (L) |
| | H Shares[1] | Beneficial Owner | 12,376,355,544 (L) | 49.42 (L) | 31.68 (L) |
| | H Shares[2] | Interest of controlled corporation | 1,716,504,000 (L) | 6.85 (L) | 4.39 (L) |
| China Life Insurance (Group) Company | Domestic Shares | Beneficial Owner | 1,650,000,000 (L) | 11.76 (L) | 4.22 (L) |
| Central Huijin Investment Ltd.[2] | H Shares | Interest of controlled corporation | 1,716,504,000 (L) | 6.85 (L) | 4.39 (L) |
| Warburg Pincus & Co.[3] | H Shares | Interest of controlled corporation | 2,060,000,000 (L) | 8.23 (L) | 5.27 (L) |
| Warburg Pincus Financial International Ltd[3] | H Shares | Beneficial Owner | 2,060,000,000 (L) | 8.23 (L) | 5.27 (L) |
| Sino-Ocean Group Holding Limited (formerly known as Sino-Ocean Land Holdings Limited)[4] | H Shares | Interest of controlled corporation | 1,771,410,000 (L) | 7.07 (L) | 4.53 (L) |
| Ko Kwong Woon Ivan[5] | H Shares | Interest of controlled corporation | 1,716,504,000 (L) | 6.85 (L) | 4.39 (L) |
| Siu Lai Sheung[5] | H Shares | Interest of controlled corporation | 1,716,504,000 (L) | 6.85 (L) | 4.39 (L) |
| Fabulous Treasure investments Limited[2], [4], [5] | H Shares | Beneficial Owner | 1,716,504,000 (L) | 6.85 (L) | 4.39 (L) |

Note: (L) refers to long position

Notes:

(1) The data is based on the Corporate Substantial Shareholder Notice from the MOF filed with the Hong Kong Stock Exchange on December 1, 2015.

(2) According to the Corporate Substantial Shareholder Notices from the MOF and Central Huijin Investment Ltd. filed with the Hong Kong Stock Exchange, respectively, on December 17, 2015, Fabulous Treasure Investments Limited directly holds 1,716,504,000 H Shares of the Company. As Agricultural Bank of China Limited, ABC International Holdings Limited, ABCI Investment Management Limited, Glorious Align Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by the MOF and Central Huijin Investment Ltd., therefore, for the purpose of the SFO, the MOF, Central Huijin Investment Ltd., Agricultural Bank of China Limited, ABC International Holdings Limited, ABCI Investment Management Limited, Glorious Align Limited and SOL Investment Fund LP are deemed to be interested in the long positions held by Fabulous Treasure Investments Limited.

(3) According to the Corporate Substantial Shareholder Notice from Warburg Pincus & Co., Warburg Pincus Private Equity XI, L.P., Warburg Pincus XI, L.P., WP Global LLC and WP XI International II Ltd filed with the Hong Kong Stock Exchange, respectively, on November 30, 2018, Warburg Pincus Financial International Ltd directly holds 2,060,000,000 H Shares of the Company. As WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP XI International II Ltd, WP Financial L.P., Warburg Pincus International L.P. and Warburg Pincus Financial International Ltd are all corporations directly or indirectly controlled by Warburg Pincus & Co., therefore, for the purpose of the SFO, Warburg Pincus & Co., WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP XI International II Ltd, WP Financial L.P. and Warburg Pincus International L.P. are deemed to be interested in the long positions held by Warburg Pincus Financial International Ltd.

(4) According to the Corporate Substantial Shareholder Notice from Sino-Ocean Group Holding Limited (formerly known as Sino-Ocean Land Holdings Limited) filed with the Hong Kong Stock Exchange on September 13, 2016, Fabulous Treasure Investments Limited and Shining Grand Limited directly holds 1,716,504,000 and 54,906,000 H Shares of the Company, respectively. As Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP, Fabulous Treasure Investments Limited and Shining Grand Limited are all corporations directly or indirectly controlled by Sino-Ocean Group Holding Limited, for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited and SOL Investment Fund LP are deemed to be interested in the long positions of 1,716,504,000 H Shares of the Company held by Fabulous Treasure Investments Limited, and for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited and Sino-Ocean Land (Hong Kong) Limited are deemed to be interested in the long positions of 54,906,000 H Shares of the Company held by Shining Grand Limited.

(5) According to the Individual Substantial Shareholder Notices from Ko Kwong Woon Ivan and Siu Lai Sheung filed with the Hong Kong Stock Exchange, respectively, on December 16, 2015, Fabulous Treasure Investments Limited directly holds 1,716,504,000 H Shares of the Company. As RECAS Global Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by Ko Kwong Woon Ivan and Siu Lai Sheung, therefore, for the purpose of the SFO, Ko Kwong Woon Ivan, Siu Lai Sheung, RECAS Global Limited, SOL Investment Fund GP Limited and SOL Investment Fund LP are deemed to be interested in the long positions held by Fabulous Treasure Investments Limited.

(6) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at June 30, 2019.

(7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at June 30, 2019.

## 5.2.2 Substantial Shareholders

During the Reporting Period, the substantial Shareholders holding more than 5% of class of shares of the Company remained unchanged. Details are as follows:

**MOF**

As a department under the State Council, MOF is responsible for the administration at a macro level of such matters as fiscal revenue and expenditure and taxation policies of the PRC.

**China Life Insurance (Group) Company**

It is a wholly state-owned financial insurance company under the MOF. China Life Insurance (Group) Company and its subsidiaries constitute China's largest commercial insurance group. The business scope of China Life Insurance (Group) Company and its subsidiaries covers life insurance, property insurance, pension insurance (annuity business), asset management, alternative investment, overseas business, e-commerce and other fields.

**Warburg Pincus LLC**

Warburg Pincus LLC, established in 1966, is a globally leading private equity investment company headquartered in New York. Its scope of investment covers the consumption, industry and services (IBS) segments, energy, financial services, pharmaceuticals and healthcare, technology, media and telecommunication (TMT) and other industries. Warburg Pincus LLC has established business in China since 1994, being one of the first international private equity investment groups operating in China.

Warburg Pincus Financial International Ltd is a wholly-owned subsidiary of Warburg Pincus International L.P. Warburg Pincus LLC is the manager of Warburg Pincus International L.P.

**Sino-Ocean Group Holding Limited (Formerly Known as Sino-Ocean Land Holdings Limited)**

Sino-Ocean Group Holding Limited, established in 1993, is one of the leading real estate developers operating in the major economically developed regions in China. With the mission of "creating a high-quality environment for mid-to-high end urban residents and high-end business customers", the company is committed to becoming an investment and financing corporation with leading industrial investment capabilities based on excellent real estate industry. Its business scope mainly includes development of mid-to-high end residential buildings, development, investment and operation of urban complex and office buildings, properties service, Community O2O, pension industry, medical industry, long-term rent of apartment, real estate funds, equity investment, asset management and overseas investment etc.

# 6 Directors, Supervisors and Senior Management

## 6.1 Basic Information

### 6.1.1 Directors

As of the publication date of this interim report, the Board of Directors comprised Mr. Wang Zhanfeng and Ms. Li Xin as executive Directors; Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and Mr. Zhou Langlang as non-executive Directors; and Mr. Tse Hau Yin, Mr. Liu Junmin, Mr. Shao Jingchun and Mr. Zhu Ning as independent non-executive Directors.

### 6.1.2 Supervisors

As of the publication date of this interim report, the members of the Board of Supervisors comprised Mr. Ma Zhongfu (chairman) as a Shareholder representative Supervisor, Ms. Dong Juan and Ms. Xu Li as external Supervisors, and Ms. Zheng Shengqin and Mr. Chen Jin as employee representative Supervisors.

### 6.1.3 Senior Management

As of the publication date of this interim report, the senior management of the Company comprised Ms. Li Xin, Mr. Wu Jinglong, Mr. Hu Jiliang, Mr. Wang Wenjie, Mr. Chen Yanqing, Ms. Yang Pei and Mr. Gao Gan.

## 6.2 Changes

### 6.2.1 Director

On March 28, 2019, Mr. Zhu Ning performed his duty after the CBIRC approved his qualification as an independent non-executive Director of the Company. For details, please refer to the announcement of the Company dated April 2, 2019.

### 6.2.2 Senior Management

On April 29, 2019, the Board of the Company appointed Ms. Yang Pei and Mr. Gao Gan as assistants to the President of the Company. For details, please refer to the announcement of the Company dated April 29, 2019.

On July 17, 2019, Mr. Chen Yanqing started to perform his duty as Vice President after the CBIRC approved his relevant qualification, and Ms. Yang Pei and Mr. Gao Gan started to perform their duties as assistants to the President after the CBIRC approved their relevant qualifications. For details, please refer to the announcement of the Company dated July 31, 2019.

On August 2, 2019, the Board of the Company appointed Ms. Yang Pei as the secretary to the Board and the joint company secretary. For details, please refer to the announcement of the Company dated August 2, 2019.

## 6.3 Material Changes during the Reporting Period

During the Reporting Period, the information of the Directors had the following change, which is set out in accordance with Rule 13.51B(1) of the Listing Rules:

Mr. Shao Jingchun retired in May 2019 from Peking University and ceased to be the director of the international economic law institute of Peking University and began to serve as the honorary director of the international economic law institute of Peking University.

Save as disclosed above, there is no other information relating to the Directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# 7 Significant Events

## 7.1 Corporate Governance

In strict compliance with the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules and other relevant laws, regulations, regulatory documents and the Articles of Association, and in line with its actual conditions, the Company deepened the reform of corporate governance and continuously enhanced the effectiveness of corporate governance, striving to build a corporate governance mechanism that carries out its duties, responsibilities, coordinated operations, and effective checks and balances. Efforts were also made to continuously enhance corporate transparency with a view to earnestly safeguarding the legal interests of domestic and overseas investors as well as other stakeholders.

During the Reporting Period, the Company further improved the operation mechanism and system construction of corporate governance, strictly implemented the resolutions of the Shareholders' general meeting, improved the decision-making capacity and operation efficiency of the Board, enhanced information disclosure and investor relations management, and increased the value in the capital market. The Company fully disclosed the information concerning the interests of Shareholders through various channels including the websites of the Hong Kong Stock Exchange and the Company in strict compliance with the regulatory requirements of the place(s) where the shares of the Company are listed, so as to treat its domestic and foreign investors on an equal basis, convey operating concept of the Company accurately, maintain the market value stable and protect the interests of all Shareholders.

## 7.2 Shareholders' General Meeting

The annual general meeting for 2018 of the Company was held in Beijing on June 20, 2019 to consider and approve 11 resolutions, among others, the fixed assets budget for 2019, the appointment of external auditors for 2019, the final financial account plan for 2018 and the profit distribution plan for 2018 of the Company. The meeting reviewed the work report of the independent non-executive Directors for 2018.

The convening and holding of the Shareholders' general meetings of the Company were in strict compliance with applicable laws and regulations and the Listing Rules. The Directors, Supervisors and senior management of the Company attended the relevant meetings. The Company engaged PRC legal counsels to attend the Shareholders' general meetings and provide legal advice. The Company also issued announcements regarding the poll results of the Shareholders' general meetings according to regulatory requirements in a timely manner.

## 7.3 Board

As at June 30, 2019, the Board comprised 10 members, including 2 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors. The independent non-executive Directors accounted for more than one-third of the Board members.

During the Reporting Period, the Company held five Board meetings in total, at which 42 resolutions were considered and passed, including, among others, the work report of the Board for 2018, the final financial account plan for 2018, the profit distribution plan for 2018, and the fixed assets budget for 2019. In addition, nine reports were debriefed, including the risk management for 2018, the related party transaction management for 2018 and the work plan of the Audit Committee of the Board for 2019. The Company focused on the strategic plans, main business development, risk management and related party transactions to promote its high-quality development; amended the Procedural Rules of General Meetings and the Procedural Rules of Board Meetings to promote the enhancement and improvement of its corporate governance system; fully implemented the national guiding opinions of "Observing its original mind and focusing on its core business" for the financial industry by supervising the management to return to their main responsibilities and main businesses, and accelerating the withdrawal of non-main businesses and uncompetitive businesses; conducted on-site investigations with a focus on the completion of operation plan, development of main business, risk and internal control as well as the establishment of information system, so as to gain insight into the operation and management of the branches and subsidiaries and enhance the communication between the Board and the senior management.

## 7.4 Board of Supervisors

As at June 30, 2019, the Board of Supervisors comprised five members, including one Shareholder representative Supervisor, two external Supervisors and two employee representative Supervisors.

The Board of Supervisors fulfilled its supervisory duties on the basis of performance, finance, internal control and risk in accordance with the national laws, regulations, regulatory provisions and the Articles of Association to continuously strengthen the self-construction, improve the quality and effectiveness of supervision, and safeguard the legitimate rights and interests of the Company, Shareholders, employees and other stakeholders in accordance with the law.

During the Reporting Period, the Board of Supervisors held 2 meetings in total, at which 8 resolutions were considered and passed and 1 issue was discussed.

## 7.5 Senior Management

During the Reporting Period, the senior management of the Company organized and implemented the Company's management and operation within the scope of authorities delegated by the Articles of Association and the Board of Directors. The senior management of the Company firmly seized the major opportunities from supply-side structural reform and economic transformation and upgrading, actively changed the development concept, adjusted the business model and development mode aiming at achieving operation goals of high-quality development of "prominent main business, financial soundness, risk controllable, and synergistic effect"; it adhered to the core and main business, allocated resources leanly, increased total factor productivity, and actively supported the service of the real economy; it confirmedly promoted the downsizing and risk resolution, and enhanced the ability of sustainable development; it firmly established responsibility awareness, risk awareness and compliance awareness, and comprehensively strengthened the construction of corporate governance and internal control mechanisms; it enhanced corporate transparency, and shaped a good corporate image; and performed its duties faithfully and diligently, and conducted the business in an orderly and effective manner.

During the Reporting Period, the Company held 13 presidential office meetings and 2 special meetings to review and approve 54 resolutions on the Company's important management and operation.

## 7.6 Corporate Governance Code

During the Reporting Period, the Company had complied with the code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules and adopted the applicable recommended best practices according to actual situations.

