中國華融
CHINA HUARONG

中國華融資產管理股份有限公司

China Huarong Asset Management Co., Ltd.

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

(Stock Code: 2799)

2018 Interim Results Announcement

The board of directors (the "**Board**") of China Huarong Asset Management Co., Ltd. (the "**Company**") is pleased to announce the unaudited results of the Company and its subsidiaries for the six months ended June 30, 2018. The Audit Committee of the Board has reviewed the interim results. This results announcement complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to the preliminary announcements of interim results. The printed version of the 2018 interim report of the Company will be published and delivered to the holders of the H Shares of the Company and will be available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.chamc.com.cn) in September 2018.

Contents

1 Definitions

In this results announcement, unless the context otherwise requires, the following expressions have the following meanings:

A Share(s)	ordinary share(s) proposed to be issued by the Company under the A Share Offering and subscribed for in RMB
A Share Offering	the proposed initial public offering in the PRC and listing on the Shanghai Stock Exchange of not more than 6,894,742,669 A Shares of the Company
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 or Articles	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
CCDI and NSC	Communist Party of China Central Commission for Discipline Inspection and the National Supervisory Commission
China or PRC	the People's Republic of China, for the purpose of this results announcement, 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 companies; (4) equities the Company received in satisfaction of debt and assets the Company acquired through distressed asset management; and (5) the equity portfolio the Company received as part of its share capital when it was established in 1999
DES Companies	the companies and enterprises whose distressed indebtedness held by the AMCs were swapped for equity
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
EURO	the lawful currency of European Union
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 or HK	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange or HKEX	The Stock Exchange of Hong Kong Limited
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.
Offshore Preference Shares Issuance Plan	has the meaning as defined in the circular of the Company dated June 23, 2017
Offshore Preference Share Issuance	the not more than 200 million (inclusive) preference shares of an aggregate amount of not more than RMB20 billion (inclusive) or its equivalent, proposed to be issued by the Company in the offshore market pursuant to the Offshore Preference Share Issuance Plan
Central Bank	the People's Bank of China (中國人民銀行), the central bank of the PRC
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, 2018
RMB or Renminbi	Renminbi, the lawful currency of the PRC
ROAA	return on average assets
ROAE	return on average equity attributable to equity holders
Securities and Futures Ordinance or 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
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)
Subject Companies	has the meaning as defined in the Prospectus
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 Calculation	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 Cong (performing functions of the legal representative of the Company)
Authorized representatives	Wang Lihua, Li Yingchun
Secretary to the Board	Li Yingchun
Joint company secretaries	Li Yingchun, Ngai Wai Fung
Registration 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: Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong)
Registration number of financial license	J0001H111000001

Social Credit Code	911100007109255774
Legal advisor as to PRC Law and place of business	Haiwen & Partners 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	Kirkland & Ellis 26/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong
International accounting firm and office address	Deloitte Touche Tohmatsu 35/F, One Pacific Place, 88 Queensway, Hong Kong
Domestic accounting firm and office address	Deloitte Touche Tohmatsu Certified Public Accountants LLP 30/F, Bund Center, 222 Yan An Road East, Shanghai, China

3 Financial Summary

The financial information contained in this results announcement was prepared in accordance with IFRSs. Unless otherwise specified, the financial information herein is the consolidated financial data of the Group and denominated in RMB.

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	(in millions of RMB)	
Income from distressed debt assets classified as receivables	**N/A**	14,629.0
Fair value changes on financial assets	**6,127.7**	5,187.2
Interest income	**44,143.9**	10,103.8
Investment income, gains and losses	**N/A**	20,591.8
Gains from derecognition of financial assets at amortised cost	**4.2**	N/A
Loss from derecognition of debt instruments at fair value through other comprehensive income	**(57.3)**	N/A
Commission and fee income	**2,821.6**	6,860.5
Net gains on disposals of subsidiaries, associates and joint ventures	**379.6**	641.4
Dividend income	**732.3**	—
Other income and other net gains or losses	**2,295.0**	2,792.7
Total income	**56,447.0**	60,806.4
Interest expenses	**(32,756.1)**	(22,030.8)
Commission and fee expenses	**(887.3)**	(495.2)
Operating expenses	**(6,484.2)**	(6,857.4)
Impairment losses on financial assets	**(12,053.6)**	(4,715.6)
Impairment losses on other assets	**(885.7)**	(1,134.1)
Total expenses	**(53,066.9)**	(35,233.1)
Change in net assets attributable to other holders of consolidated structured entities	**(1,299.6)**	(3,887.5)
Share of results of associates and joint ventures	**717.1**	188.9
Profit before tax	**2,797.6**	21,874.7
Income tax expense	**(1,660.9)**	(5,472.7)
Profit for the period	**1,136.7**	16,402.0
Profit attributable to:		
Equity holders of the Company	**684.6**	13,360.5
Holders of perpetual capital instruments	**503.2**	601.9
Non-controlling interests	**(51.1)**	2,439.6

	As of June 30, 2018 (unaudited)	As of December 31, 2017 (audited)
	(in millions of RMB)	
Cash and balances with central bank	**30,272.1**	33,207.1
Deposits with financial institutions	**161,133.6**	162,881.1
Placements with financial institutions	**800.0**	9,822.7
Financial assets held for trading	**N/A**	67,257.7
Financial assets at fair value through profit or loss	**437,702.4**	N/A
Financial assets designated as at fair value through profit or loss	**N/A**	230,045.3
Financial assets held under resale agreements	**65,328.6**	41,238.1
Loans and advances to customers	**175,751.6**	158,221.9
Finance lease receivables	**97,109.6**	95,703.9
Debt instruments at fair value through other comprehensive income	**161,413.8**	N/A
Equity instruments at fair value through other comprehensive income	**1,187.9**	N/A
Inventories	**19,141.3**	16,640.8
Available-for-sale financial assets	**N/A**	195,520.7
Held-to-maturity investments	**N/A**	64,451.2
Financial assets classified as receivables	**N/A**	701,192.4
Debt instruments at amortised cost	**597,887.3**	N/A
Interests in associates and joint ventures	**42,692.2**	42,097.1
Investment properties	**4,434.3**	2,135.4
Property and equipment	**11,038.7**	8,645.2
Deferred tax assets	**15,513.5**	13,400.2
Other assets	**23,888.5**	27,457.4
Goodwill	**336.3**	342.1
Total assets	**1,845,631.7**	1,870,260.3
Borrowings from central bank	**3,790.0**	4,647.0
Deposits from financial institutions	**9,795.6**	10,158.4
Placements from financial institutions	**—**	2,101.6
Financial assets sold under repurchase agreements	**37,219.4**	60,317.0
Borrowings	**815,707.1**	773,057.3
Financial liabilities designated as at fair value through profit or loss	**1,688.3**	2,547.4
Due to customers	**198,429.2**	202,349.9
Tax payable	**2,976.4**	6,025.8
Deferred tax liabilities	**571.7**	1,380.3
Bonds and notes issued	**354,395.1**	331,962.9
Other liabilities	**249,247.3**	293,077.8
Total liabilities	**1,673,820.1**	1,687,625.4

	As of June 30, 2018 (unaudited)	As of December 31, 2017 (audited)
	(in millions of RMB)	
Share capital	**39,070.2**	39,070.2
Capital reserve	**18,991.8**	19,015.0
Surplus reserve	**5,299.7**	5,299.7
General reserve	**14,874.4**	12,882.9
Other reserves	**843.3**	(799.5)
Retained earnings	**40,409.7**	52,706.3
Equity attributable to equity holders of the Company	**119,489.1**	128,174.6
Perpetual capital instruments	**22,585.0**	23,185.4
Non-controlling interests	**29,737.5**	31,274.9
Total equity	**171,811.6**	182,634.9
Total equity and liabilities	**1,845,631.7**	1,870,260.3

	As of June 30, 2018 (unaudited)	As of December 31, 2017 (audited)
Financial Ratios		
Liability to total assets ratio(1)	**90.7%**	90.2%

	For the six months ended June 30,	
	2018 (unaudited)	2017 (unaudited)
Annualized ROAE(2)	**1.11%**	22.6%
Annualized ROAA(3)	**0.12%**	2.1%
Cost-to-income ratio(4)	**24.9%**	15.0%
Basic earnings per share (RMB yuan)(5)	**0.018**	0.34
Diluted earnings per share (RMB yuan)(6)	**N/A**	N/A

(1) Represents the ratio of total liabilities to total assets as 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 land development costs to the total income net of interest expenses, commission and fee expenses and land development expenses.

(5) Represents the net profit attributable to equity holders of the Company during the period divided by the weighted average number of 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 2018, the global economy continued to grow, and the recovery trend has not changed, but the marginal growth momentum was weakened. The US economy continued the strong recovery, and the growth rate of Europe and Japan has declined. The Federal Reserve continued to raise interest rates and the USD index bottomed out. The financial risks in emerging economies intensified cast a shadow over the global economic recovery.

In the first half of 2018, China's economy maintained a generally stable and improved trend, with GDP up 6.8% on a year-on-year basis, which was better than expected. PMI continued to be above the threshold. Consumption has greatly promoted economic growth, employment was improved, and prices of commodities have been relatively stable. As the supply-side structural reform continued to deepen, the economic structure was constantly optimized, and the prevention of financial risks achieved initial results; the quality of economic development continued to improve. The industry adapting to consumption upgrading and strategic emerging industries developed rapidly, and the internal organizational structure of each industry continued to improve.

In the face of complex and severe international political and economic situations, and various contradictions and problems in domestic development, the Chinese government adhered to the principle of steady progress in the first half of 2018 and continued to promote "three eliminations, one reduction and one improvement" ("三去一降一補"), prevent and resolve major risks, conduct precision poverty alleviation, carry out pollution prevention and control, and unswervingly promote various reform measures. The government maintained proactive fiscal policies and prudent monetary policies, deepened the reform of exchange rate marketization, focused on guiding expectations and guiding finance to better serve the real economy. Better results were achieved in the new development concept and a series of reform decision-making arrangements to gradually improve the market confidence. In this context, AMCs firmly grasped development opportunities, calmly responded to various challenges, and closely focused on the main line of supply-side structural reform. Based on the main business, such companies gave full play to the advantages of distressed assets management to play a positive role in guarding against and managing financial risks and serving the real economy.

In the first half of 2018, the regulatory authorities launched a series of policies and measures to strengthen supervision, and smoothly and orderly promoted the financial system to reduce leverage. At the same time, in order to serve the supply-side structural reform and improve the quality and efficiency of serving real economy, the financial institutions were guided back to the source and focusing on the main business. In the supervision of the distressed assets industry, firstly, the government regulated the behavior of bank debt-to-equity swaps, promoted the smooth implementation of market-oriented and legal bank debt-to-equity swaps; secondly, the "Guiding Opinions on Regulating the Asset Management Business of Financial Institutions" (《關於規範金融機構資產管理業務的指導意見》) have been officially implemented to play an important role in eliminating multiple nesting, breaking rigid payment as well as restricting maturity mismatch and regulatory arbitrage; thirdly, the government launched the "Joint Credit Management Measures of Banking Financial Institutions (for Trial Implementation)" (《銀行業金融機構聯合授信管理辦法(試行)》) to curb financing from multiple sources and excessive financing behavior to effectively prevent and control the credit risks caused by rising leverage ratio of enterprises. The introduction of a series of policy measures has established a good external policy environment for AMCs to conduct the main business of distressed assets in a standardized and orderly manner.

4.2 Analysis of Financial Statements

4.2.1 Operating Results of the Group

	For the six months ended June 30,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	**N/A**	14,629.0	N/A	N/A
Fair value changes on financial assets	**6,127.7**	5,187.2	940.5	18.1%
Interest income	**44,143.9**	10,103.8	34,040.1	336.9%
Investment income, gains and losses	**N/A**	20,591.8	N/A	N/A
Gains from derecognition of financial assets at amortised cost	**4.2**	N/A	N/A	N/A
Loss from derecognition of debt instruments at fair value through other comprehensive income	**(57.3)**	N/A	N/A	N/A
Commission and fee income	**2,821.6**	6,860.5	(4,038.9)	-58.9%
Net gains on disposals of subsidiaries, associates and joint ventures	**379.6**	641.4	(261.8)	-40.8%
Dividend income	**732.3**	—	N/A	N/A
Other income and other net gains or losses	**2,295.0**	2,792.7	(497.7)	-17.8%
Total income	**56,447.0**	60,806.4	(4,359.4)	-7.2%
Interest expenses	**(32,756.1)**	(22,030.8)	(10,725.3)	48.7%
Commission and fee expenses	**(887.3)**	(495.2)	(392.1)	79.2%
Operating expenses	**(6,484.2)**	(6,857.4)	373.2	-5.4%
Impairment losses on financial assets	**(12,053.6)**	(4,715.6)	(7,338.0)	155.6%
Impairment losses on other assets	**(885.7)**	(1,134.1)	248.4	-21.9%
Total expenses	**(53,066.9)**	(35,233.1)	(17,833.8)	50.6%
Change in net assets attributable to other holders of consolidated structured entities	**(1,299.6)**	(3,887.5)	2,587.9	-66.6%
Share of results of associates and joint ventures	**717.1**	188.9	528.2	279.6%
Profit before tax	**2,797.6**	21,874.7	(19,077.1)	-87.2%
Income tax expense	**(1,660.9)**	(5,472.7)	3,811.8	-69.7%
Profit for the period	**1,136.7**	16,402.0	(15,265.3)	-93.1%
Profit attributable to:				
Equity holders of the Company	**684.6**	13,360.5	(12,675.9)	-94.9%
Holders of perpetual capital instruments	**503.2**	601.9	(98.7)	-16.4%
Non-controlling interests	**(51.1)**	2,439.6	(2,490.7)	-102.1%

Total income

Total income of the Group decreased by 7.2% from RMB60,806.4 million in the first half of 2017 to RMB56,447.0 million in the first half of 2018.

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

	For the six months ended June 30,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	**N/A**	14,629.0	N/A	N/A
Fair value changes on financial assets	**6,127.7**	5,187.2	940.5	18.1%
Interest income	**44,143.9**	10,103.8	34,040.1	336.9%
Investment income, gains and losses	**N/A**	20,591.8	N/A	N/A
Gains from derecognition of financial assets at amortised cost	**4.2**	N/A	N/A	N/A
Loss from derecognition of debt instruments at fair value through other comprehensive income	**(57.3)**	N/A	N/A	N/A
Commission and fee income	**2,821.6**	6,860.5	(4,038.9)	-58.9%
Net gains on disposals of subsidiaries, associates and joint ventures	**379.6**	641.4	(261.8)	-40.8%
Dividend income	**732.3**	—	N/A	N/A
Other income and other net gains or losses	**2,295.0**	2,792.7	(497.7)	-17.8%
Total income	**56,447.0**	60,806.4	(4,359.4)	-7.2%

Fair value changes on financial assets

Fair value changes on financial assets derive from financial assets at fair value through profit or loss of the Group. The fair value changes on financial assets increased by 18.1% from RMB5,187.2 million in the first half of 2017 to RMB6,127.7 million in the first half of 2018.

The following table sets forth the components of the Group's fair value changes on financial assets for the periods indicated.

	For the six months ended June 30,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Fair value changes on distressed debt assets at FVTPL	**2,969.2**	2,293.7	675.5	29.5%
Fair value changes on other financial assets	**3,158.5**	2,893.5	265.0	9.2%
Total	**6,127.7**	5,187.2	940.5	18.1%

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost other than distressed debt assets	**14,279.1**	N/A	N/A	N/A
Distressed debt assets at amortised cost	**12,162.0**	N/A	N/A	N/A
Loans and advances to customers				
Corporate loans and advances	**4,026.0**	3,141.9	884.1	28.1%
Personal loans and advances	**1,657.0**	1,028.6	628.4	61.1%
Loans to margin clients	**579.8**	273.7	306.1	111.8%
Distressed debt assets at FVTOCI	**4,605.2**	N/A	N/A	N/A
Finance lease receivables	**3,245.9**	2,995.2	250.7	8.4%
Financial assets held under resale agreements	**1,090.2**	1,118.8	(28.6)	-2.6%
Deposits with financial institutions	**1,090.0**	1,067.2	22.8	2.1%
Debt instruments at FVTOCI other than distressed debt assets	**919.6**	N/A	N/A	N/A
Placements with financial institutions	**249.3**	188.2	61.1	32.5%
Balances with central bank	**239.8**	290.2	(50.4)	-17.4%
Total	**44,143.9**	10,103.8	34,040.1	336.9%

The interest income of the Group increased significantly during the period, partly due to changes in the content of interest income after the implementation of the new standard.

Interest income during the current reporting period from debt instruments at amortised cost other than distressed debt assets was RMB14,279.1 million, and is mainly generated by the debt instruments at amortised cost other than distressed debt assets of the Group.

Interest income during the current reporting period from distressed debt assets at amortised cost was RMB12,162.0 million, and is mainly generated by acquiring-and-restructuring distressed debt assets which is classified as distressed debt assets at amortised cost by the Group.

Interest income during the current reporting period from loans and advances to customers increased by 40.9% from RMB4,444.2 million in the first half of 2017 to RMB6,262.8 million in the first half of 2018.

Interest income during the current reporting period from distressed debt assets at FVTOCI was RMB4,605.2 million, and is mainly generated by acquiring-and-restructuring distressed debt assets which is classified as distressed debt assets at fair value through other comprehensive income by the Group.

Interest income during the current reporting period from finance lease receivables increased by 8.4% from RMB2,995.2 million in the first half of 2017 to RMB3,245.9 million in the first half of 2018.

Interest income during the current reporting period from Debt instruments at FVTOCI other than distressed debt assets was RMB919.6 million.

