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)

2019 ANNUAL RESULTS ANNOUNCEMENT OF CHINA HUARONG ASSET MANAGEMENT CO., LTD.

Reference is made to the announcement of unaudited annual results for the year ended December 31, 2019 published by China Huarong Asset Management Co., Ltd. (the "**Company**") dated March 31, 2020. The review of the Company's annual results for the year ended December 31, 2019 has been completed, and the board of directors (the "**Board**") of the Company is pleased to announce the audited annual results of the Company and its subsidiaries for the year ended December 31, 2019. The Audit Committee of the Board has reviewed the audited annual results. This 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 preliminary announcements of annual results. The printed version of the Company's 2019 Annual Report will be delivered to the holders of the H Shares of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and of the Company at www.chamc.com.cn in April 2020.

Contents

1. Company Profile

China Huarong Asset Management Co., Ltd. (Stock Code: 2799), with its predecessor being China Huarong Asset Management Corporation founded on November 1, 1999, is one of the four state-owned AMCs established in response to the Asian financial crisis and for mitigating financial risks, promoting the reform of state-owned banks and the reform and difficulty relief of state-owned enterprises. It was converted into a joint stock limited company upon the approval of the State Council on September 28, 2012. On October 30, 2015, China Huarong was listed on the Main Board of the HKEX and its major Shareholders included the MOF, National Council for Social Security Fund, China Life Insurance (Group) Company, Warburg Pincus and Sino-Ocean Group Holding Limited.

The Company mainly engages in such businesses as distressed asset management, financial services, and asset management and investment business, with distressed asset management being its core business. Currently, China Huarong has 31 branches with geographic coverage across 30 provinces, autonomous regions and municipalities in mainland China as well as in Hong Kong and Macau. Its platform subsidiaries include Huarong Securities, Huarong Financial Leasing, Huarong Xiangjiang Bank, Huarong Trust, Huarong Futures, Huarong Rongde, Huarong Industrial, Huarong International and Huarong Consumer Finance, with a total of about 10,000 employees.

In 2019, China Huarong ranked 83rd in the 2019 list of top 500 Chinese companies by Fortune, and was selected as the Top 300 Traders in the Interbank Market in Local Currency 2019 by the National Interbank Funding Center.

Looking forward, based on the state's function positioning for AMCs and centred on the main responsibilities for the main business of distressed assets, China Huarong will serve the real economy, prevent and control financial risks and deepen the reform and transformation to build a sustainable business model and achieve the goal of developing a high-quality New Huarong.

2. Definitions

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

AMC(s)	the four financial 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 (中國銀行保險監督管理委員會)
China or PRC	the People's Republic of China excluding, for the purpose of this results announcement, Hong Kong, Macau and Taiwan
Company	China Huarong Asset Management Co., Ltd.
COVID-19	Corona Virus Disease 2019
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會)
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 converted from distressed indebtedness, which was acquired by the Company from medium and large state-owned enterprises prior to its restructuring, as a result of equity swaps of distressed debt assets according to national policy; (2) additional equities of the aforementioned enterprises that the Company subsequently acquired as part of asset packages it purchased; (3) additional investments by the Company in the aforementioned enterprises; (4) equities the Company received in satisfaction of debt the Company acquired through distressed asset management; (5) the small amount of equity the Company received as part of its share capital when it was established in 1999; (6) the assets from the market-oriented DES business conducted by the Company

DES Companies	the companies and enterprises whose distressed debt 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
Group, our Group or China Huarong	the Company 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 HK dollars and listed on the Hong Kong Stock Exchange
HK$ or HK dollar	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
Huarong Consumer Finance	Huarong Consumer Finance Co., Ltd.
Huarong Financial Leasing	China Huarong Financial Leasing Co., Ltd.
Huarong Futures	Huarong Futures Co., Ltd.
Huarong International	China Huarong International Holdings Limited
Huarong Industrial	Huarong Industrial Investment & Management Co., Ltd. (renamed on January 17, 2020; formally known as "Huarong Real Estate Co., Ltd.")
Huarong Rongde	Huarong Rongde Asset Management Co., Ltd.
Huarong Securities	Huarong Securities Co., Ltd.
Huarong Trust	Huarong International Trust Co., Ltd.
Huarong Xiangjiang Bank	Huarong Xiangjiang Bank Corporation Limited

IFRSs	the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
Latest Practicable Date	April 9, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this results announcement prior to its publication
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
Macau	the Macau Special administrative Region of the PRC
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 the United States
Offshore Preference Share Issuance Plan	has the meaning as defined in the circular of the Company dated June 23, 2017
Offshore Preference Share(s)	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
OPEC	Organization of the Petroleum Exporting Countries
PBOC	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
Relevant Persons	has the meaning as defined in the Prospectus
Reporting Period	the year ended December 31, 2019
RMB or Renminbi	Renminbi, the lawful currency of the PRC

ROAA	return on average assets
ROAE	return on average equity attributable to equity holders
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)
Supervisors	supervisor(s) of the Company
U.S. dollar or USD	the lawful currency of the U.S.

3. Important Notice

The Board, the Board of Supervisors, the Directors, Supervisors and senior management of the Company warrant the truthfulness, accuracy and completeness of this annual results announcement and that there are no misstatements, misleading representations or material omissions, and they shall assume several and joint liability for its contents.

On April 9, 2020, the 34th meeting of the second session of the Board considered and approved the 2019 Annual Report and the 2019 Annual Results Announcement of the Company. There were seven Directors eligible to attend the meeting, of whom seven attended in person.

The financial report for 2019 prepared by the Group according to the PRC GAAP and IFRSs, were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with the Chinese and international auditing standards, respectively, and they have issued the standard audit reports for the Company without qualifications.

The Board of the Company proposes to distribute to Shareholders a cash dividend for 2019 of RMB0.110 (tax inclusive) per 10 shares. The profit distribution plan will be proposed to the Shareholders' general meeting 2019 for consideration.

4. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Wang Zhanfeng
Authorized representatives	Li Xin, Yang Pei
Secretary to the Board	Yang Pei (The qualification is to be approved by the CBIRC)
Joint Company secretaries	Yang Pei, Ngai Wai Fung
Registered address	No. 8 Financial Street, Xicheng District, Beijing, China
Postal code of place of registration	100033
Website	www.chamc.com.cn
Principal place of business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares annual report	www.hkexnews.hk
Place for maintaining annual reports for inspection	Board Office of the Company
Stock exchange on which H Shares are listed	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 advisors as to PRC Law and office address	Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan, Central Road, Chaoyang District, Beijing, China
Legal advisors as to Hong Kong law and office address	Clifford Chance 27th Floor, Jardine House, One Connaught Place, 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

5. Financial Summary

The financial information contained in this results announcement was prepared in accordance with IFRSs. Unless otherwise specified, it is consolidated financial information of the Group and presented in RMB. The Group initially adopted *IFRS 16 Leases* on January 1, 2019, but did not restate the comparative data of 2018 relating to the leasing arrangement within the scope of *IFRS 16*. Impact to net assets arising from the adoption of *IFRS 16* on the date of transition was directly reflected in the equity on January 1, 2019. The financial data as at and for the year ended December 31, 2019 was prepared in accordance with the accounting policies revised as a result of adoption of *IFRS 16*, while the comparative figures were prepared in accordance with original accounting policies.

	For the year ended December 31,				
	2019	2018	2017	2016	2015
			(in millions of RMB)		
Income from distressed debt assets	**35,067.8**	34,449.6	—	—	—
Fair value changes on distressed debt assets	**9,963.7**	8,657.9	—	—	—
Fair value changes on other financial assets and liabilities	**11,727.2**	(386.4)	—	—	—
Income from distressed debt assets classified as receivables	**—**	—	30,753.4	25,140.0	23,095.0
Fair value changes on financial assets and liabilities	**—**	—	12,770.8	9,634.4	4,984.4
Interest income	**38,530.0**	44,809.2	14,833.8	10,922.0	8,616.4
Finance lease income	**5,911.6**	6,784.4	6,181.2	5,522.1	5,450.7
Investment income, gains and losses	**—**	—	44,179.7	24,678.4	19,167.3
Gains from derecognition of financial assets measured at amortised cost	**104.7**	76.9	—	—	—
Losses from derecognition of debt instruments at fair value through other comprehensive income ("**FVTOCI**")	**(9.8)**	(79.2)	—	—	—
Commission and fee income	**2,595.8**	4,693.3	13,039.1	12,920.1	10,398.0
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**1,441.2**	228.0	917.6	2,027.7	427.4
Dividend income	**1,819.0**	2,392.2	—	—	—
Other income and other net gains or losses	**5,505.3**	5,627.2	5,395.0	4,363.0	3,246.6
Total income	**112,656.5**	107,253.1	128,070.6	95,207.7	75,385.8
Interest expenses	**(60,256.7)**	(64,098.1)	(50,691.1)	(31,416.8)	(25,902.2)
Commission and fee expenses	**(2,207.7)**	(2,079.9)	(1,296.2)	(1,035.9)	(945.3)
Operating expenses	**(13,138.8)**	(14,550.0)	(15,140.9)	(12,286.8)	(11,487.5)
Impairment losses under expected credit loss ("**ECL**") model	**(24,966.2)**	(17,297.8)	(16,550.5)	—	—
Impairment losses on other assets	**(1,498.0)**	(2,769.0)	(913.1)	—	—
Impairment losses on assets	**—**	—	—	(16,717.0)	(12,603.8)
Total expenses	**(102,067.4)**	(100,794.8)	(84,591.8)	(61,456.5)	(50,938.8)

	For the year ended December 31,				
	2019	2018	2017	2016	2015
			(in millions of RMB)		
Change in net assets attributable to other holders of consolidated structured entities	**(631.3)**	(1,928.2)	(7,823.7)	(3,376.3)	(2,456.6)
Share of results of associates and joint ventures	**1,012.3**	1,481.8	946.6	134.4	255.5
Profit before tax	**10,970.1**	6,011.9	36,601.7	30,509.3	22,245.9
Income tax expense	**(8,700.8)**	(4,502.9)	(10,014.0)	(7,400.8)	(5,295.1)
Profit for the year	**2,269.3**	1,509.0	26,587.7	23,108.5	16,950.8
Profit attributable to:					
Equity holders of the Company	**1,424.4**	1,575.5	21,992.6	19,613.5	14,482.1
Holders of perpetual capital instruments	**869.4**	976.8	1,140.5	455.8	174.0
Non-controlling interests	**(24.5)**	(1,043.3)	3,454.6	3,039.2	2,294.7

	As at December 31,				
	2019	2018	2017	2016	2015
			(in millions of RMB)		
Assets					
Cash and balances with central bank	**30,774.7**	29,909.1	33,207.1	27,259.8	24,982.1
Deposits with financial Institutions	**149,462.0**	107,500.2	162,881.1	154,329.9	76,896.3
Placements with financial institutions	**2,709.9**	843.6	9,822.7	4,902.3	9,298.7
Financial assets held for trading	**—**	—	67,257.7	87,731.3	13,004.0
Financial assets designated as at fair value through profit or loss	**—**	—	230,045.3	95,167.3	85,458.2
Financial assets at fair value through profit or loss (“**FVTPL**”)	**367,669.9**	391,181.0	—	—	—
Financial assets held under resale agreements	**22,525.9**	20,126.9	41,238.1	36,347.7	32,538.9
Contract assets	**—**	114.7	—	—	—
Loans and advances to customers	**211,265.1**	190,654.0	158,221.9	118,406.0	81,625.2
Finance lease receivables	**68,040.3**	99,002.9	95,703.9	84,991.3	71,672.5
Debt instruments at FVTOCI	**103,739.3**	147,387.3	—	—	—
Equity instruments at FVTOCI	**3,583.7**	3,244.3	—	—	—
Inventories	**19,147.4**	19,243.0	16,640.8	16,418.9	10,590.9
Available-for-sale financial assets	**—**	—	195,520.7	140,292.6	64,994.2
Held-to-maturity investments	**—**	—	64,451.2	44,884.2	34,358.0
Financial assets classified as receivables	**—**	—	701,192.4	549,478.0	328,685.8
Debt instruments at amortised cost	**642,086.0**	612,133.1	—	—	—
Interests in associates and joint ventures	**28,078.9**	36,975.5	42,097.1	9,564.0	6,692.6
Investment properties	**5,910.9**	5,326.1	2,135.4	1,828.4	1,070.2
Property and equipment	**12,325.0**	10,684.5	8,645.2	7,145.8	5,026.8
Right-of-use assets	**3,569.6**	—	—	—	—

	As at December 31,				
	2019	2018	2017	2016	2015
			(in millions of RMB)		
Deferred tax assets	**12,193.8**	15,018.7	13,400.2	9,301.2	4,826.6
Other assets	**21,911.9**	20,478.4	27,457.4	23,713.7	14,825.4
Goodwill	**18.1**	263.4	342.1	206.9	—
Total assets	**1,705,012.4**	1,710,086.7	1,870,260.3	1,411,969.3	866,546.4
Liabilities					
Borrowings from central bank	**3,641.7**	2,402.2	4,647.0	1,987.0	20.0
Deposits from financial institutions	**10,276.7**	7,307.6	10,158.4	6,962.5	15,468.2
Placements from financial institutions	**2,253.6**	300.2	2,101.6	4,278.5	964.9
Financial assets sold under repurchase agreements	**15,665.4**	24,410.0	60,317.0	56,390.6	30,361.9
Borrowings	**761,506.4**	760,995.5	773,057.3	511,308.6	295,031.8
Financial liabilities at FVTPL	**3,223.9**	4,728.3	2,547.4	—	—
Due to customers	**226,814.7**	209,116.5	202,349.9	172,405.9	139,998.9
Tax payable	**2,887.4**	3,731.9	6,025.8	4,680.6	3,223.3
Contract liabilities	**575.1**	954.4	—	—	—
Lease liabilities	**1,983.3**	—	—	—	—
Deferred tax liabilities	**478.5**	605.8	1,380.3	700.4	552.8
Bonds and notes issued	**367,345.6**	353,305.3	331,962.9	243,075.2	143,053.8
Other liabilities	**144,883.6**	173,624.0	293,077.8	260,099.0	119,070.2
Total liabilities	**1,541,535.9**	1,541,481.7	1,687,625.4	1,261,888.3	747,745.8
Equity					
Share capital	**39,070.2**	39,070.2	39,070.2	39,070.2	39,070.2
Capital reserve	**18,405.0**	19,107.4	19,015.0	18,320.7	18,404.8
Surplus reserve	**8,564.2**	6,971.8	5,299.7	3,615.2	2,441.1
General reserve	**16,681.3**	15,872.8	12,882.9	10,304.4	8,571.7
Other reserves	**1,806.9**	987.8	(799.5)	3,071,8	5,475.5
Retained earnings	**36,731.2**	38,630.2	52,706.3	40,860.7	24,154.1
Equity attributable to equity holders of the Company	**121,258.8**	120,640.2	128,174.6	115,243.0	98,117.4
Perpetual capital instruments	**18,430.6**	20,258.5	23,185.4	15,030.3	6,454.1
Non-controlling interests	**23,787.1**	27,706.3	31,274.9	19,807.7	14,229.1
Total equity	**163,476.5**	168,605.0	182,634.9	150,081.0	118,800.6
Total equity and liabilities	**1,705,012.4**	1,710,086.7	1,870,260.3	1,411,969.3	866,546.4

	As at and for the year ended December 31,				
	2019	2018	2017	2016	2015
Financial Ratios					
ROAE[(1)]	**1.2%**	1.3%	18.1%	18.4%	17.3%
ROAA[(2)]	**0.1%**	0.1%	1.6%	2.0%	2.3%
Liability to total assets ratio[(3)]	**90.4%**	90.1%	90.2%	89.4%	86.3%
Basic earnings per share[(4)](RMB)	**0.04**	0.04	0.56	0.50	0.43
Diluted earnings per share[(5)](RMB)	**N/A**	N/A	N/A	0.50	0.43

(1) Represents the percentage of the net profit attributable to equity holders of the Company for the Reporting Period in the average balance of equity attributable to equity holders of the Company as at the beginning and the end of the Reporting Period.

(2) Represents the percentage of the net profit for the Reporting 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 Reporting Period.

(3) Represents the ratio of total liabilities to total assets at the end of the Reporting Period.

(4) Represents the net profit attributable to equity holders of the Company for the Reporting Period divided by the weighted average number of outstanding Shares.

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

6. Chairman’s Statement

We walked through the toughness with the year fleeting like a song. 2019 is the 70th anniversary of the founding of the People’s Republic of China, and also marks an extraordinary, challenging and meaningful year for China Huarong. During the first full year for construction of New Huarong, which is also the 20th anniversary of the establishment of China Huarong, despite a complicated internal and external environment, we stood up to face difficulties with firm confidence, comprehensively enhancing the leadership of Communist Party of China (CPC), resolutely eliminating the pernicious influence, serving national strategies and accelerating transformational development to maintain prudent on the whole and progressive as to the core business. With strategy to specify direction, professionalism to lead development, reform to increase driving force, management to keep the bottom line and fighting for achievements, we managed to achieve a good start in the construction of New Huarong, demonstrating a momentum of “stable growth and sound progress”.

Time is a pair of scales which can measure how much our fighting weights

Over the past year, we returned to main responsibilities and core businesses and enhanced our professional advantages to effectively serve the national strategies and the real economy. We consciously integrated the Company’s operation and development into the national strategies and proactively gave full play to our roles as the national counter-cyclical management tool and the principal force for managing distressed assets, centering on the general economic transformation and upgrade and supply-side structural reform. We recorded a market share of 30% in acquisitions of asset packages for the year, maintaining a leading position in the industry. The performance of the core business sector hit a record high with the operating revenue of distressed assets increasing by 7.8% to RMB69.791 billion. The proportion of core business of distressed assets to the Group’s revenue increased by 1.6 percentage points to 62.0% as compared to the previous year, demonstrating the continuous effects of return to the core businesses.

Over the past year, we specified our strategic direction and focused on steady operation to create value for investors in a practical manner. We implemented the Three-year Strategic Plan for Construction of New Huarong, focused on serving as “a provider of financial rescuing services, a manager of broadly-ranging distressed assets, and a supplier of featured financial products and services” and enhanced our competitiveness in the market and ability to create value, and the Company further enhanced its operation quality. Due to the gradual exit from the non-core and non-advantageous businesses, as at the end of 2019, the assets of the Company were RMB1.71 trillion, total income was RMB112.657 billion, up by 5.0% year on year, which maintained a leading position in the industry and net profit of the Group was RMB2.269 billion, up by 50.4% year on year. The performance of core licensed subsidiaries that engaged in banking, lease and securities steadily increased, the total income of financial services business amounted to RMB33.576 billion, up by 10.9% year on year; the profit before tax amounted to RMB5.743 billion, up by 27.6% year on year.

Over the past year, we comprehensively restructured the business, and made great efforts in fostering new drivers for growth, which achieved positive results in transformation and development. The businesses scales in the restructuring of problematic enterprises and market-oriented debt-to-equity swap saw significant growth. We also made new breakthroughs in businesses such as bailout of listed companies, merger, acquisition and restructuring, risk mitigation of defaulted bonds and implicit debts of local governments. Our first case regarding the "Market-oriented Debt-to-Equity Swap + Assets Restructuring" of the local state-owned enterprise has been implemented, and the first program of market-oriented debt-to-equity swap that combined internal and external underlying debts of the listed companies has been implemented. China Huarong Fund for M&A and Restructuring has been established. The business pattern of "broadly-ranging distressed assets" has produced preliminary results.

Over the past year, we improved corporate governance and promoted key reforms to continuously consolidate the foundation for transformation and development. With the organic integration of Party leadership and corporate governance advanced, we improved the basic systems of corporate governance, clarified duties and responsibilities, regulated performance of duties of each party and strengthened the protection of right to know and performance of duties of Directors and Supervisors. We enhanced the dual communications with capital market and presented a good corporate image. Reforms in key areas were deepened and special reforms including appraisal system, line management and business synergy were implemented. We also implemented organizational reform at the Head Office to strengthen the management of core business lines, optimize the management system of overseas institutions, and consolidate and clear various affiliated institutions. We strengthened the construction of high-quality professional team and established a fair and transparent personnel selection system, and as a result, the team was further cohesive.

Over the past year, we enhanced management and control of the Group and optimized internal management to practically hold the bottom line of risk. We improved the internal control and compliance system, and consciously implemented regulatory requirements; strengthened system construction with a view to promoting the innovation of various systems and mechanisms; enriched the measures on risk prevention and mitigation, increased efforts in disposal of risk assets, improved our ability to mitigate risks; strengthened the overall risk management of the Group by optimizing business authorization and strengthening review and approval of projects; and strengthened the asset and liability management through which the Company realized dual growth in bank credit size and external financing balance.

Over the past year, we actively responded to the call of the nation and contributed to the targeted poverty alleviation to practically fulfill our social responsibilities. With the implementation of combined measures of poverty alleviation on finance, industry, education and livelihood, the poverty rate of Xuanhan County, Sichuan Province which was specifically helped by the Company, significantly decreased from 18.9% in 2002 to 0.4%, and 209,400 people who were registered to have lived in poverty have been lifted out of poverty completely. The Group's subsidiaries, such as Huarong Xiangjiang Bank, actively took part in the construction of livelihood projects, developed green financial products, expanded service network for "agriculture, rural areas and farmers", and optimized financial services for small and micro enterprises, presenting a responsible and committed state-owned financial enterprise.

In 2019, the start of construction of New Huarong has come to a successful conclusion, which also marks that, after 20 years of trials and hardships, China Huarong has stood at a new historical starting point again after completing three stages of policy-driven disposition, commercial transformation and commercial development and stepped into a new historical stage of high-quality development. During this period, we deeply felt the resolute support of the Party Central Committee and relevant national authorities for Huarong, and the full understanding of Shareholders, investors and industry peers. For this, with gratitude and great appreciation, we are also clearly aware that all parties also have greater expectations for the development and performance of the Company. We will spare no efforts to strive for pioneering and innovation, perform our duties diligently, and endeavor to create good returns for investors and the market.

Hereby, I would like to express my great gratitude to Mr. Ma Zhongfu, Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and other resigned members of the senior management for their hard work and valuable contributions to the development of the Company!

Time is a ruler which can measure the progress of our striving forward

At present, the world is experiencing profound shifts unseen in a century. The development of China is in a critical period of changing the development mode, optimizing the economic structure and transforming the growth momentum. Financial asset management companies are in an important period with strategic opportunities. It is an era full of opportunities and challenges, and also an era with bright prospects. Under the guidance of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, the Company will strengthen Party leadership and construction, continue to eliminate the pernicious influence, adhere to the overall keynote in the steady progress, grasp the historical development opportunities, actively give play to the professional advantages and fully explore business opportunities to expand the width and depth of the core business, and continuously improve the value of the Company in the supply-side structural reform.

Standing at the new historical starting point, we will forge the core business to be strong and precise, and continuously improve the ability to serve the real economy. The Company will actively respond to the guidance of national policies, focus on the main responsibility and the core business of distressed assets, enhance the rescue financial function, strengthen the acquisition and disposal of distressed assets, enhance delicacy management and improve the disposal efficiency, to play the role of national team and main force in the distressed assets industry. Taking advantage of "Investment + Investment Bank", the Company will vigorously expand businesses such as reorganization of problematic enterprises, merging and reorganization of enterprises, acquisition of defaulted bonds, and bailout of listed companies to foster business growth poles. We will actively explore and develop businesses such as implicit debts of local governments and risk mitigation of high-risk small and medium financial institutions.

Standing at a new historical starting point, we will deepen our reform and innovation to effectively inspire organic drivers for development. With our reform in key areas and key links deepened, we will promote the revolution of development quality, efficiency and drivers of the Company. We will accelerate the transformation and innovation of core business, optimize the distressed asset chain as a whole, and extend the value chain of core business in distressed assets to provide "distressed assets + comprehensive financial services" by making full use of advantages of multiple licenses and enhancing business cooperation. We will support licensing subsidiaries to do better and grow stronger to serve the Group's development strategy. The construction of information technology will be raised up to the level of corporate strategy to accelerate the informatization construction, so as to support and lead the development of business.

Standing at a new historical starting point, we will strengthen internal management to continuously enhance the resilience of high-quality development. With the integration of CPC leadership and corporate governance deepen, we will improve the corporate governance mechanism in which parties perform their own duties, assumes their own responsibilities, coordinate with each other, and effectively checks and balances each other. We will establish a group management and control system with strategy, capital and risk as the cores and in line with regulatory requirements and state-owned financial capital management. We will strengthen overall risk management, improve our ability to identify, manage and control risks, and create new mechanisms for risk mitigation. We plan to gradually reduce the scale of assets in non-core and non-advantageous business and consolidate the core advantages of core businesses. The construction of internal control and management and compliance culture will be enhanced as well.

Time is a great writer which writes the most wonderful chapter for people who treasure it

The year of 2020 not only marks the decisive year for China to build a moderately prosperous society in all respects and the final year to implement the "13th Five-Year" Plan, but also marks a crucial year and a practicing year for the construction of New Huarong. 2020 is a year more than usual with the meaning given by the new history chapter. At the beginning of 2020, a sudden outbreak of COVID-19 took place. However, we firmly believe that with the leadership of the Party Central Committee and the concerted efforts of all Chinese people, the epidemic could do little to hinder China's great economic development and national rejuvenation. We will unswervingly promote the transformational development with rock-solid confidence, time-valuing momentum and tenacious perseverance to take on new missions, demonstrate new achievements and make new contributions in deepening the supply-side structural reform, serving the real economy, as well as preventing and mitigating the financial risks, so as to deliver better returns to our country, Shareholders and public investors and to compose China Huarong's new chapter of living up to mission and times at this new point of time!

王占峰

Chairman: Wang Zhanfeng

April 9, 2020

7. President's Statement

In 2019, thanks to the strong leadership of the Party Committee of the Company and scientific decisions made by the Board of Directors, the Company adjusted its operational strategies in an all-round way, insisted on returning to the main business of distressed assets and solving problems in development and courageously strived forward through thick and thin. The Company's operation was steady and provision size was continuously improved, risk compensation capability was further enhanced, and all operation work successfully completed, marking a good start for construction of New Huarong.

Financial indicators constantly maintained stability. In the whole year, China Huarong recorded a net profit of RMB2.269 billion of the Group, representing a year on year increase of 50.4%, and the Group's total operation revenue maintained stable increase. The Company adjusted structure and achieved a steady increase simultaneously and continuously strengthened assets and liabilities management to keep the Group's liability to assets ratio stable. The Company's capital condition improved, capital adequacy ratio increased as compared to the previous year, and the business development was better secured.

The expansion of core business was positively effective. In 2019, China Huarong's main business of distressed assets as a percentage in the total assets of the Group maintained stable with the significantly increased contribution of revenue and the continuously improved profitability. The scale of investment in acquisition-and-restructuring business of the Company remained stable with constantly improved structure and the percentage of financial debt and restructuring business of problematic enterprises was improved. The Company continued to maintain its leadership in the industry in the scale of acquisition of acquisition-and-disposal business and maintained growth in cash from disposal and revenue with steadily rising profitability; the market-oriented debt-to-equity swap business was pushed forward steadily and China Huarong Fund for M&A and Restructuring has been established. The Company actively developed new business modes including bailouts for listed companies, M&A and restructuring and risk resolution for defaulted bonds.

Continuously improve business layout. Based on the operational idea of "breaking old rules while setting new rules and maintaining some businesses while downsizing the others", the Company intensified efforts for the main businesses and continued to step up resource allocation and evaluation in three main businesses; made less investment in non-main and non-dominant businesses, continuously reduced the asset size for non-dominant businesses, integrated the uncompetitive homogeneous domestic institutions, adjusted the management system for overseas institutions to the system on business development and asset management and kept improving business layout, so as to promote business development and institution downsizing simultaneously. Meanwhile, the Group supported and guided its financial subsidiaries to do better in and strengthen main businesses, accelerated transformation, improved quality and increased efficiency, and the revenue and profits of Huarong Xiangjiang Bank and Huarong Financial Leasing maintained growth.

Promote the risks defuse orderly. According to its established target and plan for risk assets resolution, the Company simultaneously took several measures and accurately implemented policies to reduce risk exposure with all strengths. Phased progresses were made in the resolution of risk projects. Meanwhile, we also noted that though the continuous increase of downward pressure of the macroeconomy brought a rare development opportunity for the asset company to develop the counter-cyclical business, the significant increase of various risk factors also made the defuse of the Company's existing risk assets continue to be under pressure, therefore, the Company increased the provision to further increase the risk offsetting capacity.

Constantly solidify the internal management and control basis. The Company enhanced Group management and control, intensified management over material events of subsidiaries and guided various institutions to regulate governance; strengthened top-level system design, initiated system building of New Huarong and established a sound, simple, clear and effective system frame, so as to improve the internal control and governance ability in an all-round way. Meanwhile, the Company paid more attention to the risk management and control of the launching of new businesses, optimized the management of business authorization and limits and strengthened the risk monitoring, which significantly improved the level of risk management and control.

We made these achievements thanks to the unremitting efforts of all the employees of Huarong, correct leadership of the Party committee at the higher level, guidance and help of relevant departments, powerful support of substantial Shareholders and full trust of financial institutions peers and customers. In 2020, China Huarong will stay true to the mission, face up to challenges and insist on seeking breakthroughs through innovation, promoting transformation through reform and pursuing development with pragmatic work; further centralize resources to consolidate the core advantages of main businesses, intensify efforts for business expansion, stabilize investment scale and improve its profitability. Based on major distressed assets, the Company will strengthen the function of countercyclical financial rescue, give full play to its advantages in financial license and group synergy, improve its overall profitability and foster new growth poles of sustainable development, so as to resume valuable growth.

President: Li Xin

April 9, 2020

8. Statement of Chairman of the Board of Supervisors

2019 is a key year for construction of New Huarong. In the year, with the care, support and guidance of relevant national departments, the Company thoroughly implemented the economic and financial policies of the state, adhered to the mission of an AMC, performed the function as a supportive financial institution, focused on the main business of distressed assets, played a positive role and achieved satisfactory results in effectively defusing operational risks of financial institutions and solving difficulties and alleviating burdens for real enterprises and made contributions to support and serve real economy and national strategies.

In 2019, the Board of Supervisors of the Company performed duties faithfully and diligently pursuant to the laws and regulations, regulatory provisions of the state and the Articles of Association, concentrated efforts on duty performance, finance, internal control and risk management and supervision, insisted on the problem-oriented principle and grasped principal contradictions by centring on steady and orderly operation and quality development of the Company, so as to propose more targeted opinions and suggestions and improve work efficiency. With an aim to improve the work mechanism of the Board of Supervisors, it put emphasis on key links, intensified efforts for communication with and reporting to the regulatory departments and communication with the Board of Directors and senior management, forming a smoother internal and external communication mechanism for the Board of Supervisors. It kept performing duties according to laws and regulations, adhered to the duties conferred by laws, regulations, regulatory provisions and the Articles of Association, and paid attention to the learning, training and improvement of duty performance abilities of members of the Board of Supervisors, with evident results achieved in construction of the Board of Supervisors. During the year, the Board of Supervisors efficiently supervised and urged the Company to thoroughly implement the economic and financial policies of the state and requirements of regulatory departments, effectively propelled the Company to constantly enhance financial management and improve the internal control system and comprehensive risk management system, and protected the interests of the Company, Shareholders, employees and other stakeholders pursuant to the laws.