## 7.7 Internal Control

### 7.7.1 Development of Internal Control System

The Group earnestly implemented various regulatory requirements for internal control, continuously improved the internal control organization structure, strengthened system management, strengthened control measures, and continued to optimize the internal control system.

In the first half of 2019, the Group established an independent internal control compliance department and initiated the self-assessment of the internal control system for this year to comprehensively sort out the various business and management activities by the corresponding processes and evaluate the applicability of internal control process framework, the rationality of management and control responsibilities, the adequacy of risk identification, and the effectiveness of control measures through benchmarking of internal systems and external compliance documents. The Group implemented the rectification of regulatory opinions in management proposal and conducted the management of anti-money laundering, case prevention and operational risk. Focusing on problems, the Group purposefully improved the internal control measures, implemented responsibility division, optimized process management and control, and implemented internal control management to achieve high-quality development.

### 7.7.2 Internal Control Measures for Sanctions Risks and Excluded DES Companies

**Internal Control Measures for Sanctions Risks**

To ensure that the Group abides by its undertakings to the Hong Kong Stock Exchange as disclosed in the Prospectus, and that the Group or Relevant Persons would not be subject to any sanctions risks, the Group has refined the internal control policies and procedures and implemented the following measures:

1. The Group has revised the Administrative Measures on Compliance Risk to specify the scope of duties in respect of the prevention and control of sanctions risks for the compliance department of the Group.

2. The Group has compiled the compliance operational handbook and compliance review manual to sort out procedures of business activities of the Company and to identify and highlight relevant compliance issues on preventing sanctions risks.

3. The Group has compiled the Questionnaire on Due Diligence Investigation in respect of Sanctions and Export Control of Investees and issued it to all units of the Group as a basic tool of due diligence investigation on sanctions risks.

4. The Group has prepared the Commitment Letter of Sanction Risk Control and issued it to all units within the Group as a basic tool for the control of sanctions risks.

5. Upon listing, the Company has been strictly complying with the Company's requirements for preventing the OFAC sanction risks and identifying sanction risks of potential investment opportunities in a timely manner when conducting the newly added equity investment business. Since the listing of the Company, there was no OFAC sanction risk involved in the newly added equity investment projects.

6. For DES Companies trading with the sanctioned countries or persons, as shown in public information, which was disclosed in the Prospectus, the Group has corresponding business groups and project managers to take responsibility for the daily management of the enterprise. According to the daily management information accessible to the Company, no relevant sanction matters have been found imposed on such enterprises and no matters affecting the production and operation have occurred due to sanction risks for the time being.

7. The Group has engaged an attorney to provide assistance to the Company in evaluating sanctions risks of the Group every six months and carried out the necessary training on sanctions risks for relevant personnel.

8. The Group has engaged an attorney to review internal control policies and procedures regarding the legal sanctions and will improve relevant internal control measures according to the attorney's advice.

**Internal Control Measures for Excluded DES Companies**

1. For the Excluded DES Companies, the Group has the corresponding business groups and project managers responsible for the daily management of the enterprises. The Group promptly obtained the daily operation and management information of the enterprises through attending the Shareholders' general meetings, the Board meetings and the meetings of Board of Supervisors of the invested enterprises and conducting regular visits. Since the listing of the Company, there are no major legal disputes and compliance risks in relation to the Company in this type of enterprise.

2. The Group will regularly evaluate the potential risks from the Excluded DES Companies based on the information obtained. If any potential risks are identified, the Group will seek specific advice from reputable external legal counsels with relevant professional expertise and experience, and take measures accordingly.

3. The Group has comprehensively carried out the disposal plan for the Excluded DES Companies. For details of the disposal of the Excluded DES Companies, please refer to "7. Significant Events — 7.10 Disposal of Equity in Excluded DES Companies".

4. The Group will not make any further investments in the Excluded DES Companies or increase the portfolio of DES Assets for which we cannot obtain sufficient information for Value Estimation due to restrictions from the Protection of State Secret Laws.

5. The Group will regularly review new laws and regulations on protection of state secrets.

6. The Group will regularly review and update the internal control policies and procedures for the Excluded DES Companies.

**Future Businesses of DES Companies and Investment Plans Involving DES Companies**

By focusing on key areas of deepened reform of state-owned enterprises, the Group stepped up efforts for disposing and revitalizing of policy-based DES Assets with a view to achieving better economic benefits. First, the Company captured the enterprises' restructuring, mergers and acquisitions opportunities to realize asset liquidity and achieve gains from equity restructuring; second, the Company proactively disinvested from highly competitive industries or such companies with limited potential for asset appreciation.

The Group actively centered on serving real economy development, followed up the national strategy and paid close attention to deepening the reform of multi-level capital markets, leading the transformation and upgrading of entities through innovation, promoting the equity diversification of state-owned enterprises and implementing market-based legal DES policy environment and development to strengthen market research and industry analysis to explore the investment opportunities of DES Companies and other markets, strengthened the reserve of equity-based investment projects on the basis of full due diligence and cautiously assessed the relevant risks that may exist in the projects including the risk of sanctions and proactively and steadily expanded the equity investment business according to laws and regulations.

## 7.8 Distribution of Profit and Dividend

On June 20, 2019, the profit distribution plan for 2018 was considered and approved at the annual general meeting for 2018 of the Company. As approved at the annual general meeting for 2018, total cash dividends of approximately RMB473 million based on the net profit for the financial year as of December 31, 2018 (after deducting the appropriations to statutory surplus reserve and general reserve according to the applicable regulations) has been distributed to Shareholders whose names appeared on the Company's register of members after the market closing on July 2, 2019, representing RMB0.121 for every 10 shares (tax inclusive). The Company does not declare any interim dividend for 2019.

## 7.9 Use of Proceeds

On October 30, 2015, the Group was listed on the Main Board of the Hong Kong Stock Exchange and the proceeds from the listing amounted to HK$19,696.7 million.

As of June 30, 2019, the Group has used HK$16,223.9 million (equivalent to RMB13,700.0 million) of the proceeds from the listing, of which RMB9,600.0 million was used to develop the distressed asset management business of the Group, RMB2,500.0 million was used to develop the financial services business of the Group; and RMB1,600.0 million was used to develop the asset management and investment business of the Group. The actual use of proceeds was consistent with the committed use of proceeds set out in the Prospectus. As of June 30, 2019, the balance of proceeds in the domestic fundraising account was HK$2,865 million (interest included), which will be used to increase the capital of the subsidiaries under the financial services division of the Group, in order to develop the financial services business.

## 7.10 Disposal of Equity in Excluded DES Companies

The Group has comprehensively carried out the disposal plan for the Excluded DES Companies. As of June 30, 2019, the Group has negotiated with six Excluded DES Companies, their respective de-facto controllers and controlling shareholders face to face regarding the disposal of the Company's shareholdings in such companies, among which, three companies have been disposed, one has signed an agreement and for the remaining two Excluded DES Companies, the Group has actively communicated with them and their de-facto controllers on the principle and scheme of equity disposal, and, with internal approval procedures such as project establishment and scheme review completed, the disposal is in process. During the Reporting Period, Ms. Li Xin, the executive Director, took charge of the disposal process and supervised the disposal progress. The independent non-executive Directors conducted official supervision on relevant acts of Ms. Li Xin. In August 2019, Ms. Li Xin, the executive Director, together with the independent non-executive Directors, discussed such disposal plans and progress, which were reported to the independent non-executive Directors by Ms. Li Xin, and for which the independent non-executive Directors proposed certain issues to Ms. Li Xin accordingly. In August 2019, Ms. Li Xin, the executive Director, reported relevant disposal plans and progress to the Audit Committee of the Board.

The Company will continue to use its best efforts to complete the disposal of the equities in the Excluded DES Companies as soon as practicable in accordance with its commitments and undertakings.

The Group will retain compliance advisers until all of its equity interests in the Excluded DES Companies have been disposed of.

## 7.11 Material Litigation and Arbitration

As a large-scale asset management company, it is in the nature of business of the Company that it is engaged in litigations and other legal proceedings from time to time. For example, there were cases where the Company has recovered distressed debts by initiating legal proceedings as part of the Company's process to dispose distressed assets in the ordinary course of the Company's business.

During the Reporting Period, the Company was involved in various unresolved litigation matters. For example, as of June 30, 2019, unresolved legal proceedings of which the amount in dispute exceeded RMB10 million and in which the Company was a defendant had an aggregate alleged amount of approximately RMB1,778 million and unresolved legal proceedings of which the amount in dispute exceeded RMB10 million and in which the Company was a plaintiff had an aggregate alleged amount of approximately RMB72.042 billion. The Company believes that it has made full accrual allowance for the potential losses arising from unresolved legal proceedings and that none of such legal proceedings, individually or in aggregate, would have a material adverse impact on the business, financial condition and results of operations of the Company.

## 7.12 Major Acquisition and Disposal of Assets and Merger

During the Reporting Period, the Company did not enter into any material acquisition or disposal of assets or mergers of enterprises.

## 7.13 Implementation of Share Incentive Scheme

During the Reporting Period, the Company did not implement any share incentive scheme.

## 7.14 Major Connected Transactions

During the Reporting Period, the Company did not have any connected transaction(s) required to be disclosed pursuant to Chapter 14A of the Listing Rules.

## 7.15 Major Contracts and Their Implementation

### 7.15.1 Major Custodies, Underwriting and Leasing

During the Reporting Period, the Company did not enter into any major contracts relating to the custody, underwriting and leasing of assets of other companies or the custody, underwriting and leasing of assets of the Company by other companies.

### 7.15.2 Material Guarantees

During the Reporting Period, the Company did not make any material guarantee which is required to be disclosed.

## 7.16 Purchase, Sale and Redemption of Listed Securities

During the Reporting Period, none of the Company or its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## 7.17 Securities Transactions by Directors, Supervisors and Senior Management

The Company has formulated the Code for Securities Transactions by Directors, Supervisors and Relevant Employees which regulates the securities transactions by Directors, Supervisors and relevant employees and is of no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Company has made enquiries to all Directors and Supervisors who all confirmed that they had complied with the Model Code and the requirements therein during the Reporting Period.

## 7.18 Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As of June 30, 2019, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares or underlying Shares of the Company or other associated corporations (within the meaning of Part XV of the SFO) required to be recorded in the register of interests kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## 7.19 Review of the Interim Report

The interim financial statements for the six months ended June 30, 2019 prepared by the Company according to the IFRSs were reviewed by Deloitte Touche Tohmatsu.

This interim report has been reviewed and approved by the Board and the Audit committee of the Board.

# 8 Review Report and Condensed Consolidated Financial Statements

## REVIEW REPORT AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| CONTENTS | PAGE(S) |
|---|---|

# Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

**TO THE BOARD OF DIRECTORS OF CHINA HUARONG ASSET MANAGEMENT CO., LTD.**
(Incorporated in the People's Republic of China with limited liability)

## Introduction

We have reviewed the condensed consolidated financial statements of China Huarong Asset Management Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 92 to 160, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain 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 International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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 International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International 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.

# Report on Review of Condensed Consolidated Financial Statements

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
28 August 2019

# Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | Notes IV | For the six months ended 30 June 2019 (Unaudited) | 2018 (Unaudited) |
|---|---|---|---|
| Income from distressed debt assets | 2 | **15,624,437** | 16,767,161 |
| Fair value changes on distressed debt assets | 3 | **4,851,001** | 2,969,184 |
| Fair value changes on other financial assets and liabilities | 4 | **9,320,348** | 3,158,539 |
| Interest income | 5 | **19,392,780** | 24,130,821 |
| Finance lease income | | **3,400,279** | 3,245,911 |
| (Loss)/gain from derecognition of financial assets measured at amortised cost | | **(53,839)** | 4,214 |
| Loss from derecognition of debt instruments at fair value through other comprehensive income | | **(4,293)** | (57,300) |
| Commission and fee income | 6 | **1,292,849** | 2,821,617 |
| Net gains on disposals of subsidiaries, associates and joint ventures | | **108,986** | 379,584 |
| Dividend income | | **890,001** | 732,326 |
| Other income and other net gains or losses | 7 | **1,987,632** | 2,294,967 |
| Total | | **56,810,181** | 56,447,024 |
| Interest expenses | 8 | **(30,280,248)** | (32,756,092) |
| Commission and fee expenses | | **(913,221)** | (887,335) |
| Operating expenses | 9 | **(5,845,940)** | (6,484,181) |
| Impairment losses under expected credit loss model | 10 | **(12,544,249)** | (12,053,550) |
| Impairment losses on other assets | 11 | **(581,626)** | (885,714) |
| Total | | **(50,165,284)** | (53,066,872) |
| Change in net assets attributable to other holders of consolidated structured entities | | **(666,253)** | (1,299,570) |
| Share of results of associates and joint ventures | | **731,775** | 717,054 |
| Profit before tax | | **6,710,419** | 2,797,636 |
| Income tax expense | 12 | **(3,898,217)** | (1,660,928) |
| Profit for the period | | **2,812,202** | 1,136,708 |
| Profit attributable to: | | | |
| Equity holders of the Company | | **2,519,188** | 684,561 |
| Holders of perpetual capital instruments | | **485,314** | 503,194 |
| Non-controlling interests | | **(192,300)** | (51,047) |
| | | **2,812,202** | 1,136,708 |
| Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share) | | | |
| — Basic | 13 | **0.064** | 0.018 |