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Asset management business	**1,344.8**	4,730.7	(3,385.9)	-71.6%
Securities and futures brokerage business	**702.2**	1,100.5	(398.3)	-36.2%
Trust business	**497.8**	737.4	(239.6)	-32.5%
Banking and consumer finance business	**231.7**	235.4	(3.7)	-1.6%
Fund management business	**45.1**	56.5	(11.4)	-20.2%
Total	**2,821.6**	6,860.5	(4,038.9)	-58.9%

Commission and fee income of the Group decreased by 58.9% from RMB6,860.5 million in the first half of 2017 to RMB2,821.6 million in the first half of 2018.

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	**1,076.5**	2,192.7	(1,116.2)	-50.9%
Rental income	**424.2**	194.8	229.4	117.8%
Government grants	**179.4**	111.7	67.7	60.6%
Net gains/(losses) on exchange differences	**95.2**	(335.9)	431.1	-128.3%
Others	**519.7**	629.4	(109.7)	-17.4%
Total	**2,295.0**	2,792.7	(497.7)	-17.8%

Other income and other net gains or losses of the Group decreased by 17.8% from RMB2,792.7 million in the first half of 2017 to RMB2,295.0 million in the first half of 2018

Total 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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	**(32,756.1)**	(22,030.8)	(10,725.3)	48.7%
Commission and fee expenses	**(887.3)**	(495.2)	(392.1)	79.2%
Operating expenses	**(6,484.2)**	(6,857.4)	373.2	-5.4%
Impairment losses on financial assets	**(12,053.6)**	(4,715.6)	(7,338.0)	155.6%
Impairment losses on other assets	**(885.7)**	(1,134.1)	248.4	-21.9%
Total expenses	**(53,066.9)**	(35,233.1)	(17,833.8)	50.6%

Total expenses of the Group increased by 50.6% from RMB35,233.1 million in the first half of 2017 to RMB53,066.9 million in the first half of 2018.

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	**(23,382.6)**	(14,059.1)	(9,323.5)	66.3%
Bonds and notes issued	**(6,745.3)**	(5,270.3)	(1,475.0)	28.0%
Due to customers	**(1,443.9)**	(1,434.6)	(9.3)	0.6%
Financial assets sold under repurchase agreements	**(777.6)**	(765.4)	(12.2)	1.6%
Deposits from financial institutions	**(217.6)**	(185.0)	(32.6)	17.6%
Borrowings from central bank	**(58.5)**	(34.2)	(24.3)	71.1%
Placements from financial institutions	**(56.5)**	(105.4)	48.9	-46.4%
Amount due to the MOF	**—**	(47.0)	47.0	-100.0%
Other liabilities	**(74.1)**	(129.8)	55.7	-42.9%
Total	**(32,756.1)**	(22,030.8)	(10,725.3)	48.7%

Interest expenses of the Group increased by 48.7% from RMB22,030.8 million in the first half of 2017 to RMB32,756.1 million in the first half of 2018, primarily due to the significant increase in the size of the Group's borrowings compared to the same period in 2017.

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	**(2,592.8)**	(2,567.8)	(25.0)	1.0%
Turnover tax and surcharges	**(380.4)**	(579.5)	199.1	-34.4%
Others	**(3,511.0)**	(3,710.1)	199.1	-5.4%
Including:				
Cost of properties development	**(801.0)**	(1,286.7)	485.7	-37.7%
Rental and management fee for leases	**(496.9)**	(346.8)	(150.1)	43.3%
Depreciation of property and equipment	**(324.3)**	(259.2)	(65.1)	25.1%
Amortization	**(105.6)**	(115.6)	10.0	-8.7%
Depreciation of investment properties	**(60.9)**	(22.0)	(38.9)	176.8%
Total	**(6,484.2)**	(6,857.4)	373.2	-5.4%

Operating expenses of the Group decreased by 5.4% from RMB6,857.4 million in the first half of 2017 to RMB6,484.2 million in the first half of 2018.

Impairment losses on financial assets

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

	For the six months ended June 30, 2018 *(in millions of RMB)*
Debt instruments at amortised costs	**(9,154.1)**
Loans and advances to customers	**(1,614.5)**
Financial assets held under resale agreements	**(944.7)**
Debt instruments at FVTOCI	**(174.6)**
Finance lease receivables	**(57.8)**
Other financial assets	**(107.9)**
Total	**(12,053.6)**

	For the six months ended June 30, 2017 *(in millions of RMB)*
Other financial assets classified as receivables	(1,461.7)
Loans and advances to customers	(1,265.7)
Distressed debt assets classified as receivables	(1,011.1)
Available-for-sale financial assets	(672.8)
Finance lease receivables	(226.3)
Other financial assets	(78.0)
Total	(4,715.6)

The impairment losses on financial assets of the Group increased by 155.6% from RMB4,715.6 million in the first half of 2017 to RMB12,053.6 million in the first half of 2018, mainly due to a substantial increase in provisions as compared to the corresponding period in 2017 as a result of credit risk exposure of part of financial assets held by the Group during the current period.

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interests in associates and joint ventures	**(780.9)**	(1134.1)	353.2	-31.1%
Foreclosed assets	**(104.8)**	—	(104.8)	100.0%
Total	**(885.7)**	(1134.1)	248.4	-21.9%

Impairment losses on other assets of the Group decreased by 21.9% from RMB1,134.1 million in the first half of 2017 to RMB885.7 million in the first half of 2018.

Profit before tax

Profit before tax of the Group decreased by 87.2% from RMB21,874.7 million in the first half of 2017 to RMB2,797.6 million in the first half of 2018.

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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
PRC Enterprise Income tax	**(3,986.1)**	(5,262.9)	1,276.8	-24.3%
Hong Kong Profits Tax	**(23.3)**	(597.0)	573.7	-96.1%
Macau Profits Tax	**—**	(23.5)	23.5	-100.0%
Deferred Income tax	**2,348.5**	410.7	1,937.8	471.8%
Total	**(1,660.9)**	(5,472.7)	3,811.8	-69.7%

Income tax expense decreased by 69.7% from RMB5,472.7 million in the first half of 2017 to RMB1,660.9 million in the first half of 2018.

Segment results

Each business segment of the Group is subject to different risks and returns. The Group reports its financial results in three segments: (i) distressed asset management; (ii) financial services; and (iii) asset management and investment.

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

	For the six months ended June 30,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**34,679.0**	35,277.1	(598.1)	-1.7%
Financial services	**15,315.2**	14,684.0	631.2	4.3%
Asset management and investment	**10,029.1**	14,241.6	(4,212.5)	-29.6%
Elimination	**(3,576.3)**	(3,396.3)	(180.0)	5.3%
Total	**56,447.0**	60,806.4	(4,359.4)	-7.2%

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

	For the six months ended June 30,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**5,621.2**	14,565.2	(8,944.0)	-61.4%
Financial services	**2,654.9**	3,938.9	(1,284.0)	-32.6%
Asset management and investment	**(3,923.6)**	5,330.6	(9,254.2)	-173.6%
Elimination	**(1,554.9)**	(1,960.0)	405.1	-20.7%
Total	**2,797.6**	21,874.7	(19,077.1)	-87.2%

The table below sets forth the total assets for each of the Group's business segments as at the dates indicated.

	As of June 30, 2018	As of December 31, 2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**950,238.0**	934,966.4	15,271.6	1.6%
Financial services	**565,954.1**	572,779.7	(6,825.6)	-1.2%
Asset management and investment	**402,585.3**	435,906.9	(33,321.6)	-7.6%
Inter-segment elimination	**(88,659.1)**	(86,792.9)	(1,866.2)	2.2%
Total	**1,830,118.2**	1,856,860.1	(26,741.9)	-1.4%

The table below sets forth the annualized pre-tax return on average net assets ("**Pre-tax ROAE**") for each of the Group's business segments for the periods indicated.

	For the six months ended June 30, 2018	2017
Distressed asset management	**11.5%**	29.6%
Financial services	**11.2%**	20.7%
Asset management and investment	**-23.7%**	37.2%

4.2.2 Financial Positions of Our Group

The table below sets forth the major items of balance sheet of the Group as at the dates indicated.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Cash and balances with central bank	**30,272.1**	**1.6%**	33,207.1	1.8%
Deposits with financial institutions	**161,133.6**	**8.7%**	162,881.1	8.7%
Placements with financial institutions	**800.0**	**0.1%**	9,822.7	0.5%
Financial assets held for trading	**N/A**	**N/A**	67,257.7	3.6%
Financial assets at fair value through profit or loss	**437,702.4**	**23.8%**	N/A	N/A
Financial assets designated as at fair value through profit or loss	**N/A**	**N/A**	230,045.3	12.3%
Financial assets held under resale agreements	**65,328.6**	**3.5%**	41,238.1	2.2%
Loans and advances to customers	**175,751.6**	**9.5%**	158,221.9	8.5%
Finance lease receivables	**97,109.6**	**5.3%**	95,703.9	5.1%
Debt instruments at fair value through other comprehensive income	**161,413.8**	**8.8%**	N/A	N/A
Equity instruments at fair value through other comprehensive income	**1,187.9**	**0.1%**	N/A	N/A
Inventories	**19,141.3**	**1.0%**	16,640.8	0.9%
Available-for-sale financial assets	**N/A**	**N/A**	195,520.7	10.5%
Held-to-maturity investments	**N/A**	**N/A**	64,451.2	3.4%
Financial assets classified as receivables	**N/A**	**N/A**	701,192.4	37.5%
Debt instruments at amortised cost	**597,887.3**	**32.4%**	N/A	N/A
Interests in associates and joint ventures	**42,692.2**	**2.3%**	42,097.1	2.3%
Investment properties	**4,434.3**	**0.2%**	2,135.4	0.1%
Property and equipment	**11,038.7**	**0.6%**	8,645.2	0.5%
Deferred tax assets	**15,513.5**	**0.8%**	13,400.2	0.7%
Other assets	**23,888.5**	**1.3%**	27,457.4	1.5%
Goodwill	**336.3**	**0.0%**	342.1	0.1%
Total assets	**1,845,631.7**	**100.0%**	1,870,260.3	100.0%

	As of June 30, 2018		As of December 31, 2017	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Borrowings from central bank	**3,790.0**	**0.2%**	4,647.0	0.3%
Deposits from financial institutions	**9,795.6**	**0.6%**	10,158.4	0.6%
Placements from financial institutions	**—**	**—**	2,101.6	0.1%
Financial assets sold under repurchase agreements	**37,219.4**	**2.2%**	60,317.0	3.6%
Borrowings	**815,707.1**	**48.7%**	773,057.3	45.8%
Financial liabilities designated as at fair value through profit or loss	**1,688.3**	**0.1%**	2,547.4	0.2%
Due to customers	**198,429.2**	**11.9%**	202,349.9	12.0%
Tax payable	**2,976.4**	**0.2%**	6,025.8	0.4%
Deferred tax liabilities	**571.7**	**0.0%**	1,380.3	0.1%
Bonds and notes issued	**354,395.1**	**21.2%**	331,962.9	19.7%
Other liabilities	**249,247.3**	**14.9%**	293,077.8	17.4%
Total liabilities	**1,673,820.1**	**100.0%**	1,687,625.4	100.0%
Share capital	**39,070.2**	**22.7%**	39,070.2	21.4%
Capital reserve	**18,991.8**	**11.1%**	19,015.0	10.4%
Surplus reserve	**5,299.7**	**3.1%**	5,299.7	2.9%
General risk reserve	**14,874.4**	**8.7%**	12,882.9	7.1%
Other reserves	**843.3**	**0.5%**	(799.5)	-0.4%
Retained earnings	**40,409.7**	**23.5%**	52,706.3	28.9%
Equity attributable to equity holders of the Company	**119,489.1**	**69.5%**	128,174.6	70.2%
Perpetual capital instruments	**22,585.0**	**13.1%**	23,185.4	12.7%
Non-controlling interests	**29,737.5**	**17.3%**	31,274.9	17.1%
Total equity	**171,811.6**	**100.0%**	182,634.9	100.0%
Total equity and liabilities	**1,845,631.7**	**100.0%**	1,870,260.3	100.0%

Assets

As of December 31, 2017 and June 30, 2018, the Group's total assets amounted to RMB1,870,260.3 million and RMB1,845,631.7 million, respectively. As of June 30, 2018, the Group's assets mainly include: (i) deposits with financial institutions; (ii) financial assets designated as 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; and (vi) debt instruments at amortised cost.

Deposits with financial institutions

As of December 31, 2017 and June 30, 2018, the Group's deposits with financial institutions amounted to RMB162,881.1 million and RMB161,133.6 million, respectively, representing a decrease of 1.1%.

Financial assets at fair value through profit or loss

As at June 30, 2018, the Group's financial assets at fair value through profit or loss amounted to RMB437,702.4 million.

	As of June 30, 2018
	(in millions of RMB)
Distressed debt assets	**151,004.2**
Funds	**80,324.1**
Trust products	**54,718.6**
Equity instruments	**54,189.7**
Debt securities	
— Corporate bonds	**31,044.7**
— Financial institution bonds	**266.4**
— Public sector and quasi-government bonds	**200.3**
Wealth management products	**21,329.1**
Structured products	**16,326.0**
Asset management plans	**10,102.4**
Convertible bonds	**7,467.7**
Equity instruments with embedded derivatives	**5,240.2**
Negotiable certificates of deposit	**3,463.8**
Entrusted loans	**1,569.7**
Asset-backed securities	**455.5**
Total	**437,702.4**

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 of June 30, 2018	As of December 31, 2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Corporate loans and advances				
— Loans and advances	**123,014.2**	108,863.7	14,150.5	13.0%
— Discounted bills	**—**	5,689.5	(5,689.5)	-100.0%
Subtotal	**123,014.2**	114,553.2	8,461.0	7.4%
Personal loans and advances				
— Loans for business operations	**10,519.1**	10,556.1	(37.0)	-0.4%
— Mortgages	**15,313.9**	11,390.8	3,923.1	34.4%
— Personal consumption loans	**21,519.0**	15,483.2	6,035.8	39.0%
— Others	**2,754.9**	2,504.5	250.4	10.0%
Subtotal	**50,106.9**	39,934.6	10,172.3	25.5%
Loans to margin clients	**7,076.0**	7,523.4	(447.4)	-5.9%
Gross loans and advances	**180,197.1**	162,011.2	18,185.9	11.2%
Less: Allowance for Impairment losses				
— 12 month ECL model	**(2,310.9)**	N/A	N/A	N/A
— Lifetime ECL model	**(2,134.6)**	N/A	N/A	N/A
— Individual assessed	**N/A**	(1,082.7)	N/A	N/A
— Collectively assessed	**N/A**	(2,706.6)	N/A	N/A
Subtotal	**(4,445.5)**	(3,789.3)	(656.2)	17.3%
Net loans and advances to customers	**175,751.6**	158,221.9	17,529.7	11.1%

As of December 31, 2017 and June 30, 2018, the Group's loans and advances to customers amounted to RMB158,221.9 million and RMB175,751.6 million, respectively, representing an increase of 11.1%.

Finance lease receivables

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

	As of June 30, 2018	As of December 31, 2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	**37,450.0**	34,965.0	2,484.9	7.1%
1 year to 5 years (inclusive)	**67,399.1**	70,832.4	(3,433.2)	-4.8%
Over 5 years	**6,723.8**	3,782.8	2,941.0	77.7%
Gross amount of finance lease receivables	**111,572.9**	109,580.2	1,992.7	1.8%
Less: Unrealized finance income	**(12,074.5)**	(11,852.8)	(221.8)	1.9%
Net amount of finance lease receivables	**99,498.4**	97,727.4	1,771.0	1.8%
Less: Allowance for impairment losses	**(2,388.8)**	(2,023.5)	(365.3)	18.1%
Net amount of finance lease receivables	**97,109.6**	95,703.9	1,405.7	1.5%
Present value of minimum finance lease receivables				
Within 1 year (inclusive)	**32,300.2**	29,913.5	2,386.7	8.0%
1 year to 5 years (inclusive)	**60,803.8**	64,215.8	(3,412.0)	-5.3%
Over 5 years	**6,394.4**	3,598.1	2,796.3	77.7%
Total	**99,498.4**	97,727.4	1,771.0	1.8%

As of December 31, 2017 and June 30, 2018, the Group's finance lease receivables amounted to RMB95,703.9 million and RMB97,109.6 million, respectively, representing an increase of 1.5%.

Debt instruments at FVTOCI

The following table sets out the major components of the Group's debt instruments at FVTOCI as at the date indicated.

	As of June 30, 2018 *(in millions of RMB)*
Distressed debt assets	**108,552.0**
Debt securities	
— Corporate bonds	**21,884.5**
— Public sector and quasi-government bonds	**8,744.5**
— Financial institution bonds	**540.3**
— Government bonds	**530.5**
Trust products	**6,932.4**
Entrusted loans	**6,147.6**
Discounts	**4,434.6**
Asset management plans	**3,066.8**
Asset-backed securities	**580.6**
Total	**161,413.8**

As at 30 June 2018, the debt instruments at FVTOCI of the Group amounted to RMB161,413.8 million.

Debt instrument at amortised cost

The following table sets forth the major components of the Group's debt instruments at amortised cost as at the date indicated.

	As of June 30, 2018 *(in millions of RMB)*
Distressed debt assets	
Loans acquired from financial institutions	**38,148.1**
Distressed debt assets acquired from non-financial institutions	**234,383.9**
Subtotal	**272,532.0**
Less: Allowance for impairment losses	
— 12 months ECL	**(10,704.8)**
— Lifetime ECL	**(15,851.6)**
Subtotal	**(26,556.4)**
Trust products	**94,527.1**
Entrust loans	**83,915.3**
Debt securities	**78,621.0**
Debt assets	**74,240.5**
Asset management plans	**31,773.3**
Others	**9,817.3**
Subtotal	**372,894.5**
Less: Allowance for impairment losses	
— 12 months ECL	**(4,709.0)**
— Lifetime ECL	**(16,273.8)**
Subtotal	**(20,982.8)**
Total	**597,887.3**

Liabilities

The major components of the Group's liabilities include: (i) borrowings; (ii) due to customers; and (iii) bonds and notes issued.