The year 2020 is the last year of completing the building of a moderately prosperous society in all respects and China's "13th Five-year Plan" and also a crucial year for building New Huarong. The Board of Supervisors will stick to its original intention and mission in fulfilling the duties conferred in laws, regulations, supervising regulations and the Articles of Association, enhance supervision over the implementation of the Company's development strategies, the performance of duties by the Board and senior management and members thereof, financial management, internal control and risk management, and urge the Company to stick to its function positioning as an AMC, earnestly exert the function of a supportive financial asset management institution and constantly enhance its capability of serving the real economy. Taking Chairman Xi Jinping's important guidelines, i.e. "discipline persons, oversee money, and consolidate the rules as firewall", on financial work as the basic principles, the Board of Supervisors will further deepen the understanding and awareness of the nature of finance, intensify its knowledge about the working requirements set by the state and regulatory authorities for the Board of Supervisors, further straighten out the system and mechanism for the work of the Board of Supervisors, continuously improve the supervisory system of the Board of Supervisors, and work in concert with the Board and senior management to promote the steady and orderly operation and high-quality development of the Company.

Chairman of the Board of Supervisors: Hu Jianzhong

April 9, 2020

9. Management Discussion and Analysis

9.1 Economic, Financial and Supervising Environment

In 2019, economic growth slowed down markedly across the globe. While major developed economies saw their economy soften, featuring "low growth, low inflation, low interest rate, low unemployment rate", emerging-market economies diverged in economic performance. Given high uncertainty over global trade friction, trade friction remained an important risk for slowing down global economy.

In 2019, China's economy remained resilient with the deepening of the supply-side structural reform. Substantial progress was made in three tough battles, economic development remained healthy and national economy moved steadily as a whole. China stepped up its macroeconomic policy's role in countercyclical regulation, steady progress was made in the work of "stabilizing employment, finance, foreign trade, foreign investment, investment and expectations", investment tended to stabilize amid slowing growth, consumption and employment maintained overall stability, and CPI posted noticeable structural rise. Economy in the whole year increased by 6.1% and macro economy kept a momentum of stable growth, which achieved the target as expected at the beginning of the year.

In 2019, China's financial industry continued to deepen the financial structural supply-side reform, high-growth momentum of macro leverage ratio was initially stifled, financial risk was controllable on the whole as relevant control measures were carried out steadily, and the quality and efficiency of finance in serving the real economy were improved gradually. Under such background, financial asset management companies closely focused on the needs of high-quality development of China's economy and the supply-side structural reform, actively gave play to their functions as supportive financial service providers and countercyclical financial instruments, initiatively took the advantages of market opportunities, increased resource investment in main business, actively acquired distressed asset packages, restructured problem enterprises and rescued enterprises in crises, and conducted market-oriented debt-to-equity swaps, contributing to rapid progresses in preventing and mitigating financial risks and serving the real economy.

In 2019, the regulatory authorities launched a series of policies and measures to strengthen supervision, and led financial institutions to observe their original mind and to focus on the main business. In respect of industry supervision of distressed assets, firstly, the Guiding Opinions of the CBIRC on Promoting the High-Quality Development of the Banking and Insurance Industries (Yin Bao Jian Fa [2019] No. 52) issued by the CBIRC, further confirmed the development direction for main business of AMCs; secondly, the 49th meeting of the Standing Committee of the State Council defined the measures for boosting market-oriented and law-based debt-to-equity swaps, cracked the main problems facing market-oriented debt-to-equity swaps and stepped up efforts to improve debt-to-equity swaps in respect of the quantity, coverage and quality; thirdly, the CSRC revised the exposure draft of the Administrative Measures for the Material Asset Reorganizations of Listed Companies, which loosened the judging criterion for non-second-board enterprises' back-door listing and promoted the development of direct financing; fourthly, the PBOC issued the Provisional Measures for the Supervision and Administration of Financial Holding Companies (Exposure Draft), which has established the principles of macro-prudential management, look-through supervision and coordinated supervision and specified the comprehensive, constant and look-through supervision over the capital, behavior and risk of financial holding companies on the basis of consolidated supervision. The release of a series of policies and measures provided a benign external policy environment for AMCs to conduct the main business of distressed assets in compliance with laws and regulations and also provided a clear direction for regulating the sustainable development.

9.2 Analysis of Financial Statements

9.2.1 Changes in accounting policies

In January 2016, the International Accounting Standards Board ("**IASB**") issued *IFRS 16 Leases*, which replaced *IAS 17 Leases* and related interpretations. The MOF revised and issued *Accounting Standards for Business Enterprises No. 21 — Leases* (hereinafter referred to as the "New Lease Standards") in December 2018. The New Lease Standards provide new guidance on the definition of lease, the recognition, measurement and disclosure of lease arrangement of a lessee, and sale and leaseback transactions. The Group adopted the above New Lease Standards from January 1, 2019 as required.

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

9.2.2 Operating results of the Group

In 2019, under the background of the increasing downward pressure on the macroeconomics, through active return of the core business, downsizing and risk resolution, continuously strengthening risk management and improving its operation ability, the Group realized net profit of RMB2,269.3 million, representing an increase of 50.4% as compared with last year. This included (i) the distressed assets management business which is the Group's core business increased significantly, the profit before tax from distressed assets management segment was RMB19,590.8 million, representing a year-on-year increase of 51.8%; (ii) the financial services business which was primarily performed by licensing financial subsidiaries achieved a steady progress, the profit before tax from financial services segment was RMB5,742.5 million, representing a year-on-year increase of 27.6%; and (iii) the performance of asset management and investment business which was primarily performed by subsidiaries in Hong Kong and non-financial subsidiaries which will be canceled or merged declined significantly, due to the complicated and changeable business environment and the clean-up of business which made impairment losses increased.

In 2019, the Group recorded a total income of RMB112,656.5 million, representing an increase of 5.0% as compared with last year; a total expenditure of RMB102,067.4 million, representing an increase of 1.3% as compared with last year; a net profit of RMB2,269.3 million, representing an increase of 50.4% as compared with last year; a net profit attributable to equity holders of the Company of RMB1,424.4 million, representing a decrease of 9.6% as compared with last year; a ROAE of 1.2% and a ROAA of 0.1%. The net profit increased significantly, but the net profit attributable to equity holders of the Company showed a downward trend, mainly because the Group undertook part of the losses that should have been borne by the external shareholders after clearing the external shareholders of non-financial subsidiaries.

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets	**35,067.8**	34,449.6	618.2	1.8%
Fair value changes on distressed debt assets	**9,963.7**	8,657.9	1,305.8	15.1%
Fair value changes on other financial assets and liabilities	**11,727.2**	(386.4)	12,113.6	(3,135.0%)
Interest income	**38,530.0**	44,809.2	(6,279.2)	(14.0%)
Finance lease income	**5,911.6**	6,784.4	(872.8)	(12.9%)
Gains from derecognition of financial assets measured at amortised cost	**104.7**	76.9	27.8	36.2%
Losses from derecognition of debt instruments at FVTOCI	**(9.8)**	(79.2)	69.4	(87.6%)
Commission and fee income	**2,595.8**	4,693.3	(2,097.5)	(44.7%)
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**1,441.2**	228.0	1,213.2	532.1%
Dividend income	**1,819.0**	2,392.2	(573.2)	(24.0%)
Other income and other net gains or losses	**5,505.3**	5,627.2	(121.9)	(2.2%)
Total income	**112,656.5**	107,253.1	5,403.4	5.0%
Interest expenses	**(60,256.7)**	(64,098.1)	3,841.4	(6.0%)
Commission and fee expenses	**(2,207.7)**	(2,079.9)	(127.8)	6.1%
Operating expenses	**(13,138.8)**	(14,550.0)	1,411.2	(9.7%)
Impairment losses under ECL model	**(24,966.2)**	(17,297.8)	(7,668.4)	44.3%
Impairment losses on other assets	**(1,498.0)**	(2,769.0)	1,271.0	(45.9%)
Total expenses	**(102,067.4)**	(100,794.8)	(1,272.6)	1.3%
Change in net assets attributable to other holders of consolidated structured entities	**(631.3)**	(1,928.2)	1,296.9	(67.3%)
Share of results of associates and joint ventures	**1,012.3**	1,481.8	(469.5)	(31.7%)
Profit before tax	**10,970.1**	6,011.9	4,958.2	82.5%
Income tax expense	**(8,700.8)**	(4,502.9)	(4,197.9)	93.2%
Profit for the year	**2,269.3**	1,509.0	760.3	50.4%
Profit attributable to:				
Equity holders of the Company	**1,424.4**	1,575.5	(151.1)	(9.6%)
Holders of perpetual capital instruments	**869.4**	976.8	(107.4)	(11.0%)
Non-controlling interests	**(24.5)**	(1,043.3)	1,018.8	(97.7%)

9.2.2.1 Total income

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets	**35,067.8**	34,449.6	618.2	1.8%
Fair value changes on distressed debt assets	**9,963.7**	8,657.9	1,305.8	15.1%
Fair value changes on other financial assets and liabilities	**11,727.2**	(386.4)	12,113.6	(3,135.0%)
Interest income	**38,530.0**	44,809.2	(6,279.2)	(14.0%)
Finance lease income	**5,911.6**	6,784.4	(872.8)	(12.9%)
Gains from derecognition of financial assets measured at amortised cost	**104.7**	76.9	27.8	36.2%
Losses from derecognition of debt instruments at FVTOCI	**(9.8)**	(79.2)	69.4	(87.6%)
Commission and fee income	**2,595.8**	4,693.3	(2,097.5)	(44.7%)
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**1,441.2**	228.0	1,213.2	532.1%
Dividend income	**1,819.0**	2,392.2	(573.2)	(24.0%)
Other income and other net gains or losses	**5,505.3**	5,627.2	(121.9)	(2.2%)
Total income	**112,656.5**	107,253.1	5,403.4	5.0%

In 2019, total income of the Group increased slightly as compared with last year, which increased by 5.0% from RMB107,253.1 million in 2018 to RMB112,656.5 million in 2019. In particular, the fair value changes on distressed debt assets (acquisition-and-disposal model), the fair value changes on other financial assets and liabilities and net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures substantially increased, income from distressed debt assets (acquisition-and-restructuring model) remained stable with a slight growth, and interest income, commission and fee income decreased.

9.2.2.1.1 Income from distressed debt assets

Income from distressed debt assets derives from the Group's core business, namely acquisition-and-restructuring business. In 2019, the Group pushed ahead with the transformation of acquisition-and-restructuring business, adjusted and optimized business structure, focused more on the compliance as well as risk prevention and control and increased investment, therefore, the amount of new investment for the year and the scale of investments as of the end of this year both increased slightly, and the income from distressed debt assets also increased accordingly. The Group's income from distressed debt assets increased by 1.8% from RMB34,449.6 million in 2018 to RMB35,067.8 million in 2019.

9.2.2.1.2 Fair value changes on distressed debt assets

Fair value changes on distressed debt assets derive from the Group's core business, namely acquisition-and-disposal business, which include realized net gains from disposal of acquisition-and-disposal distressed debt assets and unrealized fair value changes on such assets. Any interest income from such assets is also included in the fair value changes. In 2019, with the core business of distressed assets as its continuous focus, the Group optimized the resource allocation around the core business, improved the efficiency of asset disposal, resulting in a significant increase in the income from acquisition-and-disposal business. The Group's fair value changes on distressed debt assets increased by 15.1% from RMB8,657.9 million in 2018 to RMB9,963.7 million in 2019.

9.2.2.1.3 Fair value changes on other financial assets and liabilities

Fair value changes on other financial assets and liabilities derive from the Group's financial assets and financial liabilities at FVTPL other than the acquisition-and-disposal business. Fair value changes include realized gains or losses from disposal and liquidation of other financial assets and liabilities and unrealized fair value changes on such assets and liabilities. Any interest income from such assets is also included in the fair value changes. In 2019, the Group's fair value changes on other financial assets and liabilities increased significantly by RMB12,113.6 million from RMB-386.4 million in 2018 to RMB11,727.2 million in 2019.

9.2.2.1.4 Interest income

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost other than distressed debt assets	**18,086.1**	23,789.2	(5,703.1)	(24.0%)
Debt instruments at FVTOCI other than distressed debt assets	**2,523.3**	3,751.0	(1,227.7)	(32.7%)
Loans and advances to customers				
Corporate loans and advances	**7,352.3**	7,383.7	(31.4)	(0.4%)
Personal loans and advances	**6,396.4**	4,606.9	1,789.5	38.8%
Loans to margin clients	**872.4**	580.5	291.9	50.3%
Deposits with financial institutions	**1,638.1**	2,301.7	(663.6)	(28.8%)
Financial assets held under resale agreements	**1,007.0**	1,518.6	(511.6)	(33.7%)
Balances with central bank	**415.8**	476.6	(60.8)	(12.8%)
Placements with financial institutions	**238.6**	401.0	(162.4)	(40.5%)
Total	**38,530.0**	44,809.2	(6,279.2)	(14.0%)

Interest income derives from the Group's debt investments at amortised cost and at FVTOCI other than the acquisition-and-restructuring business. The Group's interest income decreased by 14.0% from RMB44,809.2 million in 2018 to RMB38,530.0 million in 2019, in particular, the Group's total interest income from debt instruments at amortised cost other than distressed debt assets and debt instruments at FVTOCI other than distressed debt assets decreased by 25.2% from RMB27,540.2 million in 2018 to RMB20,609.4 million in 2019, mainly because the Group actively promoted return to core business, downsizing and risk resolution, and the scale of debt investments of non-financial subsidiaries continuously declined.

The Group's banking business developed steadily, and relevant income increased continuously. The interest income from loans and advances to customers increased by 16.3% from RMB12,571.1 million in 2018 to RMB14,621.1 million in 2019.

9.2.2.1.5 Finance lease income

The Group's finance lease income mainly comes from Huarong Financial Leasing. The finance lease income decreased by 12.9% to RMB5,911.6 million in 2019 from RMB6,784.4 million in 2018. The decrease was mainly due to the Group reclassified the gains from the sale and leaseback business, for which was presented in the finance lease income under the original standards, to the interest income after the implementation of the New Lease Standards in this year, involving an amount of RMB1,269.3 million.

9.2.2.1.6 Commission and fee income

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Securities and futures brokerage business	**942.4**	975.9	(33.5)	(3.4%)
Asset management business	**612.4**	2,303.1	(1,690.7)	(73.4%)
Trust business	**514.6**	844.1	(329.5)	(39.0%)
Banking and consumer finance business	**493.2**	480.9	12.3	2.6%
Fund management business	**33.2**	89.3	(56.1)	(62.8%)
Total	**2,595.8**	4,693.3	(2,097.5)	(44.7%)

Commission and fee income of the Group decreased by 44.7% from RMB4,693.3 million in 2018 to RMB2,595.8 million in 2019, mainly due to the decrease in commission and fee income from the Group's asset management business, trust business, fund management business and securities and futures brokerage business.

9.2.2.1.7 Other income and other net gains or losses

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	**2,394.8**	3,192.9	(798.1)	(25.0%)
Income arising from operating leases:				
— Rental income that is fixed	**879.6**	698.9	180.7	25.9%
Government grants	**168.5**	497.1	(328.6)	(66.1%)
Net gains/(losses) on exchange differences	**248.7**	(112.2)	360.9	(321.7%)
Others	**1,813.7**	1,350.5	463.2	34.3%
Total	**5,505.3**	5,627.2	(121.9)	(2.2%)

Other income and other net gains or losses of the Group decreased by 2.2% from RMB5,627.2 million in 2018 to RMB5,505.3 million in 2019.

9.2.2.2 Total expenses

Total expenses of the Group increased by 1.3% from RMB100,794.8 million in 2018 to RMB102,067.4 million in 2019, mainly due to the increase in impairment losses under ECL model as well as the decrease in interest expenses and operating expenses.

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	**(60,256.7)**	(64,098.1)	3,841.4	(6.0%)
Commission and fee expenses	**(2,207.7)**	(2,079.9)	(127.8)	6.1%
Operating expenses	**(13,138.8)**	(14,550.0)	1,411.2	(9.7%)
Impairment losses under ECL model	**(24,966.2)**	(17,297.8)	(7,668.4)	44.3%
Impairment losses on other assets	**(1,498.0)**	(2,769.0)	1,271.0	(45.9%)
Total expenses	**(102,067.4)**	(100,794.8)	(1,272.6)	1.3%

9.2.2.2.1 Interest expenses

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	**(39,199.4)**	(44,125.5)	4,926.1	(11.2%)
Bonds and notes issued	**(14,591.8)**	(14,713.9)	122.1	(0.8%)
Due to customers	**(5,001.5)**	(3,011.4)	(1,990.1)	66.1%
Financial assets sold under repurchase agreements	**(672.5)**	(1,194.5)	522.0	(43.7%)
Deposits from financial institutions	**(257.3)**	(529.8)	272.5	(51.4%)
Placements from financial institutions	**(57.9)**	(87.1)	29.2	(33.5%)
Lease liabilities	**(54.0)**	—	(54.0)	—
Borrowings from central bank	**(52.2)**	(87.4)	35.2	(40.3%)
Other liabilities	**(370.1)**	(348.5)	(21.6)	6.2%
Total	**(60,256.7)**	(64,098.1)	3,841.4	(6.0%)

In 2019, the interest expenses of the Group decreased by 6.0% from RMB64,098.1 million in 2018 to RMB60,256.7 million in 2019.

The interest expenses of borrowings of the Group decreased by 11.2% from RMB44,125.5 million in 2018 to RMB39,199.4 million in 2019 and the interest expenses of bonds and notes issued decreased by 0.8% from RMB14,713.9 million in 2018 to RMB14,591.8 million in 2019, mainly due to the continuous decrease in the Group's financing costs.

9.2.2.2.2 Operating expenses

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	**(5,089.7)**	(5,311.9)	222.2	(4.2%)
Turnover tax and surcharges	**(641.3)**	(766.6)	125.3	(16.3%)
Others	**(7,407.8)**	(8,471.5)	1,063.7	(12.6%)
Including:				
Cost of properties development and sales	**(1,441.9)**	(1,938.0)	496.1	(25.6%)
Depreciation of property and equipment	**(965.9)**	(858.5)	(107.4)	12.5%
Depreciation of right-of-use assets	**(688.7)**	—	(688.7)	—
Rental for short-term leases	**(349.6)**	—	(349.6)	—
Amortisation	**(346.7)**	(406.5)	59.8	(14.7%)
Depreciation of investment properties	**(179.4)**	(120.6)	(58.8)	48.8%
Rental and management fee for leases	**(160.9)**	(738.4)	577.5	(78.2%)
Auditor's remuneration	**(31.7)**	(36.6)	4.9	(13.4%)
Total	**(13,138.8)**	(14,550.0)	1,411.2	(9.7%)

Operating expenses of the Group decreased by 9.7% from RMB14,550.0 million in 2018 to RMB13,138.8 million in 2019.

In 2019, the Group implemented the New Lease Standards. As a result, the Group increased depreciation of the right-of-use assets in this year, and reduced rental and management fee for leases accordingly.

9.2.2.2.3 Impairment losses under ECL model

The following table sets forth the principal components of impairment losses under ECL model of the Group for the years indicated.

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost	**(17,038.9)**	(12,620.4)	(4,418.5)	35.0%
Loans and advances to customers	**(4,399.0)**	(3,901.3)	(497.7)	12.8%
Debt instruments at FVTOCI	**(1,748.5)**	105.8	(1,854.3)	(1,752.6%)
Financial assets held under resale agreements	**(1,014.5)**	(578.7)	(435.8)	75.3%
Finance lease receivables	**(501.8)**	(240.3)	(261.5)	108.8%
Others	**(263.5)**	(62.9)	(200.6)	318.9%
Total	**(24,966.2)**	(17,297.8)	(7,668.4)	44.3%

The Group's impairment losses under ECL model increased by 44.3% from RMB17,297.8 million in 2018 to RMB24,966.2 million in 2019. In 2019, affected by the increasing downward pressure on the domestic economy and project risks exposure, the provision for impairment newly made by the Group under the ECL model of IFRS 9 increased significantly. Meanwhile, in line with the general arrangement for risk dissolution through downsizing, the Group stepped up its efforts in the project payback and risk dissolution, and withdrew part of the impairment provision in this year. Affected by the above two factors, the Group's impairment losses under ECL model increased considerably in 2019.

9.2.2.2.4 Impairment losses on other assets

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interests in associates and joint ventures	**(1,132.9)**	(2,316.7)	1,183.8	(51.1%)
Foreclosed assets	**(66.7)**	(174.4)	107.7	(61.8%)
Property and equipment	**(45.2)**	(94.5)	49.3	(52.2%)
Goodwill	**(250.8)**	(90.0)	(160.8)	178.7%
Others	**(2.4)**	(93.4)	91.0	(97.4%)
Total	**(1,498.0)**	(2,769.0)	1,271.0	(45.9%)

Impairment losses on other assets of the Group decreased by 45.9% from RMB2,769.0 million in 2018 to RMB1,498.0 million in 2019.

9.2.2.3 Income tax expense

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Current income tax				
PRC Enterprise Income tax	**(6,279.5)**	(6,354.6)	75.1	(1.2%)
Hong Kong profits tax	**(350.1)**	(219.7)	(130.4)	59.4%
(Under)/over-provision in prior years	**(26.7)**	64.9	(91.6)	(141.1%)
Deferred income tax	**(2,044.5)**	2,006.5	(4,051.0)	(201.9%)
Total	**(8,700.8)**	(4,502.9)	(4,197.9)	93.2%

Income tax expense of the Group increased by 93.2% from RMB4,502.9 million in 2018 to RMB8,700.8 million in 2019. Income tax expense increased considerably this year, which was due to the following: on the one hand, certain loss-making subsidiaries failed to recognize deferred income tax assets that can be used to offset unused tax losses and deductible temporary differences, and on the other hand, the deferred income tax assets previously recognized could not be used in the future and were transferred back in the current year as a result of Group's restructuring of subsidiaries.

9.2.2.4 Segment results

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

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

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

(3) asset management and investment segment, which mainly includes trust business, private equity funds business, international business and other business.

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

	For the year ended December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**69,790.8**	64,770.7	5,020.1	7.8%
Financial services segment	**33,575.5**	30,274.7	3,300.8	10.9%
Asset management and investment segment	**14,311.5**	17,808.5	(3,497.0)	(19.6%)
Inter-segment elimination	**(5,021.3)**	(5,600.8)	579.5	(10.3%)
Total	**112,656.5**	107,253.1	5,403.4	5.0%

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

	For the year ended December 31,			
				Change in
	2019	2018	Change	percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**19,590.8**	12,904.3	6,686.5	51.8%
Financial services segment	**5,742.5**	4,499.1	1,243.4	27.6%
Asset management and investment segment	**(13,487.2)**	(9,735.7)	(3,751.5)	38.5%
Inter-segment elimination	**(876.0)**	(1,655.8)	779.8	(47.1%)
Total	**10,970.1**	6,011.9	4,958.2	82.5%

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

	As at December 31,			
				Change in
	2019	2018	Change	percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**852,849.8**	866,250.1	(13,400.3)	(1.5%)
Financial services segment	**573,775.8**	545,778.9	27,996.9	5.1%
Asset management and investment segment	**347,989.1**	355,404.8	(7,415.7)	(2.1%)
Inter-segment elimination	**(81,796.1)**	(72,365.8)	(9,430.3)	13.0%
Total	**1,692,818.6**	1,695,068.0	(2,249.4)	(0.1%)

The table below sets forth the pre-tax return on average net assets for each of the Group's segments for the years indicated. The pre-tax return on average net assets of each segment is based on profit before tax divided by the average of beginning and ending balances of net assets of the years.

	For the year ended December 31,	
	2019	2018
Distressed asset management segment	**17.8%**	12.1%
Financial services segment	**11.6%**	9.4%
Asset management and investment segment	**(228.8%)**	(42.4%)

The distressed asset management business is the core business of the Group and a main source of income and profit of the Group. In 2019, the total income from the Group's distressed asset management segment increased by 7.8% from RMB64,770.7 million in 2018 to RMB69,790.8 million in 2019; profit before tax increased by 51.8% from RMB12,904.3 million in 2018 to RMB19,590.8 million in 2019; total assets decreased by 1.5% from RMB866,250.1 million as of December 31, 2018 to RMB852,849.8 million as of December 31, 2019.

The financial services business as an important part of the Group's business, plays an important role in overall business collaboration. In 2019, total income from the Group's financial services segment increased by 10.9% from RMB30,274.7 million in 2018 to RMB33,575.5 million in 2019; profit before tax rose by 27.6% from RMB4,499.1 million in 2018 to RMB5,742.5 million in 2019; total assets grew by 5.1% from RMB545,778.9 million as of December 31, 2018 to RMB573,775.8 million as of December 31, 2019.

The asset management and investment business is a supplement and extension of the Group's business. In 2019, the Group continued to standardize its asset management and investment business, further decrease the scale of non-advantaged businesses, therefore, the asset management and investment business showed a significant downward trend. In 2019, total income from the Group's asset management and investment segment decreased by 19.6% from RMB17,808.5 million in 2018 to RMB14,311.5 million in 2019; loss before tax increased by 38.5% from RMB9,735.7 million in 2018 to RMB13,487.2 million in 2019; total assets decreased by 2.1% from RMB355,404.8 million as of December 31, 2018 to RMB347,989.1 million as of December 31, 2019.

9.2.3 Financial positions of the Group

In 2019, the Group's assets, liabilities and equity were basically flat as compared with the end of 2018. As of December 31, 2018 and December 31, 2019, the total assets of the Group amounted to RMB1,710,086.7 million and RMB1,705,012.4 million, respectively, representing a decrease of 0.3%; total liabilities amounted to RMB1,541,481.7 million and RMB1,541,535.9 million, respectively; total equity amounted to RMB168,605.0 million and RMB163,476.5 million, respectively, representing a decrease of 3.0%.

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

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Cash and balances with central bank	**30,774.7**	29,909.1	865.6	2.9%
Deposits with financial institutions	**149,462.0**	107,500.2	41,961.8	39.0%
Placements with financial institutions	**2,709.9**	843.6	1,866.3	221.2%
Financial assets at FVTPL	**367,669.9**	391,181.0	(23,511.1)	(6.0%)
Financial assets held under resale agreements	**22,525.9**	20,126.9	2,399.0	11.9%
Contract assets	**—**	114.7	(114.7)	(100.0%)
Loans and advances to customers	**211,265.1**	190,654.0	20,611.1	10.8%
Finance lease receivables	**68,040.3**	99,002.9	(30,962.6)	(31.3%)
Debt instruments at FVTOCI	**103,739.3**	147,387.3	(43,648.0)	(29.6%)
Equity instruments at FVTOCI	**3,583.7**	3,244.3	339.4	10.5%
Inventories	**19,147.4**	19,243.0	(95.6)	(0.5%)
Debt instruments at amortised cost	**642,086.0**	612,133.1	29,952.9	4.9%
Interests in associates and joint ventures	**28,078.9**	36,975.5	(8,896.6)	(24.1%)
Investment properties	**5,910.9**	5,326.1	584.8	11.0%
Property and equipment	**12,325.0**	10,684.5	1,640.5	15.4%

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Right-of-use assets	**3,569.6**	—	3,569.6	—
Deferred tax assets	**12,193.8**	15,018.7	(2,824.9)	(18.8%)
Other assets	**21,911.9**	20,478.4	1,433.5	7.0%
Goodwill	**18.1**	263.4	(245.3)	(93.1%)
Total assets	**1,705,012.4**	1,710,086.7	(5,074.3)	(0.3%)
Borrowings from central bank	**3,641.7**	2,402.2	1,239.5	51.6%
Deposits from financial institutions	**10,276.7**	7,307.6	2,969.1	40.6%
Placements from financial institutions	**2,253.6**	300.2	1,953.4	650.7%
Financial assets sold under repurchase agreements	**15,665.4**	24,410.0	(8,744.6)	(35.8%)
Borrowings	**761,506.4**	760,995.5	510.9	0.1%
Financial liabilities at FVTPL	**3,223.9**	4,728.3	(1,504.4)	(31.8%)
Due to customers	**226,814.7**	209,116.5	17,698.2	8.5%
Tax payable	**2,887.4**	3,731.9	(844.5)	(22.6%)
Contract liabilities	**575.1**	954.4	(379.3)	(39.7%)
Lease liabilities	**1,983.3**	—	1,983.3	—
Deferred tax liabilities	**478.5**	605.8	(127.3)	(21.0%)
Bonds and notes issued	**367,345.6**	353,305.3	14,040.3	4.0%
Other liabilities	**144,883.6**	173,624.0	(28,740.4)	(16.6%)
Total liabilities	**1,541,535.9**	1,541,481.7	54.2	0.0%
Share capital	**39,070.2**	39,070.2	—	—
Capital reserve	**18,405.0**	19,107.4	(702.4)	(3.7%)
Surplus reserve	**8,564.2**	6,971.8	1,592.4	22.8%
General reserve	**16,681.3**	15,872.8	808.5	5.1%
Other reserves	**1,806.9**	987.8	819.1	82.9%
Retained earnings	**36,731.2**	38,630.2	(1,899.0)	(4.9%)
Equity attributable to equity holders of the Company	**121,258.8**	120,640.2	618.6	0.5%
Perpetual capital instruments	**18,430.6**	20,258.5	(1,827.9)	(9.0%)
Non-controlling interests	**23,787.1**	27,706.3	(3,919.2)	(14.1%)
Total equity	**163,476.5**	168,605.0	(5,128.5)	(3.0%)
Total equity and liabilities	**1,705,012.4**	1,710,086.7	(5,074.3)	(0.3%)

9.2.3.1 Assets

As at December 31, 2018 and December 31, 2019, the Group's total assets amounted to RMB1,710,086.7 million and RMB1,705,012.4 million, respectively. As of December 31, 2019, the Group's major assets consist of: (i) deposits with financial institutions; (ii) financial assets at FVTPL; (iii) loans and advances to customers; (iv) finance lease receivables; (v) debt instruments at FVTOCI; and (vi) debt instruments at amortised cost.

9.2.3.1.1 Deposits with financial institutions

As at December 31, 2018 and December 31, 2019, the Group's deposits with financial institutions amounted to RMB107,500.2 million and RMB149,462.0 million, respectively, representing an increase of 39.0%.