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| | **(Unaudited)** | **(Unaudited)** |
| Profit for the period | **2,812,202** | 1,136,708 |
| Other comprehensive income: | | |
| Items that will not be reclassified to profit or loss: | | |
| Actuarial gains/(losses) on defined benefit obligations | **4,466** | (1,434) |
| Fair value losses on investments in equity instruments | | |
| at fair value through other comprehensive income | **(193,271)** | (247,881) |
| Income tax effect | **747** | 50,375 |
| | **(188,058)** | (198,940) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of foreign operations | **(38,750)** | 32,547 |
| Fair value changes on hedging instruments | | |
| designated in cash flow hedges | **(685,604)** | 114,621 |
| Financial assets measured at fair value through | | |
| other comprehensive income | | |
| — fair value changes | **546,080** | 35,485 |
| — reclassification of gains to profit or loss on disposals | **4,293** | 57,300 |
| — impairment losses | **876,875** | 174,591 |
| Income tax effect | **(279,188)** | (133,579) |
| Share of other comprehensive income/(expense) | | |
| of associates and joint ventures | **22,986** | (57,501) |
| | **446,692** | 223,464 |
| Other comprehensive income for the period, | | |
| net of income tax | **258,634** | 24,524 |
| Total comprehensive income for the period | **3,070,836** | 1,161,232 |
| Total comprehensive income for the period attributable to: | | |
| Equity holders of the Company | **2,607,753** | 911,786 |
| Holders of perpetual capital instruments | **485,314** | 503,194 |
| Non-controlling interests | **(22,231)** | (253,748) |
| | **3,070,836** | 1,161,232 |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | Notes IV | As at 30 June, 2019 (Unaudited) | As at 31 December, 2018 (Audited) |
|---|---|---|---|
| Assets | | | |
| Cash and balances with central bank | 15 | **29,085,151** | 29,909,098 |
| Deposits with financial institutions | 16 | **137,376,201** | 107,500,242 |
| Placements with financial institutions | | **851,179** | 843,638 |
| Financial assets at fair value through profit or loss | 17 | **380,032,321** | 391,180,975 |
| Financial assets held under resale agreements | 18 | **28,069,511** | 20,126,943 |
| Contract assets | | **91,595** | 114,715 |
| Loans and advances to customers | 19 | **202,834,970** | 190,654,038 |
| Finance lease receivables | 20 | **83,553,030** | 99,002,940 |
| Debt instruments at fair value through other comprehensive income | 21 | **125,366,919** | 147,387,307 |
| Equity instruments at fair value through other comprehensive income | 22 | **3,136,748** | 3,244,308 |
| Inventories | 23 | **19,305,526** | 19,243,035 |
| Debt instruments at amortised cost | 24 | **613,582,487** | 612,133,108 |
| Interests in associates and joint ventures | 25 | **31,760,790** | 36,975,454 |
| Investment properties | 26 | **5,459,256** | 5,326,055 |
| Property and equipment | 26 | **12,139,179** | 10,684,499 |
| Right-of-use assets | | **3,326,426** | — |
| Deferred tax assets | | **13,882,116** | 15,018,661 |
| Other assets | 27 | **23,252,509** | 20,478,316 |
| Goodwill | | **264,325** | 263,357 |
| Total assets | | **1,713,370,239** | 1,710,086,689 |

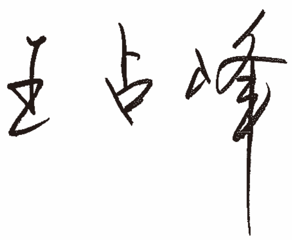
# Condensed Consolidated Statement of Financial Position

As at 30 June 2019

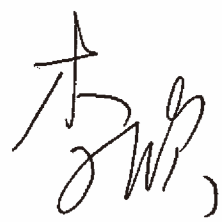
(Amounts in thousands of Renminbi, unless otherwise stated)

| | Notes IV | As at 30 June, 2019 (Unaudited) | As at 31 December, 2018 (Audited) |
|---|---|---|---|
| Liabilities | | | |
| Borrowings from central bank | | **1,413,569** | 2,402,169 |
| Deposits from financial institutions | 28 | **5,996,740** | 7,307,583 |
| Placements from financial institutions | | **663,067** | 300,153 |
| Financial assets sold under repurchase agreements | 29 | **24,453,941** | 24,410,016 |
| Borrowings | 30 | **755,182,807** | 760,995,510 |
| Financial liabilities at fair value through profit or loss | 17 | **3,313,390** | 4,728,291 |
| Due to customers | 31 | **227,655,364** | 209,116,484 |
| Tax payable | 32 | **1,236,082** | 3,731,887 |
| Contract liabilities | | **1,389,210** | 954,376 |
| Lease liabilities | | **1,413,527** | — |
| Deferred tax liabilities | | **492,801** | 605,835 |
| Bonds and notes issued | 33 | **367,872,142** | 353,305,299 |
| Other liabilities | 34 | **153,090,411** | 173,624,117 |
| Total liabilities | | **1,544,173,051** | 1,541,481,720 |
| Equity | | | |
| Share capital | 35 | **39,070,208** | 39,070,208 |
| Capital reserve | | **19,029,523** | 19,107,353 |
| Surplus reserve | | **6,971,780** | 6,971,780 |
| General reserve | 36 | **16,625,102** | 15,872,819 |
| Other reserves | | **1,257,950** | 987,763 |
| Retained earnings | | **39,727,372** | 38,630,165 |
| Equity attributable to equity holders of the Company | | **122,681,935** | 120,640,088 |
| Perpetual capital instruments | | **19,328,664** | 20,258,532 |
| Non-controlling interests | | **27,186,589** | 27,706,349 |
| Total equity | | **169,197,188** | 168,604,969 |
| Total equity and liabilities | | **1,713,370,239** | 1,710,086,689 |

The condensed consolidated financial statements on pages 92 to 160 were approved and authorised for issue by the Board of Directors and are signed on its behalf by:



CHAIRMAN



EXECUTIVE DIRECTOR

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | Equity attributable to equity holders of the Company | | | | | | | | | | Non-controlling interests | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other Reserves | | | | | | | | |
| | Share capital | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Translation reserve | Hedging reserve | Others | Retained earnings | Subtotal | Perpetual capital instruments | Non-controlling interests | Total |
| As at 31 December 2018 (audited) | 39,070,208 | 19,107,353 | 6,971,780 | 15,872,819 | 1,168,099 | (308,590) | 207,974 | (79,720) | 38,630,165 | 120,640,088 | 20,258,532 | 27,706,349 | 168,604,969 |
| Adjustments (Note II.2.1) | – | – | – | – | – | – | – | – | (15,326) | (15,326) | – | (1,407) | (16,733) |
| As at 1 January 2019 (restated) | 39,070,208 | 19,107,353 | 6,971,780 | 15,872,819 | 1,168,099 | (308,590) | 207,974 | (79,720) | 38,614,839 | 120,624,762 | 20,258,532 | 27,704,942 | 168,588,236 |
| Profit for the period | – | – | – | – | – | – | – | – | 2,519,188 | 2,519,188 | 485,314 | (192,300) | 2,812,202 |
| Other comprehensive income/ (expense) for the period | – | – | – | – | 768,360 | (21,643) | (685,604) | 27,452 | – | 88,565 | – | 170,069 | 258,634 |
| Total comprehensive income/ (expense) for the period | – | – | – | – | 768,360 | (21,643) | (685,604) | 27,452 | 2,519,188 | 2,607,753 | 485,314 | (22,231) | 3,070,836 |
| Dividends declared | – | – | – | – | – | – | – | – | (472,750) | (472,750) | – | (233,945) | (706,695) |
| Redemption of perpetual capital instruments | – | – | – | – | – | – | – | – | – | – | (1,000,000) | – | (1,000,000) |
| Distribution relating to perpetual capital instruments | – | – | – | – | – | – | – | – | – | – | (415,182) | – | (415,182) |
| Appropriation to general reserve | – | – | – | 752,283 | – | – | – | – | (752,283) | – | – | – | – |
| Change in ownership interest in subsidiaries | – | (110,447) | – | – | – | – | – | – | – | (110,447) | – | (245,000) | (355,447) |
| Realised loss of equity instruments at fair value through other comprehensive income | – | – | – | – | 181,622 | – | – | – | (181,622) | – | – | – | – |
| Others | – | 32,617 | – | – | – | – | – | – | – | 32,617 | – | (17,177) | 15,440 |
| As at 30 June 2019 (unaudited) | 39,070,208 | 19,029,523 | 6,971,780 | 16,625,102 | 2,118,081 | (330,233) | (477,630) | (52,268) | 39,727,372 | 122,681,935 | 19,328,664 | 27,186,589 | 169,197,188 |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | Equity attributable to equity holders of the Company | | | | | | | | | | Non-controlling interests | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other Reserves | | | | | | | | |
| | Share capital | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Translation reserve | Hedging reserve | Others | Retained earnings | Subtotal | Perpetual capital instruments | Non-controlling interests | Total |
| As at 1 January 2018 | 39,070,208 | 19,015,028 | 5,299,688 | 12,882,925 | 1,250,856 | (848,366) | 234,355 | (20,798) | 48,315,604 | 125,199,500 | 23,185,421 | 30,947,238 | 179,332,159 |
| Profit for the period | — | — | — | — | — | — | — | — | 684,561 | 684,561 | 503,194 | (51,047) | 1,136,708 |
| Other comprehensive expense for the period | — | — | — | — | 126,369 | 45,253 | 114,621 | (59,018) | — | 227,225 | — | (202,701) | 24,524 |
| Total comprehensive income/(expense) for the period | — | — | — | — | 126,369 | 45,253 | 114,621 | (59,018) | 684,561 | 911,786 | 503,194 | (253,748) | 1,161,232 |
| Dividends declared | — | — | — | — | — | — | — | — | (6,598,954) | (6,598,954) | — | (936,344) | (7,535,298) |
| Issuance of perpetual capital instruments | — | — | — | — | — | — | — | — | — | — | 200,000 | — | 200,000 |
| Redemption of perpetual capital instruments | — | — | — | — | — | — | — | — | — | — | (900,000) | — | (900,000) |
| Distribution relating to perpetual capital instruments | — | — | — | — | — | — | — | — | — | — | (403,651) | — | (403,651) |
| Appropriation to general reserve | — | — | — | 1,991,499 | — | — | — | — | (1,991,499) | — | — | — | — |
| Disposals of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | (14,956) | (14,956) |
| Effect of acquisition of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | 82,692 | 82,692 |
| Change in ownership interest in subsidiaries | — | (23,279) | — | — | — | — | — | — | — | (23,279) | — | (87,301) | (110,580) |
| As at 30 June 2018 (unaudited) | 39,070,208 | 18,991,749 | 5,299,688 | 14,874,424 | 1,377,225 | (803,113) | 348,976 | (79,816) | 40,409,712 | 119,489,053 | 22,584,964 | 29,737,581 | 171,811,598 |

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | Notes IV | For the six months ended 30 June 2019 (Unaudited) | 2018 (Unaudited) |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Cash generated from operations | | **40,268,677** | (12,300,477) |
| Income tax paid | | **(5,648,929)** | (7,058,848) |
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES | | **34,619,748** | (19,359,325) |
| INVESTING ACTIVITIES | | | |
| Net decrease in investment securities | | **6,166,750** | 45,958,028 |
| Cash receipts from interest income arising from investment securities | | **20,315,082** | 13,904,705 |
| Cash receipts from dividend income | | **1,215,778** | 1,075,847 |
| Cash receipts from disposals of associates and joint ventures | | **5,098,539** | 2,950,111 |
| Cash receipts from disposals of property and equipment, and other assets | | **12,790** | 25,376 |
| Cash payments for placement of pledge deposits in bank | | **(4,379,243)** | (2,047,775) |
| Cash payments for purchases of property and equipment, investment properties and other assets | | **(2,091,769)** | (2,860,286) |
| Cash payments for investments in associates and joint ventures | | **(492,022)** | (3,756,513) |
| Net cash outflow on acquisitions of subsidiaries | | **—** | (105,053) |
| Net cash inflow on disposals of subsidiaries | | **—** | 192,868 |
| NET CASH GENERATED FROM INVESTING ACTIVITIES | | **25,845,905** | 55,337,308 |

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

| | Notes IV | For the six months ended 30 June 2019 (Unaudited) | 2018 (Unaudited) |
|---|---|---|---|
| FINANCING ACTIVITIES | | | |
| Capital repayment to non-controlling interests of subsidiaries of the Company and consolidated structured entities | | **(12,921,205)** | (27,793,337) |
| Issue of perpetual capital instruments | | **—** | 200,000 |
| Redemption of perpetual capital instruments | | **(1,000,000)** | (900,000) |
| Proceeds of borrowings relating to non-financial institution subsidiaries | | **77,304,325** | 64,463,048 |
| Repayment of borrowings relating to non-financial institution subsidiaries | | **(87,849,816)** | (75,027,296) |
| Repayments of leases liabilities | | **(581,918)** | — |
| Cash receipts from bonds and notes issued | | **72,468,006** | 71,851,641 |
| Cash payments for transaction cost of bonds and notes issued | | **(55,934)** | (22,026) |
| Cash repayments for bonds and notes redeemed | | **(61,342,516)** | (48,871,193) |
| Interest paid for bonds and notes issued and borrowings relating to non-financial institution subsidiaries | | **(10,444,843)** | (14,433,936) |
| Dividends paid | | **(296,620)** | (3,437,648) |
| Cash payments for distribution to holders of perpetual capital instruments | | **(415,182)** | (403,651) |
| NET CASH USED IN FINANCING ACTIVITIES | | **(25,135,703)** | (34,374,398) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **35,329,950** | 1,603,586 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | **101,319,323** | 169,120,081 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | **57,484** | 95,187 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 37 | **136,706,757** | 170,818,854 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE: | | | |
| Interest received | | **27,653,199** | 28,239,345 |
| Interest paid | | **(16,494,479)** | (12,606,314) |
| | | **11,158,720** | 15,633,031 |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

## I. GENERAL INFORMATION

China Huarong Asset Management Co., Ltd. (the "Company") was transformed from the former China Huarong Asset Management Corporation (the "Former Huarong") which was a wholly state-owned financial enterprise established in the People's Republic of China (the "PRC") by the Ministry of Finance (the "MOF") on 1 November 1999 as approved by the State Council of the PRC (the "State Council"). On 28 September 2012, the Company was established after the completion of the financial restructuring of the Former Huarong as approved by the State Council. Its registered office is located at No. 8, Finance Street, Xicheng District, Beijing 100033, PRC. The ultimate controlling party of the Company is the MOF.

The Company has financial services certificate No. J0001H111000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC"), and business license No. 911100007109255774 issued by the State Administration of Industry and Commerce of the PRC.

The Company was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 30 October 2015. The Company and its subsidiaries are collectively referred to as the "Group".