Borrowings

As of December 31, 2017 and June 30, 2018, the Group's borrowings amounted to RMB773,057.3 million and RMB815,707.1 million, respectively, representing an increase of 5.5%.

Due to customers

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

	As of June 30, 2018	As of December 31, 2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate customers	**87,268.3**	96,481.6	(9,213.3)	-9.5%
Individual customers	**19,658.3**	19,344.7	313.6	1.6%
Time deposits				
Corporate customers	**36,311.7**	36,435.8	(124.1)	-0.3%
Individual customers	**26,272.9**	26,738.4	(465.5)	-1.7%
Pledged deposits	**8,020.8**	9,340.5	(1,319.7)	-14.1%
Others	**20,897.2**	14,008.9	6,888.3	49.2%
Total	**198,429.2**	202,349.9	(3,920.7)	-1.9%

As of December 31, 2017 and June 30, 2018, the Group's due to customers amounted to RMB202,349.9 million and RMB198,429.2 million, respectively, representing a decrease of 1.9%.

Bonds and notes issued

As of December 31, 2017 and June 30, 2018, the Group's bonds and notes issued amounted to RMB331,962.9 million and RMB354,395.1 million, respectively, representing an increase of 6.8%.

4.2.3 Contingent Liabilities

Due to the nature of the Group's business, the Group is involved in certain legal proceedings in the ordinary course of business, including litigation and arbitration. In light of the legal advice, the Group will make provision for the probable losses with respect to those claims timely when senior management can reasonably estimate the outcome of the proceedings. The Group will 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 bearing legal liabilities is remote or that any resulting liabilities therefrom will not have a material adverse impact on the financial positions or business performance of the Group.

As of December 31, 2017 and June 30, 2018, the provisions made by the Group for the relevant litigations were both RMB109.6 million. The Directors believe that the results of these litigations will not have a material impact on the financial position or operations of the Group.

4.2.4 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 Group under the PRC GAAP and IFRS.

4.3 Business Overview

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

The tables below set 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,			
	2018		2017	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Total income				
Distressed asset management	**34,679.0**	**61.4%**	35,277.1	58.0%
Financial services	**15,315.2**	**27.1%**	14,684.0	24.1%
Asset management and investment	**10,029.1**	**17.8%**	14,241.6	23.4%
Elimination	**(3,576.3)**	**-6.3%**	(3,396.3)	-5.5%
Total	**56,447.0**	**100.0%**	60,806.4	100.0%

	For the six months ended June 30,			
	2018		2017	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Profit before tax				
Distressed asset management	**5,621.2**	**200.9%**	14,565.2	66.6%
Financial services	**2,654.9**	**94.9%**	3,938.9	18.0%
Asset management and investment	**(3,923.6)**	**-140.2%**	5,330.6	24.4%
Elimination	**(1,554.9)**	**-55.6%**	(1,960.0)	(9.0%)
Total	**2,797.6**	**100.0%**	21,874.7	100.0%

Distressed asset management is the foundation of all product business systems of the Group and an important source of income and profit of the Group. Total income from this segment was RMB34,679.0 million and the profit before tax was RMB5,621.2 million in the first half of 2018, and the percentages of the income and profit were both increased.

The financial services is an important and integral part of the Group's integrated asset management business. Total income from this segment was RMB15,315.2 million and the profit before tax was RMB2,654.9 million in the first half of 2018.

The Group's asset management and investment business is an extension and supplement to its distressed asset management. Total income from this segment was RMB10,029.1 million and the profit before tax was RMB-3,923.6 million in the first half of 2018.

4.3.1 Business Synergy

Through strategic synergy and synergy between products and businesses, organizational network and clients, and internal resources, the Group has realized resources sharing, complementarity of strength, synergistic development between the Head Office, Company branches and subsidiaries.

In the first half of 2018, the Group actively promoted business cooperation between the Head Office, Company branches and subsidiaries. Through the synergistic cooperations between (i) Company branches and subsidiaries; (ii) Company branches and Company branches; (iii) Company branches and the business department of the Head Office; (iv) subsidiaries and subsidiaries; and (v) subsidiaries and the business department of the Head Office, operators implemented projects involving RMB12,415.61 million and realized the total business income of RMB4,663.99 million from all synergistic programs.

4.3.2 Human Resources Management

In the first half of 2018, earnestly implementing the arrangements and requirements of party committees under the CBIRC and the Company, the Group conducted radical reforms and continuously promoted the reform of human resources system to practically optimize staff structure and expand channels for attracting talents. The Group also kept developing the remuneration incentive and restraint system and orderly promoted the implementation of employee security system to reinforce their belongingness and cohesion. In addition, the Group made continuous efforts to develop the comprehensive training system with "two engines" (comprehensive training and business training) interacting with each other to constantly improve employees' capabilities and qualities, so as to provide a solid talent guarantee for the long-term development of the Group.

Employees

The Group had 12,523 employees as of June 30, 2018, including 2,788 employees working for the Company and 9,735 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, Asset Valuer, banking practice qualification and securities practice qualification.

The table below sets forth a breakdown of employees of the Group, by age, as of June 30, 2018.

	Number	Percentage (%)
Aged 35 or below	7,150	57%
Age 36–45	2,930	24%
Age 46–55	2,173	17%
Aged above 55	270	2%
Total	**12,523**	**100%**

The table below sets forth a breakdown of employees of the Group, by education level, as of June 30, 2018.

	Number	Percentage (%)
Doctoral's degree or doctoral candidate, and above	231	2%
Master's degree or master candidate	4,075	32%
Bachelor's degree or undergraduate	6,853	55%
Junior college or below	1,364	11%
Total	**12,523**	**100%**

Remuneration policy

Adhering to the employee remuneration management system with the principles of "position-based salary and performance-based bonus", the Group determined employees' salaries rationally according to their post duties, competence and contributions. With incentive and restraint system intensified continuously, the Group has established a healthy and competitive remuneration management system based on its operating results and the principle of internal fairness.

Education and training

In the first half of 2018, the Group kept improving the scientification, institutionalization, standardization, refinement and transparency levels of the education and training work. Striving to build a comprehensive training system, the Group vigorously carried out various efficient and pragmatic trainings with rich contents and diversified forms for personnel at various levels and different business lines, including rotational training themed on Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the spirit of the 19th National Congress of the Communist Party of China, interpretation and explanation of major regulatory policies and opinions, which provided a strong talent support and intellectual guarantee for the sustained healthy development of the Group.

4.3.3 No material Changes

Save as disclosed in this results announcement, there are no material changes 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 2018, centering on the spirit of the National Financial Work Conference and regulatory requirements of the CBIRC, the Group kept strengthening risk and compliance management awareness, continued to improve the risk management system and tools, inspected project risks, actively boosted risk dissolution, practically strengthened internal control management and made efforts to build a new risk management system, so as to provide support and guarantee for the quality and steady development of the Group.

4.4.1 Comprehensive Risk Management System

In the first half of 2018, the Group revised and issued the Basic Risk Management Procedure according to regulatory requirements and actual risk management, further promoted the construction of the comprehensive risk management system and implemented the risk management responsibilities. The Group also further enhanced risk management results by adjusting and improving policies in relation to authorization management, quota & concentration management and risk assessment, optimizing tools and means for monitoring and measuring risks, improving monitoring and reporting mechanism and conscientiously conducting risk classification, impairment and evaluation of assets, and other works. The Group inspected project risks, and made greater efforts in disposal and mitigation of major projects to reduce the total amount of risk assets. The Group also strengthened internal control and operational risk management, and applied requirements for internal control management to daily operation and management activities. In addition, the Group stepped up developing a risk management information system, improved data quality, continuously developed big data-based risk warning system, formally launched the data market for the comprehensive risk management system and put the parent company's impairment & evaluation system under IFRS 9 into operation, which all laid a solid foundation for quality development of the Group.

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 2018, the Group continued to promote the construction of credit risk management mechanism and tools. Based on IFRS 9, the Group revised the Methods for Measuring Provision for Impairment of Operating Assets and Methods for Evaluating Fair Value of Operating Assets, and made consultation and improvement for the risk measurement model. Major functions of the parent company's new impairment & evaluation management system had been in trial operation since the first half of 2018, and will be continuously improved and gradually piloted and expanded in its subsidiaries in the year. The Group also kept optimizing customer credit risk internal rating model and applied internal rating results in asset impairment and customer credit limits to gradually promote quantitative management of customer credit risks. Based on improving the customer hosting system, the Group strengthened the management on customer risk limits and concentrations and further specified the process for calculating, verifying and managing customer credit limits, so as to tighten approval authority and control excessive provision of credits. Besides, the Group further raised the requirements for penetrative identification of customer relation, and made continuous efforts to improve data governance and development of customer risk limits and concentrations management system.

In the first half of 2018, focusing on enhancing credit risk monitoring and management, the Group conducted risk screenings to learn more about risk limits and improve the quality of credit risk management. Based on greater efforts in strengthening the regular assessment on asset quality and according to internal and external inspection requirements, the Group tightened up its controls over the information system for asset risk classification and optimized the functions of risk classification system, which improved the accuracy and timeliness of asset risk classification. Meanwhile, the Group actively promoted the disposal and mitigation of the existing risks by taking advantage of disposal of key project risks and established a cooperative working mechanism to help achieve practical results in risk mitigation.

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 fluctuations of interest rates, exchange rates and stock and commodities prices. The market risk of the Group mainly involves changes in stocks, bonds and other investment businesses and exchange rates.

In the first half of 2018, the Group enabled the measurement results of market risks to be more accurate and timely by further solidifying the foundation for market risk management, stepping up works relating to classification of account books of its subsidiaries, establishing a mechanism and procedure to manage the classification of account books of the Group and improving the methods for evaluating trading book position. The parent company and some subsidiaries involved in market risks formulated or improved the measures for market risk management and other regulatory documents, which further improved the market risk management system.

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) and other management policies, which defined the organizational structure, responsibility system, management process and internal control in interest rate risk management and standardized interest rate risk management. Meanwhile, the Group also positively studied solutions to interest rate liberalization reform and actively managed asset liabilities, with the focus on optimization of asset-liability structure, to reduce financing costs. Besides, the Group better matched debts with asset maturity and interest rate structure through strict control over the duration of debt restructuring, and regularly analyzed the sensitivity of interest rate risk.

Regarding foreign exchange risk, the Group paid close attention to the impact of domestic and overseas macroeconomic environment on foreign exchange market, and kept enhancing its ability to manage foreign exchange risk. The Group, operating mainly in China, adopts Renminbi as the recording currency. The proceeds from listing with exchange rate unsettled will be settled flexibly according to use of proceeds and exchange rate fluctuations, and will be used to further enhance the ability of operating distressed assets, to improve the integrated financial service platform and to develop the asset management and investment business. The overseas subsidiaries issued USD bonds, and carried out overseas borrowings. Assets invested are mainly stated in USD, EURO or HKD linked with the USD exchange rate, and exchange rate risks are effectively controlled by the Group through matching the currencies of the assets and liabilities.

In respect of price risks of the equity of the listed company, the Group closely monitored the macroeconomic situation at home and abroad, the trade frictions among major economies, changes in industry fundamentals, abundance of market liquidity, changes in regulatory policies and other factors affecting the business development, profitability and valuation of listed companies. Meanwhile, the Group effectively managed the market value of investment portfolio by means of real-time market value monitoring, periodic stress testing, early warning for close position/short covering, sudden risk disposal mechanism, so as to maximize the value maintenance and appreciation of state-owned assets. In addition, subject to the provisions of relevant policies of the Ministry of Finance, regulatory authorities, exchanges, etc., the Group increased or reduced shareholding of relevant equity portfolios, and promptly disclosed the arrangement for shareholding increase/reduction and relevant results to protect the investors' rights.

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 situation where the Group fails to meet the funding requirement effectively without affecting the daily operations or financial conditions. Market liquidity risk refers to the situation 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 unable to meet the needs of business development.

The Group actively implemented the requirements of the regulatory authorities for liquidity management. The Group adopted a centralized liquidity management system, enhanced the initiative and forward-looking nature of liquidity management, and strengthened the liquidity risk control. Focusing on assets and liabilities management, the Group maintained the mismatch of assets and liabilities at an acceptable liquidity risk level. Target leverage ratio was determined in accordance with regulatory requirements to effectively control the degree of leverage and to guarantee its long-term liquidation.

The Group monitored the maturity mismatch between assets and liabilities, and implemented liquidity management through cash flow forecasts and controls. With respect to asset management, the Group established the working capital planning mechanism, adopted fund transfer pricing method and other measures to expedite the turnover of funds, and maintained fund positions at a reasonable level. With respect to liability management, external financing was centrally managed and efforts were made to enhance financing channels and innovations. The Group continuously improved the multi-term and multi-variety market-based financing methods with equal emphasis on issuing financial bonds, long-term financing plans and interbank borrowings, complemented with interbank borrowings and pledge-style repo, and kept improving the proportion of medium and long-term liabilities to effectively improve the debt structure.

The methods for monitoring and controlling liquidity risks of the Group include indicator monitoring, alert management, stress testing and contingency plans. The Group strengthened the centralized management of its capital planning and liquidity, enhanced early-warning control of mature assets and liabilities, set up and monitored liquidity risk monitoring indicators according to regulatory requirements and the actual situation of the Group, so as to conduct dynamic monitoring, analysis and control of liquidity risks. The Group carried out liquidity risk stress tests on a monthly or quarterly basis, established sound hypothetical scenarios and test models, developed early warning management and risk mitigation mechanisms, and continuously optimized emergency plans.

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. The operational risks that the Group may face mainly arise from internal fraud, external fraud, employment practices and accidents on the Group's premises, business activities of customers or related to the Group's products, damage to physical assets, incidents related to IT system and incidents related to execution, delivery and process management.

In the first half of 2018, the Group further strengthened operational risk management, organized various units to sort out operational risk issues, and formulated rectification plans on a case-by-case basis by centering on source management, process control, risk prevention and quality improvement, so as to effectively prevent operational risks from triggering "grey rhino" events.

The Group attached great importance to the development of a comprehensive legal risk prevention and control system covering all processes and systems, continuously improved the legal work system, optimized the legal review process, strengthened legal contract management, made steady headway in the innovation of case management mechanism and conducted legal trainings. The Group continuously strengthened the development of the legal compliance risk management system, actively implemented regulatory policies, tightened compliance inspection and assessment, improved the organization and staffing of compliance management agencies, continued to promote internalization of external regulations, compliance assessment and system compliance review, strengthened the staff's compliance awareness, and created a sound culture of compliance.

The Group further refined its information technology risks prevention system. According to relevant requirements of the CBIRC, from the aspect of development of science & technology governance mechanism, underlying security control technologies and measures, access control and rights management, the Group carried out safety-related self-examination and self-correction, conducted special audit of information technology risks, and actively improved the development of IT system, information security and service management systems, and other internal control systems. In the first half of 2018, 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 in respect of the Group's operations, management and other activities or external events.

The Group attached great importance to reputation risk management, incorporated reputation risk management into corporate governance and comprehensive risk management systems, continuously improved the unified reputation risk management mechanism at the Group level, guarded against reputation risks and responded to reputation events in a proactive and effective manner, and insisted on combining unified management of reputation risks with classification management, daily management with special management, so as to ensure timely discovery and handling of events or hazards in relation to reputation risks of the Group.

On April 17, 2018, a message on the website of the CCDI and NSC said: Lai Xiaomin, the former party secretary and chairman of the Company, was under disciplinary review and investigation for suspected serious violation of Party disciplinary rules and law, which triggered public concern and reports by some media and websites. To maintain the normal operation and steady development, the Company promptly established a new leadership team. Under the direction of the new leadership team, according to proactive and prudent management principle, prompt and orderly arrangements were made to effectively strengthen public opinion monitoring, analysis, early warning and emergency response at the Group level, so as to minimize the adverse impact of personal incident of Lai Xiaomin on the Company, which ensured the smooth, orderly and normal operation of various businesses and inner management.

4.4.7 Internal Audit

The Group adopted an internal audit system and has professional auditors responsible for the independent and objective supervision, examination and evaluation of the Group's conditions such as financial revenues and expenditures, business activities, risk profile and internal control. The auditors shall report to the party committee, 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 2018, the Group duly performed its audit duties. Adhering to the problem-, risk-, result- and source-oriented principle, the Group organized and completed various auditing and supervision works, and continuously improved the internal audit systems and management models that meet the development needs of listed companies. The Group carried out comprehensive audits, routine audits and special audits on various units in such aspects as corporate governance, business operation, risk management, financial management, internal control, etc., and conducted economic responsibility audits of the middle and senior management during their term of office. The Group continuously strengthened its internal audit team, and organized professional audit trainings to enhance its internal audit team's ability in performing duties and give full play to the internal audit and supervision functions.

4.4.8 Anti-money Laundering Management

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

In the first half of 2018, to implement the new regulatory requirements, the Group further strengthened the identification of customers' identities, revised the internal control system of anti-money laundering, and optimized relevant information systems. Through anti-money laundering training, the Group further enhanced all employees' awareness of anti-money laundering and ability to prevent and control risks.

4.5 Capital Management

In accordance with the external regulatory requirements and the corporate development strategies, the Company continuously improved its capital measurement, planning, utilization, monitoring and efficiency assessment mechanisms, and optimized its internal capital allocation to ensure sound and compliant capital conditions, and to support the steady development thereof.

As at December 31, 2017 and June 30, 2018, the capital adequacy ratio of the Company was 13.06% and 13.83%, respectively.

As at December 31, 2017 and June 30, 2018, the leverage ratio of the Company was 10.8:1 and 10.0:1, respectively.

4.6 Outlook

Looking forward to the second half of the year, the global economy is expected to continue its recovery. Specifically, the United States will continue to grow sharply and inflation will accelerate upwards; the growth of the Euro zone may regain momentum; Japan is also expected to continue growth. At the same time, challenges such as trade frictions, political risks, and tightening of the external environment will bring greater pressure on emerging markets.