9.2.3.1.2 Financial assets at FVTPL

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

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

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets	**173,071.7**	166,370.3	6,701.4	4.0%
Funds	**48,251.6**	59,361.7	(11,110.1)	(18.7%)
Trust products	**27,920.8**	42,867.0	(14,946.2)	(34.9%)
Equity instruments				
— Listed	**26,892.5**	23,149.5	3,743.0	16.2%
— Unlisted	**33,553.0**	28,001.6	5,551.4	19.8%
Debt securities				
— Corporate bonds	**8,114.7**	15,797.5	(7,682.8)	(48.6%)
— Public sector and quasi-government bonds	**1,966.1**	413.5	1,552.6	375.5%
— Government bonds	**1,760.1**	—	1,760.1	—
— Financial institution bonds	**586.9**	648.5	(61.6)	(9.5%)
Wealth management products	**14,690.4**	13,347.1	1,343.3	10.1%
Convertible bonds	**9,686.6**	12,819.7	(3,133.1)	(24.4%)
Structured products	**8,466.9**	8,580.9	(114.0)	(1.3%)
Asset management plans	**6,790.9**	10,307.9	(3,517.0)	(34.1%)
Other debt assets	**3,149.5**	5,179.6	(2,030.1)	(39.2%)
Negotiable certificates of deposit	**2,131.9**	2,668.3	(536.4)	(20.1%)
Entrusted loans	**597.1**	742.5	(145.4)	(19.6%)
Asset-backed securities	**39.2**	264.6	(225.4)	(85.2%)
Others	**—**	660.8	(660.8)	(100.0%)
Total	**367,669.9**	391,181.0	(23,511.1)	(6.0%)

As at December 31, 2018 and December 31, 2019, the Group's financial assets at FVTPL amounted to RMB391,181.0 million and RMB367,669.9 million, respectively, representing a decrease of 6.0%.

Distressed debt assets at FVTPL are the distressed debt assets in the Group's acquisition-and-disposal business. As at December 31, 2018 and December 31, 2019, the acquisition-and-disposal distressed debt assets amounted to RMB166,370.3 million and RMB173,071.7 million, respectively, representing an increase of 4.0%.

9.2.3.1.3 Loans and advances to customers

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

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers measured at amortised cost				
Corporate loans and advances	**116,712.7**	119,311.2	(2,598.5)	(2.2%)
Personal loans and advances				
— Loans for business operations	**18,504.2**	12,740.8	5,763.4	45.2%
— Mortgages	**24,430.0**	18,511.7	5,918.3	32.0%
— Personal consumption loans	**31,028.2**	27,562.9	3,465.3	12.6%
— Others	**2,546.3**	2,802.7	(256.4)	(9.1%)
Subtotal	**76,508.7**	61,618.1	14,890.6	24.2%
Loans to margin clients	**6,142.8**	6,282.4	(139.6)	(2.2%)
Gross loans and advances to customers measured at amortised cost	**199,364.2**	187,211.7	12,152.5	6.5%
Less: Allowance for ECL				
— 12-month ECL	**(1,941.3)**	(1,967.7)	26.4	(1.3%)
— Lifetime ECL	**(4,912.5)**	(3,158.6)	(1,753.9)	55.5%
Subtotal	**(6,853.8)**	(5,126.3)	(1,727.5)	33.7%
Net loans and advances to customers measured at amortised cost	**192,510.4**	182,085.4	10,425.0	5.7%
Loans and advances measured at fair value through other comprehensive income				
— Discounted bills	**18,754.7**	8,568.6	10,186.1	118.9%
Net loans and advances to customers	**211,265.1**	190,654.0	20,611.1	10.8%

Loans and advances to customers are mainly from Huarong Xiangjiang Bank. As at December 31, 2018 and December 31, 2019, the Group's loans and advances to customers amounted to RMB190,654.0 million and RMB211,265.1 million, respectively, representing an increase of 10.8%.

As at December 31, 2018 and December 31, 2019, based on the ECL model, the Group's provisions for impairment of loans and advances to customers at amortised cost amounted to RMB5,126.3 million and RMB6,853.8 million, respectively, representing an increase of 33.7%.

9.2.3.1.4 Finance lease receivables

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

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	**22,314.9**	39,607.5	(17,292.6)	(43.7%)
1 year to 5 years (inclusive)	**50,773.9**	66,137.9	(15,364.0)	(23.2%)
Over 5 years	**6,810.2**	8,942.5	(2,132.3)	(23.8%)
Gross amount of finance lease receivables	**79,899.0**	114,687.9	(34,788.9)	(30.3%)
Less: Unearned finance income	**(9,051.8)**	(13,232.8)	4,181.0	(31.6%)
Net amount of finance lease receivables	**70,847.2**	101,455.1	(30,607.9)	(30.2%)
Less: Allowance for ECL	**(2,806.9)**	(2,452.2)	(354.7)	14.5%
Carrying amount of finance lease receivables	**68,040.3**	99,002.9	(30,962.6)	(31.3%)
Present value of minimum finance lease receivables:				
Within 1 year (inclusive)	**19,791.9**	34,044.0	(14,252.1)	(41.9%)
1 year to 5 years (inclusive)	**45,020.8**	58,967.2	(13,946.4)	(23.7%)
Over 5 years	**6,034.5**	8,443.9	(2,409.4)	(28.5%)
Total	**70,847.2**	101,455.1	(30,607.9)	(30.2%)

As at December 31, 2018 and December 31, 2019, the Group's net amount of finance lease receivables amounted to RMB101,455.1 million and RMB70,847.2 million, respectively, representing a decrease of 30.2%. The decrease was mainly due to the Group reclassified the sale and leaseback business, for which was presented in the finance lease receivables under the original standards, to the debt instruments measured at amortised cost after the implementation of the New Lease Standards in the year, involving an amount of RMB41,567.6 million.

As at December 31, 2018 and December 31, 2019, based on the ECL model, the Group's allowance for impairment losses for finance lease receivables were RMB2,452.2 million and RMB2,806.9 million, respectively, representing an increase of 14.5%.

9.2.3.1.5 Debt instruments at FVTOCI

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

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

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets	**64,573.2**	100,445.9	(35,872.7)	(35.7%)
Debt securities				
— Corporate bonds	**20,923.9**	26,494.8	(5,570.9)	(21.0%)
— Public sector and quasi-government bonds	**5,047.1**	6,144.6	(1,097.5)	(17.9%)
— Financial institution bonds	**890.3**	319.2	571.1	178.9%
— Government bonds	**455.0**	284.5	170.5	59.9%
Entrusted loans	**4,283.0**	4,421.1	(138.1)	(3.1%)
Asset management plans	**3,874.3**	4,255.4	(381.1)	(9.0%)
Debt instruments	**1,878.9**	1,902.2	(23.3)	(1.2%)
Trust products	**1,258.5**	2,490.6	(1,232.1)	(49.5%)
Asset-backed securities	**555.1**	629.0	(73.9)	(11.7%)
Total	**103,739.3**	147,387.3	(43,648.0)	(29.6%)

As at December 31, 2018 and December 31, 2019, the Group's debt instruments at FVTOCI were RMB147,387.3 million and RMB103,739.3 million, respectively, representing a decrease of 29.6%.

Distressed debt assets at FVTOCI were acquisition-and-restructuring distressed debt assets of the Group. As at December 31, 2018 and December 31, 2019, the Group's distressed debt assets at FVTOCI amounted to RMB100,445.9 million and RMB64,573.2 million, respectively, representing a decrease of 35.7%.

Other debt instruments at FVTOCI consist of various bonds, entrusted loans, asset management plans, debt instruments, trust products and asset-backed securities the Group invested in. As at December 31, 2018 and December 31, 2019, the Group's other debt instruments at FVTOCI were RMB46,941.4 million and RMB39,166.1 million, respectively, representing a decrease of 16.6%.

Debt instruments at FVTOCI are measured at fair value in the financial statements, and the allowance for impairment losses made on the basis of ECL model for such instruments are recognised in other comprehensive income ("OCI") and accumulated under the heading of investment revaluation reserve, impairment losses are recognised in profit or loss with corresponding adjustments to OCI without reducing the carrying amounts of these debt instruments. As at December 31, 2018 and December 31, 2019, the allowance for impairment losses for debt instruments at FVTOCI presented under the investment revaluation reserve were RMB3,259.4 million and RMB4,761.2 million, respectively, representing an increase of 46.1%.

9.2.3.1.6 Debt instruments at amortised cost

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

The following table sets forth the components of debt instruments at amortised cost as at the dates indicated.

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets				
Loans acquired from financial institutions	**27,334.5**	24,042.6	3,291.9	13.7%
Other debt assets acquired from non-financial institutions	**293,838.6**	265,041.7	28,796.9	10.9%
Subtotal	**321,173.1**	289,084.3	32,088.8	11.1%
Less: Allowance for ECL				
— 12-month ECL	**(1,394.1)**	(2,748.3)	1,354.2	(49.3%)
— Lifetime ECL	**(19,644.0)**	(20,178.2)	534.2	(2.6%)
Subtotal	**(21,038.1)**	(22,926.5)	1,888.4	(8.2%)
Carrying amount of distressed debt assets	**300,135.0**	266,157.8	33,977.2	12.8%
Other debt assets				
Trust products	**102,574.8**	114,321.4	(11,746.6)	(10.3%)
Debt securities	**83,037.9**	86,699.4	(3,661.5)	(4.2%)
Entrusted loans	**73,898.8**	78,871.3	(4,972.5)	(6.3%)
Debt instruments	**73,720.0**	84,360.8	(10,640.8)	(12.6%)
Receivables arising from sales and leaseback arrangements	**41,567.6**	—	41,567.6	—
Asset management plans	**9,199.2**	7,076.2	2,123.0	30.0%
Others	**854.0**	2,649.2	(1,795.2)	(67.8%)
Subtotal	**384,852.3**	373,978.3	10,874.0	2.9%

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Less: Allowance for ECL				
— 12-month ECL	**(4,307.8)**	(3,970.3)	(337.5)	8.5%
— Lifetime ECL	**(38,593.5)**	(24,032.7)	(14,560.8)	60.6%
Subtotal	**(42,901.3)**	(28,003.0)	(14,898.3)	53.2%
Carrying amount of other debt assets	**341,951.0**	345,975.3	(4,024.3)	(1.2%)
Total	**642,086.0**	612,133.1	29,952.9	4.9%

As at December 31, 2018 and December 31, 2019, the Group's debt instruments at amortised cost were RMB612,133.1 million and RMB642,086.0 million, respectively, representing an increase of 4.9%.

Distressed debt assets at amortised cost were acquisition-and-restructuring distressed debt assets of the Group. As at December 31, 2018 and December 31, 2019, the Group's distressed debt assets at amortised cost were RMB266,157.8 million and RMB300,135.0 million, respectively, representing an increase of 12.8%.

Other debt instruments at amortised cost included various trust products, debt securities, entrusted loans, debt instruments and asset management plans invested by the Group, as well as receivables arising from the Group's sale and leaseback arrangements after adopting the New Lease Standards. As at December 31, 2018 and December 31, 2019, the Group's other debt instruments at amortised cost were RMB345,975.3 million and RMB341,951.0 million, respectively, representing a decrease of 1.2%.

As at December 31, 2018 and December 31, 2019, based on the ECL model, the Group's allowances for impairment losses for debt instruments at amortised cost were RMB50,929.5 million and RMB63,939.4 million, respectively, representing an increase of 25.5%. In particular, the allowances for impairment losses for distressed debt assets at amortised cost were RMB22,926.5 million and RMB21,038.1 million, respectively; the allowances for impairment losses for other debt assets at amortised cost were RMB28,003.0 million and RMB42,901.3 million.

9.2.3.2 Liabilities

The major components of the Group's liabilities include: (i) borrowings, including those from banks and other financial institutions; (ii) due to customers; and (iii) bonds and notes issued.

9.2.3.2.1 Borrowings

The borrowings of the Group as at December 31, 2018 and December 31, 2019 amounted to RMB760,995.5 million and RMB761,506.4 million, respectively, representing an increase of 0.1%.

9.2.3.2.2 Due to customers

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

	As at December 31,			
	2019	2018	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate customers	**66,837.5**	82,228.4	(15,390.9)	(18.7%)
Individual customers	**19,233.3**	19,092.9	140.4	0.7%
Time deposits				
Corporate customers	**70,490.1**	55,072.1	15,418.0	28.0%
Individual customers	**50,515.8**	30,477.9	20,037.9	65.7%
Pledged deposits	**7,803.3**	7,364.1	439.2	6.0%
Others	**11,934.7**	14,881.1	(2,946.4)	(19.8%)
Total	**226,814.7**	209,116.5	17,698.2	8.5%

Due to customers of the Group mainly derives from Huarong Xiangjiang Bank. As at December 31, 2018 and December 31, 2019, the balance amount due to customers of the Group amounted to RMB209,116.5 million and RMB226,814.7 million, respectively, representing an increase of 8.5%.

9.2.3.2.3 Bonds and notes issued

As at December 31, 2018 and December 31, 2019, the balance of the Group's bonds and notes issued amounted to RMB353,305.3 million and RMB367,345.6 million, respectively, representing an increase of 4.0%. The increase was mainly due to the Group's continuous efforts to optimize debt structure, expand financing channels and take favorable market financing opportunities to reinforce debt financing business.

9.2.4 Contingent liabilities

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

As at December 31, 2019, total claim amount of pending litigations was RMB1,944 million (December 31, 2018: RMB1,796 million) for the Group (as defendant). Total provision for estimated liabilities of RMB110 million (December 31, 2018: RMB112 million) for the Group was made based on court judgments and lawyer's opinions. The Company believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

9.2.5 Difference between financial statements prepared under the PRC GAAP and IFRSs

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

9.2.6 Explanation of the Differences between the Unaudited Annual Results and the Audited Annual Results for the Year Ended December 31, 2019

The announcement of unaudited annual results for the year ended December 31, 2019 ("**unaudited annual results**") was published by the Company on March 31, 2020. Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those adopted in the unaudited annual results.

Since the unaudited annual results published by the Company on March 31, 2020 has not been completely audited by the auditor of the Company, currently, the auditing process of the Company's annual results for the year ended December 31, 2019 has been completed. The Company advises that the Shareholders and potential investors shall pay attention to certain differences ("**Differences**") between the financial information of the unaudited annual results and the financial information of the audited annual results. In this regard, the Company hereby sets forth the details and reasons for the Differences in this announcement in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules. Save as disclosed below, the contents included in the unaudited annual results remains unchanged.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Announcement of the audited annual results 2019	Announcement of the unaudited annual results 2019	Difference	Revised position index	Note
Equity					
Surplus reserve	8,564,210	6,971,780	1,592,430	Page 14 of the unaudited annual results	1
Retained earnings	36,731,157	38,323,587	(1,592,430)	Page 14 of the unaudited annual results	1

Note:

1. Surplus reserve and retained earnings

   The difference of surplus reserve and retained earnings was RMB1,592,430 thousand and RMB-1,592,430 thousand, respectively, mainly due to an appropriation to the statutory surplus reserve in accordance with the annual profit distribution plan considered by the Board of the Company. The profit distribution plan for the year ended December 31, 2019 was considered and approved by the Board of the Company on April 9, 2020, the Company withdrawn the statutory surplus reserve of RMB1,592,430 thousand on April 9 in the audited financial statements in accordance with the annual profit distribution plans, which resulted to the decrease of the retained earnings account of RMB1,592,430 thousand and the increase of surplus reserve account of RMB1,592,430 thousand.

9.3 Business Overview

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

The following table sets forth the total income and profit before tax of each of business segments for the years indicated.

	For the year ended December 31,			
	2019		2018	
	(in millions of RMB, except for percentages)			
	Amount	**Percentage**	Amount	Percentage
Total income				
Distressed asset management segment	**69,790.8**	**62.0%**	64,770.7	60.4%
Financial services segment	**33,575.5**	**29.8%**	30,274.7	28.2%
Asset management and investment segment	**14,311.5**	**12.7%**	17,808.5	16.6%
Inter-segment elimination	**(5,021.3)**	**(4.5%)**	(5,600.8)	(5.2%)
Total	**112,656.5**	**100.0%**	107,253.1	100.0%
Profit before tax				
Distressed asset management segment	**19,590.8**	**178.6%**	12,904.3	214.6%
Financial services segment	**5,742.5**	**52.3%**	4,499.1	74.8%
Asset management and investment segment	**(13,487.2)**	**(122.9%)**	(9,735.7)	(161.9%)
Inter-segment elimination	**(876.0)**	**(8.0%)**	(1,655.8)	(27.5%)
Total	**10,970.1**	**100.0%**	6,011.9	100%

In 2019, the total income from distressed asset management segment, financial services segment and asset management and investment segment of the Group accounted for 62.0%, 29.8% and 12.7% of its total income, respectively, and the profit before tax of these segments accounted for 178.6%, 52.3% and -122.9% of our total profit before tax, respectively.

9.3.1 Distressed asset management

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

Distressed asset management business is the foundation of all business product systems of the Group and the primary source of income and profit of the Group. In 2019, by following the overall keynote of "maintaining prudent on the whole and progressive as to the core business", the Group actively returned to the core business and continued keeping an industry-leading scale of investment in the core business. It actively explored the business models of the core business, optimized the business structure of the core business and expanded the business pattern of broadly-ranging distressed assets. Even though facing deteriorated market environment and stricter supervision, the core business made steady progress and maintained a stable growth.

In 2018 and 2019, total income from the distressed asset management segment was RMB64,770.7 million and RMB69,790.8 million, accounting for 60.4% and 62.0% of our total income, respectively, and its profit before tax was RMB12,904.3 million and RMB19,590.8 million, accounting for 214.6% and 178.6% of the total profit before tax of the Group, respectively.

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

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB)	
Distressed debt asset management business of the Company		
Gross amount of distressed debt assets[1]	**551,813.7**	532,946.4
Less: Allowance for impairment losses for distressed debt assets[2]	**24,634.0**	24,514.7
Net carrying amount of distressed debt assets	**531,546.7**	511,350.5
Acquisition cost of newly added distressed debt assets	**191,140.7**	199,415.0
Total income from distressed debt assets		
Operating income from distressed debt assets[3]	**41,424.7**	39,748.0
Financial advisory income from acquisition-and-restructuring business	**126.4**	499.0
Total	**41,551.1**	40,247.0
Policy-based DES business of the Company		
Carrying amount of DES Assets	**15,294.6**	16,732.6
Dividend income from DES Assets	**180.4**	192.8
Acquisition cost of DES Assets disposed	**2,952.1**	416.3
Net gain from the disposal of DES Assets	**1,839.8**	582.0
Market-oriented DES business[4]		
Total cumulative investment in market-oriented DES business	**22,119.2**	19,916.0
Income from market-oriented DES business[5]	**2,189.5**	215.9
Distressed debt asset management business conducted by our subsidiaries		
Income from distressed debt assets	**1,200.4**	2,926.9

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB)	
Distressed asset-based special situations investments business conducted by our subsidiaries[6]		
Income from Huarong Rongde	**2,178.1**	2,329.2
Distressed asset-based property development business conducted by our subsidiaries		
Income from property sales and primary land development of Huarong Industrial	**2,394.8**	3,192.9

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

(2) Allowance for impairment losses for distressed debt assets equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortised costs and at FVTOCI, as shown in the consolidated financial statements, of which, the allowance for impairment losses for distressed debt assets is presented under the debt instruments at FVTOCI as a part of the investment revaluation reserve and will not affect the net carrying amount of distressed debt assets.

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

(4) Market-oriented debt-to-equity swap business was primarily conducted by the Company and subsidiaries such as Huarong Ruitong Equity Investment Management Co., Ltd. ("Huarong Ruitong").

(5) Income from market-oriented debt-to-equity swap business includes realized and unrealized incomes from market-oriented debt-to-equity swap business.

(6) Distressed asset-based special situations investments business conducted by our subsidiaries was primarily conducted by Huarong Rongde and other subsidiaries.

9.3.1.1 Distressed debt asset management business of the Company

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

9.3.1.1.1 Sources for acquisition of distressed debt assets

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

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

	As at or for the year ended December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	**50,232.4**	**26.3%**	55,820.2	28.0%
NFE Distressed Assets	**140,908.3**	**73.7%**	143,594.8	72.0%
Total	**191,140.7**	**100.0%**	199,415.0	100.0%
Gross amount of distressed debt assets at the end of the period(1)				
FI Distressed Assets	**172,923.5**	**31.3%**	169,819.1	31.9%
NFE Distressed Assets	**378,890.2**	**68.7%**	363,127.3	68.1%
Total	**551,813.7**	**100.0%**	532,946.4	100.0%
Operating income from distressed debt assets for the period(2)				
FI Distressed Assets	**10,163.4**	**24.5%**	8,916.5	22.4%
NFE Distressed Assets	**31,261.3**	**75.5%**	30,831.5	77.6%
Total	**41,424.7**	**100.0%**	39,748.0	100.0%

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

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

9.3.1.1.1.1 FI Distressed Assets

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

The table below sets forth a breakdown of our FI Distressed Assets acquired from each type of financial institution based on acquisition costs for the years indicated.

	For the year ended December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Banking				
Large commercial banks	**11,542.6**	**23.0%**	20,096.0	36.0%
Joint stock commercial banks	**16,191.4**	**32.2%**	22,794.5	40.8%
City and rural commercial banks	**467.0**	**0.9%**	1,048.9	1.9%
Other banks	**3,488.6**	**6.9%**	495.0	0.9%
Subtotal	**31,689.6**	**63.0%**	44,434.4	79.6%
Non-banking financial institutions	**18,542.8**	**37.0%**	11,385.8	20.4%
Total	**50,232.4**	**100.0%**	55,820.2	100.0%

9.3.1.1.1.2 NFE Distressed Assets

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

9.3.1.1.2 Business models of distressed debt asset

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

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

	As at or for the year ended December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	**39,381.7**	**20.6%**	49,507.5	24.8%
Acquisition-and-restructuring	**151,759.0**	**79.4%**	149,907.5	75.2%
Total	**191,140.7**	**100.0%**	199,415.0	100.0%
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal(1)	**172,403.3**	**31.2%**	162,691.0	30.5%
Acquisition-and-restructuring(2)	**379,410.4**	**68.8%**	370,255.4	69.5%
Total	**551,813.7**	**100.0%**	532,946.4	100.0%
Income from distressed debt assets for the period				
Acquisition-and-disposal(3)	**9,889.8**	**23.8%**	8,652.8	21.5%
Acquisition-and-restructuring(4)	**31,661.3**	**76.2%**	31,594.2	78.5%
Total	**41,551.1**	**100.0%**	40,247.0	100.0%

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

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

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

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

9.3.1.1.2.1 Acquisition-and-disposal model

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

In 2019, the total assets from the Company's acquisition-and-disposal model increased by RMB9,712.3 million from RMB162,691.0 million in 2018 to RMB172,403.3 million in 2019 and the net gains or losses from acquisition-and-disposal model increased by RMB1,237.0 million from RMB8,652.8 million in 2018 to RMB9,889.8 million in 2019.

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

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB, except for percentages)	
Gross amount of distressed debt assets at the beginning of the period	**162,691.0**	140,667.2
Acquisition cost of newly added distressed debt assets	**39,381.7**	49,507.5
Gross amount of distressed debt assets disposed	**30,908.4**	28,582.6
Gross amount of distressed debt assets at the end of the period[(1)]	**172,403.3**	162,691.0
Net gains or losses from distressed debt assets[(2)]		
Realized gains	**8,650.8**	7,553.9
Unrealized fair value changes	**1,239.0**	1,098.9
Total	**9,889.8**	8,652.8
IRR on completed projects[(3)]	**14.9%**	14.5%

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

(2) Net gains or losses from distressed debt assets equals the Company's fair value change on distressed debt assets, as shown in the consolidated financial statements.

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

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

	As at December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**50,609.8**	**29.4%**	53,319.4	32.8%
Pearl River Delta[2]	**23,454.2**	**13.6%**	21,099.3	13.0%
Bohai Rim Region[3]	**26,003.7**	**15.1%**	20,220.5	12.4%
Central Region[4]	**22,175.8**	**12.9%**	23,778.8	14.6%
Western Region[5]	**42,667.7**	**24.7%**	38,425.4	23.6%
Northeastern Region[6]	**7,492.1**	**4.3%**	5,847.6	3.6%
Total	**172,403.3**	**100.0%**	162,691.0	100.0%

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

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

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

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

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

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

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

9.3.1.1.2.2 Acquisition-and-restructuring model

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

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

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB, except for percentages)	
Number of new projects (quantity)	**546**	525
Number of existing projects as of the end of the period (quantity)	**1,595**	1,565
Gross amount of distressed debt assets[(1)]	**379,410.4**	370,255.4
Allowance for impairment losses[(2)]	**(24,634.0)**	(24,514.7)
Net carrying amount of distressed debt assets[(3)]	**359,143.4**	348,659.5
Acquisition cost of newly added distressed debt assets	**151,759.0**	149,907.5
Income from distressed debt assets		
Operating income from distressed debt assets[(4)]	**31,534.9**	31,095.2
Financial advisory income	**126.4**	499.0
Total	**31,661.3**	31,594.2
Return on monthly average gross amount of distressed debt assets (excluding financial advisory income)[(5)]	**8.5%**	8.9%
Allowance to distressed debt assets ratio[(6)]	**6.5%**	6.6%
Gross amount of stage III distressed debt assets[(7)]	**50,334.6**	36,199.2
Allowance for impairment losses for stage III distressed debt assets[(8)]	**19,980.0**	19,009.7
Distressed debt assets collateral ratio[(9)]	**38.2%**	37.1%

(1) Gross amount of distressed debt assets is the sum of the Company's distressed debt assets presented under debt instruments at amortised cost and at FVTOCI, as shown in the consolidated financial statements.

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

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

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

(5) Return on monthly average gross amount of distressed debt assets equals the operating income from distressed assets divided by the average gross amount of distressed debt assets at the end of each month.

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

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

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

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

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

	As at December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta(1)	**70,393.2**	**18.6%**	68,533.3	18.5%
Pearl River Delta(2)	**55,697.5**	**14.7%**	55,419.9	15.0%
Bohai Rim Region(3)	**56,151.9**	**14.8%**	55,323.1	14.9%
Central Region(4)	**79,991.2**	**21.1%**	75,554.5	20.4%
Western Region(5)	**102,196.9**	**26.9%**	99,105.5	26.8%
Northeastern Region(6)	**14,979.7**	**3.9%**	16,319.1	4.4%
Total	**379,410.4**	**100.0%**	370,255.4	100.0%

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

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

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

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

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

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

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

	As at December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Real estate	**194,575.9**	**51.3%**	194,340.6	52.5%
Manufacturing	**41,566.2**	**11.0%**	41,460.0	11.2%
Leasing and commercial services	**29,306.5**	**7.7%**	29,057.9	7.8%
Construction	**21,309.3**	**5.6%**	27,164.0	7.3%
Water, environment and public utilities management	**3,964.5**	**1.0%**	17,654.0	4.8%
Mining	**30,879.7**	**8.1%**	5,545.7	1.5%
Transportation, logistics and postal services	**4,335.6**	**1.3%**	4,708.7	1.3%
Others	**53,472.7**	**14.0%**	50,324.5	13.6%
Total	**379,410.4**	**100.0%**	370,255.4	100.0%

9.3.1.2 Policy-based DES business of the Company

The Company obtains DES Assets through debt-to-equity swaps, receipt of equity interests in satisfaction of debts and follow-on equity investments. The Company enhances the value of our DES Assets by improving the business operations of the DES Companies. The Company exits such investments primarily through asset swaps, merger and acquisition, restructuring and listing of DES Companies and realizes the appreciation of our DES Assets. The Company's DES Assets are classified as shares of unlisted DES Companies ("Unlisted DES Assets") and shares of listed DES Companies ("Listed DES Assets"). As at December 31, 2019, the Company held Unlisted DES Assets in 127 DES Companies, with carrying amount of RMB9,609.5 million, and Listed DES Assets in 24 DES Companies, with carrying amount of RMB5,685.1 million.

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

	As at December 31,	
	2019	2018
	(in millions of RMB, except for number of companies)	
Composition of existing DES asset portfolio		
Number of DES companies	**151**	174
Unlisted	**127**	150
Listed	**24**	24
Carrying amount	**15,294.6**	16,732.6
Unlisted	**9,609.5**	11,324.7
Listed	**5,685.1**	5,407.9

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

The table below sets forth certain details of our disposal of DES Assets as at the dates and for the years indicated.

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB, except for number of companies)	
Number of DES Companies disposed	**23**	6
Acquisition costs of DES Assets disposed	**2,952.1**	416.3
Net gains on DES Assets disposed	**1,839.8**	582.0
Exit multiple of DES Assets disposed[(1)]	**1.6 times**	2.4 times
Dividend income from DES Companies	**180.4**	192.8

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

In 2018 and 2019, the Company's net gains on DES Assets disposed were RMB582.0 million and RMB1,839.8 million, respectively, and the average exit multiples were 2.4 times and 1.6 times, respectively.

9.3.1.3 Market-oriented DES business

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

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

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

(3) The model of "offsetting debts with equity": The Group helps real enterprise reduce debts and alleviated liquidity difficulty by means of debt restructuring, such as offsetting debts with high-quality equity interests including equity interests of listed companies.

The table below sets forth the market-based DES business cumulatively conducted by the Group as at the dates indicated.

	As at December 31,	
	2019	2018
	(in millions of RMB)	
Issuing shares for repaying debts	**9,992.0**	8,657.0
Changing debt collection to equity	**11,800.0**	11,000.0
Offsetting debts with equity	**327.2**	259.0
Total	**22,119.2**	19,916.0

Market-oriented DES business have the national policy advantage, and is one of the core business of the Group. In 2019, the income of RMB2,189.5 million was recorded from the market-based DES business.

9.3.1.4 Distressed asset management business conducted by our subsidiaries

The Group conducted distressed asset management business through Huarong Huitong Asset Management Co., Ltd. ("Huarong Huitong") and its subsidiaries. In 2018 and 2019, Huarong Huitong and its subsidiaries recorded the income of RMB2,926.9 million and RMB1,200.4 million from distressed assets, respectively.

9.3.1.5 Distressed asset-based special situations investment business conducted by our subsidiaries

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

The Group primarily conducts our distressed asset-based special situations investment business through Huarong Rongde and other subsidiaries. In 2019, the Group continuously strengthened synergies with the distressed asset business of the parent company by constantly improving and integrating organization by classification, actively resolving stock risks and further adjusting the direction of such business development.

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

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB)	
Total assets	**25,199.4**	41,146.1
Total income	**2,178.1**	2,329.2
Net profit	**502.3**	450.1

9.3.1.6 Distressed asset-based property development business conducted by our subsidiaries

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

The Group conducts distressed assets-based property development business through Huarong Industrial. In 2018 and 2019, revenue from property development business of Huarong Industrial amounted to RMB3,192.9 million and RMB2,394.8 million, respectively.

9.3.2 Financial services

By leveraging the Group's multiple financial licenses, the Group provides its clients with flexible, customized and diversified financing channels and financial products through a comprehensive financial services platform composed of Huarong Securities, Huarong Futures, Huarong Financial Leasing, Huarong Xiangjiang Bank and Huarong Consumer Finance. This creates a comprehensive financial service system which covers the different business life cycles and the entire value chain of clients. In 2018 and 2019, the total income from the Group's financial services segment accounted for 28.2% and 29.8% of our total income, respectively. Profit before tax accounted for 74.8% and 52.3% of the total profit before tax of the Group, respectively.