The principal activities of the Group comprise acquiring and entrusting to manage, invest and dispose of both financial and non-financial institution distressed assets, including debt-to-equity swap assets; bankruptcy management; investment; securities dealing; financial bonds issuance, inter-bank borrowing and lending, commercial financing for other financial institutions; approved asset securitisation business, financial institutions custody, closing and liquidation of business; consulting and advisory business on finance, investment, legal and risk management; assets and project evaluation; deposits taking from customers, lending to corporates and individuals; clearing and settlement services; financial leasing service; securities and futures services; fund management and asset management services; trust services; real estate and industrial investments and other businesses approved by the CBIRC or other regulatory bodies.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

(Amounts in thousands of Renminbi, unless otherwise stated)

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

## 1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) *Interim Financial Reporting* issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements of the Group should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018.

## 2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

*Application of new and amendments to IFRSs*

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| IFRS 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015–2017 Cycle |

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

*Application of new and amendments to IFRSs (continued)*

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

#### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

<u>Definition of a lease</u>

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

<u>As a lessee</u>

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (continued)*

As a lessee (continued)

*Allocation of consideration to components of a contract (continued)*

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

*Short-term leases*

The Group applies the short-term lease recognition exemption to leases of buildings, machinery equipment, electronic equipment and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

*Right-of-use assets*

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16* (continued)

As a lessee (continued)

*Right-of-use assets (continued)*

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

*Leasehold land and building*

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16* (continued)

As a lessee (continued)

*Lease liabilities (continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16* (continued)

As a lessee (continued)

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

*Taxation*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16* (continued)

As a lessor

*Allocation of consideration to components of a contract*

Effective on 1 January 2019, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

*Refundable rental deposits*

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

*Sublease*

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

*Lease modification*

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sales and leaseback transactions

*The Group acts as a buyer-lessor*

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises a debt instruments at amortised cost equal to the transfer proceeds within the scope IFRS 9.

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery equipment, motor vehicles, electronic equipment, furniture and fixtures was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

(Amounts in thousands of Renminbi, unless otherwise stated)

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16* (continued)

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities. For certain lease arrangements, the Group measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the Group's incremental borrowing rates at the date of initial application by applying IFRS 16.C8(b)(i) transition. For other lease arrangements, the Group recognised right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rates applied by the relevant group entities range from 4.00%–6.00%.

| | As at 1 January, 2019 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 2,141,580 |
| Lease liabilities discounted at relevant incremental borrowing rates | 1,911,155 |
| Less: Recognition exemption — short-term leases | (124,472) |
| Lease liabilities as at 1 January 2019 | 1,786,683 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16* (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | Notes | As at 1 January, 2019 |
|---|---|---|
| Right-of-use assets relating to operating leases recognised upon application of IFRS 16 | | 1,769,927 |
| Add: Reclassified from other assets | (a) | 1,851,871 |
| Less: Reclassified to investment properties | (b) | (135,029) |
| Accrued lease liabilities relating to rent free period at 1 January 2019 | (c) | (29,660) |
| | | 3,457,109 |
| By class: | | |
| Leasehold land | | 1,792,431 |
| Buildings | | 1,659,834 |
| Motor vehicles | | 3,197 |
| Electronic equipment, furniture and fixtures | | 1,118 |
| Machinery equipment | | 529 |

(a) Upfront payments of RMB1,792 million for leasehold lands in the PRC and rental prepayment of RMB60 million for other leases were classified as other assets as at 31 December 2018. Upon application of IFRS 16, other assets of RMB1,852 million were reclassified to right-of-use assets.

(b) Upon application of IFRS 16, certain properties held by the Group under leases met the definition of investment properties and therefore they were recognised on 1 January 2019.

(c) Rent free period: These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

(Amounts in thousands of Renminbi, unless otherwise stated)

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16* (continued)

As a lessor

In accordance with the transitional provisions in IFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Sales and leaseback transactions

*The Group acts as a buyer-lessor*

In accordance with the transition provisions of IFRS 16, sales and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of IFRS 15 as a sale. During the period, several sales and leaseback transactions in which the relevant seller-lessees have an obligation or a right to repurchase the relevant assets were accounted as financing arrangements under IFRS 9.

The following table summarises the impact of transition to IFRS 16 on retained earnings at 1 January 2019.

| | **Impact of adopting IFRS 16 at 1 January 2019** |
|---|---|
| Retained earnings | |
| The modified retrospective approach effects | **(15,349)** |
| Tax effects | **23** |
| Impact at 1 January 2019 | **(15,326)** |

(Amounts in thousands of Renminbi, unless otherwise stated)

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Notes | Carrying amounts previously reported as at 31 December, 2018 | Adjustments | Carrying amounts under IFRS 16 as at 1 January, 2019 |
|---|---|---|---|---|
| Assets | | | | |
| Investment properties | (b) | 5,326,055 | 135,029 | **5,461,084** |
| Right-of-use assets | | — | 3,457,109 | **3,457,109** |
| Deferred tax assets | | 15,018,661 | 23 | **15,018,684** |
| Other assets | (a) | 20,478,316 | (1,851,871) | **18,626,445** |
| Liabilities | | | | |
| Lease liabilities | | — | 1,786,683 | **1,786,683** |
| Other liabilities | (c) | 173,624,117 | (29,660) | **173,594,457** |
| Equity | | | | |
| Retained earnings | | 38,630,165 | (15,326) | **38,614,839** |
| Non-controlling interests | | 27,706,349 | (1,407) | **27,704,942** |

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

(Amounts in thousands of Renminbi, unless otherwise stated)

# II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

## 2. Principal accounting policies *(continued)*

### 2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16* (continued)

The following tables summarise the material impacts of applying IFRS 16 as a lessor on the Group's condensed consolidated statement of financial position as at 30 June 2019 and its condensed consolidated statement profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not significantly affected by the changes have not been included.

Material impact on the condensed consolidated statement of financial position

| | As reported | Adjustments | Amounts without application of IFRS 16, as a lessor |
|---|---|---|---|
| Assets | | | |
| Debt instruments at amortised cost | **613,582,487** | **(20,182,480)** | **593,400,007** |
| Finance lease receivables | **83,553,030** | **20,182,480** | **103,735,510** |

Material impact on the condensed consolidated statement of profit and loss and other comprehensive income

| | As reported | Adjustments | Amounts without application of IFRS 16, as a lessor |
|---|---|---|---|
| Interest income | **19,392,780** | **(197,740)** | **19,195,040** |
| Finance lease income | **3,400,279** | **197,740** | **3,598,019** |

# III. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

The preparation of the condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The types of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the preparation of the Group's consolidated financial statements for the year ended 31 December 2018.

# IV. EXPLANATORY NOTES

## 1. Segment information

Information relating to business lines is reported to the Board of Directors of the Company and its relevant management committees, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance.

Profit before tax is the measure of segment profit or loss reviewed by the chief operating decision makers.

The Group's reportable and operating segments are as follows:

**Distressed asset management operations**

The distressed asset management segment comprises relevant business operated by the Company and certain of its subsidiaries, including distressed asset management, debt-to-equity swap asset management, distressed asset-based custody and agency services, distressed asset management business conducted by subsidiaries, distressed asset-based special situations investment and distressed asset-based property development.

# IV. EXPLANATORY NOTES *(continued)*

## 1. Segment information *(continued)*

**Financial services operations**

The Group's financial services segment comprises relevant business of the Group, including the provision of financial services in sectors such as banking, securities and futures, finance lease and consumer finance. These operations are mainly carried out by the subsidiaries of the Company.

**Asset management and investment operations**

The asset management and investment segment comprises relevant business operated by the Company and certain of its subsidiaries, mainly including trust, private equity fund, financial investment, international business and other business.

No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

Revenue and assets of the Group are generated primarily from operating units located in Mainland China and Hong Kong. There is no significant customer concentration of the Group's business with no customer contributing more than 10% of the Group's revenue.

Segment income, expenses, gains, losses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 1. Segment information *(continued)*

| For the six months ended 30 June 2019 | Distressed asset management | Financial services | Asset management and investment | Elimination | Consolidated |
|---|---|---|---|---|---|
| Income from distressed debt assets | 15,624,437 | — | — | — | 15,624,437 |
| Fair value changes on distressed debt assets | 4,851,001 | — | — | — | 4,851,001 |
| Fair value changes on other financial assets and liabilities | 7,641,428 | 1,115,789 | 577,063 | (13,932) | 9,320,348 |
| Interest income | 4,419,960 | 11,507,412 | 5,602,581 | (2,137,173) | 19,392,780 |
| Finance lease income | — | 3,358,882 | 41,397 | — | 3,400,279 |
| Gain/(loss) from derecognition of financial assets measured at amortised cost | 6,197 | 342 | (60,378) | — | (53,839) |
| (Loss)/gain from derecognition of debt instruments at fair value through other comprehensive income | (1,865) | (4,406) | 1,978 | — | (4,293) |
| Commission and fee income | 342,033 | 635,545 | 356,776 | (41,505) | 1,292,849 |
| Net gains on disposals of subsidiaries, associates and joint ventures | 33,789 | 250 | 74,947 | — | 108,986 |
| Dividend income | 803,938 | 31,102 | 271,104 | (216,143) | 890,001 |
| Other income and other net gains or losses | 822,627 | 485,452 | 832,787 | (153,234) | 1,987,632 |
| Total | 34,543,545 | 17,130,368 | 7,698,255 | (2,561,987) | 56,810,181 |
| Interest expenses | (18,239,164) | (7,321,965) | (6,816,852) | 2,097,733 | (30,280,248) |
| Commission and fee expenses | (121,171) | (787,053) | (70,164) | 65,167 | (913,221) |
| Operating expenses | (2,589,415) | (2,191,449) | (1,194,559) | 129,483 | (5,845,940) |
| Impairment losses under expected credit loss model | (3,357,753) | (4,346,639) | (4,839,857) | — | (12,544,249) |
| Impairment losses on other assets | (84,824) | (31,534) | (465,268) | — | (581,626) |
| Total | (24,392,327) | (14,678,640) | (13,386,700) | 2,292,383 | (50,165,284) |
| Change in net assets attributable to other holders of consolidated structured entities | (1,483,151) | 519,282 | 297,616 | — | (666,253) |
| Share of results of associates and joint ventures | 529,065 | (149) | 202,859 | — | 731,775 |
| Profit before tax | 9,197,132 | 2,970,861 | (5,187,970) | (269,604) | 6,710,419 |
| Income tax expense | | | | | (3,898,217) |
| Profit for the period | | | | | 2,812,202 |
| As at 30 June 2019 | | | | | |
| Segment assets | 891,143,960 | 567,401,562 | 335,936,286 | (94,993,685) | 1,699,488,123 |
| Including: Interests in associates and joint ventures | 4,633,217 | — | 27,127,573 | — | 31,760,790 |
| Deferred tax assets | | | | | 13,882,116 |
| Total assets | | | | | 1,713,370,239 |
| Segment liabilities | 784,138,630 | 517,765,969 | 324,738,997 | (84,199,428) | 1,542,444,168 |
| Deferred tax liabilities | | | | | 492,801 |
| Tax payable | | | | | 1,236,082 |
| Total liabilities | | | | | 1,544,173,051 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 1. Segment information *(continued)*

| For the six months ended 30 June 2018 | Distressed asset management | Financial services | Asset management and investment | Elimination | Consolidated |
|---|---|---|---|---|---|
| Income from distressed debt assets | 16,767,161 | — | — | — | 16,767,161 |
| Fair value changes on distressed debt assets | 2,969,184 | — | — | — | 2,969,184 |
| Fair value changes on other financial assets and liabilities | 2,441,922 | (30,257) | 760,009 | (13,135) | 3,158,539 |
| Interest income | 8,043,354 | 10,969,099 | 6,773,672 | (1,655,304) | 24,130,821 |
| Finance lease income | — | 3,165,263 | 80,648 | — | 3,245,911 |
| Gain/(loss) from derecognition of financial assets measured at amortised cost | 6,991 | (1,746) | (1,031) | — | 4,214 |
| Losses from derecognition of debt instruments at fair value through other comprehensive income | (1,205) | (24,092) | (32,003) | — | (57,300) |
| Commission and fee income | 1,160,878 | 829,565 | 1,010,585 | (179,411) | 2,821,617 |
| Net gains on disposals of subsidiaries, associates and joint ventures | 136,585 | — | 242,999 | — | 379,584 |
| Dividend income | 1,652,204 | 58,855 | 411,904 | (1,390,637) | 732,326 |
| Other income and other net gains or losses | 1,501,877 | 348,533 | 782,363 | (337,806) | 2,294,967 |
| Total | 34,678,951 | 15,315,220 | 10,029,146 | (3,576,293) | 56,447,024 |
| Interest expenses | (19,611,823) | (6,907,736) | (8,004,249) | 1,767,716 | (32,756,092) |
| Commission and fee expenses | (321,553) | (546,765) | (135,629) | 116,612 | (887,335) |
| Operating expenses | (3,039,360) | (2,232,069) | (1,349,884) | 137,132 | (6,484,181) |
| Impairment losses under expected credit loss model | (4,882,580) | (3,647,698) | (3,523,272) | — | (12,053,550) |
| Impairment losses on other assets | — | (104,787) | (780,927) | — | (885,714) |
| Total | (27,855,316) | (13,439,055) | (13,793,961) | 2,021,460 | (53,066,872) |
| Change in net assets attributable to other holders of consolidated structured entities | (1,461,923) | 778,619 | (616,266) | — | (1,299,570) |
| Share of results of associates and joint ventures | 259,525 | 68 | 457,461 | — | 717,054 |
| Profit before tax | 5,621,237 | 2,654,852 | (3,923,620) | (1,554,833) | 2,797,636 |
| Income tax expense | | | | | (1,660,928) |
| Profit for the period | | | | | 1,136,708 |
| As at 31 December 2018 | | | | | |
| Segment assets | 866,250,051 | 545,778,885 | 355,404,796 | (72,365,704) | 1,695,068,028 |
| Including: Interests in associates and joint ventures | 7,768,968 | 6,449 | 29,200,037 | — | 36,975,454 |
| Deferred tax assets | | | | | 15,018,661 |
| Total assets | | | | | 1,710,086,689 |
| Segment liabilities | 752,223,753 | 497,956,323 | 348,971,694 | (62,007,772) | 1,537,143,998 |
| Deferred tax liabilities | | | | | 605,835 |
| Tax payable | | | | | 3,731,887 |
| Total liabilities | | | | | 1,541,481,720 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 2. Income from distressed debt assets

The amount represents interest income arising from distressed debt assets classified as debt instruments at fair value through other comprehensive income ("FVTOCI") and debt instruments at amortised cost, which include loans acquired from financial institutions and other debt assets acquired from non-financial institutions (see notes IV.21 and IV.24).