The meeting of Political Bureau of Central Committee clearly stated that in the second half of the year, it will further promote the supply-side structural reform and focus on improving underdeveloped areas as the key task of deepening supply-side structural reform. It will strengthen efforts in improving underdeveloped areas in the infrastructure sector, enhance innovation, develop new drivers in the economy, open up the system block of capacity reduction, and reduce enterprise costs. It will accelerate the construction of a modern economic system, promote high-quality development, uphold the strategy of making progress while maintaining stability, and keep the economy operating in a reasonable range. It will adhere to the implementation of a proactive fiscal policy and a prudent monetary policy to improve the forward-looking, flexibility and effectiveness of policies. Fiscal policy should play a greater role in expanding domestic demand and structural adjustment. It should properly control the supply of currency to keep the reasonable and sufficient liquidity. It will combine the risk prevention and serving real economy together, conduct deleveraging, grasp the strength and rhythm, and coordinate the implementation of various policies. It will improve the ability and willingness of finance serving the real economy through institutional innovation, implement the major measures to expand opening up and substantially relax market access, and promote the further development of "One Belt and One Road".

Facing the new situation of internal and external environment, China Huarong will implement the regulatory requirements in an in-depth and consistent manner under the direction of the new leadership team. In terms of business development, the Group will seize the new round of development opportunities of the distressed assets industry, return to the source, focus on the core business, improve the ability to serve the real economy, and play an important role in the distressed assets management market. Firstly, in accordance with the concept of high-quality development, the Group will maintain long-term steady growth by transforming liability-driven development and building multi-licensed synergetic business model centering on the core business. Secondly, the Group will highlight the core business in distressed assets, emphasizing on acquisition-and-disposal model, acquisition-and-reconstructing model, the distressed enterprises reorganization, debt-to-equity swaps and other business, in order to establish a extensive business pattern in distressed assets and constantly strengthen the core competitiveness. Thirdly, the Group will take advantage of several licenses to build multi-licensed synergetic business development. Fourthly, the Group will strengthen the risk prevention and control and promote risky asset disposal in a safe and orderly manner. Fifthly, the Group will improve corporate governance and strengthen group control and management.

Looking forward to the future, China Huarong will take the establishment of "New Huarong" as a new starting point, fully exert the advantages in business resources, customer network and talent team in the distressed assets industry accumulated for 18 years, give full play to the main strengths in the core business, distressed assets management, and multi-licensed synergy to seize the market opportunity of the increase in the disposal of distressed assets in the banking industry under new reality. The Group will unswervingly enhances the core business, the distressed assets management, continuously improve the business model of sustainable development and strive to achieve high-quality development.

5 Changes in Share Capital and Information on Substantial Shareholders

5.1 Changes in Share Capital

As of June 30, 2018, 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%

5.2 Substantial Shareholders

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

As of June 30, 2018, 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)

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]
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. filed with the Hong Kong Stock Exchange on November 13, 2015, 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 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 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, 2018.

(7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at June 30, 2018.

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 revenue and expenditure and taxation policies of the PRC.

China Life Insurance (Group) Company

It is a financial insurance company wholly owned by the MOF. China Life Insurance (Group) Company and its subsidiaries constitute China's largest commercial insurance corporation. 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 a leading real estate developer 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 June 30, 2018, the Board of Directors comprised Mr. Wang Lihua as an executive Director; Mr. Li Yi, Ms. Wang Cong (acting chairman), Ms. Dai Lijia and Mr. Zhou Langlang as non-executive Directors; and Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun as independent non-executive Directors.

6.1.2 Supervisors

As of June 30, 2018, 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 June 30, 2018, the senior management of the Company comprised Mr. Wu Jinglong, Mr. Wang Lihua, Mr. Xiong Qiugu, Mr. Hu Jiliang, Mr. Wang Wenjie, Ms. Hu Ying, Mr. Yang Guobing and Mr. Li Yingchun.

6.2 Changes

6.2.1 Director

On May 11, 2018, with the approval of the Board of the Company, Mr. Wang Zhanfeng and Ms. Li Xin were respectively nominated as an executive director of the Company. Ms. Wang Cong, a non-executive director of the Company, was elected to perform the duties of the Chairman of the Board and the chairman of the Strategy and Development Committee of the Board until the appointment of a new chairman by the Company and approval for the qualification of the new chairman by the CBIRC. At the same time, according to the Articles of Association, Ms. Wang Cong will also perform duties of the legal representative of the Company when she acts on behalf of the Chairman of the Board. On June 29, 2018, with the approval granted at the Company's third extraordinary general meeting for 2018, Mr. Wang Zhanfeng and Ms. Li Xin were appointed as executive director of the Company serving a term from the date of obtaining the approval for their director qualification from CBIRC to the election of the next session of Board of Directors. Please refer to the announcements and circulars of the Company dated May 11, 2018, May 15, 2018 and June 29, 2018 for details.

On June 29, 2018, with the approval of the Board of the Company, Mr. Wang Zhanfeng was elected as Chairman of the Board, whose term of office is from the date of obtaining the approval for his qualification from CBIRC to the election of the next session of Board of Directors. At the same time, according to the Articles of Association, Mr. Wang Zhanfeng will also perform duties of the legal representative of the Company and act as the chairman of the Strategy and Development Committee of the Board when he serves as Chairman of the Board. Ms. Li Xin was appointed as member of the Strategy and Development Committee of the Board. Her term as a member of the Strategy and Development Committee, which is the same as her term as an executive Director, shall become effective upon approval by the CBIRC of her qualification as a director, and she shall hold office until the election of the next session of the Board. Please refer to the announcement of the Company dated June 29, 2018 for details.

On April 17, 2018, Mr. Lai Xiaomin resigned as chairman of the Board and executive director of the Company due to personal reason. Please refer to the announcement of the Company dated April 20, 2018 for details.

6.2.2 Senior Management

On May 11, 2018, with the approval of the Board of the Company, Ms. Li Xin was appointed as president of the Company, whose term of office lasts from the date of obtaining the approval from CBIRC until the Board renews her term or appoints a new president. Ms. Li Xin began to perform the duties of the president of the Company from May 11, 2018. Please refer to the announcement of the Company dated May 11, 2018 for details.

On April 28, 2018, the Party committee of CBIRC appointed Mr. Wu Jinglong as member of the Party committee and secretary of the discipline inspection commission of the Company, and removed Mr. Li Yuping from the position of member of the Party committee and secretary of the discipline inspection commission of the Company.

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. Liu Junmin ceased to be an independent director of AVIC Electromechanical Systems Co., Ltd.

Save as disclosed above, there is no 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 laws, regulations, regulatory documents and the Articles of Association, and in light of its actual operating conditions, the Company strived to build a corporate governance mechanism that carries out its duties, responsibilities, coordinated operations, and effective checks and balances, and continuously enhanced the effectiveness of corporate governance. Efforts were also made to 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 continuously strived to protect all the rights of its Shareholders, further improved the operation mechanism and system construction of corporate governance and enhanced information disclosure and investor relations management. 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 its place of listing, so as to treat its domestic and foreign investors on an equal basis and protect the interests of all Shareholders.

7.2 Shareholders' General Meeting

On March 20, 2018, the Company held the first extraordinary general meeting for 2018 in Beijing to consider and approve three resolutions, namely the report on the use of previously raised funds of the Company, the self-assessment report on the land and residential property sales matters involving the real estate property development projects of the Company's real estate subsidiaries, and the undertaking letter in relation to the land and residential property sales matters involving the real estate property development projects of the Company's real estate subsidiaries.

On April 9, 2018, the Company held its second extraordinary general meeting for 2018 in Beijing to consider and approve three resolutions, namely, the fixed assets budget for 2018, the final financial account plan for 2017, and the profit distribution plan for 2017 of the Company.

The annual general meeting for 2017 of the Company was held in Beijing on May 15, 2018 to consider and approve three resolutions, namely, the work report of the Board for 2017, the work report of the Board of Supervisors for 2017, and the appointment of external auditors for 2018. The meeting reviewed the work report of the independent non-executive Directors for 2017.

On June 29, 2018, the Company held its third extraordinary general meeting for 2018 in Beijing to consider and approve two resolutions, namely, election of Mr. Wang Zhanfeng as an executive director and election of Ms. Li Xin as an executive director.

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 of June 30, 2018, the Board comprised 9 members, including one executive Director, four non-executive Directors and four 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, at which 34 resolutions were considered and passed, including, among others, the work report of the Board for 2017, the final financial account plan for 2017, the profit distribution plan for 2017, and the fixed assets budget for 2018. In addition, five reports were debriefed, which included the related party transaction management for 2017 and the work plan of the Audit Committee of the Board for 2018.

7.4 Board of Supervisors

As of June 30, 2018, 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 duties in accordance with the powers conferred by laws, regulations, regulatory provisions and the Articles of Association, and carried out daily supervision on the basis of performance, finance, internal control and risk to continuously strengthen the self-construction of the Board of Supervisors, continuously improve the 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 three meetings, at which 18 resolutions including the work report of the Board of Supervisors for 2017, the work plan of the Board of Supervisors for 2018, the profit distribution plan for 2017 and the 2017 annual report were considered and passed. The special committee of the Board of Supervisors held four meetings to consider and pass 10 resolutions regarding, among others, the financial statements and audit report for 2017.

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 economic restructuring and economic transformation and upgrading, actively changed the development concept, adjusted the business model and development mode, aimed at achieving high-quality development, and enhanced the ability of sustainable development; it further focused on the main business of distressed assets, actively supported the service of the real economy, actively built market-oriented, professional and diversified modern financial service system; it comprehensively strengthened the construction of corporate governance and internal control mechanisms, effectively strengthened risk management, prevention mitigation work, enhanced corporate transparency, shaped a good corporate image, and conducted steady and compliant operations.

During the Reporting Period, the Company held 6 presidential office meetings and 17 special meetings to review and approve 48 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 2018, the Group initiated the self-assessment of the internal control system and organized various units to comprehensively sort out the various business and management activities 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 two-way benchmarking of external compliance documents and internal systems. Focusing on problems, the Group targetedly 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, 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 (《合規風險管理辦法》) to specify the scope of duties in respect of the prevention and control of sanctions risks for the legal and compliance departments of the Group.

2. The Group has compiled the compliance operational handbook and compliance review manual to regulate operating procedures 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 (《關於投資對象受制裁及出口管制情況的盡職調查問卷》) 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 (《制裁風險控制承諾函》) and issued it to all units within the Group as a basic tool for the control of sanctions risks.

5. Since the listing, the Company strictly complied with the Company's requirements on the prevention of OFAC sanctions risks when conducting new equity investment businesses. Through reviewing the publicly available lists of restricted parties and restricted countries of the United States, the European Union, the United Kingdom and the United Nations, the Company identified the sanctions risks for potential investment opportunity in a timely manner. Since the listing, new equity investment projects have not been related to OFAC sanction risks.

6. For the Excluded DES Companies trading with the sanctioned country or person as showed by public information disclosed in the Prospectus, the Group has the corresponding business groups and project managers responsible for the daily management of the enterprise. The Group obtained the daily management information of the enterprises through attending the shareholders' general meetings, the board of directors and the board of supervisors of the interested enterprises and conducting regular visits. The Group currently did not find any relevant sanctions matters of such enterprises, or any matters affecting the production and operation due to sanctions risks.

7. The Group has conducted sanctions risks assessment, and carried out self-assessment of relevant issues in respect of sanctions risks. The Group has not identified any issues related to sanctions risks.

8. The proceeds of the Group from the global offering have been deposited into a bank account separated from other funds of the Group, and such proceeds have not been provided to the Subject Companies. In the future, the Group will manage all other funds raised through the Hong Kong Stock Exchange in the same manner as mentioned above.

9. The Company has engaged Kirkland & Ellis as its annual international legal advisor after the listing, 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.

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. At present, there are no major legal disputes and compliance risks in this type of enterprise.

2. The Group will regularly evaluate the risks that may be brought by the Excluded DES Companies based on the information obtained. If any potential risks are identified, the Company will seek specific advice from reputable external legal counsel with relevant professional expertise and experience and take appropriate action accordingly.

3. The Group has fully commenced the disposal plan for the Excluded DES Companies. For details of the disposal of the Excluded DES Companies, please see "7. Significant Events — 7.10 Disposal of Equity in Excluded DES Companies".

4. The Group will not increase its investments in the Excluded DES Companies or increase the portfolio of DES Assets for which the Group cannot obtain sufficient information for the 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 measures and policies for the Excluded DES Companies.

Future Businesses of DES Companies and Investment Plans Involving DES Companies

The DES Assets currently held by the Group are mainly assets acquired as a result of equity swaps of distressed debt assets of a number of medium or large state-owned enterprises according to the national policies prior to the restructuring of the Company. The Group seriously captured restructuring, mergers and acquisitions opportunities to realize asset liquidity and achieve gains from equity restructuring and disinvest from highly competitive industries or such companies with limited potential for asset appreciation. The Group also enhanced internal business collaboration, improved the level and return of market value management and enhanced the management of equity assets, so as to increase the overall gain from equity assets management and seek greater social benefits.

In the future, the Group will actively follow up the Collaborative Development of Beijing, Tianjin and Hebei Province and the Yangtze River Economic Belt development. The Group will pay close attention to the reform of the deepening multi-level capital market, promote the diversification of equity of state-owned enterprises and implement the policy environment and development condition for the marketization and legalization of DES. The Group will strengthen market research and industry analysis to explore the investment opportunities in DES enterprises and other market, strengthen the equity assets investment project reserves on the basis of comprehensive due diligence, carefully assess the possible risks of the projects including the sanctions risks and actively and steadily expand the equity investment business in compliance with laws.

7.8 Distribution of Profit and Dividends

On April 9, 2018, the profit distribution plan for 2017 was considered and approved at the second extraordinary general meeting of the Company for 2018. As approved at the second extraordinary general meeting for 2018, total cash dividends of RMB6,599 million based on the net profit for the financial year as of December 31, 2017 (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 April 18, 2018, representing RMB1.689 for every 10 shares (tax inclusive). The Company does not declare any interim dividend for 2018.

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, 2018, 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, 2018, 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 of the Excluded DES Companies. As of June 30, 2018, the Group has repeatedly consulted with the six Excluded DES Companies, their respective de-facto controllers and controlling shareholders regarding the disposal of the Group's shareholdings in the relevant Excluded DES Companies. The exit of three Excluded DES Companies have commenced, two have completed project establishment and the Group reached initial cooperation intention with the remaining one Excluded DES Company. In the next step, the Group will continue to communicate with relevant parties and promote equity disposal in accordance with the process. During the Reporting Period, Wang Lihua, an executive Director, was responsible for the disposal process and monitoring the disposal progress, and the independent non-executive Directors supervised the relevant actions of Wang Lihua. In August 2018, Wang Lihua discussed and reported the relevant disposal plan and progress to the independent non-executive Directors, and the independent non-executive Directors made enquires accordingly. Wang Lihua also reported the relevant disposal plan and progress to the Audit Committee under the Board in August 2018.

The Group 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 the arrangements as disclosed in the Prospectus.

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

7.11 Material Financing

The Board considered and approved resolutions relating to the A Share Offering and the Offshore Preference Share Issuance in the Board meeting held on 7 August 2018, including: (i) the extension of validity period of the Plan for A Share Offering; (ii) the extension of the authorization to the Board granted by the general meeting of Shareholders to deal with matters relating to the A Share Offering; and (iii) the extension of the authorization to the Board granted by the general meeting of Shareholders to deal with matters relating to the Offshore Preference Share Issuance. The above matters will be considered at the Forth EGM in 2018, the First Domestic Shareholders' Class Meeting in 2018 and the First H Shareholders' Class Meeting in 2018 which will be held on September 26, 2018 by the Company. The Company has dispatched the meeting notices and circular to Shareholders on August 10, 2018. For details, please refer to the announcement and circular published on August 7, 2018 and August 10, 2018, respectively. The Company will duly disclose further details and development on the A Share Offering and the Offshore Preference Share Issuance.

In 2018, Huarong Finance 2017 Co., Ltd., a wholly-owned subsidiary of China Huarong International Holdings Limited, issued U.S.$400,000,000 floating rate guaranteed notes due 2021, U.S.$550,000,000 floating rate guaranteed notes due 2023 and U.S.$150,000,000 fixed rate guaranteed notes due 2027 (consolidated and formed a single series with the existing U.S.$700,000,000 4.75 per cent. guaranteed notes due 2027 issued on April 27, 2017), at coupon rates of the 3-month LIBOR+1.175%, 3-month LIBOR+1.325% and 4.75%, respectively in Hong Kong. For details, please refer to relevant announcements dated June 26, 2018, June 27, 2018 and July 3, 2018.

7.12 Material Litigation and Arbitration

As a large-scale financial 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, 2018, 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 RMB999 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 RMB35.643 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.

7.13 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.

7.14 Implementation of Share Incentive Scheme

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

7.15 Major Connected Transactions

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

7.16 Major Contracts and Their Implementation

7.16.1 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.

7.16.2 Material Guarantees

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

7.17 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.

7.18 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 set out in Appendix 10 to the Listing Rules (the "**Model Code**"). 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.

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

As of June 30, 2018, 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 its 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.

7.20 Review of the Interim Results Announcement

The interim financial statements for the six months ended June 30, 2018 prepared by the Company according to the IFRSs were reviewed by Deloitte Touche Tohmatsu.

This results announcement 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, 2018

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 58 to 133, which comprise the condensed consolidated statement of financial position as of 30 June, 2018 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

Except as explained in the following paragraph, 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

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

Basis for Qualified Conclusion

As disclosed in note II.1.A to the condensed consolidated financial statements, the former chairman of the Company is currently the subject of a disciplinary investigation by the relevant authorities in Mainland China. If any information relevant to the Group comes out of the disciplinary investigation, the Company has indicated that it will give careful consideration as to whether there are any implications for the Group. In addition, the Company has decided to initiate an internal investigation, including into the structure of certain fund investments and loans, and their valuation and recoverability. It is not practicable for the Company to estimate the impact of the above mentioned matters on the condensed consolidated financial statements.