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

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB)	
Securities and Futures Business		
Total income	**4,979.1**	3,578.3
Profit before tax	**4.8**	(1,066.9)
Total assets	**66,142.7**	79,618.4
Total equity	**12,074.7**	11,884.9
Financial Leasing Business		
Total income	**8,340.5**	7,812.3
Profit before tax	**2,279.6**	2,167.7
Total assets	**138,254.1**	124,458.4
Total equity	**16,178.6**	14,860.1
Banking		
Total income	**19,285.0**	17,684.2
Profit before tax	**3,771.7**	3,382.7
Total assets	**366,776.8**	335,451.9
Total equity	**23,981.0**	21,961.0
Consumer Finance Business		
Total income	**1,029.2**	1,201.0
Profit before tax	**(263.1)**	16.8
Total assets	**5,108.2**	8,152.2
Total equity	**482.7**	680.7

9.3.2.1 Securities and futures business

The Group conducts securities and futures business through Huarong Securities and Huarong Futures. The Group's securities business mainly includes proprietary trading, securities brokerage and wealth management, investment banking and asset management businesses. The financial information for Huarong Securities disclosed in this section is consolidated financial information that includes information of Huarong Futures, its subsidiary. In 2018 and 2019, the total income of Huarong Securities amounted to RMB3,578.3 million and RMB4,979.1 million and the profit before tax amounted to RMB-1,066.9 million and RMB4.8 million, respectively.

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

	For the year ended December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Proprietary trading	**2,982.7**	**59.9%**	978.1	27.3%
Securities brokerage and wealth management	**1,107.9**	**22.2%**	1,518.4	42.4%
Investment banking	**276.4**	**5.6%**	319.3	8.9%
Asset management business	**318.7**	**6.4%**	347.5	9.7%
Others	**293.4**	**5.9%**	415.0	11.7%
Total	**4,979.1**	**100.0%**	3,578.3	100.0%

9.3.2.2 Financial leasing business

The Group operates its financial leasing business through Huarong Financial Leasing. As at December 31, 2018 and December 31, 2019, the total assets of Huarong Financial Leasing amounted to RMB124,458.4 million and RMB138,254.1 million, respectively; in 2018 and 2019, the profit before tax of Huarong Financial Leasing was RMB2,167.7 million and RMB2,279.6 million, respectively. Huarong Financial Leasing maintained its industry leadership in operating results and management level.

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

	As at or for the year ended December 31,	
	2019	2018
Profitability indicators		
ROAA(1)	**1.3%**	1.3%
ROAE(2)	**11.3%**	11.2%
Asset quality indicators		
Distressed asset ratio(3)	**1.47%**	1.49%
Provision coverage ratio(4)	**161.0%**	156.0%
Capital adequacy indicators		
Core capital adequacy ratio(5)	**12.3%**	12.3%
Capital adequacy ratio(5)	**13.0%**	13.0%

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

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

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

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

(5) Disclosed by the means reported to CBIRC.

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

	As at December 31,			
	2019		2018	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	**20,002.7**	**18.2%**	19,381.3	19.4%
Water, environment and public utilities management	**40,818.0**	**37.1%**	40,297.9	40.3%
Transportation, logistics and postal services	**12,511.7**	**11.3%**	10,318.1	10.3%
Construction	**6,828.6**	**6.2%**	5,830.2	5.8%
Mining	**3,160.8**	**2.9%**	3,251.3	3.2%
Leasing and commercial services	**4,643.8**	**4.2%**	1,995.7	2.0%
Others	**22,135.1**	**20.1%**	18,987.4	19.0%
Total	**110,100.7**	**100.0%**	100,061.9	100.0%

(1) Due to implementation of New Lease Standards, some of the aforementioned finance lease receivables are presented under "debt instruments measured at amortised cost" on the consolidated financial statements.

9.3.2.3 Banking services business

The Group conducts its banking services business through Huarong Xiangjiang Bank. As at December 31, 2018 and December 31, 2019, total assets of Huarong Xiangjiang Bank were RMB335,451.9 million and RMB366,776.8 million, respectively, with an increase of 9.3%. In 2018 and 2019, profit before tax of Huarong Xiangjiang Bank was RMB3,382.7 million and RMB3,771.7 million, respectively, with an increase of 11.5%.

As at December 31, 2019, the non-performing loan ratio and provision coverage ratio of Huarong Xiangjiang Bank were 1.57% and 162.7%, respectively. Its core tier-1 capital adequacy ratio was 9.6% and its capital adequacy ratio was 12.6%, and all major business indicators of Huarong Xiangjiang Bank either satisfied or outperformed regulatory requirements.

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

	As at or for the year ended December 31,	
	2019	2018
Profitability indicators		
ROAA[(1)]	**0.9%**	0.8%
ROAE[(2)]	**13.2%**	13.0%
Asset quality indicators		
Non-performing loan ratio[(3)]	**1.57%**	1.58%
Provision coverage ratio[(4)]	**162.7%**	153.9%
Allowance to total loans[(5)]	**2.6%**	2.4%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio[(6)]	**9.6%**	9.6%
Capital adequacy ratio[(6)]	**12.6%**	12.7%

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

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

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

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

(5) Allowance to total loans equals allowance for impairment losses divided by total loans and advances to customers.

(6) Core tier-1 capital adequacy ratio and capital adequacy ratio are calculated according to CBIRC regulations.

9.3.2.4 Consumer finance

Huarong Consumer Finance aims to provide financial services to the general public and enhance its role as a leading provider of financial services to the general public. Since its establishment, it has accumulatively served 8.12 million customers and issued 22.92 million loans.

As at December 31, 2018 and December 31, 2019, the total assets of Huarong Consumer Finance amounted to RMB8,152.2 million and RMB5,108.2 million, respectively, representing a decrease of 37.3%. In 2018 and 2019, Huarong Consumer Finance achieved profits before tax of RMB16.8 million and RMB-263.1 million, respectively.

9.3.3 Asset Management and Investment

Asset management and investment business of the Group is an extension and supplement of its distressed asset management business. In 2018 and 2019, the total income from asset management and investment segment was RMB17,808.5 million and RMB14,311.5 million, respectively, representing 16.6% and 12.7%, respectively, of our total income.

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

	As at or for the year ended December 31,	
	2019	2018
	(in millions of RMB)	
Financial investment of the Company		
Total assets	**41,122.5**	42,563.4
Total income	**3,492.5**	3,612.1
Trust business		
Outstanding trust AUM	**134,458.7**	189,293.8
Total trust income	**1,417.9**	1,419.2
Including: trust commission and fee income	**514.9**	853.2
Private fund business		
Total income	**(1,273.9)**	698.4
International business		
Total assets of Huarong International	**194,421.0**	205,891.2
Total income of Huarong International	**8,742.4**	6,899.1

9.3.3.1 Financial investment business of the Company

Financial investment business of the Company mainly refers to the fixed income investments, equity investments and fund management investment conducted by the Company which is non-core and disadvantage business of the Company and has been in continuous shrinkage. In 2018 and 2019, the income from financial investment business was RMB3,612.1 million and RMB3,492.5 million, respectively; as at December 31, 2018 and 2019, the total assets from financial investment business was RMB42,563.4 million and RMB41,122.5 million, respectively.

9.3.3.2 Trust business

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

In 2018 and 2019, the outstanding trust AUM was RMB189,293.8 million and RMB134,458.7 million.

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

	As at December 31,	
	2019	2018
	(in millions of RMB)	
Industry and commerce	**36,405.3**	33,335.8
Financial institutions	**25,852.9**	60,431.4
Securities investment	**16,525.7**	22,882.9
Infrastructure	**24,073.6**	24,722.3
Real estate	**27,963.0**	42,851.6
Others	**3,638.2**	5,069.8
Total	**134,458.7**	189,293.8

9.3.3.3 Private fund business

Private fund business of the Group covers equity investment, equity investment management, fixed income investment and investment advisory services. The Group conducts private fund business mainly through Huarong YuFu Equity Investment Fund Management Co., Ltd.("Huarong YuFu"). In 2018 and 2019, Huarong YuFu achieved the total income of RMB698.4 million and RMB-1,273.9 million, respectively.

9.3.3.4 International business

The Group conducts its international business mainly through Huarong International and other overseas subsidiaries. As the overseas investment and financing platform of the Group, the Group will continue to strengthen its support to Huarong International. In 2019, the Company invested an additional USD300 million in Huarong International to further stabilize Huarong International's business development. As at December 31, 2018 and 2019, the total assets of Huarong International were RMB205,891.2 million and RMB194,421.0 million, respectively. The total income for 2018 and 2019 of Huarong International was RMB6,899.1 million and RMB8,742.4 million, respectively.

9.3.4 Business synergy

The Group focused on the strategic plan of "two returns", strengthened the concept of "one Huarong", improved the coordinated development mechanism, gave full play to its advantages of complete license types and numerous service outlets, and continuously deepened the cooperation of various operation units on the main business of distressed assets such as restructuring of problematic enterprises, financial relief for listed companies, distressed assets packages, market-oriented debt-to-equity swaps, through synergy among products, customers, information and risk management and control. Moreover, the Group provided customers with "one-stop" comprehensive financial services to maximize its interests.

In 2019, the Group actively promoted business cooperation between the headquarters and its branches and subsidiaries. The scale of projects implemented by each operation unit through (1) branches and subsidiaries; (2) branches and branches; (3) branches and the business department of the headquarters; (4) subsidiaries and subsidiaries; and (5) subsidiaries and the business department of the headquarters and other synergetic and cooperative relationship amounted to RMB68,495.04 million, and the revenue from all synergistic projects amounted to RMB6,694.53 million.

9.3.5 Major investment and acquisition

During the Reporting Period, the Group did not have any major investment and acquisition required to be disclosed pursuant to the Listing Rules.

9.3.6 Development of information technology

In 2019, the Group's information technology governance improved continuously. The Group set up an effective technology system, made remarkable progress in information construction and completed data center migration, which effectively enhanced its basic service capability in respect of information technology and fully demonstrated the empowerment of technology.

9.3.6.1 Information technology governance

In 2019, the Group gave full play to the role of information technology in "service, guarantee, driving, and empowerment", deepened information technology reform, and optimized information technology governance structure, in which the Strategy and Development Committee under the Board of Directors was responsible for information technology-related strategic decisions, with a specialized team under the Information Technology Management Committee to conduct professional review. Moreover, the Group completed the construction of data centers to improve its basic service capacity of information technology; published its first set of data standards, improved its data governance capability, and strengthened the integration and application of its data; intensified efforts for fintech exploration centering on "big data + main business" to complete the building of big data platforms, built risk alarming platforms under the big data model and distressed asset acquisition pricing models, and empowered business development and innovation.

9.3.6.2 Information system establishment

In 2019, the Group completed the promotion of integrated business system in the Group, basically achieving the "group-level and full coverage" of the information system, and organized and promoted the sorting of requirements of the "new-generation" business system, laying a solid foundation for building an application system meeting the development needs of New Huarong in future; kept improving relevant functions of the acquisition-and-disposal distressed asset business, completed the phase II restructuring of problematic enterprises and phase II building of the collateral management system and asset preservation, and improved the supporting and service capabilities of the main business; continuously improved the comprehensive risk management system, and upgraded and optimized the customer risk limit management system, and related party transaction management and control, internal rating and impairment & evaluation systems; completed the building of the internal fund platform, centralized review platform and group-based consolidated statement system, and continuously promoted the upgrading of the financial system; revised the corporate extranet website, continued to improve the corporate mobile office platform, and built a modernized group-based integrated office system.

9.3.7 Human resources management

In 2019, the Group focused on building a high-quality professional talent team, providing a solid talent guarantee for the high-quality development of a New Huarong. Following a correct guideline in selecting and appointing personnel and rectifying bad practices in this regard, the Group promoted the reform of the personnel system and optimized the structure of the workforce; continuously improved the personnel mechanism, implemented the reform of the headquarters, and gave play to the role of the headquarters in managing and controlling the Group; sorted out the performance evaluation system, with an emphasis on the use of evaluation results, and continuously improved the positive incentive and restraint mechanism featuring openness, transparency, scientificity and rationality; actively built a learning organization, strengthened the training on the knowledge and abilities of employees in light of business development, and improved the duty performance capability and professional quality of cadres and employees. Caring for cadres and employees, the Group made active responses to their concerns, protected their immediate interests, and continuously improved their cohesion and capacity.

9.3.7.1 Employees

As at December 31, 2019, the Group had a total of 10,947 employees. Among them, 2,893 people worked for the Company, and 8,054 people worked for subsidiaries at all levels.

The Company's employees have more than 50 types of professional qualifications, including certified public accountant, sponsor representative, attorney, financial risk manager, asset appraiser, tax accountant, chartered financial analyst, banking practice qualification, securities practice qualification and fund practice qualification.

The table below sets forth a breakdown of the Group's employees by age, as at December 31, 2019:

	Number	% of total
Aged 35 and below	5,511	50.3%
Aged 36–45	2,842	26.0%
Aged 46–55	2,150	19.6%
Aged 56 and above	444	4.1%
Total	**10,947**	**100%**

The table below sets forth a breakdown of the Group's employees by education level, as at December 31, 2019:

	Number	% of total
Doctoral degree or doctoral candidate and above	187	1.7%
Master degree or master candidate	3,466	31.7%
Bachelor degree or undergraduate	6,097	55.7%
Junior college and below	1,197	10.9%
Total	**10,947**	**100%**

9.3.7.2 Remuneration policy

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

9.3.7.3 Education and training

In 2019, the Group further improved its training for cadres and employees to provide strong talent support and intellectual guarantee for its sustained and healthy development. Firstly, focusing on central corporate tasks, the Group coordinated the management of system-wide education and training, and worked out and implemented the annual training work plan, with an emphasis on promoting the scientificity and effectiveness of training. Secondly, paying attention to combine internal faculties and external resources and cover personnel at all levels and different professional lines, the Group vigorously carried out a variety of content-rich, flexible, efficient and practical trainings to improve the duty performance capability and comprehensive professional quality of cadres and employees. Thirdly, based on adequate research, the Group sped up the building of the corporate online learning platform.

9.4 Risk Management

In 2019, adhering to the general tone of "making progress while remaining stable", the Group pragmatically promoted the building of a comprehensive risk management system, continuously improved the risk management mechanism and conducted post-evaluation on risk management, and steadily forestalled and defused risks, continuing to tamp the basis for risk control of the Group and improve its risk management.

9.4.1 Comprehensive risk management system

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

The Group has established a unified and hierarchical comprehensive risk management structure and defined the risk management responsibilities of the staff at all levels; improved the risk management system and risk appetite management mechanism, and kept optimizing the management tools and methods for various risks; made steady headway in building the risk management information system and developing the risk measurement model, and improved the quality of risk management personnel so as to provide support for comprehensive risk management.

In 2019, the Group revised and issued the Basic Risk Management System, strengthened the top-level design of the comprehensive risk management system, and enhanced the transmission of risk management policies and risk appetite; promoted the building of risk management system, improved the risk assessment and evaluation system, and strengthened the asset and liability structure, authorization, customer risk limit and large risk exposure management to effectively improve the quality and efficiency of risk management. With a focus on asset quality management and control, the Group strengthened the monitoring, analysis, management and control of various risks including credit risk, market risk, liquidity risk, operational risk, and reputational risk, improved the management of related party transactions and internal transactions, and actively dissolved and disposed risks. Meanwhile, it actively promoted the building of risk management information system, built a big data risk early warning system, kept improving impairment & evaluation and internal rating models, and optimized the functions of risk management information system, including risk data market, limit and concentration management, related party transactions and anti-money laundering.

9.4.2 Structure of risk management

The Group has set up a three-dimensional risk management system, consisting of three levels on the basis of corporate governance structure, three gradients composed of professional teams specialized in risk management and three lines of defense in practical operations. Three levels on the basis of corporate governance structure refer to the Board, the senior management and the Board of Supervisors. Three gradients composed of professional teams specialized in risk management refer to the chief risk officer of the Group, risk management functional departments of the Group, and risk directors or chief risk officers of the branches and subsidiaries. Three lines of defense in practical operations refer to three lines of defense of risk management consisting of business departments, risk management-related functional departments and audit department.

In 2019, based on the reform of the headquarters, the Group further improved the structure of risk management, highlighted the responsibilities of the risk management department in taking the lead in comprehensive risk management, and strengthened vertical management of risk lines; newly set up an internal control and compliance department to improve the independence and specialization in internal control and compliance management; further defined the responsibilities of risk management functional departments in the comprehensive risk management system and improved the "three lines of defense" of risk management; explored and improved the mechanism for verifying the qualifications and evaluating the performance of risk directors and heads of risk departments of branches and subsidiaries to improve their independence and specialization in performing duties; strengthened professional training for the Group's risk management lines and improved the professional quality of risk management personnel.

9.4.3 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 deterioration of its credit condition. Credit risk of the Group mainly involves the acquisition and restructuring of distressed debt business, trust business, securities business, financial leasing business, banking credit business and consumer finance business.

According to regulatory requirements and actual development, the Group continuously promoted the construction of credit risk management system, continuously improved its credit risk management system, mechanisms and tools; enhanced the ability to identify, manage and control credit risks, and strengthened risk early warning and risk alert; intensified the disposal and mitigation of risk assets and improved their efficiency; promoted the development of credit risk management information system, and improved the management function.

In 2019, the Group improved the rules for the management of business authorization, prudently adjusted the authorization amount, and reinforced the dynamic adjustment, supervision and management of the authorization of branches and subsidiaries; improved the customer quota and concentration management system, and focused on strengthening the monitoring, management and control of risks of key customers; further improved the management and control functions of credit risk monitoring and early warning system, continued to promote the application of internal rating in credit risk management to improve the comprehensiveness and accuracy of credit risk monitoring of the Group; tightened up management and control over the system for asset risk classification to improve the accuracy of risk classification; exercised strict control over the implementation of IFRS 9, revised relevant systems, and further improved the standards for classification of impairment stages; continued to optimize the model for measuring impairment based on the actual status of project risks, and made scientific and reasonable provision for impairment.

In 2019, the Group actively carried out the disposal and dissolution of risk hidden assets, and took targeted measures to dissolve risks in accordance with the principle of classification management and precise policies; made greater efforts in the coordination of risk management work of the headquarters, fully promoted the coordinated disposal of cross-launching of customer risk projects, defused and mitigated risks of the Group. With the joint efforts of the whole Group, we achieved positive results in risk management this year.

9.4.4 Market Risk Management

Market risk refers to the situation where the Group's business may suffer losses due to adverse movements in market prices, such as interest rates, exchange rates and stock and commodity prices. The Group's market risks primarily relate to such investment business as stocks and bonds and changes in exchange rates.

In 2019, the Group further strengthened the construction of market risk management system, revised the Measures for Market Risk Management, enriched tools for management of market risks, continued to carry out daily monitoring of market risks, and reinforced the monitoring and supervision of market risk management of branches and subsidiaries to improve the level of market risk management.

With regard to stock risk, the Group closely monitored the impact on the stock valuation of listed companies by the macroeconomic situation, market liquidity, capital market operation and other factors at home and abroad, strengthened asset portfolio management for different types of assets, monitored the fluctuations in the market value of stock of trading books every day, and regularly calculated stock risk monitoring indicators and carried out pressure tests. At the same time, the Group promptly disclosed the Company's plan for shareholding reduction of stock assets, under the premise of complying with the relevant policies and rules of the regulatory authorities, the exchange and the Company's business plan.

With regard to interest rate risk, the Group continued to improve the interest rate risk management system, and formulated the administrative measures for interest rate risks of trading books and non-trading books, clarified the responsibilities of interest rate risk management, refined management process and method, measured and analyzed interest rate risks on a regular basis to continuously improve its capability to cope with interest rate risks.

Regarding foreign exchange risk, the Group, operating mainly in China, adopts Renminbi as the recording currency. The foreign exchange funds raised from listing of the Company were settled flexibly according to use of funds and exchange rate fluctuations. Some overseas subsidiaries issued USD bonds and carried out overseas businesses. Relevant assets invested are mainly stated in USD or HKD linked with the USD exchange rate. The Group regularly monitored and reasonably controlled its foreign exchange risk exposure, and hedged foreign exchange risks through foreign exchange forwards, currency swaps and other methods.

9.4.5 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 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 Company fails to meet the funding requirement effectively without affecting the daily operations or financial conditions. Market liquidity risk refers to the situation where the Company 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 to maintain 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 established the working capital planning system, made full use of the fund transfer pricing system to speed up the turnover of funds and enhance efficiency in the use of funds; constantly expanded financing channels, established the multi-term and multi-variety market-based financing methods predominated by inter-bank loans, issuance of bonds and other types of financing, complemented with interbank advances and pledge-style repo, and reasonably arranged the debt term to effectively improve the debt structure.

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

9.4.6 Operational Risk Management

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

In 2019, the Group further improved the Company's operational risk management system, set up a new internal control and compliance department to take charge of operational risk management, revised and issued the Operational Risk Management Procedures, reinforced operational risk appetite and limit management, carried out stress tests for operational risks, conducted screening of operational risks in key areas, and enhanced risk management and control measures for important areas to continuously improve operational risk management level.

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, kept optimizing the legal review process, continuously strengthened contract management, intensified legal risk prevention and control, promoted the innovation of case management mechanism, and comprehensively prevented and controlled legal risks in business management activities.

The Group continued to improve the mechanism for prevention of information technology risks, completed the relocation of data center, and effectively improved the basic service capacity of information technology; cleaned up and revised the systems of science and technology in six areas: application construction, project management, operation and maintenance, safety and compliance, data management, and science and technology integration; effectively assessed and monitored scientific and technological risks, carried out network security self-inspection and special management, and improved the meticulous control of scientific and technological risks.

9.4.7 Reputational Risk Management

Reputational risk refers to the risk of receiving negative comments from relevant interested parties on the group as a consequence of operation, management or other behaviours of that group or external events.

In 2019, the Group further improved its reputational risk system and mechanism, issued the Measures for Reputational Risk Management, formulated supporting Emergency Plan for Significant Reputational Risks, organized training on reputational risk management, and improved the Group's capability to manage reputational risks and respond to public opinions. In the principle of proactive, prudent, full-process and full-coverage management, the Group strengthened the identification, monitoring and pre-judgment of reputation risk events or hidden reputation risks, and proactively took measures to prevent, control and resolve potential reputation risks. In 2019, the Group did not have any significant reputation risk event.

9.4.8 Internal Control

In 2019, pursuing the objectives of efficient operations, reliable reports and compliant operations, the Group continued to improve its internal control management system, issued a new version of Basic System of Internal Control, carried out self-assessment on internal control, system clean-up, and system construction for a New Huarong, and improved the mechanism for problem rectification and supervision. The Board, Board of Supervisors, senior management, headquarters, branches (business departments), subsidiaries and other institutions of different levels of the Company, as well as the three lines of defense of internal control, consisting of operation management department, internal control management department and internal audit department, performed their own functions and complemented and reinforced each other, and worked together for business development and risk prevention and control of the Company.

Details of the Group's internal control are set out in "13. Internal Control".

9.4.9 Internal Audit

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

In 2019, the Group duly performed its duties of audit supervision. Centering on the central work and strategic deployment, the Group improved its internal audit system, organized and implemented regular audits, special audits and internal control evaluations, gave full play to the role of internal audit supervision, paid attention to audit professional training, consolidated the construction of the internal audit team, and completed the annual internal audit plan in an all-round way.

The Group improved the internal audit system. Specifically, the Group conducted dynamic evaluation of the original internal audit system, supplemented the basic internal audit system, revised the special audit system, improved the evaluation system for internal audit work, and enhanced the applicability and effectiveness of the audit system.

The Group organized and conducted regular audits and special audits. Centering on the central work and strategic deployment, the Group has conducted regular and special audits for its branches and subsidiaries. The Group has also conducted economic responsibility audits on the performance of the middle and senior management.

The Group organized and conducted evaluation of internal control. The Group focused on internal control goals and key business links and paid attention to important business matters and key control links. By adopting self-evaluation across branches and subsidiaries as well as onsite re-evaluation by the Group on relevant business units, the Group evaluated the efficiency of its internal control, gave suggestions for improvement and urged rectifications to promote continuous improvement and perfection of the Group's internal control system.

The Group strengthened the construction of an internal audit team. The Group enriched practical experience of auditors and, through practical audit work (in place of training), professional training, etc., deepened auditors' understanding of related audit policies and systems and enabled them to study advanced audit concepts and methods, broaden the horizon and perspective related to audit, and become more professional.

9.4.10 Anti-money Laundering Management

The Group has strictly complied with the anti-money laundering and anti-terrorist financing laws and regulations, duly fulfilled relevant legal duty, continuously improved its anti-money laundering and anti-terrorist financing management system and working mechanism, so as to ensure effective enforcement of anti-money laundering and anti-terrorist financing laws and regulations and relevant rules of the Company.

In 2019, the Group summarized various anti-money laundering regulatory opinions and rating feedbacks, strengthened risk warnings, and effectively improved the anti-money laundering work of all units; the Group further optimized functions of the anti-money laundering management information system, optimized and reformed the blacklist management module, and made better use of the information system as a support and guarantee for anti-money laundering work; the Group carried out self-inspection of anti-money laundering and evaluations on the anti-money laundering work of some selected units to ensure effective implementation of the regulatory requirements on anti-money laundering and anti-terrorist financing and the systems and regulations of the Company; the Group held "anti-money laundering publicity month" activities, organized study programs themed on anti-money laundering regulatory requirements, and conducted two tests on anti-money laundering knowledge, effectively raising the awareness of anti-money laundering and anti-terrorist financing of all employees.

9.5 Capital Management

Based on regulatory requirements of "observing original mind and focusing on the main business" by the CBIRC, the Company continued to deepen the concept of capital constraint, continuously improved its capital management system, and strove for more efficient and optimized resource allocation to achieve sustainable and stable value returns for Shareholders.

In accordance with the Capital Management Measures for Financial Asset Management Companies (Trial) (Yin Jian Fa [2017] No. 56) and other relevant regulations of the CBIRC and in light of the Group's new development strategies, the Company kept improving its internal economic capital measurement model, and increased the efficiency of using capital while keeping the capital position in a stable and compliant manner. At the same time, the Company, in response to the regulatory requirements, industry development trends and its actual conditions, regularly conducted stress tests and worked on multi-mode and multi-level capital supplement plans in a timely manner to keep the Company's capital position in a stable and compliant manner and support the Company's high-quality development.

As at December 31, 2018 and 2019, the capital adequacy ratio of the Company were 13.62% and 15.29%, respectively.

As at December 31, 2018 and 2019, the leverage ratio[1] of the Company were 10.2:1 and 9.2:1, respectively.

9.6 Development Outlook

In early 2020, due to the market's fears of economic recession which has triggered by the outbreak and spread of COVID-19 across the world, and the breakdown of the negotiations on production cuts of oil between OPEC and Russia at the end, global financial markets experienced tempestuous turmoil and American stock market triggered circuit breaker for four times in a short time. On March 16, the Volatility Index (VIX) has climbed to 82.69, surpassing the peak of 80.86 during the global financial crisis in 2008. Governments around the world have introduced measures such as travel restrictions, interest rate cuts and financial assistance to deal with the COVID-19 in succession. The large-scale outbreak of COVID-19 has caused the stagnation of global economic activity in the short term. The transportation, logistics, catering industry and other service industry will be severely impacted. Both ends of the supply and demand of the global value chains face huge pressure, and global economy is facing certain risks of recession.

[1] Calculated as per the standard set out in Capital Management Measures for Financial Asset Management Companies (Trial) (Yin Jian Fa [2017] No. 56).

From a domestic perspective, China's economic growth is expected to face pressure in 2020 as a result of the COVID-19 outbreak in the first quarter and cyclical, structural, and exogenous factors collectively. Although China's economy including investment, consumption and export was affected in the first quarter, with effective control over the COVID-19 by the Chinese government and the promulgation out of a series of fiscal policies, monetary policies and relevant social security measures, the fundamentals of China's economy have not been changed.

The year 2020 marks the closing year of the 13th Five-Year Plan and also the year of achieving the goal of doubling GDP and residents' income and building a moderately prosperous society in all respects. It is expected that countercyclical adjustment of policies will continue and intensify; monetary policies such as comprehensive RRR cut, targeted interest cut and LPR reform will be rolled out in a steady manner to effectively reduce the financing cost of real economy and maintain reasonable and adequate liquidity; more powerful and effective fiscal policies will be enacted, and a larger size of special bonds will be issued in advance, expecting a rise in deficit rate; various reform measures will be implemented more quickly, keeping a steady growth momentum, and economy will maintain long-term positive growth.

The year 2020 marks the key year for implementing the construction of a New Huarong. Facing new internal and external trends and new circumstances of economy and finance, China Huarong will earnestly implement regulatory requirements, observe original mind, have steadfast faith, strengthen implementation, accelerate transformation, respond to market risks caused by COVID-19 actively, further deepen the collaboration with customers, make use of professional advantages and skills to revitalize existing assets and mitigate risks, and strive to bring financial aid and counter-cyclical tools into play, so as to serve economic and social development and supply-side structural reform. With respect to the core business, the Company will focus on the distressed assets in the existing assets of the economic and financial system, continue to consolidate the market position of the distressed asset package business, vigorously expand restructuring of problematic enterprises, make active efforts in risk mitigation, crisis handling of institutions at risk, entrusted management and other businesses, steadily promote market-oriented debt-to-equity swap business, and constantly extend the value chain of distressed assets, striving to promote business model transformation and innovative development of the Company. At the same time, during the prevention and control of COVID-19, the Company will actively play the financial rescue function, comprehensively organize and promote the business operation, help the enterprises to resume work and production and tide over the difficult period. The Company will also focus on improving the management and control level of the Group, enhance the capability of risk prevention and mitigation, deepen classification management over institutions, promote collaborative business development, accelerate informatization construction and strengthen cultivation of professional talent, striving to achieve the quality reform, efficiency reform and dynamic reform in the Company's development.