## 3. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets mandatorily measured at fair value through profit or loss ("FVTPL") during the period (see note IV.17).

The fair value changes comprise both realised gains or losses from disposal of distressed debt assets measured at FVTPL and unrealised fair value changes on such assets. Any interest income arising from such assets are also included in fair value changes.

## 4. Fair value changes on other financial assets and liabilities

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Listed and unlisted shares and funds | **4,544,457** | 1,094,551 |
| Debt instruments | **1,557,371** | 703,805 |
| Derivatives | **1,026,324** | (100,633) |
| Other investments and financial liabilities | **2,192,196** | 1,460,816 |
| Total | **9,320,348** | 3,158,539 |

The fair value changes comprise both realised gains or losses from disposal/settlement of financial assets/liabilities measured at FVTPL and unrealised fair value changes on such assets/liabilities. Any interest income arising from such assets are also included in fair value changes.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 5. Interest income

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Debt instruments at amortised cost other than distressed debt assets | **9,065,955** | 14,279,092 |
| Loans and advances to customers | | |
| Corporate loans and advances | **4,202,698** | 4,025,963 |
| Personal loans and advances | **2,513,381** | 1,657,019 |
| Loans to margin clients | **413,618** | 579,756 |
| Debt instruments at FVTOCI other than distressed debt assets | **1,355,727** | 919,640 |
| Deposits with financial institutions | **885,295** | 1,090,038 |
| Financial assets held under resale agreements | **614,334** | 1,090,234 |
| Balances with central bank | **209,280** | 239,817 |
| Placements with financial institutions | **132,492** | 249,262 |
| Total | **19,392,780** | 24,130,821 |

## 6. Commission and fee income

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Securities and futures brokerage business | **434,292** | 702,166 |
| Asset management business | **410,904** | 1,344,807 |
| Banking and consumer finance business | **214,109** | 231,739 |
| Trust business | **209,041** | 497,848 |
| Fund management business | **24,503** | 45,057 |
| Total | **1,292,849** | 2,821,617 |

**(1) Relationship between disaggregation of revenue and revenue information disclosed in segment:**

The Group provides asset management services (excluding trust and fund management) in "Distress asset management" and "Asset management and investment" segments. The revenue from trust is recorded in "Asset management and investment" segment. For securities and futures, bank and consumer finance and fund management, they are recorded in "Financial services" segment as disclosed in note IV.1.

(Amounts in thousands of Renminbi, unless otherwise stated)

## IV. EXPLANATORY NOTES *(continued)*

### 7. Other income and other net gains or losses

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Revenue from properties development[1] | **552,896** | 1,076,544 |
| Rental income | **534,936** | 424,165 |
| Revenue from construction services | **300,783** | 261,089 |
| Net gains on exchange differences | **67,193** | 95,187 |
| Government grants | **30,952** | 179,390 |
| Others | **500,872** | 258,592 |
| Total | **1,987,632** | 2,294,967 |

(1) Revenue from property development is recorded in "Distressed asset management" segment as disclosed in note IV.1.

### 8. Interest expenses

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Borrowings | **(19,650,033)** | (23,382,597) |
| Bonds and notes issued | **(7,619,798)** | (6,745,246) |
| Due to customers | **(2,245,790)** | (1,443,918) |
| Financial assets sold under repurchase agreements | **(374,411)** | (777,613) |
| Deposits from financial institutions | **(221,392)** | (217,592) |
| Lease liabilities | **(36,162)** | — |
| Borrowings from central bank | **(28,402)** | (58,548) |
| Placements from financial institutions | **(11,916)** | (56,535) |
| Other liabilities | **(92,344)** | (74,043) |
| Total | **(30,280,248)** | (32,756,092) |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 9. Operating expenses

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Employee benefits | **(2,354,039)** | (2,592,833) |
| Turnover tax and surcharges | **(396,935)** | (380,424) |
| Others | **(3,094,966)** | (3,510,924) |
| Including: | | |
| Depreciation of property and equipment | **(406,899)** | (324,268) |
| Depreciation of right-of-use assets | **(303,283)** | — |
| Cost of properties development | **(285,948)** | (801,015) |
| Depreciation of investment properties | **(148,347)** | (60,927) |
| Amortisation | **(136,388)** | (105,597) |
| Rental for short-term leases | **(120,575)** | — |
| Rental and management fee for leases | **(68,853)** | (496,936) |
| Total | **(5,845,940)** | (6,484,181) |

## 10. Impairment losses under expected credit loss model

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Debt instruments at amortised cost (Note IV.24) | **(8,134,852)** | (9,154,124) |
| Loans and advances to customers (Note IV.19) | **(2,518,168)** | (1,614,461) |
| Debt instruments at FVTOCI (Note IV.21) | **(870,797)** | (174,591) |
| Financial assets held under resale agreements (Note IV.18) | **(668,200)** | (944,718) |
| Financial lease receivables (Note IV.20) | **(242,747)** | (57,775) |
| Other financial assets | **(109,485)** | (107,881) |
| Total | **(12,544,249)** | (12,053,550) |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 11. Impairment losses on other assets

| | For the six months ended 30 June, 2019 | 2018 |
|---|---|---|
| Interests in associates and joint ventures | **(552,794)** | (780,927) |
| Foreclosed assets | **(28,832)** | (104,787) |
| Total | **(581,626)** | (885,714) |

## 12. Income tax expense

| | For the six months ended 30 June, 2019 | 2018 |
|---|---|---|
| Current tax | | |
| PRC Enterprise Income tax | **(3,153,631)** | (3,986,101) |
| Hong Kong Profits Tax | **507** | (23,292) |
| Deferred income tax | **(745,093)** | 2,348,465 |
| Total | **(3,898,217)** | (1,660,928) |

## 13. Earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is as follows:

| | For the six months ended 30 June, 2019 | 2018 |
|---|---|---|
| Earnings: | | |
| Profit attributable to equity holders of the Company | **2,519,188** | 684,561 |
| Number of shares: | | |
| Weighted average number of shares in issue (in thousand) | **39,070,208** | 39,070,208 |
| Basic earnings per share (RMB Yuan) | **0.064** | 0.018 |

No diluted earnings per share has been presented for the six months ended 30 June 2019 and 30 June 2018 as the Group had no potential ordinary shares in issue during the periods.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 14. Dividends

On 20 June 2019, the Company declared dividends of RMB473 million for the year ended 31 December 2018. The Company does not declare any interim dividend for the period ended 30 June 2019 (Six months ended 30 June 2018: Nil).

## 15. Cash and balances with central bank

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Cash | **506,602** | 604,188 |
| Mandatory reserve deposits with central bank[(1)] | **24,823,344** | 24,602,756 |
| Surplus reserve deposits with central bank[(2)] | **3,625,991** | 4,319,320 |
| Other deposits with central bank | **129,214** | 382,834 |
| Total | **29,085,151** | 29,909,098 |

The balance of the Group mainly arises from its banking business.

(1) Mandatory reserve deposits are placed with the People's Bank of China (the "PBOC"). They include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations.

As at 30 June 2019, the RMB and foreign currency mandatory reserve deposits placed with the PBOC were mainly based on 11% (31 December 2018: 12%) and 5% (31 December 2018: 5%) of eligible RMB and foreign currency deposits of Huarong Xiangjiang Bank Corporation Limited ("Huarong Xiangjiang Bank"), a subsidiary of the Company. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(2) The surplus reserve deposits are deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 16. Deposits with financial institutions

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Banks[1] | **133,521,867** | 104,644,547 |
| Clearing settlement funds[1][2] | **2,940,777** | 2,202,533 |
| Other financial institutions | **913,557** | 653,162 |
| Total | **137,376,201** | 107,500,242 |

(1) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at 30 June 2019, the bank balances and clearing settlement funds held on behalf of customers by the Group amounted to RMB5,659 million (31 December 2018: RMB4,746 million). The Group has recognised the corresponding amount in account payable to brokerage clients and margin deposit received from securities customers (see note IV.34).

(2) The Group's clearing settlement funds were mainly deposited in the China Securities Depository and Clearing Corporation Limited.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 17. Financial assets and financial liabilities at FVTPL

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Financial assets mandatorily measured at FVTPL | | |
| Distressed debt assets | **169,814,453** | 166,370,280 |
| Funds | **48,122,649** | 59,361,725 |
| Trust products | **35,624,675** | 42,867,043 |
| Equity instruments | | |
| — Listed | **28,234,280** | 23,149,465 |
| — Unlisted | **29,380,374** | 28,001,634 |
| Debt securities | | |
| — Corporate bonds | **10,246,900** | 15,797,463 |
| — Financial institution bonds | **1,080,497** | 648,469 |
| — Public sector and quasi-government bonds | **464,304** | 413,469 |
| Wealth management products(1) | **19,488,188** | 13,347,104 |
| Convertible bonds | **12,403,271** | 12,819,736 |
| Asset management plans | **9,078,093** | 10,307,930 |
| Structured products(2)(3) | **7,824,712** | 8,580,833 |
| Other debt assets | **3,233,133** | 5,179,572 |
| Negotiable certificates of deposit | **4,283,673** | 2,668,343 |
| Entrusted Loans | **579,084** | 742,526 |
| Asset-backed securities | **174,035** | 264,559 |
| Others | **—** | 660,824 |
| Total | **380,032,321** | 391,180,975 |

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Financial liabilities mandatorily measured at FVTPL | | |
| Derivatives as hedging instruments(3) | **270,345** | — |
| Financial liabilities designated as at FVTPL | | |
| Interest of other holders of consolidated structured entities(4) | **3,043,045** | 4,728,291 |
| Total | **3,313,390** | 4,728,291 |

# IV. EXPLANATORY NOTES *(continued)*

## 17. Financial assets and financial liabilities at FVTPL *(continued)*

(1) This mainly represents wealth management products issued by banking institutions outside the Group.

(2) The Group entered into a series of structured transactions that are managed on the fair value basis. Such structured products are accounted for as financial assets mandatorily measured at FVTPL for the six months ended 30 June 2019 and for the year ended 31 December 2018 as the cash flows of these financial assets do not represent solely payment of principal and interest on the principal amount outstanding.

As at 30 June 2019, included in structured products were credit linked notes of RMB2,302 million (31 December 2018: RMB2,279 million). Credit linked notes are debt instruments but their returns can be adversely impacted by credit-related performance of reference assets.

The Group entered into a number of total return swap arrangements under which the Group pays counterparties a reference interest rate and receives from counterparties total returns of reference assets. The Group therefore is exposed to default risks of the reference assets. As at 30 June 2019, the fair value and nominal value of these total return swaps amounted to RMB667 million (31 December 2018: RMB660 million) and RMB2,179 million (31 December 2018: RMB2,171 million), respectively.

(3) The Group entered into a series of interest rate swap and cross-currency swap contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency denominated bonds and notes issued. The terms of the derivative contracts have been negotiated to match the terms of the respective designated hedged items and therefore the hedge is considered highly effective. As at 31 December 2018, the fair value of these hedging instruments amounted to RMB415 million and were included in structured products classified as financial assets at FVTPL.

(4) In respect of these liabilities designated at FVTPL, the Group is required at maturities to pay amounts according to other investors' share in the underlying assets of special structure entities consolidated. The amount ultimately paid by the Group depends on the fair values of these assets as maturities and may be different from the carrying amounts as at 30 June 2019.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 18. Financial assets held under resale agreements

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| By collateral type: | | |
| Securities | **28,966,731** | 20,004,868 |
| Others | **395,000** | 746,095 |
| Subtotal | **29,361,731** | 20,750,963 |
| Less: Allowance for impairment losses | | |
| — 12-month ECL | **(5,923)** | (27,760) |
| — Lifetime ECL | **(1,286,297)** | (596,260) |
| Subtotal | **(1,292,220)** | (624,020) |
| Net financial assets held under resale agreements | **28,069,511** | 20,126,943 |

The majority of these financial assets held under resale agreements of the Group arises from its securities business, asset management business and banking business.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 19. Loans and advances to customers

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Loans and advances measured at amortised cost | | |
| Corporate loans and advances | **124,702,404** | 119,311,190 |
| Personal loans and advances | | |
| — Loans for business operations | **13,077,702** | 12,740,825 |
| — Mortgages | **21,768,044** | 18,511,719 |
| — Personal consumption loans | **30,079,901** | 27,562,917 |
| — Others | **2,603,934** | 2,802,609 |
| Subtotal | **67,529,581** | 61,618,070 |
| Loans to margin clients | **6,312,703** | 6,282,373 |
| Gross loans and advances to customers measured at amortised costs | **198,544,688** | 187,211,633 |
| Less: Allowance for impairment losses | | |
| — 12-month ECL | **(2,399,427)** | (1,967,655) |
| — Lifetime ECL | **(3,958,484)** | (3,158,610) |
| Subtotal | **(6,357,911)** | (5,126,265) |
| Net loans and advances to customers measured at amortised cost | **192,186,777** | 182,085,368 |
| Loans and advances measured at FVTOCI | | |
| — Discounted bills | **10,648,193** | 8,568,670 |
| Net loans and advances to customers | **202,834,970** | 190,654,038 |

The movements of provision for impairment loss on loans and advances during the current period and the prior year are detailed in note IV.41.(2).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 20. Finance lease receivables

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Minimum finance lease receivables: | | |
| Within 1 year (inclusive) | **32,741,404** | 39,607,536 |
| 1–5 years (inclusive) | **55,670,639** | 66,137,849 |
| Over 5 years | **8,815,649** | 8,942,512 |
| Gross amount of finance lease receivables | **97,227,692** | 114,687,897 |
| Less: Unearned finance income | **(10,979,858)** | (13,232,839) |
| Net amount of finance lease receivables | **86,247,834** | 101,455,058 |
| Less: Allowance for impairment losses | **(2,694,804)** | (2,452,118) |
| Carrying amount of finance lease receivables | **83,553,030** | 99,002,940 |
| Present value of minimum finance lease receivables: | | |
| Within 1 year (inclusive) | **28,132,352** | 34,044,015 |
| 1–5 years (inclusive) | **49,745,930** | 58,967,138 |
| Over 5 years | **8,369,552** | 8,443,905 |
| Total | **86,247,834** | 101,455,058 |

The movements of provision for impairment loss on finance lease receivables during the current period and the prior year are detailed in note IV.41.(2).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 21. Debt instruments at FVTOCI

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Distressed debt assets | **80,164,997** | 100,445,929 |
| Debt securities | | |
| — Corporate bonds | **25,658,830** | 26,494,833 |
| — Public sector and quasi-government bonds | **5,656,919** | 6,144,591 |
| — Government bonds | **480,148** | 284,500 |
| — Financial institution bonds | **250,855** | 319,240 |
| Entrust loans(1) | **4,290,055** | 4,421,136 |
| Asset management plans | **4,250,143** | 4,255,391 |
| Trust products | **2,156,635** | 2,490,562 |
| Debt instruments | **1,936,578** | 1,902,184 |
| Asset-backed securities | **521,759** | 628,941 |
| Total | **125,366,919** | 147,387,307 |

(1) These are the entrust loans granted by subsidiaries through commercial banks outside the Group.