Qualified Conclusion

Except for the adjustments to the condensed consolidated financial statements that we might have become aware of had it not been for the situation described above, 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
30 August, 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	For the six months ended June 30 **2018** **(Unaudited)**	2017 (Unaudited)
Income from distressed debt assets classified as receivables		**—**	14,628,993
Fair value changes on financial assets	2	**6,127,723**	5,187,166
Interest income	3	**44,143,893**	10,103,790
Investment income, gains and losses	4	**—**	20,591,797
Gains from derecognition of financial assets measured at amortised cost		**4,214**	—
Loss from derecognition of debt instruments at fair value through other comprehensive income		**(57,300)**	—
Commission and fee income	5	**2,821,617**	6,860,493
Net gains on disposals of subsidiaries, associates and joint ventures		**379,584**	641,354
Dividend income		**732,326**	—
Other income and other net gains or losses	6	**2,294,967**	2,792,804
Total		**56,447,024**	60,806,397
Interest expenses	7	**(32,756,092)**	(22,030,846)
Commission and fee expenses		**(887,335)**	(495,221)
Operating expenses	8	**(6,484,181)**	(6,857,351)
Impairment losses on financial assets	9	**(12,053,550)**	(4,715,576)
Impairment losses on other assets	10	**(885,714)**	(1,134,133)
Total		**(53,066,872)**	(35,233,127)
Change in net assets attributable to other holders of consolidated structured entities		**(1,299,570)**	(3,887,550)
Share of results of associates and joint ventures		**717,054**	188,949
Profit before tax		**2,797,636**	21,874,669
Income tax expense	11	**(1,660,928)**	(5,472,705)
Profit for the period		**1,136,708**	16,401,964
Profit attributable to:			
Equity holders of the Company		**684,561**	13,360,471
Holders of perpetual capital instruments		**503,194**	601,881
Non-controlling interests		**(51,047)**	2,439,612
		1,136,708	16,401,964
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)			
— Basic	12	**0.018**	0.34

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	For the six months ended 30 June, 2018 (Unaudited)	2017 (Unaudited)
Profit for the period		**1,136,708**	16,401,964
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit obligations		**(1,434)**	(6,410)
Fair value losses on investments in equity instruments at fair value through other comprehensive income		**(247,881)**	—
Income tax effect		**50,375**	—
		(198,940)	(6,410)
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on:			
available-for-sale financial assets		**—**	(2,239,674)
hedging instruments designated in cash flow hedges		**114,621**	7,092
Debt instruments measured at fair value through other comprehensive income			
— fair value changes		**35,485**	—
— reclassification of losses to profit or loss on disposals		**57,300**	—
— impairment losses		**174,591**	—
Income tax effect		**(133,579)**	358,444
Exchange differences arising on translation of foreign operations		**32,547**	3,713
Share of other comprehensive expenses of associates/ joint ventures, net of related income tax		**(57,501)**	(3,007)
		223,464	(1,873,432)
Other comprehensive income/(expense) for the period, net of income tax		**24,524**	(1,879,842)
Total comprehensive income for the period		**1,161,232**	14,522,122
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**911,786**	11,404,092
Holders of perpetual capital instruments		**503,194**	601,881
Non-controlling interests		**(253,748)**	2,516,149
		1,161,232	14,522,122

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	**As at June 30, 2018**	As at December 31, 2017
		(Unaudited)	(Audited)
Assets			
Cash and balances with central bank	14	**30,272,116**	33,207,112
Deposits with financial institutions	15	**161,133,631**	162,881,077
Placements with financial institutions		**799,974**	9,822,736
Financial assets held for trading	16	**—**	67,257,709
Financial assets at fair value through profit or loss	17	**437,702,371**	—
Financial assets designated as at fair value through profit or loss	17	**—**	230,045,342
Financial assets held under resale agreements		**65,328,647**	41,238,105
Loans and advances to customers	18	**175,751,623**	158,221,948
Finance lease receivables	19	**97,109,567**	95,703,929
Debt instruments at fair value through other comprehensive income	20	**161,413,832**	—
Equity instruments at fair value through other comprehensive income	21	**1,187,899**	—
Inventories	22	**19,141,301**	16,640,824
Available-for-sale financial assets	23	**—**	195,520,697
Held-to-maturity investments	24	**—**	64,451,200
Financial assets classified as receivables	25	**—**	701,192,438
Debt instruments at amortised cost	26	**597,887,267**	—
Interests in associates and joint ventures	27	**42,692,169**	42,097,082
Investment properties	28	**4,434,319**	2,135,383
Property and equipment	28	**11,038,727**	8,645,191
Deferred tax assets		**15,513,494**	13,400,222
Other assets	29	**23,888,454**	27,457,236
Goodwill		**336,334**	342,051
Total assets		**1,845,631,725**	1,870,260,282
Liabilities			
Borrowings from central bank		**3,790,000**	4,647,000
Deposits from financial institutions	30	**9,795,636**	10,158,354
Placements from financial institutions	31	**—**	2,101,560
Financial assets sold under repurchase agreements		**37,219,426**	60,316,970
Borrowings	32	**815,707,090**	773,057,262
Financial liabilities at fair value through profit or loss		**1,688,272**	2,547,383
Due to customers	33	**198,429,185**	202,349,949
Tax payable		**2,976,380**	6,025,835
Deferred tax liabilities		**571,737**	1,380,333
Bonds and notes issued	34	**354,395,065**	331,962,869
Other liabilities	35	**249,247,336**	293,077,905
Total liabilities		**1,673,820,127**	1,687,625,420

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued

AS AT 30 JUNE, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	**As at June 30, 2018**	As at December 31, 2017
		(Unaudited)	(Audited)
Equity			
Share capital	36	**39,070,208**	39,070,208
Capital reserve		**18,991,749**	19,015,028
Surplus reserve		**5,299,688**	5,299,688
General reserve	37	**14,874,424**	12,882,925
Other reserves		**843,272**	(799,550)
Retained earnings		**40,409,712**	52,706,296
Equity attributable to equity holders of the Company		**119,489,053**	128,174,595
Perpetual capital instruments		**22,584,964**	23,185,421
Non-controlling interests		**29,737,581**	31,274,846
Total equity		**171,811,598**	182,634,862
Total equity and liabilities		**1,845,631,725**	1,870,260,282

The condensed consolidated financial statements on page 58 to 133 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, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to equity holders of the Company												
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment Revaluation reserve	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Subtotal	Perpetual capital instruments	Non-controlling interests	Total
As at 31 December, 2017 (Audited)	39,070,208	19,015,028	5,299,688	12,882,925	(164,742)	(848,365)	234,355	(20,798)	52,706,296	128,174,595	23,185,421	31,274,846	182,634,862
Adjustment on initial application of IFRS 9 (Note II.2.2.2)	—	—	—	—	1,415,597	—	—	—	(4,390,692)	(2,975,095)	—	(327,608)	(3,302,703)
As at 1 January, 2018 (After adjustments)	39,070,208	19,015,028	5,299,688	12,882,925	1,250,855	(848,365)	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 income/(expense)	—	—	—	—	126,369	45,253	114,621	(59,018)	—	227,225	—	(202,701)	24,524
Total comprehensive (expense)/income for the period	—	—	—	—	126,369	45,253	114,621	(59,018)	684,561	911,786	503,194	(253,748)	1,161,232
Dividends declared to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(936,344)	(936,344)
Issuance of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	200,000	—	200,000
Buy back 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)
Dividends	—	—	—	—	—	—	—	—	(6,598,954)	(6,598,954)	—	—	(6,598,954)
As at 30 June, 2018 (Unaudited)	39,070,208	18,991,749	5,299,688	14,874,424	1,377,224	(803,112)	348,976	(79,816)	40,409,712	119,489,053	22,584,964	29,737,581	171,811,598
As at 1 January, 2017 (Audited)	39,070,208	18,320,682	3,615,201	10,304,363	3,882,983	(114,844)	—	(696,323)	40,860,728	115,242,998	15,030,256	19,807,746	150,081,000
Profit for the period	—	—	—	—	—	—	—	—	13,360,471	13,360,471	601,881	2,439,612	16,401,964
Other comprehensive (expense)/income	—	—	—	—	(2,346,601)	23,305	6,248	360,669	—	(1,956,379)	—	76,537	(1,879,842)
Total comprehensive (expense)/income for the period	—	—	—	—	(2,346,601)	23,305	6,248	360,669	13,360,471	11,404,092	601,881	2,516,149	14,522,122
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	750,758	750,758
Dividends declared to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(1,107,404)	(1,107,404)
Issuance of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	13,630,748	—	13,630,748
Buy back of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(1,970,000)	—	(1,970,000)
Distribution relating to perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(405,120)	—	(405,120)
Appropriation to general reserve	—	—	—	2,121,892	—	—	—	—	(2,121,892)	—	—	—	—
Disposals of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	2,568	2,568
Effect of acquisition of subsidiaries	—	(174)	—	—	—	—	—	—	—	(174)	—	416,603	416,429
Dividends	—	—	—	—	—	—	—	—	(5,883,973)	(5,883,973)	—	—	(5,883,973)
Others	—	24,602	—	—	—	—	—	—	—	24,602	—	—	24,602
As at 30 June, 2017 (Unaudited)	39,070,208	18,345,110	3,615,201	12,426,255	1,536,382	(91,539)	6,248	(335,654)	46,215,334	120,787,545	26,887,765	22,386,420	170,061,730

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Cash generated from operations	**(12,300,477)**	49,416,612
Income tax paid	**(7,058,848)**	(7,393,034)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(19,359,325)**	42,023,578
INVESTING ACTIVITIES		
Net decrease/(increase) in investment securities	**45,958,028**	(111,345,914)
Cash receipts from interest income arising from investment securities	**13,904,705**	17,010,366
Cash receipts from dividend income	**1,075,847**	551,852
Cash receipts from disposals of associates and joint ventures	**2,950,111**	1,783,699
Cash receipts from disposals of property and equipment and other assets	**25,376**	75,088
Cash (payments for)/receipts from release of pledge deposits in bank	**(2,047,775)**	3,635,124
Cash payments for purchases of property and equipment, investment properties and other assets	**(2,860,286)**	(1,729,757)
Cash payments for investments in associates and joint ventures	**(3,756,513)**	(13,217,091)
Net cash (outflow)/inflow on acquisitions of subsidiaries	**(105,053)**	1,119,946
Net cash inflow on disposals of subsidiaries	**192,868**	728,468
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	**55,337,308**	(101,388,219)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS — continued

FOR THE SIX MONTHS ENDED 30 JUNE, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
Cash (payment to)/capital contribution from non-controlling interests of subsidiaries of the Company and consolidated structured entities	**(27,793,337)**	13,458,137
Issue of perpetual capital instruments	**200,000**	13,630,748
Buy back of perpetual capital instruments	**(900,000)**	(1,970,000)
Proceeds of borrowings relating to non-financial institution subsidiaries	**64,463,048**	108,671,619
Repayment of borrowings relating to non-financial institution subsidiaries	**(75,027,296)**	(73,609,873)
Cash receipts from bonds and notes issued	**71,851,641**	90,737,663
Cash payments for transaction cost of bonds and notes issued	**(22,026)**	(191,997)
Cash repayments for bonds and notes redeemed	**(48,871,193)**	(36,117,371)
Interest paid for bonds and notes issued and borrowings relating to non-financial institution subsidiaries	**(14,433,936)**	(8,723,211)
Dividends paid	**(3,437,648)**	(717,423)
Cash payments for distribution to holders of perpetual capital instruments	**(403,651)**	(405,120)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(34,374,398)**	104,763,172
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,603,586**	45,398,531
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**169,120,081**	138,854,990
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**95,187**	(279,553)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**170,818,854**	183,973,968
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**28,239,345**	23,280,519
Interest paid	**(12,606,314)**	(12,074,159)
	15,633,031	11,206,360

(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 November 1, 1999 as approved by the State Council of the PRC (the "State Council''). On September 28, 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 former China Banking Regulatory Commission (the "CBRC"), and business license No. 911100007109255774 issued by the State Administration of Industry and Commerce of the PRC.

The Company became listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on October 30, 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 and 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 future services; fund management and asset management services; trust services; real estate and industrial investments and other businesses approved by the CBRC or other regulatory bodies.

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

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 Hong Kong Stock Exchange.

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, 2017.

1. A Significant events in the current interim period

On 17 April, 2018, the relevant authorities in Mainland China instigated a disciplinary investigation into the former chairman of the Company. The Company has been closely co-operating with the relevant authorities. If any information relevant to the Group comes out of the disciplinary investigation, the Company will give careful consideration as to whether there are any implications for the Group. In light of the disciplinary investigation, the Company is closely monitoring the situation and has taken proactive measures to protect the interests of the Group. In this context, the Company has decided to initiate its own internal investigation, including into the structure of certain fund investments and loans, and their valuation and recoverability. It is not practicable for the Company to estimate the impact of the above mentioned matters on the condensed consolidated financial statements.

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, 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December, 2017.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

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, 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to IFRS 9 Prepayment Features with Negative Compensation in advance of the effective date January 2019.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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 15 Revenue from Contracts with Customers — continued

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The application of IFRS15 has had no significant impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 Financial Instruments, Amendments to IFRS 9 Prepayments Features with Negative Compensation and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and 3) general hedge accounting.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January, 2018. The difference between carrying amounts as at 31 December, 2017 and the carrying amounts as at 1 January, 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

2.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Classification and measurement of financial assets — continued

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

<u>Debt instruments/receivables classified as at FVTOCI</u>

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments/receivables had been measured at amortised cost. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

<u>Equity instruments designated as at FVTOCI</u>

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Classification and measurement of financial assets — continued

Equity instruments designated as at FVTOCI — continued

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "dividends income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Credit impaired financial assets purchased from financial institutions are usually classified as financial assets at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes interest earned on the financial asset and is included in "fair value changes on financial assets".

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note II 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 including deposits with financial institutions, placements with financial institutions, financial assets held under resale agreements, debt instruments at FVTOCI, loans and advances to customers, finance lease receivables, debt instruments at amortised cost, other receivables, loan commitments and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Impairment under ECL model — continued

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

<u>Significant increase in credit risk</u>

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Impairment under ECL model — continued

<u>Significant increase in credit risk — continued</u>

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Impairment under ECL model — continued

<u>Measurement and recognition of ECL</u>

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Impairment under ECL model — continued

Measurement and recognition of ECL — continued

Except for investments in debt instruments that are measured at FVTOCI, loan commitments and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments/receivables.

For financial guarantee contracts and loan commitments, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, financial lease receivables, loan commitments and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note II 2.2.2.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Hedge accounting

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January, 2018.

	Deposits with financial institutions	Placements with financial institutions	Available-for-sale	Financial assets classified as receivables	Held-to-maturity	Financial assets held for trading	Financial assets designated at FVTPL	Financial assets at FVTPL required by IAS 39/IFRS 9	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Debt instruments at amortised cost	Loans and advances to customers	Finance lease receivables	Deferred tax assets/ liabilities	Interests in associates and joint ventures	Other assets	Other liabilities	Other reserves	Retained earnings	Non-controlling interests
Closing balance at 31 December, 2017 — IAS 39	162,881,077	9,822,736	195,520,697	701,192,438	64,451,200	67,257,709	230,045,342	–	–	–	–	158,221,948	95,703,929	12,019,889	42,097,082	27,457,236	293,077,905	(799,550)	52,706,296	31,274,846
Effect arising from initial application of IFRS 9																				
Reclassification																				
From available for sale	–	–	(195,520,697)	–	–	–	–	132,834,196	1,755,458	42,579,943	18,351,100	–	–	–	–	–	–	37,731	(37,731)	–
From held to maturity	–	–	–	–	(64,451,200)	–	–	499,421	–	–	63,951,779	–	–	–	–	–	–	–	–	–
From Financial assets held for trading	–	–	–	–	–	(67,257,709)	–	67,246,706	–	–	11,003	–	–	–	–	–	–	–	–	–
From designated at FVTPL	–	–	–	–	–	–	(230,045,342)	230,045,342	–	–	–	–	–	–	–	–	–	–	–	–
From Loans and advances to customers	–	–	–	–	–	–	–	–	–	5,689,485	–	(5,689,485)	–	–	–	–	–	–	–	–
From Financial assets classified as receivables	–	–	–	(701,192,438)	–	–	–	30,337,262	–	108,138,541	562,716,635	–	–	–	–	–	–	–	–	–
Remeasurement																				
Impairment under ECL model	(293)	(354)	–	–	–	–	–	–	–	–	(5,067,372)	(14,404)	(471,831)	1,015,957	–	(54,657)	(251,853)	843,890	(5,123,850)	(61,141)
From cost less impairment to fair value	–	–	–	–	–	–	–	(117,006)	(99,501)	–	–	–	–	54,127	–	–	–	(74,625)	(87,755)	–
From amortised cost to fair value	–	–	–	–	–	–	–	656,682	–	1,345,474	–	–	–	(614,568)	92,316	–	127,158	713,184	844,178	(204,616)
From fair value to amortised cost	–	–	–	–	–	–	–	–	–	–	(181,983)	–	–	–	30,015	–	–	(104,583)	14,466	(61,851)
Opening balance at 1 January, 2018	162,880,784	9,822,382	–	–	–	–	–	461,502,603	1,655,957	157,753,443	639,781,162	152,518,059	95,232,098	12,475,405	42,219,413	27,402,579	292,953,210	616,047	48,315,604	30,947,238

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.2 Summary of effects arising from initial application of IFRS 9 — continued

Impairment under ECL model

For financial assets at amortised cost and debt instruments at FVTOCI, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition, and it comes to stage 3 when it is credit impaired (but it is not purchased original credit impaired). IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and other receivables. To measure the ECL, trade and other receivables have been grouped based on shared credit risk characteristics.