10. Changes in Share Capital and Information on Substantial Shareholders

10.1 Changes in Share Capital

There was no change in the class of share capital and total number of Shares of the Company as at December 31, 2019 comparing to previous period, as detailed below:

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%**

10.2 Substantial Shareholders

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

As at December 31, 2019, the Company received notices from the following persons about their notifiable interests or short positions held in the Company's Shares and underlying Shares pursuant to Divisions 2 and 3 of Part XV of the SFO. Specifically, according to relevant notice of the State Council, the MOF and relevant ministries and commissions regarding the transfer of part of state-owned capital to supplement the social security fund, the MOF transferred 10% of the Shares held by it in the Company to the National Council for Social Security Fund at one time, involving transfer of 2,475,271,109 Domestic Shares, accounting for 6.34% of the Company's total issued share capital. The share transfer was completed as of December 31, 2019. The said interests or short positions 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 (%)[8]	Approximate percentage to the total share capital of the Company (%)[9]
MOF	Domestic Shares[1]	Beneficial owner	9,901,084,435 (L)	70.59 (L)	25.34 (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)
National Council for Social Security Fund[3]	Domestic Shares	Beneficial owner	2,475,271,109 (L)	17.65 (L)	6.34 (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 (%)[8]	Approximate percentage to the total share capital of the Company (%)[9]
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.[4]	H Shares	Interest of controlled corporation	2,060,000,000 (L)	8.23 (L)	5.27 (L)
Warburg Pincus Financial International Ltd[4]	H Shares	Beneficial owner	2,060,000,000 (L)[5]	8.23 (L)	5.27 (L)
Sino-Ocean Group Holding Limited (Formerly known as Sino-Ocean Land Holdings Limited)[6]	H Shares	Interest of controlled corporation	1,771,410,000 (L)	7.07 (L)	4.53 (L)
Ko Kwong Woon Ivan[7]	H Shares	Interest of controlled corporation	1,716,504,000 (L)	6.85 (L)	4.39 (L)
Siu Lai Sheung[7]	H Shares	Interest of controlled corporation	1,716,504,000 (L)	6.85 (L)	4.39 (L)
Fabulous Treasure Investments Limited[2], [6], [7]	H Shares	Beneficial owner	1,716,504,000 (L)	6.85 (L)	4.39 (L)

Note: (L) 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 and January 22, 2020.

(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 the National Council for Social Security Fund filed with the Hong Kong Stock Exchange on January 7, 2020 and the Corporate Substantial Shareholder Notice from the MOF filed with the Hong Kong Stock Exchange on January 22, 2020, these Shares were transferred to the National Council for Social Security Fund at one time by the MOF.

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

(5) The Shares are under pledge for the purpose of financing from the bank.

(6) 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 hold 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, therefore, 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.

(7) 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.

(8) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at December 31, 2019.

(9) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at December 31, 2019.

10.2.2 Substantial Shareholders

During the Reporting Period, the substantial Shareholders of the Company with shareholding of class of Shares over 5% had a new member (National Council for Social Security Fund) as compared with the previous period. The details of substantial shareholders of the Company are set out as follows:

MOF

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

National Council for Social Security Fund

The National Council for Social Security Fund is a unit under the administration of MOF. As an institution of investment operation, it is responsible for managing and operating the social security fund of the nation, holding and managing the transferred state-owned equity of central enterprises as entrusted by the State Council, having entrusted management of the investment and operation of basic pension insurance fund as approved by the State Council, and taking main responsibility for the security, value maintenance and appreciation of the fund.

China Life Insurance (Group) Company (中國人壽保險（集團）公司)

It is a financial insurance company wholly owned by the MOF. China Life Insurance (Group) Company and its subsidiaries constitute the largest commercial insurance group in China. Their business scope includes various areas such as life insurance, property insurance, pension insurance (annuity business), asset management, alternative investment, overseas business and e-commerce.

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 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 was established in 1993 with the mission "create a high quality environment for middle to high urban residents and high-end customers", and is committed to becoming an investment and financing group with leading industrial investment capability based on excellent real estate industry with the business scope covering mid-to-high end residential development, development, investment and operation of office buildings, complexes and retail properties, property management services, pension industry, logistics real estate, real estate funds, equity investment, asset management and overseas investments. Sino-Ocean Group has built up the reputation of "Sino-Ocean" brand in China based on its constant quality products and professional services.

11. Directors, Supervisors and Senior Management

11.1 Directors

During the Reporting Period and as of the Latest Practicable Date, details of the Directors of the Company were as follows:

No.	Name	Gender	Age	Position	Term of office
Current Directors					
1	Wang Zhanfeng	M	53	Chairman of the Board and Executive Director	The second session: From September 2018 to the election of the next session of the Board
2	Li Xin	F	59	Executive Director and President	The second session: From September 2018 to the election of the next session of the Board
3	Zhou Langlang	M	39	Non-executive Director	The second session: From April 2017 to the election of the next session of the Board
4	Tse Hau Yin	M	72	Independent Non-executive Director	The first session: From March 2015 to February 2017 The second session: From February 2017 to the election of the next session of the Board
5	Liu Junmin	M	70	Independent Non-executive Director	The first session: From June 2015 to February 2017 The second session: From February 2017 to the election of the next session of the Board
6	Shao Jingchun	M	63	Independent Non-executive Director	The first session: From November 2016 to February 2017 The second session: From February 2017 to the election of the next session of the Board
7	Zhu Ning[(1)]	M	46	Independent Non-executive Director	The second session: From March 2019 to the election of the next session of the Board

No.	Name	Gender	Age	Position	Term of office
Resigned Directors					
1	Li Yi	M	60	Non-executive Director	The first session: From January 2017 to February 2017 The second session: From February 2017 to October 2019
2	Wang Cong	F	57	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to February 2020
3	Dai Lijia	F	48	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to February 2020
4	Song Fengming	M	73	Independent Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to March 2019

(1) Mr. Zhu Ning was considered and appointed as an independent non-executive Director of the Company at the fifth extraordinary general meeting of Shareholders for 2018 of the Company on November 13, 2018 and he performed his duty after the CBIRC approved his qualification on March 28, 2019.

11.1.1 Executive Directors

Mr. Wang Zhanfeng, aged 53, has been the chairman of the Board and executive Director of the Company since September 27, 2018. Mr. Wang began his career in August 1991, and has served as party committee member and vice president of Qingdao City Centre Branch of the PBOC from January 2003 to July 2003, a member of the Organization Group of Qingdao Office of China Banking Regulatory Commission ("CBRC", now known as the CBIRC), from July 2003 to September 2003, party committee member and deputy director of Qingdao Office of the CBRC from September 2003 to December 2005, deputy director of the Cooperative Financial Institution Supervision Department of the CBRC from December 2005 to October 2011, party committee secretary and director of Shanxi Office of the CBRC from October 2011 to April 2014, party committee secretary and director of Guangdong Office of the CBRC from April 2014 to April 2018. Mr. Wang joined the Company in April 2018 and has been the party committee secretary of the Company up to now. Mr. Wang graduated with a doctor's degree in finance from the School of Finance of the Southwestern University of Finance and Economics.

Ms. Li Xin, aged 59, has been the executive Director and president of the Company since September 27, 2018, and was accredited as a senior economist by Bank of China ("BOC") in December 1996. Ms. Li began her career in February 1980, and has served as vice president of Jiangsu Yangzhou Branch of BOC from August 1992 to October 1996, the leader of the Organization Group and president of Jiangsu Taizhou Branch of BOC from October 1996 to March 1998, president of Jiangsu Yangzhou Branch of BOC from March 1998 to October 2001, deputy general manager of the Nanjing Office of China Orient Asset Management Corporation (now known as China Orient Asset Management Co., Ltd. ("China Orient")) from October 2001 to November 2004, leader of the Organization Group of the Asset Management Department of the headquarters of China Orient from November 2004 to June 2005, general manager of the Asset Management Department of the headquarters of China Orient from June 2005 to November 2005, general manager of the Market Development Department and general manager of the Asset Management Department of the headquarters of China Orient from November 2005 to April 2006, assistant-to-president of China Orient and general manager of the Asset Management Department and Market Development Department from April 2006 to May 2006, assistant-to-president of China Orient and general manager of the Market Development Department from May 2006 to November 2006, assistant-to-president of China Orient from November 2006 to April 2007, vice president of China Orient from April 2007 to May 2016, chairman of the board of supervisors of China Orient from May 2016 to April 2018. Ms. Li joined the Company in April 2018 and has been a deputy party secretary of the Company up to now. Ms. Li graduated with a bachelor's degree.

11.1.2 Non-executive Director

Mr. Zhou Langlang, aged 39, has been the non-executive Director of the Company since April 12, 2017. Mr. Zhou has been a managing director of Warburg Pincus Asia LLC since 2005 and is currently a director of Hwabao WP Fund Management Co., Ltd. and Cango Inc.. Mr. Zhou served as an analyst of the investment banking division of Credit Suisse First Boston from 2003 to 2004 and was the manager of the investment banking division of Citibank from 2004 to 2005. Mr. Zhou obtained a bachelor's degree in business administration and a bachelor's degree in electrical engineering from the University of Western Ontario in Canada in 2002.

11.1.3 Independent Non-executive Directors

Mr. Tse Hau Yin, aged 72, has been an independent non-executive Director of the Company since March 23, 2015. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a former president of the HKICPA and a former member of the audit committee of the HKICPA. He joined KPMG in 1976 and became a partner in 1984. Before his retirement in 2003, Mr. Tse was a non-executive chairman of KPMG China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse has been an independent non-executive director of OCBC Wing Hang Bank Limited (formerly listed on the Hong Kong Stock Exchange, stock code: 00302) since November 2004, an independent non-executive director of Daohe Global Group Limited (listed on the Hong Kong Stock Exchange, stock code: 00915 and formerly known as Linmark Group Limited) from May 2005 to December 2016, an independent non-executive director of CNOOC Limited (listed on the Hong Kong Stock Exchange, stock code: 00883) since June 2005, an independent non-executive director of China Telecom Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 00728) since September 2005, an independent non-executive director of Sinofert Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00297) since June 2007, an independent non-executive director of SJM Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00880) since October 2007 and an independent non-executive director of CCB International (Holdings) Limited (a wholly-owned subsidiary of CCB) since March 2013. Mr. Tse is a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse graduated from the University of Hong Kong and obtained a bachelor's degree in social science in November 1970.

Mr. Liu Junmin, aged 70, has been an independent non-executive Director of the Company since June 23, 2015. Mr. Liu taught in Tianjin University of Finance and Economics and served as a lecturer and an associate professor from 1982 to 1992. He has been teaching in the Department of Economics of Nankai University since 1992 and served successively as an associate professor and a professor of the department and retired in July 2015. Mr. Liu served as an independent non-executive director of Tianjin Faw Xiali Automobile Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 000927) from May 2003 to June 2009 and has been serving as an independent non-executive director of Tianjin Faw Xiali Automobile Co., Ltd. again since November 2016. Mr. Liu served as an independent non-executive director of Suzhou Jinfu New Material Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 300128) from March 2008 to June 2014. Mr. Liu was an independent non-executive director of Yingli Green Energy Holdings Co., Ltd. from August 2008 to January 2020. Mr. Liu was an independent non-executive director of AVIC Electromechanical Systems Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 002013) from February 2013 to March 2018. Currently, Mr. Liu is an independent non-executive director of Chinese People Holdings Company Limited (a listed company on the Hong Kong Stock Exchange, stock code: 00681). Mr. Liu graduated from Nankai University, majoring in economy and obtained a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctor's degree in economics in July 1994.

Mr. Shao Jingchun, aged 63, has been an independent non-executive Director of the Company since November 11, 2016. Mr. Shao served as a lecturer of the faculty of law of Peking University in 1988; a post-doctoral fellow of the European University Institute in 1989; a guest researcher of the European University Institute in 1990; Mr. Shao has been travelling, studying and conducting legal practice in Europe from 1991 to 1994. He was an associate professor of the faculty of law of Peking University in 1994; the director of international economic law department of the Law School of Peking University in 1996. He has been serving as a professor of Law School and doctoral supervisor of Peking University since 2001. He was the director of the international economic law institute of Peking University from 1997 to 2019 and a director of WTO legal study center of Peking University from 2002 to 2018. Concurrently, Mr. Shao served as an arbitrator of China International Economic and Trade Arbitration Commission from 1995 to 2006, a counselor of All China Lawyers Association from 2003, an arbitrator/mediator of International Center for Settlement of Investment Disputes (ICSID) of the World Bank from 2004 to 2016, an English senior translator of the Commission of Legislative Affairs of the National People's Congress of the People's Republic of China from 2005, the vice director of the Institute of International Economic Law of China Law Society from 2005, the vice director of the World Trade Organization Institute of China Law Society from 2015 to 2018, the vice director of International Construction Law Association from 2015 and the vice director of China Association for Quality Promotion (CAQP) from 2016, the independent supervisor of China Suntien Green Energy Corporation Limited (a listed company on the Hong Kong Stock Exchange, stock code: 00956) from 2019. Mr. Shao was admitted to the Law School of Peking University in 1978 and got the bachelor's degree in law, master's degree in law and doctor's degree in law of Peking University in 1982, 1985 and 1988, respectively.

Mr. Zhu Ning, aged 46, has been an independent non-executive Director of the Company since March 28, 2019. Mr. Zhu served successively as an assistant professor, associate professor and tenured professor at University of California (Davis), the United States of America from August 2003 to June 2010; a senior vice president and a quantitative strategies director at Lehman Brothers Asia Limited from July 2008 to October 2008; a general consultant and an executive director of the portfolio advisory team of Nomura International (Hong Kong) Limited from January 2009 to August 2010; a professor and the deputy director of Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiao Tong University from July 2010 to July 2016; Mr. Zhu has been serving as a Chair Professor of Oceanwide Finance at PBC School of Finance, Tsinghua University and a deputy director of National Institute of Financial Research ("NIFR") and the director of NIFR Center for Global Merger Acquisition and Restructuring at Tsinghua University since July 2016. Mr. Zhu is currently also a distinguished professor of finance at Guanghua School of Management at Peking University and a faculty fellow at Yale University International Center for Finance. Mr. Zhu has been an independent non-executive director of China Asset Management (Hong Kong) Limited since March 2012, an independent non-executive director of China Guangfa Bank Co., Ltd. since March 2014, an independent non-executive director of UTour Group Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 002707) since May 2018. Mr. Zhu served as an independent non-executive director of Healthcare Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 603313) from December 2012 to April 2017, an independent non-executive director of Everbright Securities Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601788, and on the Hong Kong Stock Exchange, stock code: 06178) from February 2013 to September 2017, an independent non-executive director of Leshi Internet Information & Technology Corp., Beijing (a company listed on Shenzhen Stock Exchange, stock code: 300104) from October 2015 to April 2017, an independent non-executive director of Industrial Securities Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601377) from February 2016 to December 2017. Mr. Zhu was also formerly a visiting scholar at Federal Reserve (Philadelphia), Federal Reserve Board of Governors and International Monetary Fund, and a senior visiting researcher at Advanced Research Institute of Waseda University. Mr. Zhu graduated from Yale University with a Ph.D. degree in Finance.

11.2 Supervisors

During the Reporting Period and as of the Latest Practicable Date, details of the Supervisors were as follows:

No.	Name	Gender	Age	Position	Term of office
Current Supervisors					
1	Hu Jianzhong[(1)]	M	55	Chairman of the Board of Supervisors and Shareholder Representative Supervisor	The second session: From March 2020 to the election of the new session of the Board of Supervisors
2	Dong Juan	F	67	External Supervisor	The first session: From April 2015 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
3	Xu Li	F	61	External Supervisor	The second session: From February 2017 to the election of the new session of the Board of Supervisors
4	Zheng Shengqin	F	56	Employee Representative Supervisor	The first session: From February 2014 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
5	Chen Jin	M	48	Employee Representative Supervisor	The second session: From September 2017 to the election of the new session of the Board of Supervisors
Resigned Supervisor					
1	Ma Zhongfu	M	53	Chairman of the Board of Supervisors and Shareholder Representative Supervisor	The first session: From October 2016 to February 2017 The second session: From February 2017 to October 2019

(1) Mr. Hu Jianzhong was considered and appointed as a Shareholder Representative Supervisor of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company and was elected as the Chairman of the Second Board of Supervisors by resolution of the Board of Supervisors of the Company on March 25, 2020.

Mr. Hu Jianzhong, aged 55, has been chairman of the Board of Supervisors of the Company since March 2020. He was accredited as a senior accountant by Agricultural Bank of China Limited (the "ABC") in September 1994 and was awarded as a researcher by Central University of Finance and Economics in September 2011. Mr. Hu started his career in Guyuan County Sub-branch of ABC in the Ningxia Hui Autonomous Region in December 1980 and served as the deputy director of the Finance and Accounting Division (財務會計處) of Ningxia Branch of the ABC from December 1994 to November 1996, successively as the deputy director of the State-owned Asset Management Division (國有資產管理處), the deputy director of the Accounting Cashier Division (會計出納處) and the director of the Accounting Management Division I (會計管理一處) of the Finance and Accounting Department (財務會計部) at the head office of the ABC from November 1996 to December 1999. He successively served as the deputy general manager and the deputy general manager (in charge) of the Capital and Finance Department (資金財務部), the general manager of the Asset Management Department II (資產經營二部), the general manager of Jinan Office (濟南辦事處) of China Great Wall Asset Management Corporation (中國長城資產管理公司), the assistant to the president and the vice president of China Great Wall Asset Management Corporation and the vice president of China Great Wall Asset Management Co., Ltd. from December 1999 to October 2018; the chairman of the board of supervisors of China Orient Asset Management Co., Ltd. from October 2018 to September 2019. Mr. Hu joined the Company in September 2019 and has been the deputy party committee secretary of the Company since then. Mr. Hu graduated from Central University of Finance and Economics, majoring in finance, with a doctor's degree in economics.

Ms. Dong Juan, aged 67, has been an external Supervisor since April 2015. She obtained the qualification of PRC certified public accountant in 1994. Ms. Dong had served as deputy director and director of the Foreign Trade Division in the Commerce and Trade Department of the MOF from 1984 to 1994. Ms. Dong worked as director of the Enterprise Department of the National State-owned Assets Supervision and Administration Bureau from 1994 to 1998, director of the Assessment Department of MOF from 1998 to 2000, and chairman of the board of directors of Grandchina International Consulting Co., Ltd. from 2000 to 2014. She also served as an external supervisor of Industrial and Commercial Bank of China Limited ("ICBC") (a company listed on the Hong Kong Stock Exchange, stock code: 01398, and the Shanghai Stock Exchange, stock code: 601398) from May 2009 to June 2016. Ms. Dong graduated from Shanxi Finance and Economics College in July 1978, and graduated from Dongbei University of Finance and Economics in August 1997 with a master's degree in economics.

Ms. Xu Li, aged 61, has been an external Supervisor since February 2017. She was accredited as a senior economist by the MOF in November 1993. Ms. Xu served successively as a senior staff member and principal staff member of the Agricultural Finance Department of the MOF from January 1982 to April 1988. From April 1988 to November 2002, she successively served as the general manager of the Planning and Financial Department, the general manager of the Financial Department and assistant to general manager of China Economic Development Trust & Investment Corporation. From December 2002 to January 2015, she successively served as the chief financial officer and vice president of China Minzu Securities Co., Ltd. From March 2015 to February 2020, she acted as the deputy general manager of China Water Affairs Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00855). Ms. Xu graduated from Dongbei University of Finance & Economics with a bachelor degree in economics in January 1982 and finished post graduate courses of monetary banking major from Dongbei University of Finance & Economics in December 1997.

Ms. Zheng Shengqin, aged 56, has been an employee representative Supervisor since February 2014. She was accredited as a senior economist by ICBC in 1997. Ms. Zheng worked in ICBC from August 1984 to January 2000, serving successively as deputy director level inspector, deputy director and director of the Supervisory Office of the Disciplinary Committee of ICBC Head Office. Ms. Zheng joined the Company in January 2000 and served successively as deputy general manager of the Creditor's Rights Management Department, deputy general manager of the Operational Management Department, deputy general manager of the Operational Development Department, general manager of the Operational Management Department and general manager of the Risk Management Department until December 2010, and concurrently served as general manager of the Risk Management Department and the secretary of Disciplinary Committee of Huarong Securities from December 2010 to April 2011, secretary of the Disciplinary Committee of Huarong Securities from April 2011 to July 2011 and chairman of the board of supervisors and secretary of the Disciplinary Committee of Huarong Securities from July 2011 to January 2014. Ms. Zheng served successively as head and executive vice chairman of the Labor Union Committee of the Company since 2014. Ms. Zheng graduated from Sichuan College of Finance and Economics (now known as Southwestern University of Finance and Economics) with a bachelor's degree in finance in July 1984. From September 2001 to August 2003, she studied the IMBA course at Fudan University and at The University of Hong Kong and received a master's degree.

Mr. Chen Jin, aged 48, has been an employee representative Supervisor since September 2017 and was accredited as a senior economist by the Company in November 2012. Mr. Chen worked in Hangzhou Communication Equipment Plant of Ministry of Posts and Telecommunications of China from August 1993 to January 1995, worked in Hangzhou Branch of CCB Trust and Investment Co., Ltd. from January 1995 to May 1996, worked successively as the manager assistant of Management Department 1, deputy manager of the Management Department, the deputy manager of the Management Department and the deputy manager of Evaluation Department, the manager of the Evaluation Department, the general manager of the Risk Management Department, the general manager of Project Evaluation Department, the general manager assistant and deputy general manager of Huarong Financial Leasing from May 1996 to January 2015, served as the deputy general manager, the deputy general manager (general manager level) and the deputy general manager (general manager level, in charge) of the Risk Management Department of the Company from January 2015 to September 2017 and has been the general manager of the Risk Management Department of the Company since September 2017 till now. He graduated from the specialty of mechanical engineering of Ningbo University with a bachelor's degree in engineering in August 1993.

11.3 Senior Management

During the Reporting Period and as of the Latest Practicable Date, details of senior management of the Company were as follows:

No.	Name	Gender	Age	Position	Beginning of the term of office
Current senior management					
1	Li Xin	F	59	President	September 2018
2	Wu Jinglong	M	56	Member of senior management	April 2018
3	Wang Wenjie	M	58	Vice President	November 2014
4	Xu Yongli(1)	M	48	Vice President	April 2020
5	Chen Yanqing	M	56	Vice President	July 2019
6	Yang Pei(2)	F	56	Assistant to President	July 2019
				Secretary to the Board	Her term of office shall take effect from the date of approval by the CBIRC
7	Gao Gan	M	52	Assistant to President	July 2019
Resigned senior management					
1	Hu Jiliang	M	55	Vice President	From November 2014 to January 2020
2	Hu Ying	F	55	Assistant to President	From December 2015 to March 2019

(1) Mr. Xu Yongli was appointed as the vice president of the Company by resolution of the Board on April 9, 2020.

(2) Ms. Yang Pei was appointed as the secretary to the Board by resolution of the Board on August 2, 2019 and her qualification is in the process of approval by the CBIRC.

Ms. Li Xin, aged 59, has been an executive Director and President of the Company since September 2018. Details of the experiences of Ms. Li are set out in "11.1.1 Executive Directors".

Mr. Wu Jinglong, aged 56, has been a member of the senior management of the Company since April 2018. Mr. Wu began to work in October 1982. He successively served as soldier, amanuensis, staff officer at the level of deputy company commander and company commander in Chinese People's Armed Police Force at the Beijing Division from October 1982 to August 1993; staff member and principal staff member in the Organization and Propaganda Department of Chinese Financial Workers' Union from August 1993 to March 1999; principal staff member, discipline inspector and supervisor at vice-minister level in the Office of the Central Commission for Financial Work and Discipline Inspection from March 1999 to September 2003; and deputy section chief, section chief and director (deputy director general) of the Discipline Inspection Commission and the General Section of the Office of Inspection Department of CBRC from September 2003 to November 2013; took a temporary post as member of the Party Committee and secretary of the Discipline Inspection Commission of Guangdong Office of CBRC from November 2013 to March 2016; served as discipline inspector at deputy director level in the Discipline Inspection Group of the Central Commission for Discipline Inspection in CBRC from March 2016 to April 2018. Mr. Wu graduated from the Correspondence Institute of the Party School of the CPC Central Committee with a bachelor's degree in politics and law in December 2000.

Mr. Wang Wenjie, aged 58, has been a vice president of the Company since November 2014. He was accredited as a senior economist by ICBC in December 1994. Mr. Wang started his career in the Technological Transformation Credit Department of ICBC in July 1986. From March 1987 to December 1999, he served successively as principal staff member of the Technological Transformation Credit Department, deputy director of the Project Management Division, director of Project Management Division I and deputy general manager of the Assessment and Consultation Department of ICBC. Mr. Wang joined the Company in December 1999, serving successively as deputy general manager (in charge) and general manager of International Business Department. He served as deputy general manager (general manager level) and general manager of Nanjing Office from June 2003 to August 2006, general manager of the Investment Business Department (International Business Department) from August 2006 to December 2009, chief investment and operation officer and general manager of the Investment Business Department (International Business Department) from December 2009 to June 2010, chief investment and operation officer and general manager of Shanghai Office from June 2010 to April 2011, chief risk officer, chief investment and operation officer and general manager of the Risk Management Department from April 2011 to April 2013 and assistant to President and secretary to the Board from September 2012 to November 2014. The Board resolved to re-appoint Mr. Wang as the secretary to the Board again in December 2018, and he acted on behalf and performed the duties of the secretary to the Board until August 2019. Mr. Wang graduated from Shaanxi Institute of Finance and Economics (now known as Xi'an Jiaotong University) majoring in industrial economy with a master's degree in economics.

Mr. Xu Yongli, aged 48, was appointed as the vice president of the Company in April 2020, and is an economist. Mr. Xu started his career at the Credit Department of Bank of China Head Office in 1993, and successively served as assistant general manager of the Market Development Department of China Orient Asset Management Company (中國東方資產管理公司), deputy general manager of Oriental Hotel Holdings Limited (in charge of work), deputy head of the liquidation group of MF Securities, deputy general manager of Dongxing Securities Co., Ltd., general manager of

Investment Business Department in China Orient Asset Management Company, general manager of Dongxing Securities Co., Ltd., assistant to president and vice president of China Orient Asset Management Company, and vice president of China Orient Assets Management Co., Ltd. Mr. Xu graduated from Central Institute of Finance and Banking majoring in finance with a bachelor's degree in economics in 1993.

Mr. Chen Yanqing, aged 56, has been the vice president of the Company since July 2019. He was accredited as a senior engineer by the Ministry of Machine Building in October 1996. Mr. Chen started his career in Ministry of Machinery in August 1983 and consecutively served as the director officer of the National Machinery Committee and the Department of Engineering, Agriculture and Machinery of the Ministry of Machine Building and Electronics Industry, the secretary (at deputy director level) of the General Office of the Ministry of Machinery and the secretary (at director level) of the Office of the Head of the National Machinery Bureau from January 1987 to January 2000. Mr. Chen joined China Cinda Asset Management Corporation (currently known as China Cinda Asset Management Co., Ltd., "China Cinda") in January 2000, he successively served as the deputy general manager of the Asset Management Department, the general manager of the Restructuring Business Department, the Market Development Department, the Group Synergy Department and the Corporate Management Department, the general manager of Shenzhen Branch and the chief officer of Shenzhen Regional Business, the general manager of the Human Resources Department and the head of the Organization Department of the Party Committee. He served as assistant to president of China Cinda from February 2016. Mr. Chen graduated from Anhui Institute of Technology (currently known as Hefei University of Technology) and obtained a bachelor's degree in engineering in 1983; he obtained a master's degree in engineering from Jiangsu University of Science and Technology (currently known as Jiangsu University) majoring in management engineering in 1998; he obtained an EMBA degree from Tsinghua University in 2010.

Ms. Yang Pei, aged 56, has been the assistant to the President of the Company since July 2019. She was named as senior economist from Industrial and Commercial Bank of China in September 1997 and obtained the qualification as lawyer in April 1998. Ms. Yang started her career at Industrial and Commercial Bank of China Head Office in August 1985, successively serving as deputy director of the Legal Division at the Administrative Office, director of the Legal Consultancy Division, director and deputy general manager of the Economic Dispute Management Division at the Legal Affairs Department of Industrial and Commercial Bank of China from December 1994 to January 2000. In January 2000, Ms. Yang joined the Company, successively serving as the deputy general manager (in charge) and general manager of the Legal Affairs Department from June 2000 to March 2013; and serving as general manager of the Risk Management Department of the Company from March 2013 to January 2015. She served as chairman of the Board of Supervisors of Huarong Rongde Asset Management Co., Ltd. from January 2015 to September 2018; and has been serving as general manager of the Asset Preservation Department of the Company since September 2018, during which she also has been concurrently serving as general manager of the Legal Compliance Department of the Company from January 2019 to May 2019. She has been concurrently serving as director of the Board Office of the Company from June 2019 to September 2019. Ms. Yang was appointed as the secretary to the Board of the Company by resolution of the Board in August 2019, and her qualification is in the process of approval by the CBIRC. Ms. Yang graduated from Wuhan University in July 1985 with a bachelor's degree in law, and graduated from Renmin University of China in January 2004 with a master's degree in law.

Mr. Gao Gan, aged 52, has been the assistant to the President of the Company since July 2019. He obtained the qualification as senior economist from the Company in October 2001. He started his career at Industrial and Commercial Bank of China Head Office in July 1989, successively serving as head of the general division and deputy director of the general management division in Administrative Office of Industrial and Commercial Bank of China from September 1997 to January 2000. In January 2000, Mr. Gao joined the Company, and successively served as deputy director, senior manager and director assistant at the President's Office from January 2000 to April 2002; successively as deputy general manager and deputy general manager (in charge) of the Asset Management Department II from April 2002 to July 2006; as general manager of the Shenyang office from July 2006 to October 2008; and as director of the restructuring office of China Huarong Asset Management Corporation from October 2008 to March 2009. He served as president of Huarong Real Estate Co., Ltd. (currently known as Huarong Industrial Investment & Management Co., Ltd. (華融實業投資管理有限公司)) from March 2009 to August 2012, as well as general manager of the Equity Management Department of the Company (currently known as Equity Business Department) from August 2012 to October 2019, during which he served as chairman of Huarong Ruitong Equity Investment Co., Ltd., from January 2017 to October 2019, as chairman of Huarong Real Estate Co., Ltd. (currently known as Huarong Industrial Investment & Management Co., Ltd.) from July 2018 to July 2019 and has been concurrently serving as chairman of Huarong (HK) Industrial and Financial Investment Limited since July 2018. Mr. Gao graduated from Peking University in July 1989 with a bachelor's degree in history and graduated from Tsinghua University School of Economics and Management in January 2005 with an MBA degree.

11.4 Changes in Directors, Supervisors and Senior Management

11.4.1 Changes in Directors

On December 31, 2019, the Board nominated Ms. Zhao Jiangping as the non-executive Director of the Company. On March 25, 2020, Ms. Zhao Jiangping was appointed as non-executive Director of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company, and her qualification is subject to the approval of the CBIRC. For details, please refer to the announcements of the Company dated December 31, 2019 and March 25, 2020.

On March 3, 2020, the Board submitted a provisional proposal on the election of Mr. Zheng Jiangping as the non-executive Director to the general meeting of Shareholders for consideration. On March 25, 2020, Mr. Zheng Jiangping was appointed as non-executive Director of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company, and his qualification is subject to the approval of the CBIRC. For details, please refer to the announcements of the Company dated March 3, 2020 and March 25, 2020.

On March 28, 2019, Mr. Zhu Ning's qualification as an independent non-executive Director of the Company was approved by the CBIRC. Meanwhile, the resignation of Mr. Song Fengming as the former independent non-executive Director of the Company took effect. For details, please refer to the announcement of the Company dated April 2, 2019.