The movements of provision for impairment loss on debt instruments at FVTOCI during the current period and the prior year are detailed in note IV.41.(2).

## 22. Equity instruments at FVTOCI

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Listed investments(1) | **215,973** | 31,770 |
| Unlisted investments(2) | **2,920,775** | 3,212,538 |
| Total | **3,136,748** | 3,244,308 |

(1) The above listed equity investments represent ordinary shares of entities listed in PRC or Hong Kong. These investments are not held for trading.

(2) The above unlisted equity investments represent the Group's equity interest in private entities established in the PRC or Hong Kong.

The Group received RMB7 million dividend from equity instruments at FVTOCI during the current period.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 23. Inventories

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Property development costs | **16,565,734** | 16,726,555 |
| Properties held for sale | **2,056,676** | 1,899,710 |
| Land development costs | **683,116** | 616,770 |
| Total | **19,305,526** | 19,243,035 |

## 24. Debt instruments at amortised cost

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Distressed debt assets | | |
| Loans acquired from financial institutions | **23,283,797** | 24,042,643 |
| Other debt assets acquired from non-financial institutions | **274,528,386** | 265,041,671 |
| Subtotal | **297,812,183** | 289,084,314 |
| Less: Allowance for impairment losses | | |
| — 12-month ECL | **(1,683,177)** | (2,748,284) |
| — Lifetime ECL | **(22,386,840)** | (20,178,201) |
| Subtotal | **(24,070,017)** | (22,926,485) |
| Carrying amount of distressed debt assets | **273,742,166** | 266,157,829 |
| Other debt assets | | |
| Trust products | **112,762,153** | 114,321,352 |
| Debt instruments | **90,973,809** | 84,360,813 |
| Debt securities | **75,786,354** | 86,699,355 |
| Entrust loans[1] | **62,605,219** | 78,871,297 |
| Receivables arising from sales and leaseback arrangements | **20,263,388** | — |
| Asset management plans | **9,272,887** | 7,076,241 |
| Others | **3,221,060** | 2,649,200 |
| Subtotal | **374,884,870** | 373,978,258 |
| Less: Allowance for impairment losses | | |
| — 12-month ECL | **(3,194,763)** | (3,970,302) |
| — Lifetime ECL | **(31,849,786)** | (24,032,677) |
| Subtotal | **(35,044,549)** | (28,002,979) |
| Carrying amount of other debt assets | **339,840,321** | 345,975,279 |
| Total | **613,582,487** | 612,133,108 |

(1) These are the entrust loans granted by subsidiaries through commercial banks outside the Group.

The movements of provision for impairment loss on debt instruments at amortised cost during current period and the prior year are detailed in note IV.41.(2).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 25. Interests in associates and joint ventures

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Interests in associates | | |
| Cost of investments in associates | **18,237,233** | 19,506,224 |
| Share of post-acquisition profits or losses and other comprehensive income, net of dividends received | **245,073** | 510,846 |
| Less: Allowance for impairment losses | **(3,440,992)** | (2,975,724) |
| Subtotal | **15,041,314** | 17,041,346 |
| Interests in joint ventures | | |
| Cost of investments in joint ventures | **17,163,363** | 20,391,904 |
| Share of post-acquisition profits or losses and other comprehensive income, net of dividends received | **(143,887)** | (245,322) |
| Less: Allowance for impairment losses | **(300,000)** | (212,474) |
| Subtotal | **16,719,476** | 19,934,108 |
| Total | **31,760,790** | 36,975,454 |
| Fair value of listed companies | **3,763,948** | 3,575,497 |

During the six months ended 30 June 2019, the Group acquired interests in 8 (Six months ended 30 June 2018: 33) associates and joint ventures with an aggregate initial costs of RMB492 million (Six months ended 30 June 2018: RMB3,831 million).

During the six months ended 30 June 2019, the Group disposed of interests in 27 (Six months ended 30 June 2018: 14) associates and joint ventures with an aggregate carrying values of RMB4,989 million (Six months ended 30 June 2018: RMB2,904 million) at dates of disposals and recognised a net gain of RMB110 million (Six months ended 30 June 2018: RMB46 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 26. Movement of investment properties, property and equipment

For the six months ended 30 June 2019, the Group acquired and disposed of property and equipment with aggregate amounts of RMB1,959 million at cost and RMB27 million at net book value, respectively (Six months ended 30 June 2018: RMB2,728 million at cost and RMB24 million at net book value, respectively).

For the six months ended 30 June 2019, the Group transferred a balance of RMB84 million (Six months ended 30 June 2018: RMB2,359 million) from inventories to investment properties.

## 27. Other assets

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Other receivables | **13,718,963** | 9,911,384 |
| Foreclosed assets | **2,978,475** | 3,009,072 |
| Payments in advance | **2,544,348** | 2,588,698 |
| Receivable from disposals of investments | **792,000** | 251,664 |
| Deductible value-added tax | **584,989** | 517,297 |
| Prepaid expenses | **461,181** | 550,487 |
| Clearing and settlement receivables | **372,616** | 580,254 |
| Dividends receivable | **49,730** | 64,480 |
| Land use rights | **—** | 1,792,431 |
| Others | **1,750,207** | 1,212,549 |
| Total | **23,252,509** | 20,478,316 |

## 28. Deposits from financial institutions

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Banks | **2,436,767** | 4,751,353 |
| Other financial institutions | **3,559,973** | 2,556,230 |
| Total | **5,996,740** | 7,307,583 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 29. Financial assets sold under repurchase agreements

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Bonds | **21,155,615** | 19,056,095 |
| Loans and advances to customers | **2,341,033** | 3,953,787 |
| Beneficial rights of debt instruments | **957,293** | 1,400,134 |
| Total | **24,453,941** | 24,410,016 |

## 30. Borrowings

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Unsecured loans | **654,806,250** | 649,429,694 |
| Guaranteed loans | **66,159,669** | 71,769,892 |
| Pledged loans | **28,568,488** | 32,976,544 |
| Loans secured by properties | **5,648,400** | 6,819,380 |
| Total | **755,182,807** | 760,995,510 |
| Carrying amount repayable[1]: | | |
| Within one year | **510,377,338** | 460,746,169 |
| More than one year, but not exceeding two years | **146,904,265** | 174,537,531 |
| More than two years, but not exceeding five years | **60,305,397** | 57,960,272 |
| More than five years | **24,472,405** | 36,215,499 |
| Subtotal | **742,059,405** | 729,459,471 |
| Carrying amount of borrowings that contain a repayment on demand clause repayable[1]: | | |
| Within one year | **5,030,354** | 16,845,100 |
| More than one year, but not exceeding two years | **6,279,522** | 6,750,934 |
| More than two years, but not exceeding five years | **1,813,526** | 7,940,005 |
| Subtotal | **13,123,402** | 31,536,039 |
| Total | **755,182,807** | 760,995,510 |

(1) The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 30 June 2019, the Group failed to comply with certain financial conditions stipulated in certain lending and borrowing agreements, and the relevant amount of these borrowings amounted RMB4,179 million (31 December 2018: RMB23,688 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 31. Due to customers

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Demand deposits | | |
| Corporate customers | **74,758,690** | 82,228,418 |
| Individual customers | **20,103,142** | 19,092,892 |
| Time deposits | | |
| Corporate customers | **67,156,397** | 55,072,139 |
| Individual customers | **45,092,212** | 30,477,840 |
| Pledged deposits | **7,745,276** | 7,364,094 |
| Others | **12,799,647** | 14,881,101 |
| Total | **227,655,364** | 209,116,484 |

## 32. Tax payable

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Enterprise income tax | **808,937** | 3,157,997 |
| Hong Kong profits tax | **427,145** | 573,890 |
| Total | **1,236,082** | 3,731,887 |

## 33. Bonds and notes issued

During the current interim period, the Group issued new bonds and notes amounting to RMB72,468 million (Six months ended 30 June 2018: RMB71,852 million) and repaid bonds and notes amounting to RMB61,343 million (Six months ended 30 June 2018: RMB48,871 million). The bonds and notes carry interest at fixed or variable market rates ranging from 1.63% to 8.11% per annum (31 December 2018: 1.63% to 6.70% per annum) and are repayable in instalments over periods from 14 days to 30 years (31 December 2018: 14 days to 30 years).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 34. Other liabilities

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Payables to interest holders of consolidated structured entities | 82,833,229 | 92,869,809 |
| Other payables | 27,082,424 | 35,406,407 |
| Guarantee deposits received from customers | 15,579,059 | 16,767,821 |
| Amounts received in advance(1) | 5,503,841 | 7,312,953 |
| Account payable to brokerage clients | 5,115,968 | 4,152,730 |
| Dividends payable | 4,774,174 | 4,364,099 |
| Employee benefits payable | 3,456,095 | 4,026,682 |
| Amounts due to China Trust Protection Fund | 2,600,000 | 2,800,000 |
| Account payable to financial institutions | 1,477,285 | 2,012,096 |
| Sundry taxes payable | 1,863,776 | 1,884,439 |
| Bills payable(2) | 1,215,508 | 798,136 |
| Margin deposits received from securities customers | 362,132 | 318,348 |
| Provisions | 272,372 | 204,692 |
| Others | 954,548 | 705,905 |
| Total | 153,090,411 | 173,624,117 |

(1) Amounts received in advance mainly included deposits received in respect of advances payment relating to Company's sales of distressed assets.

(2) These bank acceptance bills are payable to the suppliers by Huarong Financial Leasing for equipment purchased when conducting its finance lease business.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 35. Share capital

| | For the six months ended 30 June, 2019 | For the year ended 31 December, 2018 |
|---|---|---|
| Authorised, issued and fully paid at beginning and end of the year | **39,070,208** | 39,070,208 |

| | As at 30 June 2019 and 31 December 2018 | |
|---|---|---|
| | Number of shares (thousands) | Nominal value |
| Registered, issued and fully paid: | | |
| Domestic shares | **14,026,355** | **14,026,355** |
| H shares | **25,043,853** | **25,043,853** |
| Total | **39,070,208** | **39,070,208** |

## 36. General reserve

Starting from 1 July 2012, pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (Caijin [2012] No. 20) issued by the MOF, a financial enterprise is required to maintain a general reserve within equity, through the appropriation of profit determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC ("PRC GAAP"), at no less than 1.5% of its risk assets at the end of the reporting period. A financial enterprise is allowed to comply with this requirement over a period of 5 years, if it is not probable to achieve the 1.5% requirement immediately.

Pursuant to this regulatory requirement in the PRC, some domestic subsidiaries of the Company are required to transfer certain amount of net profit to general reserve. The appropriation of the general reserve is accounted for as distribution of retained earnings.

For the six months ended 30 June 2019, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB752 million (Six months ended 30 June 2018: RMB1,991 million) to general reserve pursuant to the regulatory requirements in the PRC.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 37. Cash and cash equivalents

Cash and cash equivalents with original maturity of less than 3 months comprise the following balances:

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Cash on hand | **506,602** | 604,188 |
| Balances with central bank | **3,625,991** | 4,319,320 |
| Deposits with financial institutions | **117,806,351** | 89,250,788 |
| Placements with financial institutions | **34,374** | 843,160 |
| Financial assets held under resale agreements | **14,733,439** | 6,301,867 |
| Total | **136,706,757** | 101,319,323 |

## 38. Contingent liabilities

**Legal proceedings**

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 30 June 2019, total claim amount of pending litigations was RMB2,080 million (31 December 2018: RMB1,796 million) for the Group, and total provision of RMB110 million (31 December 2018: RMB112 million) for the Group was made based on court judgments or the advice of legal counsels. The directors of the Company believe that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 39. Commitments

### (1) Credit enhancement

As at 30 June 2019, the Group provided credit enhancement for counterparties involving in borrowing arrangements in the amount of RMB493 million (31 December 2018: RMB532 million). Impairment allowance of RMB6 million (31 December 2018: RMB6 million) was made for credit enhancement as at 30 June 2019.

### (2) Credit commitments

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Bank bill acceptance | **13,955,914** | 11,861,498 |
| Undrawn credit card commitments | **7,305,643** | 6,830,089 |
| Loan commitments | **4,108,114** | 5,438,779 |
| Letters of credit issued | **1,818,159** | 1,747,958 |
| Letters of guarantee issued | **645,381** | 733,854 |
| Total | **27,833,211** | 26,612,178 |

These credit commitments mainly arise from the banking business of the Group.

Impairment allowance of RMB157 million (31 December 2018: RMB88 million) was made for credit commitments as at 30 June 2019.

### (3) Other commitments

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Contracted but not provided for — commitments for the acquisition of property and equipment | **290,817** | 201,360 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 40. Related party transactions

### (1) The MOF

As at 30 June 2019, the MOF directly owned 63.36% (31 December 2018: 63.36%) of share capital of the Company including domestic shares and H shares.

The MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies. The entities controlled by the MOF are mainly financial institutions.

The Group has the following balances and entered into the following transactions with the MOF. These transactions were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

The Group had the following securities issued by or balances with the MOF:

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Financial assets at amortised cost | 7,989,498 | 8,940,096 |
| Dividends payable | 4,480,241 | 4,180,733 |
| Other payables | 1,031,111 | 12,255 |
| Debt instruments at FVTOCI | 480,148 | 284,500 |
| Other assets | — | 146,229 |

The Group had the following transactions with the MOF:

| | For the six months ended 30 June, | |
|---|---|---|
| | 2019 | 2018 |
| Interest income | 158,367 | 149,963 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 40. Related party transactions *(continued)*

**(2) Government related entities**

Other than those disclosed above, the Group also entered into transactions with government related entities. These transactions are entered into under normal commercial terms and conditions. None of them was individually significant.

Management of the Group considers that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that both the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

**(3) Associates and joint ventures**

The Group has the following balances and entered into the following transactions with associates and joint ventures. These transactions were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

The Group had the following securities issued by or balances with associates and joint ventures:

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Financial assets at amortised cost | **3,171,284** | 6,155,424 |
| Financial assets at FVTPL | **45,000** | 68,093 |
| Other liabilities | **42,851** | 69 |
| Other assets | **3,267** | 23,701 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 40. Related party transactions *(continued)*

**(3) Associates and joint ventures** *(continued)*

The Group had the following transactions with associates and joint ventures:

| | For the six months ended 30 June, | |
|---|---|---|
| | 2019 | 2018 |
| Interest income | 118,538 | 169,408 |
| Commission and fee income | 2,725 | 4,604 |
| Operating expenses | 535 | 3,420 |

Trust asset management:

As at 30 June 2019, associates and joint ventures held a trust of RMB14 million issued by the Group (31 December 2018: RMB14 million).

**(4) Annuity Scheme**

The Company and certain other entities within the Group have the following transactions with the Annuity Schemes set up within the Group:

| | For the six months ended 30 June, | |
|---|---|---|
| | 2019 | 2018 |
| Contribution to annuity schemes | 37,497 | 128,830 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 40. Related party transactions *(continued)*

### (5) Key management personnel

Key management personnel are those people having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

| | For the six months ended 30 June, | |
|---|---|---|
| | **2019** | **2018** |
| Emoluments of key management personnel | | |
| — Fees | **620** | 620 |
| — Salaries and other benefits | **2,474** | 2,557 |
| — Employer's contribution to pension scheme | **178** | 175 |
| — Discretionary and performance related incentive payments | **2,055** | 1,977 |
| Total (before tax) | **5,327** | 5,329 |

The total compensation packages of the above key management personnel for the six months ended 30 June 2019 and 2018 have not yet been finalised in accordance with regulations of the relevant authorities in the PRC.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk

The Group's credit risk management and its approach to impairment assessment and risk mitigating measures are the same as those set out in the Group's consolidated financial statements for the year ended 31 December 2018.

**(1) Risk concentration of distressed debt assets at amortised cost and at FVTOCI, loans and advances to customers and finance lease receivables**

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Distressed debt assets at amortised cost | **297,812,183** | 289,084,314 |
| Distressed debt assets at FVTOCI | **80,164,997** | 100,445,929 |
| Loans and advances to customers | **209,192,881** | 195,780,303 |
| Finance lease receivables | **86,247,834** | 101,455,058 |
| Subtotal | **673,417,895** | 686,765,604 |
| Allowance for impairment losses | | |
| Distressed debt assets at amortised cost | **(24,070,017)** | (22,926,485) |
| Loans and advances to customers | **(6,357,911)** | (5,126,265) |
| Finance lease receivables | **(2,694,804)** | (2,452,118) |
| Subtotal | **(33,122,732)** | (30,504,868) |
| Net carrying amount | | |
| Distressed debt assets at amortised cost | **273,742,166** | 266,157,829 |
| Distressed debt assets at FVTOCI | **80,164,997** | 100,445,929 |
| Loans and advances to customers | **202,834,970** | 190,654,038 |
| Finance lease receivables | **83,553,030** | 99,002,940 |
| Total | **640,295,163** | 656,260,736 |

As at 30 June 2019, the loss allowance of distressed debt assets at FVTOCI and the loans and advances to customers at FVTOCI were RMB3,558 million and RMB7 million, respectively (31 December 2018: RMB2,920 million and RMB1 million, respectively).

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

### (1) Risk concentration of distressed debt assets at amortised cost and at FVTOCI, loans and advances to customers and finance lease receivables *(continued)*

*Analysed by geographical area*

| | As at 30 June 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| Area | Gross amount | % | Gross amount | % |
| Central Region | **300,835,652** | **44.6** | 289,093,120 | 42.1 |
| Western Region | **129,861,356** | **19.3** | 139,971,281 | 20.4 |
| Yangtze River Delta | **93,389,002** | **13.9** | 102,714,783 | 15.0 |
| Bohai Rim | **68,247,922** | **10.1** | 66,925,966 | 9.7 |
| Pearl River Delta | **54,563,689** | **8.1** | 60,092,574 | 8.8 |
| Northeastern Region | **20,000,778** | **3.0** | 21,160,755 | 3.1 |
| Overseas | **6,519,496** | **1.0** | 6,807,125 | 0.9 |
| Total | **673,417,895** | **100.0** | 686,765,604 | 100.0 |

Notes:

| | |
|---|---|
| Central Region: | Including Shanxi, Henan, Hunan, Hubei, Anhui, Jiangxi, Hainan. |
| Western Region: | Including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Guangxi, Gansu, Qinghai, Xinjiang, Ningxia, Inner Mongolia, Tibet. |
| Yangtze River Delta: | Including Shanghai, Jiangsu, Zhejiang. |
| Bohai Rim: | Including Beijing, Tianjin, Hebei, Shandong. |
| Pearl River Delta: | Including Guangdong, Fujian. |
| Northeastern Region: | Including Liaoning, Jilin and Heilongjiang. |
| Overseas: | Including all regions outside Mainland China. |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

**(1) Risk concentration of distressed debt assets at amortised cost and at FVTOCI, loans and advances to customers and finance lease receivables** *(continued)*

*Analysed by industry*

| Industry | As at 30 June 2019 Gross amount | % | As at 31 December 2018 Gross amount | % |
|---|---|---|---|---|
| *Corporate business* | | | | |
| Real estate | 205,492,298 | 30.5 | 213,414,460 | 31.0 |
| Water, environment and public utilities management | 84,568,370 | 12.6 | 91,771,586 | 13.4 |
| Manufacturing | 73,136,296 | 10.9 | 78,486,192 | 11.4 |
| Construction | 52,908,336 | 7.9 | 50,671,834 | 7.4 |
| Leasing and commercial services | 44,737,090 | 6.6 | 43,910,328 | 6.4 |
| Transportation, logistics and postal services | 18,276,194 | 2.7 | 18,397,281 | 2.7 |
| Mining | 8,877,998 | 1.3 | 9,894,981 | 1.4 |
| Others | 111,579,029 | 16.6 | 112,318,499 | 16.4 |
| Subtotal | 599,575,611 | 89.1 | 618,865,161 | 90.1 |
| *Personal business* | | | | |
| Personal consumption loans | 30,079,901 | 4.5 | 27,562,917 | 4.0 |
| Mortgages | 21,768,044 | 3.2 | 18,511,719 | 2.7 |
| Loans for business operations | 13,077,702 | 1.9 | 12,740,825 | 1.9 |
| Others | 2,603,934 | 0.4 | 2,802,609 | 0.4 |
| Subtotal | 67,529,581 | 10.0 | 61,618,070 | 9.0 |
| Loans to margin clients | 6,312,703 | 0.9 | 6,282,373 | 0.9 |
| Total | 673,417,895 | 100.0 | 686,765,604 | 100.0 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

### (2) Credit quality

#### *(i) Loss allowance*

The table below summarises the loss allowance as of the period/year end by class of assets.

| | As at 30 June, 2019 | As at 31 December, 2018 |
|---|---|---|
| Financial assets held under resale agreements | **1,292,220** | 624,020 |
| Loans and advances to customers | **6,364,891** | 5,127,167 |
| Finance lease receivables | **2,694,804** | 2,452,118 |
| Debt instruments at FVTOCI | **4,130,007** | 3,259,432 |
| Debt instruments at amortised cost | **59,114,566** | 50,929,464 |
| Credit enhancement and commitments | **162,762** | 93,502 |
| | **73,759,250** | 62,485,703 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

**(2) Credit quality** *(continued)*

***(ii) Movement of loss allowance***

The tables below analyse the movement of the loss allowance during the year/period per class of assets.

Loans and advances to customers

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at 1 January 2018 | 1,860,927 | 667,773 | 1,273,543 | 3,802,243 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | 47,288 | (47,046) | (242) | — |
| — Transfer to stage 2 | (439,683) | 470,307 | (30,624) | — |
| — Transfer to stage 3 | (251,418) | (155,678) | 407,096 | — |
| — Provided for the year | 1,951,746 | 356,654 | 3,708,225 | 6,016,625 |
| — Reversal for the year | (1,199,660) | (473,747) | (441,912) | (2,115,319) |
| — Write-offs | — | — | (2,677,007) | (2,677,007) |
| — Others | (643) | — | 101,268 | 100,625 |
| As at 31 December 2018 | 1,968,557 | 818,263 | 2,340,347 | 5,127,167 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | **50,916** | **(50,878)** | **(38)** | **—** |
| — Transfer to stage 2 | **(12,576)** | **26,645** | **(14,069)** | **—** |
| — Transfer to stage 3 | **(8,079)** | **(98,170)** | **106,249** | **—** |
| — Provided for the period | **814,516** | **358,415** | **2,138,082** | **3,311,013** |
| — Reversal for the period | **(406,955)** | **(165,963)** | **(219,927)** | **(792,845)** |
| — Write-offs | **—** | **—** | **(1,317,559)** | **(1,317,559)** |
| — Others | **28** | **—** | **37,087** | **37,115** |
| As at 30 June 2019 | **2,406,407** | **888,312** | **3,070,172** | **6,364,891** |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

**(2) Credit quality** *(continued)*

***(ii) Movement of loss allowance*** *(continued)*

Finance lease receivables

| | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at 1 January 2018 | 501,255 | 1,107,623 | 886,434 | 2,495,312 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | 189 | (189) | — | — |
| — Transfer to stage 2 | (48,223) | 76,162 | (27,939) | — |
| — Transfer to stage 3 | (8,316) | (197,502) | 205,818 | — |
| — Provided for the year | 252,434 | 260,614 | 960,457 | 1,473,505 |
| — Reversal for the year | (214,378) | (637,808) | (381,068) | (1,233,254) |
| — Write-offs | — | — | (369,694) | (369,694) |
| — Others | 1,854 | — | 84,395 | 86,249 |
| As at 31 December 2018 | 484,815 | 608,900 | 1,358,403 | 2,452,118 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | **3,146** | **(3,146)** | **—** | **—** |
| — Transfer to stage 2 | **(12,796)** | **12,796** | **—** | **—** |
| — Transfer to stage 3 | **(21,645)** | **(120,275)** | **141,920** | **—** |
| — Provided for the period | **131,490** | **210,851** | **163,194** | **505,535** |
| — Reversal for the period | **(69,382)** | **(46,657)** | **(146,749)** | **(262,788)** |
| — Others | **(69)** | **—** | **8** | **(61)** |
| As at 30 June 2019 | **515,559** | **662,469** | **1,516,776** | **2,694,804** |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

**(2) Credit quality** *(continued)*

***(ii) Movement of loss allowance*** *(continued)*

Debt instruments at FVTOCI

| | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at 1 January 2018 | 2,560,071 | 591,273 | 151,892 | 3,303,236 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | 72,149 | (72,149) | — | — |
| — Transfer to stage 2 | (305,296) | 305,296 | — | — |
| — Transfer to stage 3 | (84,918) | (460,110) | 545,028 | — |
| — Provided for the year | 428,563 | 347,130 | 1,211,061 | 1,986,754 |
| — Reversal for the year | (1,948,343) | (106,942) | (37,284) | (2,092,569) |
| — Others | 117,148 | (1,837) | (53,300) | 62,011 |
| As at 31 December 2018 | 839,374 | 602,661 | 1,817,397 | 3,259,432 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | **33,798** | **(33,798)** | **—** | **—** |
| — Transfer to stage 2 | **(126,302)** | **360,219** | **(233,917)** | **—** |
| — Transfer to stage 3 | **(34,944)** | **(45,480)** | **80,424** | **—** |
| — Provided for the period | **109,595** | **916,436** | **821,452** | **1,847,483** |
| — Reversal for the period | **(569,034)** | **(288,708)** | **(118,944)** | **(976,686)** |
| — Others | **(222)** | **—** | **—** | **(222)** |
| As at 30 June 2019 | **252,265** | **1,511,330** | **2,366,412** | **4,130,007** |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 41. Credit risk *(continued)*

**(2) Credit quality** *(continued)*

***(ii) Movement of loss allowance*** *(continued)*

Debt instruments at amortised cost

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at 1 January 2018 | 16,618,671 | 10,228,888 | 11,483,315 | 38,330,874 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | 698,528 | (698,528) | — | — |
| — Transfer to stage 2 | (2,629,464) | 3,005,273 | (375,809) | — |
| — Transfer to stage 3 | (2,716,286) | (4,042,562) | 6,758,848 | — |
| — Provided for the year | 5,766,738 | 5,627,258 | 20,464,820 | 31,858,816 |
| — Reversal for the year | (11,130,427) | (3,337,015) | (4,770,992) | (19,238,434) |
| — Others | 110,826 | 86,277 | (218,895) | (21,792) |
| As at 31 December 2018 | 6,718,586 | 10,869,591 | 33,341,287 | 50,929,464 |
| Changes in the loss allowance | | | | |
| — Transfer to stage 1 | **6,282** | **(6,282)** | **—** | **—** |
| — Transfer to stage 2 | **(844,712)** | **1,655,023** | **(810,311)** | **—** |
| — Transfer to stage 3 | **(120,163)** | **(6,256,316)** | **6,376,479** | **—** |
| — Provided for the period | **1,781,869** | **3,695,767** | **9,377,127** | **14,854,763** |
| — Reversal for the period | **(2,665,397)** | **(1,442,458)** | **(2,612,056)** | **(6,719,911)** |
| — Write-offs | **—** | **—** | **(1,616)** | **(1,616)** |
| — Others | **1,475** | **26,931** | **23,460** | **51,866** |
| As at 30 June 2019 | **4,877,940** | **8,542,256** | **45,694,370** | **59,114,566** |

The most significant movements of loss allowance during the year/period in respect of loan and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost arose from transition of financial assets to Stage 2 or Stage 3 as a result of deterioration of credit quality of these financial assets.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 42. Risk management of distressed assets

Risk of distressed assets represents the potential loss that may arise from counterparty's failure to meet its obligation or changes in market conditions that lead to decline in asset value. Risk of distressed assets can also arise from operational failures due to unauthorised or inappropriate purchase, disposal or management activities, which result in the recoverable amount of the distressed assets lower than their carrying amounts.