As at 1 January, 2018, the additional credit loss allowance of RMB5,124 million, net of deferred tax, has been recognised against retained earnings. The additional loss allowance is charged against the respective asset or provision for financial guarantee contracts, except for the debt instruments which is measured at investment revaluation reserve, the loss allowance for which is recognised against the investment revaluation reserve.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments — continued

2.2.2 Summary of effects arising from initial application of IFRS 9 — continued

All loss allowances for financial assets including deposits with financial institution, placements with financial institutions, debt instruments at amortised cost, loans and advances to customers, finance lease receivables and debt instruments at FVTOCI as at 31 December, 2017 reconcile to the opening loss allowance as at 1 January, 2018 is as follows:

	Deposits with financial institutions	Placements with financial institutions	Debt instruments at amortised cost	Loans and advances to customers	Finance lease receivables	Debt instruments at FVTOCI	Other Asset
At 31 December, 2017 — IAS 39	—	—	—	3,789,251	2,023,481	—	1,296,439
Reclassification	—	—	33,263,502	(1,412)	—	2,459,346	—
Amounts remeasured through opening retained earnings	293	354	5,067,372	14,404	471,831	—	54,657
Investment revaluation reserve	—	—	—	—	—	843,890	—
At 1 January, 2018	293	354	38,330,874	3,802,243	2,495,312	3,303,236	1,351,096

2.3 Key changes in accounting policies resulting from the application of Amendments to IAS 40 Transfer of Investment Properties

This amendment requires an entity shall transfer a property to, or from, investment properties when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The application of this amendment has had no significant impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.4 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December, 2017 (Audited)	IFRS9	1 January, 2018 (After adjustments)
Assets			
Cash and balances with central bank	33,207,112	—	33,207,112
Deposits with financial institutions	162,881,077	(293)	162,880,784
Placements with financial institutions	9,822,736	(354)	9,822,382
Financial assets held for trading	67,257,709	(67,257,709)	—
Financial assets at fair value through profit or loss	—	461,502,603	461,502,603
Financial assets designated as at fair value through profit or loss	230,045,342	(230,045,342)	—
Financial assets held under resale agreements	41,238,105	—	41,238,105
Loans and advances to customers	158,221,948	(5,703,889)	152,518,059
Finance lease receivables	95,703,929	(471,831)	95,232,098
Debt instruments at fair value through other comprehensive income	—	157,753,443	157,753,443
Equity instruments at fair value through other comprehensive income	—	1,655,957	1,655,957
Inventories	16,640,824	—	16,640,824
Available-for-sale financial assets	195,520,697	(195,520,697)	—
Held-to-maturity investments	64,451,200	(64,451,200)	—
Financial assets classified as receivables	701,192,438	(701,192,438)	—
Debt instruments at amortised cost	—	639,781,162	639,781,162
Interests in associates and joint ventures	42,097,082	122,331	42,219,413
Investment properties	2,135,383	—	2,135,383
Property and equipment	8,645,191	—	8,645,191
Deferred tax assets	13,400,222	454,720	13,854,942
Other assets	27,457,236	(54,657)	27,402,579
Goodwill	342,051	—	342,051
Total assets	1,870,260,282	(3,428,194)	1,866,832,088

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.4 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation — continued

	31 December, 2017 (Audited)	IFRS9	1 January, 2018 (After adjustment)
Liabilities			
Borrowings from central bank	4,647,000	—	4,647,000
Deposits from financial institutions	10,158,354	—	10,158,354
Placements from financial institutions	2,101,560	—	2,101,560
Financial assets sold under repurchase agreements	60,316,970	—	60,316,970
Borrowings	773,057,262	—	773,057,262
Financial liabilities at fair value through profit or loss	2,547,383	—	2,547,383
Due to customers	202,349,949	—	202,349,949
Tax payable	6,025,835	—	6,025,835
Deferred tax liabilities	1,380,333	(796)	1,379,537
Bonds and notes issued	331,962,869	—	331,962,869
Other liabilities	293,077,905	(124,695)	292,953,210
Total liabilities	1,687,625,420	(125,491)	1,687,499,929
Equity			
Share capital	39,070,208	—	39,070,208
Capital reserve	19,015,028	—	19,015,028
Surplus reserve	5,299,688	—	5,299,688
General reserve	12,882,925	—	12,882,925
Other reserves	(799,550)	1,415,597	616,047
Retained earnings	52,706,296	(4,390,692)	48,315,604
Equity attributable to equity holders of the Company	128,174,595	(2,975,095)	125,199,500
Perpetual capital instruments	23,185,421	—	23,185,421
Non-controlling interests	31,274,846	(327,608)	30,947,238
Total equity	182,634,862	(3,302,703)	179,332,159

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 following are the details of critical judgments and estimation uncertainty in response to the adoption of IFRS 9 for the current period. For other critical judgments and estimation uncertainty, please refer to the annual financial statements for the year ended 31 December, 2017 for the details.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the solely payments of principal and interest on the principal amount outstanding (the "SPPI") and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note II.2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition; and it comes to stage 3 when it is credit impaired (but it is not purchased original credit impaired). IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note IV.40 for more details.

III. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION — continued

Critical judgements in applying the Group's accounting policies — continued

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note IV.40 for details of the characterics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note IV.40 for more details on ECL and note IV.42 for more details on fair value measurement.

Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (the "PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default (the "LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note IV.42 for more details on fair value measurement.

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 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.

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.

IV. EXPLANATORY NOTES — continued

1. Segment information — continued

Asset management and investment operations — continued

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.

For the six months ended 30 June, 2018	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Fair value changes on financial assets	5,411,106	(30,257)	760,009	(13,135)	6,127,723
Interest income	24,810,515	14,134,362	6,854,320	(1,655,304)	44,143,893
Gains/(losses) 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 on financial assets	(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

IV. EXPLANATORY NOTES — continued

1. Segment information — continued

Asset management and investment operations — continued

As at 30 June, 2018	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
For the six months ended 30 June, 2018					
Segment assets	**950,238,005**	**565,954,060**	**402,585,307**	**(88,659,141)**	**1,830,118,231**
Including: Interests in associates and joint ventures	**10,174,388**	**6,438**	**32,511,343**	**—**	**42,692,169**
Deferred tax assets					**15,513,494**
Total assets					**1,845,631,725**
Segment liabilities	**854,136,189**	**518,561,795**	**375,812,102**	**(78,238,076)**	**1,670,272,010**
Deferred tax liabilities					**571,737**
Tax payable					**2,976,380**
Total liabilities					**1,673,820,127**

IV. EXPLANATORY NOTES — continued

1. Segment information — continued

Asset management and investment operations — continued

For the six months ended June 30, 2017	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	14,628,993	—	—	—	14,628,993
Fair value changes on distressed debt assets	2,293,671	—	—	—	2,293,671
Fair value changes on other financial assets	983,892	1,072,941	836,662	—	2,893,495
Interest income	690,560	9,188,366	889,493	(664,629)	10,103,790
Investment income	10,972,353	3,160,434	8,377,219	(1,918,209)	20,591,797
Commission and fee income	3,312,038	1,124,892	2,518,759	(95,196)	6,860,493
Net gains on disposals of subsidiaries, associates and joint ventures	160,168	—	481,186	—	641,354
Other income and other net gains or losses	2,235,376	137,331	1,138,254	(718,157)	2,792,804
Total	35,277,051	14,683,964	14,241,573	(3,396,191)	60,806,397
Interest expenses	(12,343,382)	(5,468,216)	(5,451,103)	1,231,855	(22,030,846)
Commission and fee expenses	(144,211)	(332,987)	(70,015)	51,992	(495,221)
Operating expenses	(3,864,260)	(1,961,256)	(1,184,095)	152,260	(6,857,351)
Impairment losses on assets	(1,886,417)	(1,784,085)	(1,045,074)	—	(4,715,576)
Impairment losses on other assets	—	—	(1,134,133)	—	(1,134,133)
Total	(18,238,270)	(9,546,544)	(8,884,420)	1,436,107	(35,233,127)
Change in net assets attributable to other holders of consolidated structured entities	(2,435,602)	(1,198,493)	(253,455)	—	(3,887,550)
Share of results of associates and joint ventures	(37,931)	—	226,880	—	188,949
Profit before tax	14,565,248	3,938,927	5,330,578	(1,960,084)	21,874,669
Income tax expense					(5,472,705)
Profit for the period					16,401,964
As at 31 December, 2017					
Segment assets	934,966,367	572,779,725	435,906,899	(86,792,931)	1,856,860,060
Including: Interests in associates and joint ventures	12,336,700	6,370	29,754,012	—	42,097,082
Deferred tax assets					13,400,222
Total assets					1,870,260,282
Segment liabilities	835,238,155	525,159,713	396,366,198	(76,544,814)	1,680,219,252
Deferred tax liabilities					1,380,333
Tax payable					6,025,835
Total liabilities					1,687,625,420

IV. EXPLANATORY NOTES — continued

2. Fair value changes on financial assets

	For the six months ended June 30,	
	2018	2017
Fair value changes on distressed debt assets at FVTPL	**2,969,184**	2,293,671
Fair value changes on other financial assets	**3,158,539**	2,893,495
Total	**6,127,723**	5,187,166

3. Interest income

For the six months ended 30 June, 2018, the following interest income arises from debt instruments and distressed debt assets measured at amortised cost and FVTOCI. For the six months ended 30 June, 2017, interest income arising from available-for-sale debt securities, held-to-maturity debt securities and other financial assets classified as receivables was recorded in investment income, gains and losses (Note IV.4).

	For the six months ended June 30,	
	2018	2017
Debt instruments at amortised cost other than distressed debt assets	**14,279,092**	—
Distressed debt assets at amortised cost	**12,161,998**	—
Loans and advances to customers		
Corporate loans and advances	**4,025,963**	3,141,839
Personal loans and advances	**1,657,019**	1,028,621
Loans to margin clients	**579,756**	273,714
Distressed debt assets at FVTOCI	**4,605,163**	—
Finance lease receivables	**3,245,911**	2,995,178
Financial assets held under resale agreements	**1,090,234**	1,118,822
Deposits with financial institutions	**1,090,038**	1,067,223
Debt instruments at FVTOCI	**919,640**	—
Placements with banks	**249,262**	188,221
Balances with central bank	**239,817**	290,172
Total	**44,143,893**	10,103,790

IV. EXPLANATORY NOTES — continued

4. Investment income, gains and losses

	For the six months ended June 30, 2017
Interest income from	
Available-for-sale debt securities	3,648,956
Held-to-maturity debt securities	872,945
Other financial assets classified as receivables	12,913,451
Net realized gains from disposal of available-for-sale financial assets	2,598,415
Dividend income from available-for-sale financial assets	558,030
Total	20,591,797

5. Commission and fee income

	For the six months ended June 30,	
	2018	2017
Asset management business	**1,344,807**	4,730,743
Securities and futures brokerage business	**702,166**	1,100,543
Trust business	**497,848**	737,373
Banking and consumer finance business	**231,739**	235,395
Fund management business	**45,057**	56,439
Total	**2,821,617**	6,860,493

6. Other income and other net gains or losses

	For the six months ended June 30,	
	2018	2017
Revenue from properties development	**1,076,544**	2,192,725
Rental income	**424,165**	194,762
Government grants[1]	**179,390**	111,651
Net gains/(losses) on exchange differences	**95,187**	(335,897)
Others	**519,681**	629,563
Total	**2,294,967**	2,792,804

(1) Government grants are subsidies granted by local governments for the Group's establishment of operations or subsidiaries in certain cities.

7. Interest expenses

	For the six months ended June 30,	
	2018	2017
Borrowings	**(23,382,597)**	(14,059,127)
Bonds and notes issued	**(6,745,246)**	(5,270,295)
Due to customers	**(1,443,918)**	(1,434,619)
Deposits from financial institutions	**(217,592)**	(184,992)
Financial assets sold under repurchase agreements	**(777,613)**	(765,405)
Borrowings from central bank	**(58,548)**	(34,198)
Placements from financial institutions	**(56,535)**	(105,441)
Amount due to the MOF	**—**	(47,048)
Other liabilities	**(74,043)**	(129,721)
Total	**(32,756,092)**	(22,030,846)

IV. EXPLANATORY NOTES — continued

8. Operating expenses

	For the six months ended June 30,	
	2018	2017
Employee benefits	**(2,592,833)**	(2,567,763)
Turnover tax and surcharges	**(380,424)**	(579,453)
Others	**(3,510,924)**	(3,710,135)
Including:		
Cost of properties development	**(801,015)**	(1,286,664)
Rental and management fee for leases	**(496,936)**	(346,798)
Depreciation of property and equipment	**(324,268)**	(259,212)
Amortization	**(105,597)**	(115,579)
Depreciation of investment properties	**60,927**	(22,032)
Total	**(6,484,181)**	(6,857,351)

9. Impairment losses on financial assets

	For the six months ended June 30, 2018
Debt instruments at amortised cost (Note IV.26)	**(9,154,124)**
Loans and advances to customers (Note IV.18)	**(1,614,461)**
Financial assets held under resale agreements	**(944,718)**
Debt instrument at FVTOCI (Note IV.20)	**(174,591)**
Financial lease receivables (Note IV.19)	**(57,775)**
Other financial assets	**(107,881)**
Total	**(12,053,550)**

9. Impairment losses on financial assets — continued

	For the six months ended June 30, 2017
Other financial assets classified as receivables	(1,461,733)
Loans and advances to customers	(1,265,724)
Distressed debt assets classified as receivables	(1,011,058)
Available-for-sale financial assets	(672,773)
Finance lease receivables	(226,255)
Other financial assets	(78,033)
Total	(4,715,576)

10. Impairment losses on other assets

	For the six months ended June 30,	
	2018	2017
Interests in associates and joint ventures	**(780,927)**	(1,134,133)
Foreclosed assets	**(104,787)**	—
Total	**(885,714)**	(1,134,133)

11. Income tax expense

	For the six months ended June 30,	
	2018	2017
Current tax		
PRC Enterprise Income tax	**(3,986,101)**	(5,262,945)
Hong Kong Profits Tax	**(23,292)**	(596,953)
Macau Profits Tax	**—**	(23,466)
Deferred income tax	**2,348,465**	410,659
Total	**(1,660,928)**	(5,472,705)

IV. EXPLANATORY NOTES — continued

12. 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 June 30,	
	2018	2017
Earnings:		
Profit attributable to equity holders of the Company	**684,561**	13,360,471
Number of shares:		
Weighted average number of shares in issue (in thousand)	**39,070,208**	39,070,208
Basic earnings per share (RMB Yuan)	**0.018**	0.34

No diluted earnings per share has been presented for the six months ended 30 June, 2018 and June 30, 2017 as the Group had no potential ordinary shares in issue during the period.

13. Dividends

On April 9, 2018, the Company declared dividends of RMB6,599 million for the year ended 31 December, 2017. The Company does not declare any interim dividend for the period ended 30 June, 2018 (Six months ended June 30, 2017: Nil).

14. Cash and balances with central bank

	As at June 30, 2018	As at December 31, 2017
Cash	**604,196**	497,304
Mandatory reserve deposits with central bank	**26,574,043**	29,392,184
Surplus reserve deposits with central bank	**2,935,572**	3,011,766
Other deposits with central bank	**158,305**	305,858
Total	**30,272,116**	33,207,112

IV. EXPLANATORY NOTES — continued

15. Deposits with financial institutions

	As at June 30, 2018	As at December 31, 2017
Banks	**156,869,550**	158,190,292
Clearing settlement funds	**3,004,039**	3,579,401
Other financial institutions	**1,260,042**	1,111,384
Total	**161,133,631**	162,881,077

16. Financial assets held for trading

	As at December 31, 2017
Debt securities	
— Corporate bonds	28,071,002
— Financial institution bonds	2,401,265
— Public sector and quasi-government bonds	903,100
— Government bonds	346,547
Funds	9,837,509
Wealth management products	10,386,791
Shares	7,575,268
Negotiable certificates of deposit	7,290,694
Asset-backed securities	445,533
Total	67,257,709

IV. EXPLANATORY NOTES — continued

17. Financial assets at FVTPL and/or designated as at FVTPL

	As at June 30, 2018
Financial assets mandatorily measured at FVTPL	
Distressed debt assets	**151,004,194**
Funds	**80,324,077**
Trust products	**54,718,583**
Shares	**54,189,673**
Debt securities	
— Corporate bonds	**31,044,743**
— Financial institution bonds	**266,407**
— Public sector and quasi-government bonds	**200,271**
Wealth management products	**21,329,140**
Structured products	**16,325,965**
Asset management plans	**10,102,442**
Convertible bonds	**7,467,736**
Equity instruments with embedded derivatives	**5,240,161**
Negotiable certificates of deposit	**3,463,790**
Interests in entrust loans	**1,569,680**
Asset-backed securities	**455,509**
Total	**437,702,371**

	As at December 31, 2017
Financial assets designated as at FVTPL	
Distressed debt assets	150,807,178
Equity instruments	20,836,769
Trust products	18,492,657
Structured products	14,202,645
Convertible bonds	13,010,094
Wealth management products	7,670,492
Asset management plans	3,509,948
Debt instruments with embedded derivatives	1,515,559
Total	230,045,342

IV. EXPLANATORY NOTES — continued

18. Loans and advances to customers

	As at June 30, 2018	As at December 31, 2017
Corporate loans and advances		
— Loans and advances	**123,014,174**	108,863,712
— Discounted bills	**—**	5,689,485
Subtotal	**123,014,174**	114,553,197
Personal loans and advances		
— Loans for business operations	**10,519,081**	10,556,064
— Mortgage	**15,313,865**	11,390,788
— Personal consumption loans	**21,519,025**	15,483,236
— Others	**2,754,964**	2,504,521
Subtotal	**50,106,935**	39,934,609
Loans to margin clients	**7,075,993**	7,523,393
Gross loans and advances	**180,197,102**	162,011,199
Less: Allowance for impairment losses		
— 12-month ECL	**(2,310,869)**	—
— Lifetime ECL	**(2,134,610)**	—
— Individually assessed	**—**	(1,082,706)
— Collectively assessed	**—**	(2,706,545)
Subtotal	**(4,445,479)**	(3,789,251)
Net loans and advances to customers	**175,751,623**	158,221,948