On October 21, 2019, Mr. Li Yi ceased to be a non-executive Director of the Company due to work changes. For details, please refer to the announcement of the Company dated October 21, 2019.

On February 26, 2020, Ms. Wang Cong and Ms. Dai Lijia ceased to be non-executive Directors of the Company due to work changes. For details, please refer to the announcement of the Company dated February 26, 2020.

11.4.2 Changes in Supervisors

On December 31, 2019, the Board of Supervisors of the Company nominated Mr. Hu Jianzhong as a Shareholder Representative Supervisor of the Company. On March 25, 2020, Mr. Hu Jianzhong was appointed as a Shareholder Representative Supervisor of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company. On March 25, 2020, the Board of Supervisors elected Mr. Hu Jianzhong as the Chairman of the Second session of the Board of Supervisors. For details, please refer to the announcements of the Company dated December 31, 2019 and March 25, 2020.

On October 21, 2019, Mr. Ma Zhongfu resigned as the chairman of the Board of Supervisors and the Shareholder Representative Supervisor of the Company due to work changes. For details, please refer to the announcement of the Company dated October 21, 2019.

11.4.3 Changes in Senior Management

On April 9, 2020, the Board of the Company appointed Mr. Xu Yongli as the vice president of the Company. For details, please refer to the announcement of the Company dated April 9, 2020.

On July 17, 2019, Mr. Chen Yanqing performed his duties after the CBIRC approved his qualification as vice president. For details, please refer to the announcement of the Company dated July 31, 2019.

On April 29, 2019, the Board of the Company appointed Ms. Yang Pei and Mr. Gao Gan as the assistants to the president of the Company. On July 17, 2019, Ms. Yang Pei and Mr. Gao Gan performed their duties after the CBIRC approved their qualifications as assistants to the president. For details, please refer to the announcements of the Company dated April 29, 2019 and July 31, 2019.

On August 2, 2019, the Board of the Company appointed Ms. Yang Pei as the secretary to the Board. Her term of office shall take effect from the date of approval by the CBIRC until change of appointment is made by the Board. Ms. Yang Pei acted on behalf and performed the duties of the secretary to the Board from August 2, 2019. For details, please refer to the announcement of the Company dated August 2, 2019.

On January 13, 2020, Mr. Hu Jiliang resigned as a vice president of the Company due to work changes. For details, please refer to the announcement of the Company dated January 13, 2020.

In March 2019, Ms. Hu Ying ceased to be the assistant to the president of the Company.

11.4.4 Annual Remuneration

11.4.4.1 Remuneration of Directors, Supervisors and senior management

Details of the remuneration of the Directors, Supervisors and senior management of the Company are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 17. Emoluments of Directors and Supervisors". The total compensation packages for the above Directors, Supervisors and senior management of the Company for 2019 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC. Further disclosure will be made when the final compensation packages are determined.

11.4.4.2 Highest paid individuals

Details of the emoluments of the five highest paid individuals of the Company during the Reporting Period are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 18. Five highest paid individuals".

12. Corporate Governance Report

12.1 Summary of Corporate Governance

The Company adhered to the good corporate governance principle for listed companies, strictly observed the requirements of laws and regulations and constantly enhanced corporate governance reform, so as to safeguard the legitimate rights and interests of the Company's shareholders.

During the Reporting Period, in compliance with the Company Law of the PRC, Securities Law of the PRC, the Listing Rules, other laws and regulations, regulatory documents and the Articles of Association, the Company effectively improved corporate governance level, strived to build a corporate governance mechanism featuring coordinated cooperation and effective check and balance under which all persons perform their respective duties and assume their respective responsibilities, energetically promoted the implementation of the Company's major strategies, constantly enhanced its corporate governance structure construction and mechanism construction, strictly implemented the resolutions of the Shareholders' general meeting, improved the decision-making capacity and operating efficiency of the Board and the information disclosure quality and communication efficiency, and made constant efforts to improve investor relations management ability to ensure stable market value of the Company.

12.1.1 Code of Corporate Governance

During the Reporting Period, the Board has reviewed the disclosures in the Corporate Governance Report, and confirmed that the Company had complied with the 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.

During the Reporting Period, the Board, and through its special committees, performed the following corporate governance functions: (1) further modified the Rules of Procedures of the Shareholders' General Meeting, Rules of Procedures of the Board Meeting, Terms of Reference of the Audit Committee of the Board and Terms of Reference of the Nomination and Remuneration Committee of the Board in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; and (3) constantly assessed and optimized corporate governance and performed their duties in strict compliance with all requirements on corporate governance.

12.1.2 Amendment of the Articles of Association

During the Reporting Period, the Company did not amend the Articles of Association.

12.2 Shareholders' General Meetings

12.2.1 Responsibilities of the Shareholders' General Meeting

The Shareholders' general meeting is the organ of authority of the Company and shall exercise the following functions and powers: (1) to decide the Company's operating policies and annual investment plans; (2) to elect and replace the Directors and Supervisors who are not representative of the employees of the Company and to determine the emoluments of Directors and Supervisors; (3) to consider and approve the reports of the Board; (4) to consider and approve the reports of the Board of Supervisors; (5) to consider and approve the annual financial budget and final accounts of the Company; (6) to consider and approve the profit distribution plan and loss recovery plan of the Company; (7) to consider and approve any motion raised by Shareholder(s), individually or jointly holding 3% or more of the total issued Shares of the Company with voting rights; (8) to resolve on any increase or decrease in registered capital of the Company; (9) to resolve on the issuance of corporate bonds, any class of Shares, warrants or other marketable securities of the Company and their listing; (10) to resolve on matters related to merger, division, dissolution, liquidation or change of organization of the Company; (11) to amend the Articles of Association, the rules of procedures of the Shareholders' general meeting, and the meetings of the Board and the Board of Supervisors; (12) to decide the engagement, dismissal or termination of accounting firms of the Company responsible for the regular statutory audit for the financial reports of the Company; (13) to resolve on the repurchase of the Shares of the Company; (14) to consider and approve major investment and disposal of equity interests, investment and disposal of debentures, financing, pledges, mortgage and guarantee of assets, purchase and disposal of fixed assets, disposal of DES Assets, write-off of assets, major decisions of legal corporations and donations of the Company; (15) to consider and approve matters in relation to the change of use of the raised funds; (16) to consider and approve share incentive schemes; (17) to consider and approve any purchase or disposal of major assets or provisions of guarantees with aggregate value of more than 30% of the total assets of the Company within a period of a year; (18) to consider and approve related party transactions required to be considered and approved by Shareholders' general meeting under the laws, regulations, regulatory documents and applicable requirements of the securities regulatory authorities of the place(s) where the Company's Shares are listed and the Articles of Association; (19) to consider and approve the liability insurance of Directors and Supervisors; and (20) to consider and approve all other matters which are required to be determined by Shareholders' general meeting under the laws, regulations, regulatory documents, applicable requirements of the securities regulatory authorities of the place(s) where the Company's Shares are listed and the Articles of Association.

12.2.2 Details of Shareholders' General Meetings

During the Reporting Period, the Company held two Shareholders' general meetings in Beijing, including one annual general meeting and one extraordinary general meeting, which considered and approved 12 resolutions, and heard one report. The Company strictly complied with the legal procedures applicable to Shareholders' general meetings which Shareholders or their proxies attended and exercised their voting rights. The Company engaged PRC legal counsels to attend and witness Shareholders' general meetings and to provide legal opinion. Material matters include: consideration and approval of the final financial account plan of the Company for 2018; consideration and approval of the profit distribution plan of the Company for 2018; consideration and approval of the work report of the Board and the work report of the Board of Supervisors for 2018; consideration and approval of the appointment of external auditor of the Company for 2019; consideration and approval of extension of the authorization granted by the Shareholders' general meeting relating to the non-public issuance of Offshore Preference Shares.

12.2.3 Shareholders' Rights

12.2.3.1 Right to propose to convene extraordinary general meeting

Shareholders who individually or jointly hold 10% or more of the Shares of the Company with voting rights shall have the right to request the Board to convene an extraordinary general meeting or class meeting in writing. The Board shall reply in writing as to whether or not it agrees to convene such extraordinary general meeting within 10 days upon receipt of the proposal in accordance with laws, regulations, regulatory documents and the Articles of Association. If the Board agrees to convene an extraordinary general meeting or class meeting, a notice of such meeting shall be issued within 5 days after the resolution of the Board is passed. If the Board does not agree to convene an extraordinary general meeting or class meeting, or fails to give its response within 10 days upon receipt of the proposal, the requesting Shareholders may propose to the Board of Supervisors to convene an extraordinary general meeting or class meeting in writing. If the Board of Supervisors agrees to convene an extraordinary general meeting, a notice of such meeting shall be issued within 5 days upon receipt of the proposal. If the Board of Supervisors does not issue the notice of such meeting within the prescribed period, it shall be deemed that the Shareholders' general meeting will not be convened and presided over by the Board of Supervisors. In such circumstances, Shareholders who individually or jointly hold 10% or more of the Company's total Shares with voting rights for not less than 90 consecutive days may have the discretion to convene and preside over the meeting.

12.2.3.2 Right to submit proposals at the Shareholders' general meeting

Shareholders holding 3% or more, individually or jointly, of the Shares with voting rights of the Company shall have the right to submit proposals to the Company in writing. The Company shall include such proposals within the scope of authority of the Shareholders' general meeting in the agenda of such meeting. Shareholders holding 3% or more, individually or jointly, of the Shares with voting rights of the Company shall have the right to submit interim proposals in writing 10 days before the Shareholders' general meeting to the convener of such meeting. The convener shall issue supplemental notice within 2 days upon receiving such proposals to notify other Shareholders of the interim proposals, and include such proposals within the scope of authority of the Shareholders' general meeting, which contain specific topics for discussion and resolutions of specific issues, in the agenda of such meeting.

12.2.3.3 Right to propose to convene extraordinary meeting of the Board

The chairman of the Board shall issue a notice to convene an extraordinary meeting of the Board within 10 days from the date of receipt of the request of the Shareholders who, individually or jointly, hold 10% or more of the Shares with voting rights of the Company.

12.2.3.4 Right to submit proposals for Board meetings

Shareholders who individually or jointly hold 10% or more of the Shares with voting rights may submit proposals to the Board.

12.2.3.5 Shareholders' right to raise proposal and enquiry

Shareholders shall have the right to supervise the Company's business operation and to present proposals or to raise enquires. Shareholders are entitled to inspect the Articles of Association, the register of members, the state of Company's share capital and minutes of Shareholders' general meetings of the Company. Shareholders may raise their enquiry or proposal to the Board Office by mail to the registered address of the Company, or by email to the Company. In addition, Shareholders may contact Computershare Hong Kong Investor Services Limited, the share registrar of the H Shares of the Company, regarding any enquiry on Shares or rights (if any), the contact information of which is set out in Corporate Information in this annual results announcement.

12.2.3.6 Other rights

Shareholders shall have the right to dividends and other interest distribution in proportion to the number of Shares held and other rights conferred by the laws, regulations, regulatory documents and the Articles of Association.

12.2.4 Attendance of Directors at Shareholders' General Meetings

Directors' attendance at Shareholders' general meetings in 2019 is set out in the following table:

Member of the Board	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Wang Zhanfeng	2/2	100%
Li Xin	2/2	100%
Non-executive Directors		
Wang Cong	2/2	100%
Dai Lijia	2/2	100%
Zhou Langlang	1/2	50%
Independent non-executive Directors		
Tse Hau Yin	2/2	100%
Liu Junmin	2/2	100%
Shao Jingchun	2/2	100%
Zhu Ning	1/2	50%
Resigned Directors during the Reporting Period		
Li Yi	2/2	100%
Song Fengming	N/A	N/A

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and by video conference.
3. Attendance rate is the percentage of the number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Mr. Song fengming is not applicable as no meetings were convened by the Company during his term of office.

12.2.5 Independence from Controlling Shareholders

The Company is completely independent from its controlling Shareholders in operation, personnel, assets, organization and finance. The Company is an independent legal entity conducting independent operations and assuming sole responsibility for its own profit or loss. The Company has its own independent and complete businesses and can operate independently.

12.3 Board of Directors

12.3.1 Composition and Responsibilities of the Board

As of the Latest Practicable Date, the Board had seven Directors, including two executive Directors, namely Mr. Wang Zhanfeng (chairman) and Ms. Li Xin (president); one non-executive Director, namely Mr. Zhou Langlang; and four independent non-executive Directors, namely Mr. Tse Hau Yin, Mr. Liu Junmin, Mr. Shao Jingchun and Mr. Zhu Ning. The term of office of Directors will last until the election of the next session of Board of Directors.

During the Reporting Period and to the date of publication of this annual results announcement, the Board has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors and at least one of the independent non-executive Directors has the requisite appropriate professional qualification or accounting or relevant financial management expertise. In addition, the Company has complied with Rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive Directors appointed by a listed company shall not be less than one third of the Board.

The Board is accountable to the Shareholders' general meeting in accordance with the Articles of Association. The major duties of the Board include: (1) to convene and report its work to the Shareholders' general meeting; (2) to implement the resolutions of the Shareholders' general meeting; (3) to determine the operation plans, development strategies and investment proposals of the Company; (4) to formulate annual financial budget and final accounts of the Company; (5) to formulate profit distribution plan and loss recovery plan of the Company; (6) to formulate proposals for increases or reductions of the registered capital of the Company; (7) to formulate plans for the merger, division, changes of organization and dissolution of the Company; (8) to formulate proposals for the issuance of corporate bonds, any classes of Shares, warrants or other marketable securities by the Company and its listing; (9) to formulate plans for the repurchase of Shares of the Company; (10) to formulate the amendments to the Articles of Association, the rules of procedures of the Shareholders' general meeting and Board meeting; (11) to consider and approve the terms of reference of the president submitted by the president; (12) to appoint or remove the president of the Company and the secretary to the Board; (13) to appoint or remove vice president and other senior management members (excluding secretary to the Board) and the director of internal audit as nominated by the president; (14) based on the proposal of Shareholders individually or jointly holding 10% or more Shares of the Company with voting rights, chairman of the Board and at least one-third of the Directors, to elect the chairman and members of the Nomination and Remuneration Committee; based on the nomination of the Nomination and Remuneration Committee, to elect the chairman (other than the chairman of the Strategy and Development Committee) and members of other special committees of the Board; (15) to propose the performance appraisal system and remuneration packages for Directors to the Shareholders' general meeting for approval; to determine and evaluate matters relating to the training and continuing professional development of Directors; (16) to determine the compensation, performance appraisal, incentive and punishment of the senior management members and director of the internal audit department of the Company; (17) to formulate the basic management system of the Company; to determine the risk management, compliance and internal control policies of the Company and formulate systems in relation to internal control and compliance management as well as internal audit of the Company; (18) to determine the structure of internal management departments of the Company; (19) to regularly evaluate and improve the corporate governance of the Company; (20) to formulate share incentive scheme; (21) to manage matters in relation to information disclosure and management of investors' relations of the Company; (22) to propose the appointment, removal or termination of appointment of accounting firm to the Shareholders' general meeting; (23) to consider and approve, or authorize the Related Party Transactions Committee of the Board to approve related party transactions, except for those which shall be considered and approved by Shareholders' general meeting according to law; (24) within the scope of authorization of Shareholders' general meeting, to consider and approve the investment and disposal of equity interests, investment and disposal of debentures, financing, pledges and mortgage and guarantee of assets, purchases and disposal of fixed assets, disposal of DES Assets, write-off of assets, major decisions of legal corporations and external donations; (25) to consider and approve the proposals of special committees of the Board; (26) to listen to the work report of the president to ensure that each Director obtains the information related to the performance of his/her duties in accordance with the regulatory requirement in a timely manner; to review the work of senior management members; to monitor and ensure their effective performance of management duties; (27) to review the execution and rectification of regulation opinions against the Company by the banking regulators of the State Council; (28) the establishment of the first class branches of the Company inside and outside the PRC; (29) to consider the liability insurance of senior management; and (30) to perform other duties as required by laws, regulations, regulatory documents, the requirements of the securities regulatory authority of the place(s) where the Shares of the Company are listed and the Articles of Association, and other matters as authorized by Shareholders' general meeting.

12.3.2 Board Meetings

In 2019, the Board had conducted ten meetings, including four regular meetings and six extraordinary meetings. 64 resolutions were passed and 12 work reports were reviewed at the meetings, including 20 resolutions on operation and management, 14 resolutions on system establishment, 13 resolutions on personnel management, and 17 other resolutions. The major issues include: reviewing and approving the final accounts plan and the profit distribution plan of the Company for 2018; and the fixed assets investment budget for 2019; reviewing and approving the 2018 Annual Report (Annual Results Announcement) and 2019 Interim Report (Interim Results Announcement) of the Company; reviewing and approving the extension of the authorization granted by the Shareholders' general meeting relating to the non-public issuance of Offshore Preference Shares; reviewing and approving the work report of the Board of Directors for 2018, internal control evaluation report and social responsibility report of the Company; reviewing and approving engagement of accounting firm for 2020; reviewing and approving election of Mr. Zhu Ning as the chairman of the Nomination and Remuneration Committee of the second session of the Board of Directors, engagement of Ms. Yang Pei as assistant to President of the Company, engagement of Mr. Gao Gan as assistant to President of the Company, nomination of Mr. Wang Wenjie to hold a concurrent post as chief risk officer, engagement of Ms. Yang Pei to hold a concurrent post as secretary to the Board of the Company and appointment of Ms. Yang Pei as joint company secretary; reviewing and approving change of the Company's authorized signatory in Hong Kong Central Securities Trust Limited and change of the Company's authorized person in the e-Submission System of the Hong Kong Stock Exchange; listening to the report of the Company on related party transaction management and risk management.

In addition, the Board conducted self-evaluation on the effectiveness of the internal control of the Group during the Reporting Period. Details are set out in "13. Internal Control".

12.3.3 Attendance of Board Meetings

Directors' attendance at Board meetings in 2019:

Members	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Wang Zhanfeng	8/10	80%
Li Xin	10/10	100%
Non-executive Directors		
Wang Cong	10/10	100%
Dai Lijia	9/10	90%
Zhou Langlang	8/10	80%
Independent non-executive Directors		
Tse Hau Yin	10/10	100%
Liu Junmin	9/10	90%
Shao Jingchun	10/10	100%
Zhu Ning	7/8	88%
Resigned Directors during the Reporting Period		
Li Yi	7/7	100%
Song Fengming	0/2	0

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes personal attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required.

12.4 Special Committees of the Board

The Board has five special committees, namely, the Strategy and Development Committee, Risk Management Committee, Related Party Transaction Committee, Audit Committee, and the Nomination and Remuneration Committee.

12.4.1 Strategy and Development Committee

As of the Latest Practicable Date, the Strategy and Development Committee of the Company consisted of seven Directors. The chairman was acted by Mr. Wang Zhanfeng, the chairman of the Board. The members included executive Director Ms. Li Xin, non-executive Director Mr. Zhou Langlang, and independent non-executive Directors Mr. Tse Hau Yin, Mr. Liu Junmin, Mr. Shao Jingchun and Mr. Zhu Ning.

The major duties and authorities of the Strategy and Development Committee include, but are not limited to, the following: to review the operational target, general strategic development plan of the Company and to make recommendations to the Board; to assess factors that may affect the strategic development plan of the Company and its implementation and make recommendations on adjustment of the strategic plan to the Board in a timely manner based on the economic and financial conditions and market trends in the PRC and overseas; to review the annual financial budget and final accounts based on the development strategy, and make recommendations thereon to the Board; to assess the overall development status of various businesses and make suggestions on adjustment of the strategic development plan to the Board in a timely manner; to review the implementation of the business plan and investment plan of the Company, and the strategic asset allocation and the asset liability management objectives of the Company, and make recommendations thereon to the Board; to review major restructuring and adjustment proposals, and make recommendations thereon to the Board; to review major investment and financing plans and other matters such as the acquisition, disposal and write-off of assets and provision of guarantees to external parties that are subject to the approval of the Shareholders' general meeting and the Board, and make recommendations thereon to the Board; to review those plans for the establishment of any legal entity and the merger with or acquisition of any entity that are subject to the approval of the Shareholders' general meeting and the Board, and make recommendations thereon to the Board; to review the establishment and adjustment plan of the Company's internal functional departments and first level sub-branches as well as other institutions directly under the control of the Company and make recommendations thereon to the Board; to review plans such as information technology development and other special strategic development plans, and make recommendations thereon to the Board; to examine and assess the soundness of the corporate governance structure of the Company in order to ensure that the financial reports, risk management and internal controls are in compliance with corporate governance standards; and to perform such other duties as stipulated by laws, regulations, regulatory documents, the requirements of the securities regulatory authorities in place(s) where the Shares of the Company are listed and the Articles of Association and other matters as authorized by the Board.

In 2019, the Strategy and Development Committee convened six meetings to consider 17 resolutions and reports, including the fixed assets investment budget of the Company for 2019 and the business plan for 2019 of the Company, etc.

Attendance of members at Strategy and Development Committee meetings in 2019:

Members	Number of meetings attended/ required to attend	Attendance rate
Wang Zhanfeng	6/6	100%
Li Xin	6/6	100%
Wang Cong	6/6	100%
Dai Lijia	6/6	100%
Zhou Langlang	4/6	67%
Tse Hau Yin	6/6	100%
Liu Junmin	5/6	83%
Shao Jingchun	6/6	100%
Zhu Ning	4/4	100%
Resigned Directors during the Reporting Period		
Li Yi	2/2	100%
Song Fengming	0/2	0

Notes:
1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes personal attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required.

12.4.2 Risk Management Committee

As of the Latest Practicable Date, the Risk Management Committee of the Company consisted of two Directors. The members included Ms. Li Xin, an executive Director and Mr. Zhu Ning, an independent non-executive Director.

The main duties of the Risk Management Committee include, but are not limited to, the following: to review the framework, basic policies, procedures and system of risk management of the Company according to the general strategy of the Company, supervise the implementation and effectiveness of the risk strategy, risk management procedures and internal control process of the Company, and make recommendations thereon to the Board; to supervise the deployment, organizational structure, working procedure and effectiveness of risk management department, and make recommendations thereon to the Board; to review the risk capital allocation plan, capital adequacy ratio management target, assets classification criteria and risk provision policy of the Company, and submit the same to the Board for consideration; to review and supervise the implementation of capital plans and make recommendations on the information disclosure regarding capital adequacy ratio; to review the annual risk management target and annual risk management plan submitted by the senior management, submit the same to the Board for approval before implementation and supervise their implementation; to review the duties, authority and reporting system of the senior management in relation to risks, and submit the same to the Board for approval before implementation; to procure the senior management to adopt necessary measures to effectively identify, assess, detect and control risks, supervise and appraise the performance of the senior management in controlling risks associated with credit, market and operation, and make recommendations thereon to the Board; to make recommendations on improving the risk management and internal controls of the Company from the perspective of the Company and the general environment; to assess the risk profile of the Company on a regular basis and make recommendations thereon to the Board; to review those major risk management matters or transactions that exceed the authority of the president and submitted by the president to this committee for review, and make recommendations thereon to the Board; to supervise the legal and compliance management work; to review legal and compliance policies and related basic management systems and make recommendations thereon, and submit the same to the Board for consideration and approval; to hear and review the implementation of the legal and compliance policies; and other matters as required by the laws, regulations and regulatory documents, the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2019, the Risk Management Committee convened seven meetings to consider 21 resolutions and reports, including the 2018 risk management of the Company and amendments to the *Measures for Management of Reputational Risk,* etc.

Attendance of members at Risk Management Committee meetings in 2019:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Dai Lijia	7/7	100%
Li Xin	6/7	86%
Wang Cong	7/7	100%
Zhu Ning	3/6	50%
Resigned Director during the Reporting Period		
Song Fengming	0/1	0

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.

12.4.3 Related Party Transaction Committee

As of the Latest Practicable Date, the Related Party Transaction Committee of the Company consisted of three Directors. The chairman was acted by Mr. Shao Jingchun, an independent non-executive Director. The members included independent non-executive Directors, Mr. Tse Hau Yin and Mr. Zhu Ning.

The main duties of the Related Party Transaction Committee include but are not limited to the following items: to review the basic management system of related party transactions, supervise its implementation and make recommendations to the Board of Directors; to recognize the related parties of the Company, report to the Board of Directors and the Board of Supervisors, and timely disclose to the relevant personnel of the Company; to conduct preliminary review of the related party transactions which should be approved by the Board of Directors or the Shareholders' general meeting and submit them to the Board of Directors for approval; within the scope authorized by the Board of Directors, to consider and approve related party transactions and other matters associated with related party transactions; to accept the related party transactions record and review the information disclosure matters of the Company's significant related party transactions; to consider and approve the annual related party transactions management report and report it to the Board of Directors; and other matters as required by the laws, regulations and regulatory documents, the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2019, the Related Party Transaction Committee convened five meetings to consider 11 resolutions and reports, including the related party transaction management of the Company for 2018 and work plan of the Related Party Transaction Committee for 2019, etc.

Attendance of members at Related Party Transaction Committee meetings in 2019:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Shao Jingchun	5/5	100%
Wang Cong	2/2	100%
Tse Hau Yin	5/5	100%
Zhu Ning	1/2	50%
Resigned Director during the Reporting Period		
Li Yi	4/4	100%

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.

12.4.4 Audit Committee

As of the Latest Practicable Date, the Audit Committee of the Company comprised four Directors. The chairman was acted by Mr. Tse Hau Yin, an independent non-executive Director. The members included independent non-executive Directors, Mr. Liu Junmin, Mr. Shao Jingchun and Mr. Zhu Ning.

The main duties of the Audit Committee include but are not limited to the following: to supervise the establishment of the Company's internal control, the Company's core business and management rules and regulations and their implementation, assess the compliance and effectiveness of the Company's major business activities; to supervise the Company's financial information and its disclosure, major financial policies of the Company and its implementation and financial operation status; to monitor the authenticity of financial reports and the effectiveness of management's implementation of financial reporting procedures; to review the basic management rules and regulations of the Company's auditing, medium and long-term auditing planning, annual work plan and internal audit system setting program and making recommendations to the Board of Directors; to supervise and evaluate the internal auditing work of the Company, supervise the implementation of the internal auditing system of the Company; to evaluate the working procedures and work effectiveness of the internal auditing department; to propose to engage, further engage or replace the external auditing institution, approve the clauses on its renumeration and engagement, report to the Board of Directors for deliberation, and take appropriate measures to supervise the work of the external auditing institution, and examine the reports of the external auditing institution to ensure the ultimate responsibility of the external auditing institution for the Board of Directors and the Audit Committee; to review the accounting firm's annual audit reports and other special opinions, audited financial and accounting reports, other financial and accounting reports and other financial information to be disclosed; to make judgments on the authenticity, completeness and accuracy of the audited financial report information and submit them to the Board for deliberation; to coordinate the communication between the internal audit department and the external auditing institution; and other matters as required by the laws, regulations and regulatory documents, the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2019, the Audit Committee convened eight meetings to consider and listened to 30 resolutions and reports, including final accounts of the Company for 2018, profit distribution plan of the Company for 2018, financial statements and audit reports of the Company for 2018, Interim Results Announcement for 2019 and Interim Report for 2019 of the Company, engagement of the accounting firm for 2020, internal audit work summary in 2018 and work plan for 2019 of the Company, formulation of the internal audit charter of China Huarong, etc.

Attendance of members at Audit Committee meetings in 2019:

Members	Number of meetings attended/ required to attend	Attendance rate
Tse Hau Yin	8/8	100%
Wang Cong	8/8	100%
Dai Lijia	7/8	88%
Liu Junmin	8/8	100%
Shao Jingchun	8/8	100%
Zhu Ning	6/7	86%
Resigned members during the Reporting Period		
Li Yi	5/5	100%
Song Fengming	0/1	0

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.

12.4.5 Nomination and Remuneration Committee

As of the Latest Practicable Date, the Nomination and Remuneration Committee of the Company consisted of three Directors. The chairman was acted by Mr. Zhu Ning, an independent non-executive Director. The members included independent non-executive Directors Mr. Liu Junmin and Mr. Shao Jingchun.

The main responsibilities of the Nomination and Remuneration Committee include, but are not limited to: reviewing the strategic development plan of human resources and making recommendations to the Board of Directors; making recommendations to the Board of Directors on the candidates for the Directors, the president and the secretary to the Board of Directors; formulating the procedure and standard for election and appointment of Directors, chairman and members of the special committees of the Board and senior management and making recommendations to the Board of Directors; conducting preliminary review of the qualifications of Directors and senior management candidates and making recommendations to the Board of Directors; nominating chairmen of special committees under the Board of Directors (except for the chairman of the Strategy and Development Committee) and member candidates; formulating assessment methods and remuneration plan for the Directors, and evaluating the performance and behavior of the Directors, and submitting them to the Shareholders' general meeting for approval after consent by the Board of Directors; formulating and reviewing the assessment methods and remuneration plan for the senior management and the head of internal audit department of the Company, evaluating the performance and behaviors of senior management and submitting them to the Board of Directors for approval; considering the major human resources and remuneration policies and management systems submitted by the senior management and to be approved by the Board of Directors or Shareholders' general meeting, submitting them to the Board of Directors for decision-making and monitoring the implementation of relevant policies and management systems; and other matters as required by the laws, regulations, regulatory documents, the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2019, the Nomination and Remuneration Committee convened five meetings to consider and listened to 14 resolutions and reports, including the nomination of Mr. Zhu Ning as candidate for the member of the Strategy and Development Committee, Risk Committee and Audit Committee under the Board, nomination of Mr. Wang Wenjie to concurrently serve as chief risk officer of the Company, nomination of Ms. Yang Pei to concurrently serve as secretary to the Board of the Company and appointment of the head of the audit department of the Company, etc.

Attendance of members at Nomination and Remuneration Committee meetings in 2019:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Zhu Ning	3/3	100%
Wang Cong	5/5	100%
Liu Junmin	5/5	100%
Shao Jingchun	5/5	100%
Resigned members during the Reporting Period		
Li Yi	4/4	100%
Song Fengming	1/2	50%

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.

The procedures of nominating candidates and the selection and recommendation criteria of Directors are as follows:

Candidates for Directors or independent non-executive Directors shall be nominated by way of proposals with their detailed information, which shall include personal particulars such as education background, working experience and any part-time positions; whether there is any connected relationship with the Company or the controlling Shareholders and actual controller of the Company; their shareholdings in the Company; and whether there are any penalties imposed by the securities regulatory authorities of the State Council and other related authorities and/or punishments imposed by the stock exchange;

A candidate for Director shall, at least fourteen days prior to the convening of the Shareholders' general meeting, give a written undertaking letter indicating that he/she agrees to accept the nomination and that the personal information as publicly disclosed is true and complete, and warrants that he/she will duly perform his/her obligations as a Director after he/she is elected. A written notice of the candidate's willingness to be elected shall have a notice period of no less than seven days, and shall be delivered to the Company no later than seven days prior to the convening of the Shareholder's general meeting and no earlier than the day after issue date on which the notice of such meeting for the election is delivered;

The Board shall disclose the detailed information on the candidates of Directors to the Shareholders at least seven days before the convening of the Shareholder's general meeting to ensure Shareholders to obtain adequate knowledge about the candidates when casting their votes;

The Shareholders' general meeting shall vote on the election of the candidates of Directors one by one; and

A candidate for Director shall act as a Director upon the approval of the Shareholders' general meeting with his/her qualification verified by the regulatory authorities.