The Group's distressed assets risk arises from distressed debts which the Group initially classifies as financial assets at FVTPL, debt instruments at amortised cost, debt instruments at FVTOCI, and equity instruments at FVTOCI.

The type of risk, the risk management of distressed debt assets and assets obtained through debt-to-equity swap, as well as fair value measurement techniques and impairment assessment are the same as those described in the Group's consolidated financial statements for the year ended 31 December 2018.

## 43. Fair value of financial instruments

### 43.1 Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following tables provide a summary of financial instruments that are measured at fair value subsequent to initial recognition, grouped into three levels:

| | As at 30 June 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | 25,219,277 | 37,433,404 | 317,379,640 | 380,032,321 |
| Debt instruments at FVTOCI | 16,906,271 | 16,043,424 | 92,417,224 | 125,366,919 |
| Equity instruments at FVTOCI | 215,973 | — | 2,920,775 | 3,136,748 |
| Loans and advances to customers at FVTOCI | — | 10,648,193 | — | 10,648,193 |
| Total assets | 42,341,521 | 64,125,021 | 412,717,639 | 519,184,181 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.1 Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

| | As at 30 June 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities mandatorily measured at FVTPL | — | (270,345) | — | (270,345) |
| Financial liabilities designated as at FVTPL | — | (3,043,045) | — | (3,043,045) |
| Total liabilities | — | (3,313,390) | — | (3,313,390) |

| | As at 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | 25,099,633 | 32,335,481 | 333,745,861 | 391,180,975 |
| Debt instruments at FVTOCI | 18,813,233 | 15,066,331 | 113,507,743 | 147,387,307 |
| Equity instruments at FVTOCI | 31,770 | — | 3,212,538 | 3,244,308 |
| Loans and advances to customers at FVTOCI | — | 8,568,670 | — | 8,568,670 |
| Total assets | 43,944,636 | 55,970,482 | 450,466,142 | 550,381,260 |

| | As at 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities designated as at FVTPL | — | (4,150,203) | (578,088) | (4,728,291) |

There were no significant transfers between Level 1 and Level 2 within the Group for the six months ended 30 June 2019 and for the year ended 31 December 2018.

(Amounts in thousands of Renminbi, unless otherwise stated)

## IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.1 Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

The following table gives information about the fair value of the financial assets and financial liabilities and their fair value hierarchy.

| Financial assets | Fair value as at 30 June, 2019 | Fair value as at 31 December, 2018 | Fair value hierarchy |
|---|---|---|---|
| 1) Financial assets at FVTPL | | | |
| Distressed debt assets | **169,814,453** | 166,370,280 | Level 3 |
| Funds | | | |
| — Listed | **657,901** | 813,748 | Level 1 |
| — Investing in the underlying assets with open or active quotations | **4,113,773** | 4,841,038 | Level 2 |
| — Investing in the underlying assets without open or active quotations | **43,350,975** | 53,706,939 | Level 3 |
| Trust products issued by financial institutions | | | |
| — Investing in the underlying assets with open or active quotations | **938,116** | 860,976 | Level 2 |
| — Investing in the underlying assets without open or active quotations | **34,686,559** | 42,006,067 | Level 3 |
| Equity instruments | | | |
| — Listed Shares | | | |
| — Unrestricted Shares | **22,705,448** | 21,094,983 | Level 1 |
| — Restricted Shares | **5,528,832** | 2,054,482 | Level 3 |
| — Unlisted Shares | **29,380,374** | 28,001,634 | Level 3 |
| Debt securities | | | |
| — Traded in stock exchanges (other) | **1,704,163** | 3,190,902 | Level 1 |
| — Traded in stock exchanges (private equity bonds) | **292,844** | — | Level 3 |
| — Traded in inter-bank markets | **7,718,421** | 6,060,440 | Level 2 |
| — Traded over the counter | **2,076,273** | 7,608,059 | Level 3 |
| Wealth management products | | | |
| — With expected return rates announced by the issuers | **17,236,362** | 13,347,104 | Level 2 |
| — Without expected return rates announced by the issuers | **2,251,826** | — | Level 3 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.1 Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

| Financial assets | Fair value as at 30 June, 2019 | Fair value as at 31 December, 2018 | Fair value hierarchy |
|---|---|---|---|
| 1) Financial assets at FVTPL *(continued)* | | | |
| Convertible bonds | | | |
| — Listed | 151,765 | — | Level 1 |
| — Unlisted | 12,251,506 | 12,819,736 | Level 3 |
| Asset management plans | | | |
| — Investing in the underlying assets with open or active quotations | 3,143,059 | 4,405,012 | Level 2 |
| — Investing in the underlying assets without open or active quotations | 5,935,034 | 5,902,918 | Level 3 |
| Structured products | 7,824,712 | 8,580,833 | Level 3 |
| Other debt assets | 3,233,133 | 5,179,572 | Level 3 |
| Negotiable certificates of deposit | 4,283,673 | 2,668,343 | Level 2 |
| Entrusted Loans | 579,084 | 742,526 | Level 3 |
| Asset-backed securities | | | |
| — Investing in the underlying assets with open or active quotations | — | 152,568 | Level 2 |
| — Investing in the underlying assets without open or active quotations | 174,035 | 111,991 | Level 3 |
| Others | — | 660,824 | Level 3 |
| Subtotal | 380,032,321 | 391,180,975 | |
| 2) Debt instruments at FVTOCI | | | |
| Distressed debt assets | 80,164,997 | 100,445,929 | Level 3 |
| Debt securities | | | |
| — Traded in stock exchanges | 16,761,466 | 18,569,868 | Level 1 |
| — Traded in inter-bank markets | 14,885,745 | 14,282,697 | Level 2 |
| — Traded over the counter | 399,541 | 390,599 | Level 3 |
| Entrust loans | 4,290,055 | 4,421,136 | Level 3 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.1 Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

| Financial assets | Fair value as at 30 June, 2019 | Fair value as at 31 December, 2018 | Fair value hierarchy |
|---|---|---|---|
| 2) Debt instruments at FVTOCI *(continued)* | | | |
| Asset management plans | | | |
| — Investing in the underlying assets with open or active quotations | 780,725 | 398,058 | Level 2 |
| — Investing in the underlying assets without open or active quotations | 3,469,418 | 3,857,333 | Level 3 |
| Trust products issued by financial institutions | 2,156,635 | 2,490,562 | Level 3 |
| Debt instruments | 1,936,578 | 1,902,184 | Level 3 |
| Asset-backed securities | | | |
| — Traded in active market | 144,805 | 243,365 | Level 1 |
| — Investing in the underlying assets with open or active quotations | 376,954 | 385,576 | Level 2 |
| Subtotal | 125,366,919 | 147,387,307 | |
| 3) Equity instruments at FVTOCI | | | |
| Shares | | | |
| — Listed shares | 215,973 | 31,770 | Level 1 |
| — Unlisted shares | 2,920,775 | 3,212,538 | Level 3 |
| Subtotal | 3,136,748 | 3,244,308 | |
| 4) Loans and advances to customers at FVTOCI | | | |
| Discounted bills | 10,648,193 | 8,568,670 | Level 2 |
| Total | 519,184,181 | 550,381,260 | |
| **Financial liabilities** | | | |
| Financial liabilities mandatorily measured as at FVTPL | | | |
| — Derivatives as hedging instruments | (270,345) | — | Level 2 |
| Financial liabilities designated as at FVTPL | | | |
| — Interests of other holders in consolidated structured entities | (3,043,045) | (4,150,203) | Level 2 |
| — Interests of other holders in consolidated structured entities | — | (578,088) | Level 3 |
| Total | (3,313,390) | (4,728,291) | |

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.1 Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

***Valuation methods for financial instruments***

For Level 1 financial instruments, fair values are unadjusted quotes in active markets for identical assets.

For Level 2 financial instruments, valuations are generally calculated based on the fair value of the underlying investments which are debt securities or publicly traded equity instruments in each portfolio or obtained from third party pricing services agent such as China Central Depository and Clearing Co., Ltd. which are based on the discounted cash flow model. All significant inputs are observable, directly or indirectly from the market.

For Level 3 financial instruments, the management of the Group obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, discount rate, etc.

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.2 Reconciliation of Level 3 fair value measurements

| | Financial assets at FVTPL | Debt instruments at FVTOCI | Equity instruments at FVTOCI | Financial liabilities designated at FVTPL |
|---|---|---|---|---|
| As at 1 January 2019 | 333,745,861 | 113,507,743 | 3,212,538 | (578,088) |
| Recognised in profit or loss | 2,473,730 | (524,621) | — | (82,994) |
| Recognised in other comprehensive income | — | 572,429 | (171,698) | — |
| Additions | 47,577,907 | 6,913,343 | 91,067 | — |
| Settlements/disposals | (64,579,780) | (28,051,670) | (189,470) | 563,672 |
| Transferred-out from Level 3 | (1,838,078) | — | (21,662) | 97,410 |
| As at 30 June 2019 | 317,379,640 | 92,417,224 | 2,920,775 | — |
| Changes in unrealised gains/(losses) for the period included in profit or loss for assets and liabilities held at the end of the period | 2,218,097 | (620,711) | — | — |

| | Financial assets at FVTPL | Debt instruments at FVTOCI | Equity instruments at FVTOCI | Financial liabilities designated at FVTPL |
|---|---|---|---|---|
| As at 1 January 2018 | 354,922,400 | 112,922,923 | 1,411,764 | (2,547,383) |
| Recognised in profit or loss | (4,542,903) | 314,026 | — | 585,720 |
| Recognised in other comprehensive income | — | 576,034 | 531,593 | — |
| Additions | 126,228,108 | 49,999,419 | 1,341,987 | (205,410) |
| Settlements/disposals | (142,381,012) | (50,304,659) | (72,806) | 571,374 |
| Transferred-in to Level 3 | 664,253 | — | — | — |
| Transferred-out of Level 3 | (1,144,985) | — | — | 1,017,611 |
| As at 31 December 2018 | 333,745,861 | 113,507,743 | 3,212,538 | (578,088) |
| Changes in unrealised (losses)/gains for the year included in profit or loss for assets and liabilities held at the end of the year | (4,675,730) | 668,438 | — | 602,656 |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.2 Reconciliation of Level 3 fair value measurements *(continued)*

For the six months ended 30 June 2019 and for the year ended 31 December 2018, certain restricted shares were transferred out from Level 3 fair value measurement as they became unrestricted during the period/year.

### 43.3 Fair value of financial assets and financial liabilities that are not measured on a recurring basis

The tables below summarise the carrying amounts and fair values of those financial assets and financial liabilities that are not measured in the condensed consolidated statement of financial position at their fair value on a recurring basis. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central bank, deposits with financial institutions, placements with financial institutions, financial assets held under resale agreements, finance lease receivables, borrowings from central bank, deposits from financial institutions, placements from financial institutions, financial assets sold under repurchase agreements, due to customers are not included in the tables below.

| | As at 30 June 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Debt instruments at amortised cost | 613,582,487 | 634,711,184 | 612,133,108 | 639,570,808 |
| Loans and advances to customers | 192,186,777 | 194,502,464 | 182,085,368 | 184,594,330 |
| Total | 805,769,264 | 829,213,648 | 794,218,476 | 824,165,138 |
| Financial liabilities | | | | |
| Borrowings | (755,182,807) | (756,362,053) | (760,995,510) | (800,673,225) |
| Bonds and notes issued | (367,872,142) | (366,654,662) | (353,305,299) | (352,417,556) |
| Total | (1,123,054,949) | (1,123,016,715) | (1,114,300,809) | (1,153,090,781) |

(Amounts in thousands of Renminbi, unless otherwise stated)

# IV. EXPLANATORY NOTES *(continued)*

## 43. Fair value of financial instruments *(continued)*

### 43.3 Fair value of financial assets and financial liabilities that are not measured on a recurring basis *(continued)*

| | As at 30 June, 2019 | As at 31 December, 2018 | Fair value Hierarchy | Valuation Technique |
|---|---|---|---|---|
| Financial assets | | | | |
| Loans and advances to customers | **194,502,464** | 184,594,330 | Level 3 | Discounted cash flows |
| Debt instruments at amortised cost | **—** | 37,742,114 | Level 1 | Quoted ask prices in an active market |
| Debt instruments at amortised cost | **75,328,255** | 91,645,594 | Level 2 | Quoted prices from China Central Depository and Clearing Co., Ltd. |
| Debt instruments at amortised cost | **559,382,929** | 510,183,100 | Level 3 | Discounted cash flows |
| Total | **829,213,648** | 824,165,138 | | |
| Financial liabilities | | | | |
| Borrowings | **(756,362,053)** | (800,673,225) | Level 3 | Discounted cash flows |
| Bonds and notes issued | **(39,711,630)** | (33,088,598) | Level 1 | Quoted ask prices in an active market |
| Bonds and notes issued | **(304,701,897)** | (297,499,278) | Level 2 | Quoted prices from China Central Depository and Clearing Co., Ltd. |
| Bonds and notes issued | **(22,241,135)** | (21,829,680) | Level 3 | Discounted cash flows |
| Total | **(1,123,016,715)** | (1,153,090,781) | | |

# V. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on August 28, 2019.

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