IV. EXPLANATORY NOTES — continued

18. Loans and advances to customers — continued

Movements of provision for impairment loss on loans and advances during current period and prior period are as follows:

	For six months ended 30 June, 2018
At 31 December, 2017	**3,789,251**
Adjustment on initial application of IFRS 9	**12,992**
At 1 January, 2018 (After adjustment)	**3,802,243**
Provided for the period (Note IV.9)	**2,492,381**
Reversal for the period (Note IV.9)	**(877,920)**
Recovery of amounts written off in previous years	**58,487**
Write-offs	**(1,029,712)**
At 30 June, 2018	**4,445,479**

	Individually assessed allowance	Collectively assessed allowance	Total
At 1 January, 2017	614,538	2,044,859	2,659,397
Provided for the period	655,098	1,302,307	1,957,405
Reversal for the period	(142,843)	(548,838)	(691,681)
Recovery of amounts written off in previous years	54,485	2,789	57,274
Write-offs	(202,297)	(29,399)	(231,696)
Unwinding of discount on allowance	(26,976)	(5,914)	(32,890)
At 30 June, 2017	952,005	2,765,804	3,717,809

IV. EXPLANATORY NOTES — continued

19. Finance lease receivables

	As at June 30, 2018	As at December 31, 2017
Minimum finance lease receivables:		
Within 1 year (inclusive)	**37,449,957**	34,965,022
1–5 years (inclusive)	**67,399,160**	70,832,369
Over 5 years	**6,723,816**	3,782,800
Gross amount of finance lease receivables	**111,572,933**	109,580,191
Less: Unearned finance income	**(12,074,537)**	(11,852,781)
Net amount of finance lease receivables	**99,498,396**	97,727,410
Less: Allowance for impairment losses	**(2,388,829)**	(2,023,481)
Carrying amount of finance lease receivables	**97,109,567**	95,703,929
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	**32,300,172**	29,913,503
1–5 years (inclusive)	**60,803,800**	64,215,768
Over 5 years	**6,394,424**	3,598,139
Total	**99,498,396**	97,727,410

19. Finance lease receivables — continued

Movements of provision for impairment loss on finance lease receivables during current period and prior period are as follows:

	For six months ended 30 June, 2018
At 31 December, 2017	**2,023,481**
Adjustment on initial application of IFRS 9	**471,831**
At 1 January, 2018 (After adjustments)	**2,495,312**
Provided for the period (Note IV.9)	**57,775**
Transfer-out	**(164,932)**
Exchange difference	**674**
At 30 June, 2018	**2,388,829**

	Individually assessed allowance	Collectively assessed allowance	Total
At 1 January, 2017	491,926	1,146,482	1,638,408
Provided for the period	174,495	51,760	226,255
Recovery of amounts written off in previous years	8,000	—	8,000
At 30 June, 2017	674,421	1,198,242	1,872,663

20. Debt instruments at FVTOCI

	As at June 30, 2018
Distressed debt assets	**108,552,001**
Debt securities	
— Corporate bonds	**21,884,500**
— Public sector and quasi-government bonds	**8,744,527**
— Financial institution bonds	**540,287**
— Government bonds	**530,487**
Trust products	**6,932,441**
Entrust loans	**6,147,581**
Bills	**4,434,553**
Asset management plans	**3,066,824**
Asset-backed securities	**580,631**
Total	**161,413,832**

IV. EXPLANATORY NOTES — continued

20. Debt instruments at FVTOCI — continued

Movements of provision for impairment loss on debt instruments at FVTOCI during current period are as follows:

	For six months ended 30 June, 2018
At 31 December, 2017	—
Adjustment on initial application of IFRS 9	3,303,236
At 1 January, 2018 (After adjustment)	3,303,236
Provided for the period (Note IV.9)	1,237,274
Reversal for the period (Note IV.9)	(1,062,683)
At 30 June, 2018	3,477,827

21. Equity instruments at FVTOCI

	As at June 30, 2018
Listed shares	271,679
Unlisted shares	916,220
Total	1,187,899

IV. EXPLANATORY NOTES — continued

22. Inventories

	As at June 30, 2018	As at December 31, 2017
Property development costs	**15,945,896**	12,443,281
Properties held for sale	**2,354,486**	3,467,908
Land development costs	**840,919**	729,635
Total	**19,141,301**	16,640,824

23. Available-for-sale financial assets

	As at December 31, 2017
Shares[(1)]	27,612,554
Debt securities	
— Government bonds	599,150
— Public sector and quasi-government bonds	15,999,165
— Financial institution bonds	6,735,082
— Corporate bonds	33,601,429
Asset-backed securities	3,346,249
Funds	73,483,419
Trust products	23,932,018
Asset management plans	6,237,674
Wealth management products	4,885,716
Less: Allowance for impairment losses	(911,759)
Total	195,520,697

(1) Included in the balance is equity instruments of RMB8,278 million as at 31 December, 2017 that were measured at cost because their fair values cannot be reliably measured. These equity instruments contain policy debt-to-equity swaps bought from MOF when the Company was restructured. According to the regulation of the MOF on strengthening the financial and risk management of the financial asset management company, the Company will not participate in daily business decision-making and financial management in these enterprises. At the same time, the Company will develop an exit plan from these investments.

IV. EXPLANATORY NOTES — continued

24. Held-to-maturity investments

	As at December 31, 2017
Government bonds	19,988,506
Public sector and quasi-government bonds	31,756,394
Financial institution bonds	10,197,297
Corporate bonds	2,509,003
Total	64,451,200

25. Financial assets classified as receivables

	As at December 31, 2017
Distressed debt assets	
Loans acquired from financial institutions	51,186,322
Other debt assets acquired from non-financial institutions	317,242,065
Subtotal	368,428,387
Less: Allowance for impairment losses	
— Individually assessed	(4,907,664)
— Collectively assessed	(18,836,403)
	(23,744,067)
Subtotal	344,684,320

IV. EXPLANATORY NOTES — continued

25. Financial assets classified as receivables — continued

	As at December 31, 2017
Other financial assets classified as receivables	
Trust products	159,514,273
Debt instruments	97,977,262
Entrust loans[(1)]	85,139,955
Asset management plans	15,873,245
Wealth management products	13,219,119
Subtotal	371,723,854
Less: Allowance for impairment losses	
— Individually assessed	(3,655,588)
— Collectively assessed	(11,560,148)
	(15,215,736)
Subtotal	356,508,118
Total	701,192,438

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

Movements of provision for impairment loss during prior period are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January, 2017	5,049,611	26,438,484	31,488,095
Provided for the period	769,366	4,965,980	5,735,346
Reversal for the period	(352,330)	(2,910,225)	(3,262,555)
Unwinding of discount on allowance	(261,066)	—	(261,066)
Transfer-out	—	(2,491,892)	(2,491,892)
Exchange difference	—	(3,921)	(3,921)
As at 30 June, 2017	5,205,581	25,998,426	31,204,007

26. Debt instruments at amortised cost

	As at June 30, 2018
Distressed debt assets	
Loans acquired from financial institutions	**38,148,093**
Other debt assets acquired from non-financial institutions	**234,383,939**
Subtotal	**272,532,032**
Allowance for impairment losses	
— 12-month ECL	**(10,704,798)**
— Lifetime ECL	**(15,851,580)**
Subtotal	**(26,556,378)**
Carrying amount of distressed debt assets	**245,975,654**
Trust products	**94,527,107**
Entrust loans	**83,915,332**
Debt securities	**78,620,952**
Debt assets	**74,240,483**
Asset management plans	**31,773,325**
Others	**9,817,269**
Subtotal	**372,894,468**
Allowance for impairment losses	
— 12-month ECL	**(4,709,061)**
— Lifetime ECL	**(16,273,794)**
Subtotal	**(20,982,855)**
Carrying amount of distressed debt assets	**351,911,613**
Total	**597,887,267**

IV. EXPLANATORY NOTES — continued

26. Debt instruments at amortised cost — continued

Debt instruments at amortised cost analysed by “stage” without taking into account the effects of any collateral or other credit enhancements as at 30 June, 2018 are as follows:

Movements of provision for impairment loss on debt instruments at amortised cost during current period are as follows:

	For six months ended 30 June, 2018
At 31 December, 2017	**—**
Adjustment on initial application of IFRS 9	**38,330,874**
At 1 January, 2018 (After adjustments)	**38,330,874**
Provided for the period (Note IV.9)	**15,678,908**
Reversal for the period (Note IV.9)	**(6,524,784)**
Transfer in	**84,555**
Write-offs	**(32,303)**
Exchange difference	**1,983**
At 30 June, 2018	**47,539,233**

IV. EXPLANATORY NOTES — continued

27. Interests in associates and joint ventures

	As at June 30, 2018	As at December 31, 2017
Interests in associates		
Cost of investments in associates	**18,797,565**	18,265,232
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**673,321**	569,319
Less: Allowance for impairment losses	**(1,652,388)**	(871,461)
Subtotal	**17,818,498**	17,963,090
Interests in joint ventures		
Cost of investments in joint ventures	**24,840,276**	24,230,642
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**33,395**	(96,650)
Subtotal	**24,873,671**	24,133,992
Total	**42,692,169**	42,097,082
Fair value of listed companies	**3,782,718**	5,634,971

During the six months ended 30 June, 2018, the Group acquired interests in 33 (Six months ended June 30, 2017: 49) associates and joint ventures with an aggregate initial costs of RMB3,831 million (Six months ended June 30, 2017: RMB13,217 million).

During the six months ended 30 June, 2018, the Group disposed of interests in 14 (Six months ended June 30, 2017: 10) associates and joint ventures with an aggregate carrying values of RMB2,904 million (Six months ended June 30, 2017: RMB1,303 million) at dates of disposals and recognised a net gain of RMB46 million (Six months ended June 30, 2017: RMB249 million).

28. Investment properties/property and equipment

For the six months ended 30 June, 2018, the Group acquired and disposed of property and equipment with aggregate amounts of RMB2,728 million at cost and RMB24 million at net book value, respectively (Six months ended 30 June, 2017: RMB1,684 million at cost and RMB74 million at net book value, respectively).

For the six months ended 30 June, 2018, the Group transferred a balance of RMB2,359 million (Six months ended 30 June, 2017: RMB4 million) from inventories to investment properties.

29. Other assets

	As at June 30, 2018	As at December 31, 2017
Other receivables	**6,002,557**	8,629,719
Interests receivables	**5,675,082**	5,027,606
Land use rights	**2,912,499**	1,845,021
Payments in advance	**2,475,845**	5,026,483
Foreclosed assets	**2,451,029**	1,957,108
Other lease receivables	**1,881,844**	845,916
Prepaid expenses	**501,549**	484,700
Clearing and settlement receivables	**493,665**	294,436
Deductible value-added tax	**429,428**	357,010
Intangible assets	**332,644**	304,438
Dividends receivable	**44,777**	66,524
Receivables from disposals of investments	**—**	1,711,123
Others	**687,535**	907,152
Total	**23,888,454**	27,457,236

IV. EXPLANATORY NOTES — continued

30. Deposits from financial institutions

	As at June 30, 2018	As at December 31, 2017
Banks	**7,395,653**	7,971,760
Other financial institutions	**2,399,983**	2,186,594
Total	**9,795,636**	10,158,354

31. Placements from financial institutions

	As at June 30, 2018	As at December 31, 2017
Banks	**—**	2,101,560

32. Borrowings

	As at June 30, 2018	As at December 31, 2017
Unsecured loans	**683,586,034**	636,602,087
Pledged loans	**84,932,752**	40,458,244
Guaranteed loans	**38,855,580**	90,101,884
Loans secured by properties	**8,332,724**	5,895,047
Total	**815,707,090**	773,057,262

32. Borrowings — continued

	As at June 30, 2018	As at December 31, 2017
Carrying amount repayable[1]:		
Within one year	**371,420,025**	386,222,411
More than one year, but not exceeding two years	**239,701,760**	193,267,431
More than two years, but not exceeding five years	**122,017,073**	161,815,023
More than five years	**25,944,362**	31,198,449
Subtotal	**759,083,220**	772,503,314
Carrying amount of borrowings that contain a repayment on demand clause repayable[1]		
Within one year	**56,623,870**	553,948
Subtotal	**56,623,870**	553,948
Total	**815,707,090**	773,057,262

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

IV. EXPLANATORY NOTES — continued

32. Borrowings — continued

The ranges of effective interest rate (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	As at June 30, 2018	As at December 31, 2017
Effective interest rate		
Fixed-rate borrowings	**2.23%–10.00%**	2.18%–9.50%
Variable-rate borrowings	**2.92%–6.90%**	1.65%–7.20%

As at 30 June, 2018, the Group failed to comply with certain financial conditions, primarily interest coverage, imposed by bank covenants. The breach of these bank covenants trigger further technical defaults because of cross default clauses in other borrowing arrangements. The aggregate amount of borrowings that became repayable on demand as a result of breaches of bank covenants was RMB54,879 million (31 December, 2017: Nil) as at 30 June, 2018. The Group has been in active dialogue with the relevant banks. As the date of the report, certain banks have already requested repayment of an aggregate amount of RMB2,388 million. For the remaining balances, the relevant banks still provide normal banking facilities to the Group and have not yet requested early repayments of borrowings.

33. Due to customers

	As at June 30, 2018	As at December 31, 2017
Demand deposits		
Corporate customers	**87,268,300**	96,481,636
Individual customers	**19,658,300**	19,344,726
Time deposits		
Corporate customers	**36,311,657**	36,435,836
Individual customers	**26,272,917**	26,738,407
Pledged deposits	**8,020,770**	9,340,458
Others	**20,897,241**	14,008,886
Total	**198,429,185**	202,349,949

34. Bonds and notes issued

During the current interim period, the Group issued new bonds and notes amounting to RMB71,852 million (Six months ended June 30, 2017: RMB90,738 million) and repaid bonds and notes amounting to RMB48,871 million (Six months ended June 30, 2017: RMB36,117 million). The bonds and notes carry interest at fixed or variable market rates ranging from 1.63% to 6.80% per annum (31 December, 2017:1.63% to 6.80% per annum) and are repayable in instalments over periods from 14 days to 30 years (31 December, 2017:14 days to 30 years).

35. Other liabilities

	As at June 30, 2018	As at December 31, 2017
Payables to interest holders of consolidated structured entities	**126,016,718**	151,672,943
Other payables	**48,365,412**	55,429,436
Account payable to financial institutions	**24,113,149**	38,999,561
Guarantee deposits received from customers	**13,148,397**	13,461,006
Interest payable	**12,283,261**	8,827,933
Amounts received in advance(1)	**6,428,327**	8,910,599
Account payable to brokerage clients	**4,490,009**	5,002,905
Dividends payable	**4,275,110**	177,460
Employee benefits payable	**3,713,537**	4,349,146
Amounts due to China Trust Protection Fund	**2,800,000**	1,648,000
Sundry taxes payable	**1,839,325**	2,164,417
Bills payable(2)	**1,101,426**	1,525,623
Margin deposit received from securities customers	**293,697**	450,628
Provisions	**115,610**	115,610
Others	**263,358**	342,638
Total	**249,247,336**	293,077,905

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

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

36. Share capital of the Company

	For the six months ended June 30, 2018	For the year ended December 31, 2017
Authorised, issued and fully paid:		
At beginning and end of the period	**39,070,208**	39,070,208

	As at 30 June, 2018 and December 31, 2017	
	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**

37. General reserve

Starting from July 1, 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. The financial enterprise is allowed to meet this requirement over a 5-year period.

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, 2018, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB1,991 million (Six months ended 30 June, 2017: RMB2,122 million) to general reserve pursuant to the regulatory requirements in the PRC.

IV. EXPLANATORY NOTES — continued

38. Contingent liabilities and commitments

(1) Operating lease commitments

At the end of the reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at June 30, 2018	As at December 31, 2017
Within one year	**1,151,208**	876,214
In the second to the fifth year inclusive	**2,024,213**	1,948,494
Over five years	**188,830**	145,728
Total	**3,364,251**	2,970,436

(2) Credit enhancement

As at 30 June, 2018, the Group provided credit enhancement for third parties involving in borrowing arrangements in the amount of RMB590 million (31 December, 2017: RMB600 million).

(3) Credit commitments

	As at June 30, 2018	As at December 31, 2017
Bank bill acceptance	**14,654,847**	18,027,091
Revocable commitments	**5,331,757**	8,026,345
Letters of guarantee issued	**1,270,784**	1,681,561
Undrawn credit card commitments	**6,640,074**	5,764,808
Letters of credit issued	**1,291,846**	779,086
Total	**29,189,308**	34,278,891

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

38. Contingent liabilities and commitments — continued

(4) Other commitments

	As at June 30, 2018	As at December 31, 2017
Contracted but not provided for — commitments for acquisitions of properties and equipment	**261,170**	235,683

39. Related party transactions

(1) The MOF

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 party.

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

	As at June 30, 2018	As at December 31, 2017
Debt instruments at amortised cost	**10,023,769**	—
Dividends payable	**4,180,733**	—
Other payable	**1,031,019**	39,696
Debt instruments at fair value through other comprehensive income	**530,485**	—
Other receivables	**146,045**	—
Held-to-maturity investments	**—**	7,362,677
Available-for-sale financial assets	**—**	549,150
Financial assets held for trading	**—**	330,590
Interest receivables	**—**	76,474

39. Related party transactions — continued

(1) The MOF — continued

The Group had the following transactions with the MOF:

	For the six months ended June 30,	
	2018	2017
Interest income	**149,963**	111,025
Interest expenses	**—**	47,048

(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 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:

IV. EXPLANATORY NOTES — continued

39. Related party transactions — continued

(3) Associates and joint ventures — continued

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

	As at June 30, 2018	As at December 31, 2017
Debt instruments at amortised cost	**5,186,149**	—
Financial assets at FVTPL	**225,331**	—
Other payable	**20,024**	—
Other assets	**6,788**	150,625
Financial assets classified as receivables	**—**	8,257,799
Available-for-sale financial assets	**—**	585,137
Interest receivable	**—**	29,219

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

	For the six months ended June 30,	
	2018	2017
Interest income	**169,408**	100,348
Commission and fee income	**4,604**	—
Operating expenses	**3,420**	—
Investment income, gains and losses	**—**	364,604

Trust asset management:

As at 30 June, 2018, associates and joint ventures held a trust of RMB30 million issued by the Group (31 December, 2017: RMB30 million).