To improve the effectiveness of the Board and the standard of corporate governance, the Company formulated the Board Diversification Policy. The composition of the Board reflects the appropriate balance between the requisite skills, experience and diverse perspectives to ensure an effective leadership and independent decision-making ability of the Company. The Board shall have appropriate number of executive Directors and non-executive Directors, including independent non-executive Directors, so as to enable the members of the Board to be independent and make judgment in an effective manner.

When selecting the candidates, the Nomination and Remuneration Committee will consider (among other things) the composition diversity of the Board and various other factors such as gender, age, cultural and educational background, professional experience, skills, knowledge and/or terms of service, to ensure that the members of the Board possess appropriate skills, experience and diversified perspectives and opinions.

12.5 Board of Supervisors

12.5.1 Duties of the Board of Supervisors

The Board of Supervisors is a supervisory entity of the Company, and shall be accountable and report to the Shareholders' general meeting in accordance with the Articles of Association. The Board of Supervisors shall mainly perform the following duties: (1) to examine and oversee the Company's financial conditions, and review financial information including the financial reports and profit distribution plan; (2) to formulate the rule of procedures of the Board of Supervisors or to formulate amendments to the rule of procedures of the Board of Supervisors; (3) to monitor the implementation of policies of the Company and the basic management systems; (4) to nominate Shareholder Representative Supervisors, external Supervisors and independent non-executive Directors; (5) to conduct departing audit of Directors and senior management as necessary; (6) to supervise the Directors and senior management in their performance of their duties and to propose the removal of Directors and senior management who have violated laws, regulations, the Articles of Association or the resolutions of the Shareholders' general meeting; (7) when the acts of Directors and senior management are harmful to the Company's interests, to require correction of those acts; (8) to propose to convene an extraordinary meeting of the Board; (9) to propose the convening of extraordinary general meetings and convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meeting under laws, regulations and the Articles of Association; (10) to initiate proposals to Shareholders' general meeting; (11) to negotiate with Directors on behalf of the Company or to initiate litigation against Directors or senior management members in accordance with the Company Law; (12) to formulate the assessment methods and remuneration package of Supervisors and carry out appraisal and assessment of Supervisors for approval at the Shareholders' general meeting; (13) to monitor and assess the risk management and internal control of the Company and direct the job of the internal audit department of the Company; and (14) to perform other duties as required by laws, regulations, regulatory documents, the requirements of the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association.

12.5.2 Composition of the Board of Supervisors

The Board of Supervisors of the Company comprises Shareholder Representative Supervisors, external Supervisors and employee Representative Supervisors, of which the Shareholder Representative Supervisors and external Supervisors are elected at the Shareholders' general meeting and the employee representative Supervisors are elected at the employee representative meeting. The term of office of a Supervisor shall be 3 years until the expiration of the current session of the Board of Supervisors. Supervisors may be re-elected after the expiry of his/her term of office.

As of the Latest Practicable Date, the Board of Supervisors of the Company comprised five Supervisors, including a Shareholder Representative Supervisor, namely Mr. Hu Jianzhong (chairman of the Board of Supervisors), two external Supervisors, namely Ms. Dong Juan and Ms. Xu Li, and two employee representative Supervisors, namely Ms. Zheng Shengqin and Mr. Chen Jin.

12.5.3 Chairman of the Board of Supervisors

Mr. Hu Jianzhong has been the chairman of the Board of Supervisors and he is responsible for organizing the performance of duties of the Board of Supervisors in accordance with the Articles of Association.

12.5.4 Operation of the Board of Supervisors

The Board of Supervisors conducts voting on resolutions in meetings of the Board of Supervisors. The meetings of the Board of Supervisors are divided into regular and extraordinary meetings. Regular meetings of the Board of Supervisors shall be convened at least once every six months informing all Supervisors in writing 10 days prior to the holding of meeting. To convene an extraordinary meeting of the Board of Supervisors, written notice shall be given to all Supervisors 7 days before the date of meeting. The resolutions of the meetings of the Board of Supervisors shall be passed by not less than two-thirds of all the Supervisors.

12.5.5 Meetings of the Board of Supervisors

The Board of Supervisors of the Company convened four meetings in 2019, and considered and approved 14 resolutions, mainly including: the Work Report of the Board of Supervisors for 2018, the Final Accounts of the Company for 2018, the Profit Distribution Plan of the Company for 2018, the Work Plan of the Board of Supervisors for 2019 and the 2018 Annual Report of the Company, etc.

12.5.6 Supervisors' attendance at meetings of the Board of Supervisors

Supervisors	Number of meetings attended/ required to attend	Attendance rate
Shareholder Representative Supervisor		
Hu Jianzhong	N/A	N/A
External Supervisors		
Dong Juan	4/4	100%
Xu Li	4/4	100%
Employee Representative Supervisors		
Zheng Shengqin	4/4	100%
Chen Jin	4/4	100%
Resigned Supervisor		
Ma Zhongfu	3/3	100%

Notes:

1. Attendance includes physical attendance and attendance by telephone and video conference.
2. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
3. The attendance rate for Mr. Hu Jianzhong is not applicable as no relevant meetings were convened by the Company during his term of office.

12.5.7 Special committees of the Board of Supervisors

As at December 31, 2019, the Board of Supervisors set two special committees, namely Performance and Finance Supervision Committee and Risk Internal Control and Subsidiary Management and Supervision Committee.

12.5.7.1 Performance and Finance Supervision Committee

As of the Latest Practicable Date, the Performance and Finance Supervision Committee consisted of four Supervisors. The chairman was acted by Ms. Dong Juan and the members included Ms. Xu Li, Ms. Zheng Shengqin and Mr. Chen Jin.

The major duties of the Performance and Finance Supervision Committee include: to prepare the procedures and standards for the election and appointment of Supervisors, have preliminary examination of the qualification of the Supervisors candidates and give suggestions to the Board of

Supervisors; to supervise the election and appointment procedures of Directors; to comprehensively assess the performance of the Directors, Supervisors and senior management and report to the Board of Supervisors; to supervise the scientificity and rationality of the Company's remuneration management system and policies and the remuneration schemes of senior management; and to formulate the measures for supervising the financial activities of the Company and perform relevant examination.

During the Reporting Period, the Performance and Finance Supervision Committee of the Board of Supervisors convened four meetings to consider six resolutions, including the Final Accounts of the Company for 2018, etc.

12.5.7.2 Risk Internal Control and Subsidiary Management and Supervision Committee

As of the Latest Practicable Date, the Risk Internal Control and Subsidiary Management and Supervision Committee consisted of four Supervisors. The chairman was acted by Ms. Xu Li and the members included Ms. Dong Juan, Ms. Zheng Shengqin and Mr. Chen Jin.

The major duties of the Risk Internal Control and Subsidiary Management and Supervision Committee include: to supervise the Board in the establishment of prudent operating concept and value standard as well as the formulation of development strategies based on the actual condition of the Company; and to have supervision and examination for the operating decisions, risk management, internal control and subsidiary management and control, etc.

During the Reporting Period, the Risk Internal Control and Subsidiary Management and Supervision Committee of the Board of Supervisors convened one meeting to consider 1 resolution of the Evaluation Report on the Internal Control of the Company for 2018.

12.5.8 Trainings for the Supervisors

During the Reporting Period, the trainings of Hong Kong Institute of Chartered Secretaries ("HKICS") attended by the Supervisors of the Company included:

Information disclosure and annual performance briefing

Governance of the Board and practices on performance of duties of Directors

12.6 Chairman of the Board and President

In accordance with A.2.1 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules and the Articles of Association, the chairman of the Board and the president of the Company shall be assumed by different individuals, and the chairman of the Board shall not be assumed by the legal representative or key management of the controlling Shareholder.

Mr. Wang Zhanfeng acts as the chairman of the Board and legal representative of the Company, and is responsible for leading the Board to formulate the annual budget and final accounts and determine operation and development strategies, risk management, compliance, internal control policies and other major matters of the Company.

Ms. Li Xin was appointed as the president of the Company, and is responsible for the daily management for the business operation of the Company. The president of the Company shall be appointed by the Board and is accountable to the Board. She shall perform her duties in accordance with the requirements of the Articles of Association and the authorization granted by the Board.

12.7 Senior Management

12.7.1 Composition and duties of Senior Management

The senior management of the Company is the execution body of the Company and is accountable to the Board. As of the Latest Practicable Date, details of its composition and the biography of members are set out in "11. Directors, Supervisors and Senior Management — 11.3 Senior Management". There is a strict separation of powers between the senior management and the Board. The senior management determines the operation management and decisions within its terms of reference as authorized by the Board. The senior management shall timely, accurately and completely report the Company's business performance, important contracts, financial position, risk profile and operation prospects to the Board on a regular basis or as required by the Board, accept inquiries from the Board and special committees of the Board, and accept the supervision of the Board of Supervisors.

12.7.2 Supervision and evaluation on the performance of senior management

The Board of Supervisors of the Company earnestly implemented relevant regulatory requirements, studied and formulated the plan for evaluating the performance of senior management in 2019, and evaluated the performance of senior management in 2019 in accordance with the procedures and standards of regulatory requirements.

12.7.3 Remuneration of Directors and senior management

The remuneration policies of the Directors and senior management are set out in "14. Report of the Board of Directors — 14.27 Remuneration Policy of Directors, Supervisors and Senior Management".

12.8 Communication with Shareholders

12.8.1 Information disclosure and investor relations

In strict compliance with regulatory provisions and policies including the Administrative Rules on Information Disclosure (《信息披露管理制度》), the Administrative Measures on the Preparation of Periodic Reports of Information Disclosure (《信息披露定期報告編製管理辦法》), the Administrative Measures on the Internal Reporting of Material Information (《重大信息內部報告管理辦法》), and the Rules on Investor Relations Management (《投資者關係管理制度》) of the Company, the Company conducted the management of information disclosure and investor relations of the Company, communicated and interacted with Shareholders and potential investors in various forms and assisted them in making rational investment decisions to protect the legal interests of investors.

In 2019, the Company strictly abided by the principles of truthfulness, accuracy, completeness, timeliness and fairness and conscientiously conducted information disclosure. The Company continued to improve the quality of periodic report disclosure and strengthened the pertinence and effectiveness of the periodic report disclosure. The Company disclosed the interim announcements in accordance with laws and regulations in a timely and accurate manner, and constantly improved the transparency of information disclosure to protect the investors' rights to know. The Company continued to improve the information disclosure mechanism, raised awareness of employees in information disclosure and enhanced compliance culture building in information disclosure.

The Company attached great importance to communication with investors, earnestly listened to the opinions and suggestions of investors, interacted and communicated with investors in various forms such as performance announcements, participation in major investment forums and investment banking summits, dealing with phone calls and letters from and visits by investors, and timely response to investors' concerns to enhance investors' confidence in the Company and improve the Company's recognition and brand influence in the capital market.

12.8.2 Contacts of Board office

The office established under the Board, i.e. the Board Office, is responsible for assisting the Board in dealing with daily matters. Should investors have any enquiries or Shareholders have any suggestions, enquiries or proposals, please contact:

Board Office of China Huarong Asset Management Co., Ltd.
Address: No. 8 Financial Street, Xicheng District, Beijing, China
Tel. no.: 86-10-59619119
Email address: ir@chamc.com.cn

12.9 Inside Information Management

During the Reporting Period, the Company regulated the inside information management in accordance with relevant policies. It is also a clear requirement that inside information shall not be leaked by any insiders of the Company by any means before it is disclosed in accordance with laws, nor be used to conduct insider trading, nor be used in concert with other parties to manipulate the trading price of the Company's Shares and derivatives. As far as the Company knows, during the Reporting Period, there were no incidents of insider trading of the Company's Shares by those who are aware of inside information taking advantage of the inside information.

12.10 Audit's Remunerations

The remunerations paid and payable by the Group to Deloitte, the auditor of the Company in respect of audit and non-audit services in 2018 and 2019 are set out below, respectively:

Audit and Non-audit services	**For the year ended December 31, 2019**	2018
	(in millions of RMB)	
Annual audit/interim review	**31.7**	36.6
Other audit services	**9.6**	20.3
Tax consultations and other services	**0.8**	0.5
Total	**42.1**	57.4

12.11 Responsibilities of Directors for Financial Statements

The Directors are responsible for implementing applicable accounting policies in accordance with PRC GAAP and IFRS. They are also responsible for implementing the relevant accounting requirements of the MOF subject to PRC GAAP and IFRS and supervising the preparation of the annual and interim financial statements of the Group of each accounting year, so that the financial statements truly and fairly reflect the Group's operating condition.

12.12 Statement from the Board of Directors Regarding the Risk Management Responsibility

Being the highest decision-making body of risk management of the Company, the Board of Directors is accountable to the Shareholders' general meeting on the effectiveness of the comprehensive risk management. The major duties of the Board include: finalizing the overall objectives of risk management, risk appetite and risk management strategies of the Company; finalizing the fundamental policies and systems of risk management, the setting up of the organizations and institutions on risk management and the plans of responsibilities thereof of the Company; finalizing the risk management report and solutions on the management of significant risks of the Company; finalizing the audit report on the evaluation of the risk management supervision submitted by the internal audit department and other responsibilities. The Board assigns part of the responsibilities of risk management to the Risk Management Committee and the Audit Committee. The Board reviews the Company's semi-annual and annual risk reports every half a year, checks current risk situation, the execution condition of the risk appetite, the adequacy of the Company's capitals and the status of various risks and provides advice on the risk management and control of next step. The Board confirmed that the risk management of the Company was effective enough to provide solid guarantee for the development of the Company. The Board also stated that the Company's risk management system was designed to manage rather than eliminate the risk of failing to meet business objectives and that it would only make reasonable, but not absolute, guarantees that there would be no material misrepresentation or loss.

12.13 Securities Transactions by Directors, Supervisors and Relevant Employees

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 Companies (the "Model Code") in Appendix 10 to the Listing Rules. The Company has made enquiries to all Directors and Supervisors who all confirmed that they had complied with the Model Code and the requirements set out therein during the Reporting Period.

12.14 Independence of Independent Non-executive Directors

All independent non-executive Directors of the Company are independent individuals. The Company has received annual confirmation letters from each of the independent non-executive Directors to confirm their independence. As of the Latest Practicable Date, the Company considered that all independent non-executive Directors are independent. The independence of independent non-executive Directors complied with the relevant requirements set out in Rule 3.13 of the Listing Rules.

12.15 Training for Directors

During the Reporting Period, according to the provisions of The Training System for the Directors, Supervisors and Senior Management (《董事、監事和高級管理人員培訓制度》) of the Company, the Board focused on the continuing professional development of the Directors by actively encouraging them to take part in and organizing training programs for them. All members of the Board continued to familiarize themselves with various regulatory information and the latest regulatory requirements in the performance of their duties everyday, including relevant laws and regulations and regulatory documents in relation to corporate governance and the Listing Rules. They also updated their knowledge and skills, and improved their abilities to perform their duties through various methods, such as participating in relevant trainings organized by industry associations, professional bodies and the Company, and personally visiting domestic and foreign financial institutions and the Group, in order to ensure that they can contribute to the Board in a well-informed manner based on its actual needs.

The trainings attended by the Directors in 2019 mainly include:

Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia participated in the advanced seminar for directors and supervisors of the companies listed inside and outside of China organized by HKICS and the forty-ninth seminars on Joint Members to Strengthen Continuing Professional Development of HKICS, Mr. Zhou Langlang, Mr. Tse Hau Yin participated in the advanced seminar on corporate regulation for the companies listed outside of China organized by HKICS and Mr. Wang Zhanfeng, Ms. Li Xin, Mr. Liu Junmin, Mr. Shao Jingchun, Mr. Zhu Ning participated in the fifty-first seminars on Joint Members to Strengthen Continuing Professional Development organized by HKICS;

Ms. Wang Cong, Ms. Dai Lijia, Mr. Liu Junmin, Mr. Shao Jingchun participated in the Special Training Courses on Corporate Governance for Directors and Senior Management of Banking and Insurance Industries (Session 2) organized by the Training Center of the CBIRC;

Directors of the Company also participated in the training courses for Directors and Supervisors to improve their ability in corporate governance and performance of duties organized by the Company.

In addition, Mr. Tse Hau Yin, independent non-executive Director of the Company, participated in the independent non-executive director forum and KPMG banking forum held by KPMG; special training on “Impact of Virtual Bank” held by the Hong Kong Institute of Bankers; special trainings on “Quantitative Network Risk that the Directors Should Know” and “Meeting Challenges of Digital Bank” held by PricewaterhouseCoopers; special training on “Opportunities and Challenges from Climate Risk and Climate Financing ” held by the Hong Kong Monetary Authority and the Hong Kong Institute of Bankers; special seminar on “Double-edged Sword of New Regulations on Share Suspension” held by Deloitte.

12.16 Liability Insurance for Directors

The Company has maintained liability insurance for Directors, Supervisors and senior management during the Reporting Period to provide protection against any potential liability arising from the Group’s business which they might need to undertake.

12.17 Joint Company Secretaries

The secretary to the Board of the Company and one of the joint company secretaries, Ms. Yang Pei is an employee of the Company. She is very familiar with the internal management and business operations of the Company. In addition, the Company has appointed Mr. Ngai Wai Fung as another joint company secretary to work closely with and provide assistance to Ms. Yang in discharging her duties and responsibilities as a joint company secretary and acquiring relevant experience within the meaning of Rule 3.28 of the Listing Rules. Mr. Ngai is a director and the chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited, a corporate service supplier. In respect of corporate governance, the Listing Rules and other applicable laws and regulations related to the Company and other matters, Mr. Ngai will contact Ms. Yang, and Ms. Yang will be responsible for reporting to the Board and/or the chairman of the Board. The relevant professional trainings that Ms. Yang and Mr. Ngai participated in during the Reporting Period have reached 15 hours, which is in compliance with the requirements of Rule 3.29 of the Listing Rules.

13. Internal Control

13.1 Statement of the Board in Relation to Internal Control Responsibilities

The Board is responsible for the establishment and implementation of a sound and effective internal control system, and the evaluation of its effectiveness. The Company continued to establish and improve the internal control governance structure. The Board has set up the Audit Committee, Risk Management Committee and Related Party Transaction Committee to supervise and review work concerning risk management, internal control, related party transactions and intra-group transactions. The Board of Supervisors oversees the internal control established and implemented by the Board and senior management. The senior management is responsible for the daily operation of internal controls of the Company. The Company's headquarters, branches and subsidiaries have all set up functional departments for internal control and management, which are responsible for organizing and coordinating the establishment, implementation and daily operation of internal controls. The internal audit department is responsible for conducting regular assessment on the operation of internal controls.

The basic objectives of the Company's internal control were to provide reasonable assurance for the achievement of the effectiveness of corporation operation, the reliability of reports and the compliance of operation. Internal control could only provide reasonable assurance to achieve the above objectives due to its inherent limitation. In addition, there were risks to predict the effectiveness of future internal control based on assessment results of internal control, because internal control may become inappropriate or the extent to which control policies and procedures are followed may be reduced as conditions change.

The Company organized the 2019 internal control evaluation in accordance with the relevant requirements of five ministries and commissions including the MOF for the Basic Standards for Enterprise Internal Control and its supporting guidelines and the Guidelines for Internal Control of Commercial Banks issued by the CBIRC. The evaluation work was made in accordance with the principles of comprehensiveness and objectivity, while highlighting the risk orientation and importance. It focused on the internal environment, risk assessment, control activities, information and communication, and internal supervision to evaluate the effectiveness of the Company's internal control design and operation and continue to improve the Company's internal control management level.

13.2 Basis of Establishment of the Internal Control Management System of the Company

During the Reporting Period, the Board continued to enhance and optimize the internal control management system in line with the internal control objectives of the Company, in accordance with requirements of the Basic Internal Control Norms for Enterprises and its implementation guidelines, the Measures on the Internal Control of Financial Asset Management Companies, the Guidelines on the Internal Control of Commercial Banks, the Corporate Governance Code as contained in Appendix 14 to the Listing Rules, the Corporate Governance Report and other regulatory requirements.

13.3 Establishment of Internal Control Management System

During the Reporting Period, the Company conducted internal control self-assessment to comprehensively rationalize and evaluate the main business and management processes, identify key risk points, optimize control measures, revise the Basic System of Internal Control and related management tools, and improve the management structure and division of responsibilities and duties, strengthening the internal control management of subsidiaries, and further improving the internal control management system. At the same time, it comprehensively carried out system clean-up and the construction of the New Huarong system, strengthen the top-level design of the system, highlight the leadership of the party, strengthen corporate governance, highlight the specificity and execution of business guidance and management, and improve incentives and constraints and accountability mechanisms, rationalize the logical relationship between the systems, standardize the system levels, improve the long-term management mechanism of system establishment, reform, abolition and release, and ensure that each system is legally compliant, has clear functions, lines, processes, and is easy to implement and operate. The Company continued to promote the construction of internal control compliance culture and improve the level of internal control compliance management through measures such as training, research, inspection, rectification, assessment, and accountability.

13.4 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 that the Group or Relevant Persons would not be subject to any sanctions risks, the Group has improved the internal control policies and procedures and implemented the following measures:

1. The Internal Control Compliance Department was established to lead the Company's sanctions risks prevention and control, further strengthening the professionalism of related work.

2. The Group invited international legal consultants to review internal control policies and procedures related to sanctions laws, and to improve related internal control measures based on the opinions of legal consultants.

3. The Group has established a sanction risk blacklist database and updated the blacklist information daily.

4. The Group has made the Due Diligence Questionnaire for Sanctions and the Due Diligence Questionnaire for Export Controls, which will be used as the basic tools for due diligence of sanctioned risks in subsidiaries of the Group.

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

6. The Group has hired lawyers to assist in the assessment of the Group's sanctioned risks every six months, and to provide relevant staff with necessary training for sanctioned risk knowledge.

13.5 Internal Control Measures for Excluded DES Companies

The Group has taken the internal control measures for the Excluded DES Companies as disclosed in the Prospectus. The details are as follows:

1. Since the listing, the Company has strictly complied with the Company's requirements on the prevention of OFAC sanctions risks when conducting new equity investment businesses. The Company identified the sanctions risks for potential investment opportunity in a timely manner. The Company could conduct OFAC risk investigation in time during due diligence for proprietary new equity investment projects. According to the investigation results, new equity investment projects have not been subject to OFAC sanctions risks.

2. For the DES Companies trading with the sanctioned country or person as showed by information disclosed in the Prospectus, the Group has the corresponding business groups and project managers responsible for the daily management of the enterprise. Through the daily management information accessible to the Company, the Group currently has not found any relevant sanctions matters of such enterprises, or any matters affecting the production and operation due to sanctions risks.

3. For Excluded DES Companies, the corresponding business group and project manager were assigned to take charge of their daily management. According to the daily management information available to the Company, such companies have never been involved in any material legal disputes and compliance risks relating to the Company since the listing of the Company.

4. The Group regularly reviewed new laws and regulations on protection of state secrets.

5. The Group regularly reviewed and updated the internal control policies and procedures for the Excluded DES Companies.

The disposal of equity in Excluded DES Companies is set out in "14. Report of the Board of Directors — 14.20 Disposal of Equity in Excluded DES Companies".

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

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

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

14. Report of the Board of Directors

14.1 Principal Business

The Group's business operation and the review and discussion about future business development are set out in "9. Management Discussion and Analysis — 9.3 Business Overview" and "9. Management Discussion and Analysis — 9.6 Development Outlook", respectively.

The major risks and uncertainties that the Group may be exposed to are set out in "9. Management Discussion and Analysis — 9.4 Risk Management". During the Reporting Period, there was a transition within the Board of Directors and the Board of Supervisors, the details of which are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management", respectively.

Meanwhile, the environmental policies of the Group are set out in "14.7 Social Responsibility Report (Namely Environmental, Social and Governance Report)" of this report of the Board of Directors. The compliance with relevant laws and regulations with significant impact on the Group are set out in "14.31 Compliance with Relevant Laws and Regulations" of this report of the Board of Directors. Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in "9. Management Discussion and Analysis — 9.3 Business Overview — 9.3.7 Human Resources Management", and "14.11 Major Clients" and "14.12 Major Suppliers" of this report of the Board of Directors, respectively.

14.2 Dividend Policy

The Company has been attaching great importance to Shareholders' returns and has established a complete decision making process and mechanism for dividend distribution. The Company will maintain the stability of dividend policy and continue to provide stable cash return for the majority of Shareholders under the premise of ensuring business development needs. In the process of determining the dividend distribution plan, the Board of the Company takes the advice and requests of Shareholders into full consideration in order to safeguard the legal interests of minority Shareholders and submits the dividend distribution plan at the Shareholders' general meeting for approval. Independent non-executive Directors play their part in performing their duties during the decision making process of the dividend distribution plan.

14.3 Profit and Dividend Distribution

The profit and financial condition of the Group for the year ended December 31, 2019 are set out in "9. Management Discussion and Analysis — 9.2 Analysis of Financial Statements".

The Board of Directors proposed to distribute cash dividends for 2019 based on the total share capital of 39,070,208,462 Shares of Domestic Shares and H Shares of the Company as at December 31, 2019. Shareholders of Domestic Shares and H Shares whose names appeared on our register of members as at the record date will be distributed RMB0.110 (tax inclusive) for every 10 Shares with the total cash dividend distributed amounting to approximately RMB430 million, representing approximately 30.17% of the net profit attributable to the Shareholders of the Company on a consolidated basis of the Group for 2019.

The dividend payout date for 2019 is no later than August 31, 2020. Except MOF and the National Council for Social Security Fund enjoyed the H Shares dividends distributed in RMB, other H Shares dividends shall be distributed in HK dollars. The exchange rate shall be the middle rate of RMB against HK dollars published by the PBOC on the day of the annual general meeting of Shareholders. Dividends on Domestic Shares will be paid in RMB.

In order to determine the list of H Share Shareholders entitled to receive the 2019 annual dividends, the Company will closure of register of H Share from Tuesday, July 7, 2020 to Sunday, July 12, 2020 (both dates inclusive). The H Share Shareholders who wish to receive the 2019 annual dividend shall return the instrument of transfer and relevant Shares at or before 4:30 p.m. on Monday, July 6, 2020 to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

14.3.1 Withholding and Payment of Income Tax of Foreign Non-Resident Enterprise Shareholders

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation regulations, State Administration of Taxation's Notice on the Relevant Issues Concerning the Withholding of Enterprise Income Tax for Dividends Distributed by Chinese Resident Enterprises to Overseas H-share Non-resident Enterprises Shareholders (Guo Shui Han [2008] No. 897 (《國家稅務總局關於中國居民企業向境外 H 股非居民企業股東派發股利代扣代繳企業所得稅有關問題的通知》(國稅函 [2008]897 號)) and other relevant regulations, the Company is obliged to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the H Share register of members of the Company when distributing annual dividends of 2019. Any Shares which are registered under the names of non-individual Shareholders, including those registered under HKSCC Nominees Limited, other agents or trustees, or other organizations and groups, shall be deemed as Shares held by non-resident enterprise Shareholders, and enterprise income tax shall be withheld from dividends payable to such Shareholders.

14.3.2 Withholding and Payment of Individual Income Tax on Behalf of Foreign Individual Shareholders

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅實施條例》), Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《國家稅務總局關於發佈 < 非居民納稅人享受稅收協定待遇管理辦法 > 的公告》(SAT Announcement 2019 No. 35) and the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發 [1993]045 號文件廢止後有關個人所得稅徵管問題的通知》(國稅函 [2011]348 號)) and other relevant laws and regulations and regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the 2019 annual dividends to be distributed to them. However, the individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the People's Republic of China (hereinafter referred to as "PRC") and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). In this regard, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax of dividends for the individual holders of H Shares in the distribution of the dividends:

(1) For individual holders of H Shares who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares when distributing the 2019 annual dividends.

(2) For individual holders of H Shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating other tax rates, the Company will temporarily withhold and pay individual income tax at the rate of not less than 10% required by relevant tax treaties on behalf of the individual holders of H Shares when distributing the 2019 annual dividends.

(3) For a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual holders of H Shares when distributing the 2019 annual dividends.

14.3.3 Withholding and payment of Income Tax on Dividends for Southbound Trading

Pursuant to the relevant requirements under the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect" (Cai shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅 [2014]81 號)) and the "Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (Cai shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》（財稅 [2016]127 號）), upon distributing the 2019 Annual Dividend to investors investing in H Shares of the Company through the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the Company shall withhold and pay individual income tax at the rate of 20% on behalf of individual domestic investors; for securities investment funds, the tax payable shall be the same as that for individual investors; for domestic enterprise investors, the Company will not withhold and pay the enterprise income tax and those enterprises shall report and pay the relevant tax themselves. The record date and the date of appropriation of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares.

14.4 Reserves

Reserves of the Group for the year ended December 31, 2019 are set out in the Consolidated Statement of Changes in Equity in the consolidated financial statements.

14.5 Distributable Reserves

The distributable reserves of the Group for the year ended December 31, 2019 are set out in the Consolidated Statement of Financial Position in the consolidated financial statements.

14.6 Financial Highlights

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2019 are set out in the section headed "5. Financial Summary".

14.7 Social Responsibility Report (Namely Environmental, Social and Governance Report)

In 2019, the Group further improved the Environmental, Social and Governance (ESG) indicator system. The disclosure scope of ESG environmental indicator covered the headquarter, headquarters of branches and subsidiaries in 2019. Meanwhile, we made deep communication with stakeholders to enquire their opinions and suggestions regarding 19 social responsibility issues on economy, society, environment and corporate governance, and we derived a materiality matrix in 2019 through scientific analysis and took it as an important reference for the Group to determine the management direction for social responsibility of the year and prepare future work plans. For details regarding ESG of China Huarong, please refer to the 2019 Social Responsibility Report of China Huarong to be independently published by the Company, which can be accessed or downloaded on the websites of the Company and the Hong Kong Stock Exchange.

14.8 Donation

Total donations made by the Group for 2019 amounted to RMB23.2 million.

14.9 Property and Equipment

None of the properties held by the Group had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. For the details in relation to the changes in property and equipment of the Group for the year ended December 31, 2019, please see "17. Audit Report and Financial Statements — V. Explanatory Notes — 35. Property and equipment".

14.10 Pension Plan

According to the relevant PRC regulations, the employees of the Group participated in the basic social pension insurance plan implemented by the local human resource and social security departments. The Group shall pay the pension insurance fee to the local-level basic social pension insurance agency according to the base figure and proportion prescribed by the local regulations on basic social pension insurance. Such insurance fees payable were charged to the profit or loss for the period on an accrual basis. Local human resource and social security departments will pay basic social pension to the employees upon their retirement.