39. Related party transactions — continued

(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 June 30,	
	2018	2017
Contribution to annuity schemes	**128,830**	128,492

(5) Key management personnel

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

	For the six months ended June 30,	
	2018	2017
Emoluments of key management personnel		
— Salaries and other benefits	**2,501**	1,844
— Employer's contribution to pension scheme	**728**	147
— Discretionary and performance related incentive payments	**133**	1,427
Total (before tax)	**3,362**	3,418

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

40. Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations or adverse changes in credit conditions resulting in financial loss to the Group. The Group's credit risk assets are affected by multiple factors such as changes in the external environment. Credit risk mainly arises from distressed debt assets, loans and advances to customers and debt instruments. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

40. Credit risk — continued

(1) Credit risk management

The Group manages the Group's credit risk through the following processes:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.

- Monitoring, identifying, assessing, measuring, reporting, controlling and mitigating credit risk across the Group, from an individual instrument to a portfolio level.

- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.

- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.

- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.

- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

(2) Significant increase in credit risk

As explained in note II.2.2 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has developed and maintained the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises 14 categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

IV. EXPLANATORY NOTES — continued

40. Credit risk — continued

(2) Significant increase in credit risk — continued

Internal credit risk ratings — continued

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

IV. EXPLANATORY NOTES — continued

40. Credit risk — continued

(2) Significant increase in credit risk — continued

Measurement of ECL — continued

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modeling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

IV. EXPLANATORY NOTES — continued

40. Credit risk — continued

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

	As at June 30, 2018	As at December 31, 2017
Distressed debt assets classified as receivables (Note IV.25)	**—**	368,428,387
Distressed debt assets at amortised cost (Note IV.26)	**272,532,032**	—
Distressed debt assets at FVTOCI (Note IV.20)	**108,552,001**	—
Loans and advances to customers (Note IV.18)	**180,197,102**	162,011,199
Finance lease receivables (Note IV.19)	**99,498,396**	97,727,410
Subtotal	**660,779,531**	628,166,996
Allowance for impairment losses		
Distressed debt assets classified as receivables	**—**	(23,744,067)
Distressed debt assets at amortised cost	**(26,556,377)**	—
Loans and advances to customers	**(4,445,479)**	(3,789,251)
Finance lease receivables	**(2,388,829)**	(2,023,481)
Subtotal	**(33,390,685)**	(29,556,799)
Net carrying amount		
Distressed debt assets classified as receivables	**—**	344,684,320
Distressed debt assets at amortised cost	**245,975,655**	—
Distressed debt assets at FVTOCI	**108,552,001**	—
Loans and advances to customers	**175,751,623**	158,221,948
Finance lease receivables	**97,109,567**	95,703,929
Total	**627,388,846**	598,610,197

40. Credit risk — continued

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

<u>Analysed by geographical area</u>

	As at June 30, 2018		As at December 31, 2017	
Area	**Gross amount**	**%**	Gross amount	%
Central Region	**272,660,116**	**41.3**	242,321,422	38.6
Western Region	**131,558,271**	**19.9**	132,890,359	21.2
Yangtze River Delta	**106,370,570**	**16.1**	107,950,391	17.2
Bohai Rim	**65,014,805**	**9.8**	57,873,435	9.2
Pearl River Delta	**57,731,354**	**8.7**	59,506,307	9.5
Northeastern Region	**21,712,078**	**3.3**	22,544,372	3.6
Overseas	**5,732,337**	**0.9**	5,080,710	0.7
Total	**660,779,531**	**100.0**	628,166,996	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.
Pearl River Delta:	Including Guangdong, Fujian.
Bohai Rim:	Including Beijing, Tianjin, Hebei, Shandong.
Northeastern Region:	Including Liaoning, Jilin and Heilongjiang.
Overseas:	Including all regions outside Mainland China.

IV. EXPLANATORY NOTES — continued

40. Credit risk — continued

(3) 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 June 30, 2018 Gross amount	As at June 30, 2018 %	As at December 31, 2017 Gross amount	As at December 31, 2017 %
Corporate business				
Real estate	**220,075,544**	**33.3**	219,035,352	34.9
Water, environment and public utilities management	**100,242,984**	**15.2**	91,918,236	14.6
Manufacturing	**76,767,779**	**11.6**	71,026,579	11.3
Construction	**45,326,375**	**6.8**	39,571,693	6.3
Leasing and commercial services	**37,916,995**	**5.7**	36,547,676	5.8
Transportation, logistics and postal services	**16,163,551**	**2.4**	14,069,885	2.2
Mining	**11,599,794**	**1.8**	10,937,093	1.7
Others	**95,503,581**	**14.5**	97,602,480	15.5
Subtotal	**603,596,603**	**91.3**	580,708,994	92.4
Personal business				
Loans for business operations	**10,519,081**	**1.6**	10,556,064	1.7
Mortgage	**15,313,865**	**2.3**	11,390,788	1.8
Personal consumption loans	**21,519,025**	**3.3**	15,483,236	2.5
Others	**2,754,964**	**0.4**	2,504,521	0.4
Subtotal	**50,106,935**	**7.6**	39,934,609	6.4
Loans to margin clients	**7,075,993**	**1.1**	7,523,393	1.2
Total	**660,779,531**	**100.0**	628,166,996	100.0

41. 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 FVTPL, debt instruments at amortised cost and debt instruments at FVTOCI, and equity instruments at FVTOCI.

Except for the credit risk assessment as described in note IV.40, the risk management of distressed debt assets and assets obtained through debt-to-equity swap, as well as fair value measurement techniques are the same as those described in the Group's consolidated financial statements for the year ended 31 December, 2017.

42. Fair value of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The determination of fair values of financial assets and financial liabilities are the same as those described in the Group's consolidated financial statements for the year ended 31 December, 2017.

42. Fair value of financial instruments — continued

42.1 Fair value of financial assets/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 June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	**36,048,946**	**50,141,180**	**351,512,245**	**437,702,371**
Debt instruments at FVTOCI	**16,455,296**	**13,991,797**	**130,966,739**	**161,413,832**
Equity instruments at FVTOCI	**98,937**	**—**	**1,088,962**	**1,187,899**
Total assets	**52,603,179**	**64,132,977**	**483,567,946**	**600,304,102**

	As at June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities at FVTPL	**—**	**(14,703)**	**(1,673,569)**	**(1,688,272)**

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	36,192,769	29,458,977	1,605,963	67,257,709
Financial assets designated as at fair value through profit or loss	2,255,406	10,919,926	216,870,010	230,045,342
Available-for-sale financial assets	30,087,513	36,160,070	120,995,507	187,243,090
Total assets	68,535,688	76,538,973	339,471,480	484,546,141

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL	—	—	(2,547,383)	(2,547,383)

42. Fair value of financial instruments — continued

42.1 Fair value of financial assets/liabilities that are measured at fair value on a recurring basis — continued

Fair values of the financial assets and their fair value hierarchy.

Financial assets	**Fair value as at June 30, 2018**	**Fair value hierarchy**
1) Financial assets at FVTPL		
Distressed debt assets	**151,004,194**	Level 3
Funds		
— Listed	**164,571**	Level 1
— Investing in the underlying assets with open or active quotations	**4,188,352**	Level 2
— Investing in the underlying assets without open or active quotations	**75,971,154**	Level 3
Trust products issued by financial institutions		
— Investing in the underlying assets with open or active quotations	**1,357,414**	Level 2
— Investing in the underlying assets without open or active quotations	**53,361,169**	Level 3
Shares		
— Listed Shares		
— Unrestricted Shares	**21,615,762**	Level 1
— Restricted Shares	**3,192,261**	Level 3
— Unlisted Shares	**29,381,650**	Level 3
Debt securities		
— Traded in stock exchanges	**14,162,269**	Level 1
— Traded in inter-bank markets	**15,993,332**	Level 2
— Traded over the counter	**1,355,820**	Level 3
Wealth management products	**21,329,140**	Level 3
Structured products	**16,325,965**	Level 3
Asset management plans		
— Investing in the underlying assets with open or active quotations	**3,605,950**	Level 2
— Investing in the underlying assets without open or active quotations	**6,496,492**	Level 3
Convertible bonds		
— Listed	**106,344**	Level 1
— Unlisted	**7,361,392**	Level 3
Equity instruments with embedded derivatives	**5,240,161**	Level 2
Negotiable certificates of deposit	**3,463,790**	Level 2
Interests in entrust loans	**1,569,680**	Level 3
Asset-backed securities		
— Investing in the underlying assets with open or active quotations	**423,796**	Level 2
— Investing in the underlying assets without open or active quotations	**31,713**	Level 3
Subtotal	**437,702,371**	

IV. EXPLANATORY NOTES — continued

42. Fair value of financial instruments — continued

42.1 Fair value of financial assets/liabilities that are measured at fair value on a recurring basis — continued

Financial assets		Fair value as at June 30, 2018	Fair value hierarchy
2)	Debt instruments at FVTOCI		
	Distressed debt assets	**108,552,001**	Level 3
	Debt securities		
	— Traded in stock exchanges	**16,455,296**	Level 1
	— Traded in inter-bank markets	**12,896,366**	Level 2
	— Traded over the counter	**2,348,139**	Level 3
	Trust products issued by financial institutions	**6,932,441**	Level 3
	Entrust loans	**6,147,581**	Level 3
	Bills	**4,434,553**	Level 3
	Asset management plans		
	— Investing in the underlying assets with open or active quotations	**514,800**	Level 2
	— Investing in the underlying assets without open or active quotations	**2,552,024**	Level 3
	Asset-backed securities	**580,631**	Level 2
	Subtotal	**161,413,832**	
3)	Equity instruments at FVTOCI		
	Shares		
	— Listed Shares		
	— Unrestricted Shares	**98,937**	Level 1
	— Restricted Shares	**172,742**	Level 3
	— Unlisted Shares	**916,220**	Level 3
	Subtotal	**1,187,899**	
	Total	**600,304,102**	
4)	Financial liabilities at FVTPL		
	Interest of other holders of consolidated structured entities	**(1,673,569)**	Level 3
	Structured products	**(14,703)**	Level 2
	Total	**(1,688,272)**	

IV. EXPLANATORY NOTES — continued

42. Fair value of financial instruments — continued

42.1 Fair value of financial assets/liabilities that are measured at fair value on a recurring basis — continued

Financial assets		Fair value as at December 31, 2017	Fair value hierarchy
1)	Financial assets held for trading		
	Debt securities		
	— Traded in stock exchanges	25,869,138	Level 1
	— Traded in inter-bank markets	5,852,776	Level 2
	Shares		
	— Listed Shares		
	— Unrestricted Shares	7,280,806	Level 1
	— Unlisted Shares	294,462	Level 3
	Funds		
	— Listed	3,042,825	Level 1
	— Investing in the underlying assets with open or active quotations	5,483,183	Level 2
	— Investing in the underlying assets without open or active quotations	1,311,501	Level 3
	Wealth management products	10,386,791	Level 2
	Negotiable certificates of deposit	7,290,694	Level 2
	Asset-backed securities	445,533	Level 2
	Subtotal	67,257,709	
2)	Financial assets designated as at fair value through profit or loss		
	Shares		
	— Listed Shares		
	— Unrestricted Shares	2,255,406	Level 1
	— Restricted Shares	1,118,630	Level 3
	— Unlisted Shares	17,462,733	Level 3
	Distressed debt assets	150,807,178	Level 3
	Convertible bonds	13,010,094	Level 3
	Structured products		
	— Investing in the underlying assets with open or active quotations	418,947	Level 2
	— Investing in the underlying assets without open or active quotations	13,783,698	Level 3
	Asset management plans		
	— Investing in the underlying assets with open or active quotations	2,830,487	Level 2
	— Investing in the underlying assets without open or active quotations	679,461	Level 3
	Wealth management products	7,670,492	Level 2
	Trust products issued by financial institutions	18,492,657	Level 3
	Debt instruments with embedded derivatives	1,515,559	Level 3
	Subtotal	230,045,342	

42. Fair value of financial instruments — continued

42.1 Fair value of financial assets/liabilities that are measured at fair value on a recurring basis — continued

Financial assets	Fair value as at December 31, 2017	Fair value hierarchy
3) Available-for-sale financial assets		
Debt securities		
— Traded in stock exchanges	25,232,791	Level 1
— Traded in inter-bank markets	26,755,159	Level 2
— Traded over the counter	4,946,876	Level 3
Shares		
— Listed Shares		
— Unrestricted shares	4,797,295	Level 1
— Restricted shares	4,155,631	Level 3
— Unlisted Shares	9,470,262	Level 3
Funds		
— Listed	57,427	Level 1
— Investing in the underlying assets with open or active quotations	1,480,683	Level 2
— Investing in the underlying assets without open or active quotations	71,945,309	Level 3
Wealth management products	4,885,716	Level 2
Asset management plans		
— Investing in the underlying assets without open or active quotations	6,237,674	Level 3
Trust products issued by financial institutions	23,932,018	Level 3
Asset-backed securities		
— Investing in the underlying assets with open or active quotations	3,038,512	Level 2
— Investing in the underlying assets without open or active quotations	307,737	Level 3
Subtotal	187,243,090	
Total	484,546,141	

Financial liabilities		
Financial liabilities at fair value through profit or loss		
Interest of other holders of consolidated structured entities	(2,012,075)	Level 3
Structured products	(535,308)	Level 3
Total	(2,547,383)	

IV. EXPLANATORY NOTES — continued

42. Fair value of financial instruments — continued

42.1 Fair value of financial assets/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 & 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 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, discount rate reflecting counterparties' credit risk, liquidity discount, price to book ratio, etc.

42.2 Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL	Debt instruments at FVTOCI	Equity instruments at FVTOCI	Financial liabilities at FVTPL
As at 1 January, 2018	354,922,400	124,839,193	1,411,764	2,187,308
Recognised in profit or loss	2,334,430	39,315	—	21,569
Recognised in other comprehensive income	—	648,684	(292,321)	—
Fair value changes transfer out upon disposals	(193,648)	—	—	—
Purchases	48,426,962	27,756,753	28,437	—
Settlements/disposals	(53,175,198)	(22,317,206)	—	(520,605)
Transferred-out from Level 3	(802,701)	—	(58,918)	(14,703)
As at 30 June, 2018	351,512,245	130,966,739	1,088,962	1,673,569
Changes in unrealized gains/(losses) for the period included in profit or loss for assets and liabilities held at the end of the period	2,140,782	—	—	21,569

IV. EXPLANATORY NOTES — continued

42. Fair value of financial instruments — continued

42.2 Reconciliation of Level 3 fair value measurements — continued

	Financial assets held for trading	Financial assets at FVTPL	Available-for-sale financial assets
As at 1 January, 2017	213,089	89,638,406	79,053,342
Recognised in profit or loss	(499)	1,039,784	(373,900)
Recognised in other comprehensive income	—	—	5,739,342
Fair value changes transfer out upon disposal	—	(2,165,270)	—
Purchases	183,090	76,088,404	52,472,138
Settlements/disposals	—	(50,212,070)	(12,569,650)
Transferred in	—	—	822,503
Transferred out from Level 3	—	(1,686,049)	(1,412,589)
As at 30 June, 2017	395,680	112,703,205	123,731,186
Changes in unrealised losses for the period included in profit or loss for assets held at the end of the period	(499)	(440,605)	—

IV. EXPLANATORY NOTES — continued

42. Fair value of financial instruments — continued

42.3 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 cash and balances with central bank, deposits with financial institutions, placements with financial institutions, financial assets held under resale agreements, 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 June 30, 2018		As at December 31, 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Debt instruments at amortised cost	**597,887,267**	**620,488,647**	—	—
Loans and advances to customers	**175,751,623**	**180,010,302**	158,221,948	160,731,326
Held-to-maturity investments	**—**	**—**	64,451,200	63,171,064
Financial assets classified as receivables	**—**	**—**	701,192,438	737,354,462
Total	**773,638,890**	**800,498,949**	923,865,586	961,256,852
Financial liabilities				
Borrowings	**(815,707,090)**	**(809,803,730)**	(773,057,262)	(776,084,854)
Bonds and notes issued	**(354,395,065)**	**(347,427,273)**	(331,962,869)	(329,977,905)
Total	**(1,170,102,155)**	**(1,157,231,003)**	(1,105,020,131)	(1,106,062,759)

V. EVENTS AFTER THE REPORTING PERIOD

In July 2018, Huarong Finance 2017 Co., Ltd., a wholly-owned indirectly held subsidiary of the Company, issued USD400 million floating rate guaranteed notes due 2021, USD550 million floating rate guaranteed notes due 2023 and USD150 million fixed rate guaranteed notes due 2027, at a floating rate of 3 month LIBOR+1.175%, a floating rate of 3 month LIBOR+1.325% and a fixed rate 4.75% per annum respectively.

VI. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated accounting statements were approved and authorised for issue by the Board of Directors of the Company on August 30, 2018.

By order of the Board
China Huarong Asset Management Co., Ltd.
WANG Cong
Acting Chairman

Beijing, the PRC
August 30, 2018

As at the date of this announcement, the Board comprises Mr. WANG Lihua as executive director of the Company; Mr. LI Yi, Ms. WANG Cong, Ms. DAI Lijia and Mr. ZHOU Langlang as non-executive directors of the Company; Mr. SONG Fengming, Mr. TSE Hau Yin, Mr. LIU Junmin and Mr. SHAO Jingchun as independent non-executive directors of the Company.