Other than the basic social pension insurance, the employees of the Group also participated in the Annuity Scheme established by the Group in accordance with relevant policies of the PRC on the annuity system. According to the Annuity Scheme of China Huarong Asset Management Co., Ltd., the Group makes contributions to the Annuity Scheme at a certain proportion of the total wages of the employees, and such contributions are charged to the cost when incurred.

14.11 Major Clients

During the Reporting Period, the revenue from the top five entities to which the Company disposed of distressed assets in aggregate accounted for not more than 30% of the Company's total revenue for the year.

14.12 Major Suppliers

During the Reporting Period, the cost from the top five suppliers from which the Company acquired distressed assets accounted for not more than 30% of the Company's acquisition costs in 2019.

14.13 Share Capital and Public Float

As at December 31, 2019, the Company had a total of 39,070,208,462 Shares and 470 registered Shareholders. Details are set out in "10. Changes in Share Capital and Information on Substantial Shareholders". As of the Latest Practicable Date, based on the public information available to the Company and to the knowledge of the Board of Directors, the public float of the Company was in compliance with requirements of relevant laws, regulations and the Listing Rules.

14.14 Pre-emptive Right and Share Option Arrangement

During the Reporting Period, none of the Shareholders of the Company was entitled to any pre-emptive right according to relevant PRC laws and the Articles of Association, and the Company did not have any share option arrangement.

14.15 Purchase, Sale and Redemption of Shares

For the year ended December 31, 2019, neither the Company nor its subsidiaries has purchased, sold or redeemed any Shares of the Company.

14.16 Issuance of Securities

Details of securities issued by the Company are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 49. Bonds and notes issued".

The Company considered and approved the resolution on the extension of the authorization granted by the Shareholders' general meeting regarding the non-public issuance of Offshore Preference Shares at the Board meeting on August 2, 2019. The Company considered and approved the resolution on the extension of the authorization granted by the Shareholders' general meeting regarding the non-public issuance of Offshore Preference Shares at the first extraordinary general meeting for 2019, the first domestic Shareholders' class meeting for 2019 and the first H Shareholders' class meeting for 2019 convened on September 25, 2019. Please refer to the Company's relevant announcements and circulars published on August 2, 2019, August 9, 2019 and September 25, 2019, respectively, for details.

14.17 Material Interests and Short Positions

Details of material interests and short positions of Shareholders are set out in "10. Changes in Share Capital and Information on Substantial Shareholders — 10.2 Substantial Shareholders — 10.2.1 Interests and Short Positions held by the Substantial Shareholders and Other Parties".

14.18 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 at December 31, 2019, the Group has used HK$16,223.9 million (equivalent to RMB13,700 million) of the proceeds from the listing, of which RMB9,600 million was used to develop the distressed asset management business of the Group; RMB2,500 million was used to develop the financial services business of the Group; and RMB1,600 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 at December 31, 2019, the balance of proceeds in the domestic fundraising account was HK$2,866 million (interest included). The unused proceeds will be used to increase the capital of our subsidiaries under the financial services business segment of the Group, in order to develop the financial services business.

14.19 Borrowings

The balance of the borrowings of the Group as at December 31, 2019 amounted to approximately RMB761,506.4 million. Details of our borrowings are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 44. Borrowings".

14.20 Disposal of Equity in Excluded DES Companies

The Group has comprehensively carried out the disposal plan of the Excluded DES Companies. As of the end of 2019, the Group comprehensively completed disposal of six Excluded DES Companies. During the Reporting Period, Ms. Li Xin, the executive Director, took charge of the disposal process and supervised the disposal. The independent non-executive Directors of the Company conducted official supervision of relevant acts of Ms. Li Xin, the executive Director. In March 2020, Ms. Li Xin, the executive Director, together with the independent non-executive Directors of the Company, discussed such disposal, which were reported to the independent non-executive Directors by Ms. Li Xin, the executive Director, and for which the independent non-executive Directors proposed certain corresponding issues to Ms. Li Xin, the executive Director. In March 2020, Ms. Li Xin, the executive Director, reported such disposal to Audit Committee of the Board.

14.21 Directors, Supervisors and Senior Management

Details of the Directors, Supervisors and senior management of the Company are set out in "11. Directors, Supervisors and Senior Management". The daily operations of the Board are set out in "12. Corporate Governance Report".

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

As at December 31, 2019, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares and underlying Shares of the Company or other associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

14.23 Interests in Significant Transactions, Arrangements or Contracts and Service Contracts of Directors and Supervisors

None of the Directors and Supervisors or their associated entities had any beneficial interests, directly or indirectly, in any transactions, arrangements or contracts of significance (except service contracts) concerning the business of the Group entered into with the Company or any of its controlling companies, subsidiaries or fellow subsidiaries in 2019.

None of the Directors and Supervisors had entered into any service contract with the Company which was determinable by the Company within one year with payment of compensation (other than statutory compensation).

14.24 Material Contracts with Controlling Shareholders

During the Reporting Period, the Company and its subsidiaries did not enter into material contracts (including material contracts for the provision of services) with the controlling Shareholders or any of its subsidiaries.

14.25 Management Contracts

During the Reporting Period, the Company did not enter into any management contracts with respect to the entire business or the core business of the Company.

14.26 Interests of Directors in Businesses Competing with the Company

None of the Directors of the Company holds any interest in any business which directly or indirectly competes, or is likely to compete with the business of the Company.

14.27 Remuneration Policy of Directors, Supervisors and Senior Management

The remuneration policy of Directors, Supervisors and senior management of the Company is in compliance with the Interim Administrative Measures for the Remuneration of Representatives of Central Financial Enterprises issued by the MOF and the Measures for the Remuneration of Directors and Supervisors by the Company and other relevant regulations. The remunerations for Directors, Supervisors and senior management are distributed in the principles of integrating incentives and restrictions, aligning their performance with risks and responsibilities of their respective positions, and combining government supervision and adjustment according to market condition. The remuneration system comprises basic annual salary, performance-based annual salary, bonuses based on term of service, and other benefits, as well as corporate annuity scheme in accordance with relevant national requirements.

14.28 Relationship between Directors, Supervisors and Senior Management

There was no financial or business relationship, kinship or any other relationship which is required to be disclosed between any of the Directors, Supervisors and senior management of the Company.

14.29 Indemnity from Directors, Supervisors and Senior Management

During the Reporting Period, the Company maintained liability insurance for Directors, Supervisors and senior management of the Company to provide protection against any potential liabilities they may assume arising from the Group's operation.

During the Reporting Period, there was no approved indemnity provision that can benefit Directors.

14.30 Connected Transactions and Related Party Transactions

During the Reporting Period, the Company did not conduct any connected transaction which is required to be disclosed according to Chapter 14A of the Listing Rules. The related party transactions defined in accordance with IFRSs are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 61. Related Party Transactions".

14.31 Compliance with Relevant Laws and Regulations

The Group has established corresponding compliance and internal control measures to ensure its compliance with applicable laws, rules and regulations which may have significant effects on the Group. The Risk Management Committee of the Group is responsible for overseeing the legal and compliance management of the Group and reviewing laws and compliance policies as well as the implementation of relevant laws and policies on a regular basis. The Group has established a legal and compliance department to be responsible for the implementation of laws and regulations, and ensure relevant staff and operating units will be informed of any changes of applicable laws, rules and regulations from time to time. In addition, the Group has obtained all major qualifications and licenses necessary to conduct its business operations according to relevant laws and regulations. During the Reporting Period, the Group has not violated any relevant laws, rules or regulations which may have a material effect on the Group.

14.32 Major Subsidiaries

The major subsidiaries of the Group are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 67. Particulars of principal subsidiaries".

14.33 Auditors

The consolidated financial statements of the Company for 2019 prepared under the IFRS and PRC GAAP have been audited by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively.

14.34 Statement for Changes of Auditors in the Past Three Years

There was no change in the auditors of the Company for the past three years.

14.35 Equity-Linked Agreement

During the Reporting Period, the Company has not entered into or has any Equity-linked agreement, or stipulates that any agreement entered into by the Company will result in or may result in the issuance of Shares by the Company.

14.36 Debentures Issued

During the Reporting Period, the Company did not issue any debentures.

14.37 Audit Committee

The Audit Committee of the Board of Directors has reviewed the annual results of the Group for 2019 and the 2019 audited consolidated financial statements prepared in accordance with IFRS and PRC GAAP.

By Order of the Board
Wang Zhanfeng
Chairman

April 9, 2020

15. Report of the Board of Supervisors

During the Reporting Period, the Company's Board of Supervisors performed their duties faithfully and dutifully and continued to conduct various in-depth supervisions according to relevant PRC laws and regulations, regulatory requirements and the Articles of Association, which played an active role in promoting the Company's continuous improvement of corporate governance, strengthening financial management, enhancing risk management level, and improving internal control system.

15.1 Convening of meetings

During the Reporting Period, the Company's Board of Supervisors held four meetings to review and approve 14 resolutions, including reports of the Board of Supervisors for 2018, final accounts for 2018 of the Company and working plan of the Board of Supervisors for 2019. The Special Committees of the Board of Supervisors held five meetings to review seven resolutions, including the final accounts for 2018 of the Company, etc.

15.2 Supervision work

Performance supervision. The Board of Supervisors strengthened the supervision on the implementation of national economic and financial policies, studied and heard the report on the development of the main business, made suggestions on the implementation of the country's requirements for observing its original mind and focusing on its main business; it strengthened the supervision of the formulation and implementation of development strategies, and proposed suggestions on the formulation of development strategies and urged the implementation of development strategies; it strengthened supervision of the Board of Directors, senior management and their members in performing their duties, organized members of the Board of Supervisors to attend relevant meetings without voting rights, strengthened supervision of the standardized operation of the Board of Directors and special committees, and informed the Board of Directors and senior management of key concerns of the Board of Supervisors; it organized and performed annual performance evaluations, studied and formulated performance evaluation programs, and organized implementation in accordance with the evaluation content, standards and procedures required by relevant regulatory requirements.

Financial supervision. The Board of Supervisors strengthened supervision of regular financial reports, and the special committees of the Board of Supervisors heard the annual audit plan and reports on the mid-term review plan, made suggestions on key concerns of the Board of Supervisors. It heard the audit and review reports and supervised the independence and effectiveness of external audit to promote the implementation of relevant key issues; it strengthened supervision of the implementation of external audit opinions, and the special committee members of the Board of Supervisors heard the implementation plans and reports of the relevant opinions of external audit institutions; it strengthened supervision of the implementation of relevant regulatory requirements for capital management. The special committees of the Board of Supervisors listened to the report on capital management, supervised the implementation of relevant regulatory requirements and further improved the capital management mechanism.

Internal control supervision. The Board of Supervisors strengthened supervision over the implementation of regulatory requirements, and meetings of the Board of Supervisors listened to the report on the implementation of regulatory requirements, urged the implementation progress, and promoted the implementation of regulatory requirements to achieve more significant results; it strengthened the supervision over construction and operation of the internal control system, understood the operation of the internal control system through off-site monitoring and other methods, and provided advice to the senior management on the improvement of the internal control system construction; it continued to focus on authorization and information system construction; it appointed the Office of the Board of Supervisors to participate in the investigation and supervision of internal control compliance, and made suggestions on improving the internal control compliance work process; it carefully reviewed the internal control evaluation report of the Board of Directors and urged the Board of Directors to continuously improve the internal control system.

Risk management supervision. The Board of Supervisors strengthened supervision of the improvement of the construction of the risk management system. The Board of Supervisors listened to relevant reports and made prompts on further improving the risk management system; it strengthened the supervision of credit risk, market risk, and concentration risk, organized and conducted relevant researches to understand the management of credit risk and concentration risk, and the implementation of relevant policies, and made suggestions to the senior management; the Board of Supervisors listened to reports on the risk management and control of overseas institutions, and learned about the policies, mechanisms, measures, and management and control effects of overseas risk management and control and made suggestions on further improving related policies to senior management.

Strengthen self-construction. The Board of Supervisors further improved the communication mechanism between the Board of Supervisors and the Board of Directors and senior management, and strengthened the prior communication on corporate governance matters; it further improved the implementation mechanism of the opinions and suggestions prompts of the Board of Supervisors, improved the work process and operating procedures, and promoted the transformation of the results of the opinions and suggestions prompts of the Board of Supervisors; it promoted the establishment of work mechanism to guarantee the Board of Supervisors' right to know, and further standardized requirements for the scope, manner and time of information reporting to the Board of Supervisors; it organized Supervisors to participate in internal and external training and gain knowledge of laws and regulations, mastered the national economic and financial policies and regulatory requirements, and continuously improved work capacity; it organized the performance evaluation of Supervisors in 2019 and evaluated the performance of Supervisors.

By Order of the Board of Supervisors
Hu Jianzhong
Chairman of the Board of Supervisors

April 9, 2020

16. Significant Events

16.1 Material Litigation and Arbitration

During the Reporting Period, the Company was not involved in any litigation or arbitration which might have material and adverse effects on its business, financial condition or operating results.

16.2 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.

16.3 Use of Funds by the Controlling Shareholders and Other Related Parties

During the Reporting Period, the controlling Shareholder and other related parties have not used the funds of the Company.

16.4 Implementation of Share Incentive Scheme

The Company did not implement any share incentive scheme during the Reporting Period.

16.5 Major Contracts and Their Implementation

16.5.1 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.

16.5.2 Material Guarantees

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

16.6 Events after the Reporting Period

Details of events after the Reporting Period are set out in "17. Audit Report and Financial Statements — VI. Events after the Reporting Period".

17. Audit Report and Financial Statements

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the 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 142 to 323, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matters — continued

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") for loans and advances to customers, distressed debt assets at amortised cost	
We identified ECL for loans and advances to customers and distressed debt assets at amortised cost as a key audit matter because of its significance on the consolidated financial statements of the Group. The impairment of financial assets under IFRS 9 was measured by the application of ECL. The Group's financial assets, which are subject to impairment under IFRS 9, mainly includes loans and advances to customers (note V.25) and distressed debt assets at amortised cost (note V.30). These financial assets are together accounted for approximately 30% of the total assets of the Group and are subject to credit risk. The use of ECL model involves significant estimates and judgements, including determination of whether there is significant increase in credit risk since initial recognition, the identification of credit impairment events, use of models and assumptions in determination of probability of default and loss given default, and incorporation of forward-looking information.	Our procedures in relation to ECL for loans and advances to customers and distressed debt assets at amortised cost included: • Understanding and assessing the design and operation of key internal controls over the determination of ECL by; • Assessing the reasonableness of the key definitions, parameters and assumptions used in the ECL model with the support of our internal modelling specialist, which includes: — Assessing stage determination methodology, probability of default, loss given default, exposure at default; — Assessing the forward-looking information management used to determine expected credit losses; • Selecting samples to conduct credit reviews in order to assess appropriateness of stage determination made by the management.

Key Audit Matters — continued

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments measured at Level 3 fair value	
We identified valuation of financial instruments measured at Level 3 fair value as a key audit matter because the carrying balances of these financial assets are material to the Group. The Group's financial instruments measured at Level 3 fair value with unobservable inputs mainly included financial assets at fair value through profit or loss ("FVTPL", note V.22), debt instruments at fair value through other comprehensive income ("FVTOCI", note V.27) and equity instruments at FVTOCI (note V.28). In aggregate, carrying balances of these financial assets accounted for approximately 23% of the total assets of the Group. For the valuation of these financial instruments measured at Level 3 fair value, the selection of valuation techniques, the key assumptions and unobservable inputs used in the valuation techniques involve significant estimation of the management.	Our procedures in relation to valuation of financial instruments measured at Level 3 fair value included: • Understanding and assessing the design and operation of key internal controls over financial instrument valuation process; • Selecting financial instruments at Level 3 fair value on a sample basis and: — Examining on whether the valuation methods are accordance with the Group's policy, and the key assumptions and unobservable inputs are appropriate; — Recalculating fair value estimates and comparing the results to the Group's valuations; • For the samples selected in above procedures, involving our own internal valuation experts to review and assess fair value adopted by the Group, on a sample basis, including evaluating the appropriateness of the valuation techniques, assumptions, unobservable inputs adopted by the Group, and considering alternative valuation methodologies used by other market participants.

Key Audit Matters — continued

Key audit matter	How our audit addressed the key audit matter
Consolidation of structured entities	
We identified the consolidation of structured entities as key audit matter due to the significance of these structured entities to the Group and the judgment involved. Details of interests in structured entities are disclosed in note V.32 to the consolidated financial statements. The management of the Group has to assess whether the Group is exposed to significant variable returns and has power to affect its returns from these structured entities. This assessment determines whether the Group has controls over these structured entities and, accordingly, whether to consolidate these structured entities. The Group acts as a manager or investor of these structured entities, it exercises significant judgement when determining it has controls over these structured entities and its assessment is based on decision-making authorities as a manager or investor, power held by other parties, remuneration as mangers, exposures to variable returns and risks.	Our procedures in relation to consolidation of structured entities included: • Understanding and assessing the key controls of the management in determining the consolidation scope for interests in structured entities; • Reviewing, on a sample basis, the terms of the relevant contracts and considering the facts and arrangements to determine if the Group has control over these structured entities, including: — Reviewing the related service agreements and other agreements of interests in structured entities newly established and understanding the purpose for setting up these structured entities; — For structured entities established in previous year; reviewing the changes in the variable returns or constructed terms during the year; • Assessing the adequacy of the disclosures in the consolidated financial statements.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT — continued

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

INDEPENDENT AUDITOR'S REPORT — continued

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements — continued

- Conclude on the appropriateness of the directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Man Kai Sze.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
9 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2019	2018
Income from distressed debt assets	2	**35,067,829**	34,449,570
Fair value changes on distressed debt assets	3	**9,963,734**	8,657,926
Fair value changes on other financial assets and liabilities	4	**11,727,245**	(386,427)
Interest income	5	**38,530,000**	44,809,239
Finance lease income		**5,911,550**	6,784,372
Gains from derecognition of financial assets measured at amortised cost	30	**104,728**	76,863
Losses from derecognition of debt instruments at fair value through other comprehensive income		**(9,839)**	(79,249)
Commission and fee income	6	**2,595,786**	4,693,308
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**1,441,197**	228,033
Dividend income	7	**1,818,980**	2,392,206
Other income and other net gains or losses	8	**5,505,299**	5,627,306
Total		**112,656,509**	107,253,147
Interest expenses	9	**(60,256,729)**	(64,098,128)
Commission and fee expenses	10	**(2,207,718)**	(2,079,896)
Operating expenses	11	**(13,138,798)**	(14,549,995)
Impairment losses under expected credit loss model	12	**(24,966,214)**	(17,297,797)
Impairment losses on other assets	13	**(1,497,973)**	(2,769,014)
Total		**(102,067,432)**	(100,794,830)
Change in net assets attributable to other holders of consolidated structured entities	32	**(631,295)**	(1,928,194)
Share of results of associates and joint ventures		**1,012,305**	1,481,742
Profit before tax		**10,970,087**	6,011,865
Income tax expense	14	**(8,700,835)**	(4,502,860)
Profit for the year		**2,269,252**	1,509,005
Profit attributable to:			
Equity holders of the Company		**1,424,432**	1,575,501
Holders of perpetual capital instruments		**869,353**	976,844
Non-controlling interests		**(24,533)**	(1,043,340)
		2,269,252	1,509,005
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)			
— Basic	15	**0.04**	0.04

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2019	2018
Profit for the year		**2,269,252**	1,509,005
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on defined benefit obligations		**4,466**	(2,317)
Fair value gains/(losses) on investments in equity instruments at fair value through other comprehensive income		**158,203**	(589,480)
Income tax effect	37	**(35,150)**	143,991
		127,519	(447,806)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(188,491)**	564,057
Fair value changes on hedging instruments designated in cash flow hedges	22, 55	**(634,277)**	(35,861)
Financial assets measured at fair value through other comprehensive income			
— fair value changes		**257,194**	218,868
— reclassification of losses to profit or loss on disposals		**9,839**	79,249
— impairment provided/(reversals)		**1,511,644**	(105,815)
Income tax effect	37	**(509,616)**	(213,074)
Share of other comprehensive income/(expense) of associates, net of income tax		**54,605**	(56,605)
		500,898	450,819
Other comprehensive income for the year, net of income tax		**628,417**	3,013
Total comprehensive income for the year		**2,897,669**	1,512,018
Total comprehensive income attributable to:			
Equity holders of the Company		**1,843,508**	1,947,217
Holders of perpetual capital instruments		**869,353**	976,844
Non-controlling interests		**184,808**	(1,412,043)
		2,897,669	1,512,018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	As at 31 December, 2019	2018
Assets			
Cash and balances with central bank	19	**30,774,690**	29,909,098
Deposits with financial institutions	20	**149,461,964**	107,500,242
Placements with financial institutions	21	**2,709,937**	843,638
Financial assets at fair value through profit or loss	22	**367,669,904**	391,180,975
Financial assets held under resale agreements	23	**22,525,935**	20,126,943
Contract assets	24	**—**	114,715
Loans and advances to customers	25	**211,265,084**	190,654,038
Finance lease receivables	26	**68,040,296**	99,002,940
Debt instruments at fair value through other comprehensive income	27	**103,739,340**	147,387,307
Equity instruments at fair value through other comprehensive income	28	**3,583,661**	3,244,308
Inventories	29	**19,147,381**	19,243,035
Debt instruments at amortised cost	30	**642,085,956**	612,133,108
Interests in associates and joint ventures	31	**28,078,924**	36,975,454
Investment properties	34	**5,910,866**	5,326,055
Property and equipment	35	**12,325,049**	10,684,499
Right-of-use assets	36	**3,569,619**	—
Deferred tax assets	37	**12,193,797**	15,018,661
Other assets	38	**21,911,940**	20,478,316
Goodwill	39	**18,063**	263,357
Total assets		**1,705,012,406**	1,710,086,689

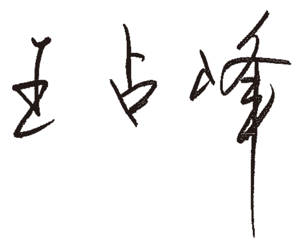
CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued

AS AT 31 DECEMBER 2019

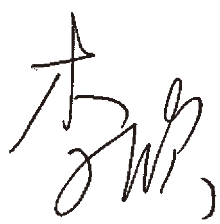
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	As at 31 December, 2019	2018
Liabilities			
Borrowings from central bank	40	**3,641,673**	2,402,169
Deposits from financial institutions	41	**10,276,669**	7,307,583
Placements from financial institutions	42	**2,253,597**	300,153
Financial assets sold under repurchase agreements	43	**15,665,408**	24,410,016
Borrowings	44	**761,506,427**	760,995,510
Financial liabilities at fair value through profit or loss	22	**3,223,853**	4,728,291
Due to customers	45	**226,814,717**	209,116,484
Tax payable	46	**2,887,422**	3,731,887
Contract liabilities	47	**575,076**	954,376
Lease liabilities	48	**1,983,254**	—
Deferred tax liabilities	37	**478,546**	605,835
Bonds and notes issued	49	**367,345,588**	353,305,299
Other liabilities	50	**144,883,694**	173,624,117
Total liabilities		**1,541,535,924**	1,541,481,720
Equity			
Share capital	51	**39,070,208**	39,070,208
Capital reserve	52	**18,405,019**	19,107,353
Surplus reserve	53	**8,564,210**	6,971,780
General reserve	54	**16,681,256**	15,872,819
Other reserves	55	**1,806,931**	987,763
Retained earnings		**36,731,157**	38,630,165
Equity attributable to equity holders of the Company		**121,258,781**	120,640,088
Perpetual capital instruments	56	**18,430,576**	20,258,532
Non-controlling interests		**23,787,125**	27,706,349
Total equity		**163,476,482**	168,604,969
Total equity and liabilities		**1,705,012,406**	1,710,086,689

The consolidated financial statements on page 142 to 323 were approved and authorised for issue by the Board of Directors on 9 April 2020 and are signed on its behalf by:



CHAIRMAN



EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

		Equity attributable to equity holders of the Company										Non-controlling interests		
						Other Reserves								
	Note V	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings	Subtotal	Perpetual capital instruments	Other non-controlling interests	Total
As at 31 December 2018 (Audited)		39,070,208	19,107,353	6,971,780	15,872,819	1,168,099	(308,590)	207,974	(79,720)	38,630,165	120,640,088	20,258,532	27,706,349	168,604,969
Adjustments (note II.1)		—	—	—	—	—	—	—	—	(15,326)	(15,326)	—	(1,407)	(16,733)
As at 1 January 2019 (Restated)		39,070,208	19,107,353	6,971,780	15,872,819	1,168,099	(308,590)	207,974	(79,720)	38,614,839	120,624,762	20,258,532	27,704,942	168,588,236
Profit for the year		—	—	—	—	—	—	—	—	1,424,432	1,424,432	869,353	(24,533)	2,269,252
Other comprehensive income/(expense) for the year		—	—	—	—	1,171,613	(177,331)	(634,277)	59,071	—	419,076	—	209,341	628,417
Total comprehensive income/(expense) for the year		—	—	—	—	1,171,613	(177,331)	(634,277)	59,071	1,424,432	1,843,508	869,353	184,808	2,897,669
Dividends declared		—	—	—	—	—	—	—	—	(472,750)	(472,750)	—	(1,012,517)	(1,485,267)
Appropriation to surplus reserve	53	—	—	1,592,430	—	—	—	—	—	(1,592,430)	—	—	—	—
Appropriation to general reserve	54	—	—	—	808,437	—	—	—	—	(808,437)	—	—	—	—
Redemption of perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	(1,200,000)	—	(1,200,000)
Distribution relating to perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	(797,309)	—	(797,309)
Disposals of subsidiaries	66	—	—	—	—	—	—	—	—	—	—	(700,000)	(1,878,140)	(2,578,140)
Change in ownership interest in subsidiaries		—	(468,130)	—	—	—	—	—	—	(34,405)	(502,535)	—	(1,211,968)	(1,714,503)
Realised loss of equity instruments at fair value through other comprehensive income	28	—	—	—	—	400,092	—	—	—	(400,092)	—	—	—	—
Others		—	(234,204)	—	—	—	—	—	—	—	(234,204)	—	—	(234,204)
As at 31 December 2019		39,070,208	18,405,019	8,564,210	16,681,256	2,739,804	(485,921)	(426,303)	(20,649)	36,731,157	121,258,781	18,430,576	23,787,125	163,476,482

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — continued

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

		Equity attributable to equity holders of the Company										Non-controlling interests		
						Other Reserves								
	Note V	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings	Subtotal	Perpetual capital instruments	Other non-controlling interests	Total
As at 1 January 2018		39,070,208	19,015,028	5,299,688	12,882,925	1,250,856	(848,366)	234,355	(20,798)	48,315,604	125,199,500	23,185,421	30,947,238	179,332,159
Profit for the year		—	—	—	—	—	—	—	—	1,575,501	1,575,501	976,844	(1,043,340)	1,509,005
Other comprehensive (expense)/income for the year		—	—	—	—	(82,757)	539,776	(26,381)	(58,922)	—	371,716	—	(368,703)	3,013
Total comprehensive (expense)/income for the year		—	—	—	—	(82,757)	539,776	(26,381)	(58,922)	1,575,501	1,947,217	976,844	(1,412,043)	1,512,018
Dividends declared		—	—	—	—	—	—	—	—	(6,598,954)	(6,598,954)	—	(1,337,444)	(7,936,398)
Appropriation to surplus reserve	53	—	—	1,672,092	—	—	—	—	—	(1,672,092)	—	—	—	—
Appropriation to general reserve	54	—	—	—	2,989,894	—	—	—	—	(2,989,894)	—	—	—	—
Issuance of perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	200,000	—	200,000
Buy back of perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	(3,150,000)	—	(3,150,000)
Distribution relating to perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	(953,733)	—	(953,733)
Disposals of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	(14,956)	(14,956)
Effect of acquisition of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	82,692	82,692
Change in ownership interest in subsidiaries		—	96,009	—	—	—	—	—	—	—	96,009	—	(556,693)	(460,684)
Others		—	(3,684)	—	—	—	—	—	—	—	(3,684)	—	(2,445)	(6,129)
As at 31 December 2018		39,070,208	19,107,353	6,971,780	15,872,819	1,168,099	(308,590)	207,974	(79,720)	38,630,165	120,640,088	20,258,532	27,706,349	168,604,969

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, **2019**	2018
OPERATING ACTIVITIES			
Profit before tax		**10,970,087**	6,011,865
Adjustments for:			
Impairment losses on financial assets and other items under expected credit loss model		**24,966,214**	17,297,797
Impairment losses on other assets		**1,497,973**	2,769,014
Depreciation of property and equipment and investment properties		**1,145,321**	979,051
Depreciation of right-of-use assets		**688,679**	—
Amortisation of intangible assets and other assets		**346,712**	406,518
Share of results of associates and joint ventures		**(1,012,305)**	(1,481,742)
Fair value changes on financial assets and liabilities		**(3,655,189)**	5,951,957
Interest income arising from investment other than held for trading		**(22,199,801)**	(28,791,800)
Dividend income		**(1,013,459)**	(867,582)
Gain from derecognition of financial assets measured at amortised cost		**(73,609)**	(21,775)
Loss from derecognition of debt instruments at fair value through other comprehensive income		**9,839**	79,249
Interest expenses of bonds and notes issued and other borrowings	64	**26,081,858**	29,349,216
Change in net assets attributable to other holders of consolidated structured entities		**631,295**	1,928,194
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**(1,441,197)**	(228,033)
Net losses/(gains) on disposal of property and equipment		**50,116**	(86,146)
Net foreign exchange (gains)/losses		**(225,304)**	109,360
Net (reversal)/addition of contingent liabilities		**(1,580)**	89,082
Operating cash flows before movements in working capital		**36,765,650**	33,494,225
Net increase in loans and advances to customers		**(24,064,551)**	(41,257,084)
Net decrease/(increase) in finance lease receivables		**30,460,795**	(4,011,093)
Net decrease in balances with central bank and deposits with financial institutions		**7,300,215**	7,841,719
Net decrease in financial assets at fair value through profit or loss		**22,634,873**	7,949,334
Net decrease in placements with financial institutions		**605**	521,904
Net decrease in financial assets held under resale agreements		**3,633,216**	14,481,080
Net increase in debt instruments at amortised cost		**(91,597,215)**	(21,603,823)

CONSOLIDATED STATEMENT OF CASH FLOWS — continued

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2019	2018
Net decrease/(increase) in debt instruments at fair value through other comprehensive income		**37,296,890**	(1,601,920)
Net increase in due to customers		**16,907,579**	6,766,535
Net increase/(decrease) in borrowings from central bank		**1,240,000**	(2,244,831)
Net increase/(decrease) in placements and deposits from financial institutions		**4,952,245**	(4,652,178)
Net decrease in financial assets sold under repurchase agreements		**(8,737,942)**	(35,906,954)
Net increase in borrowings of financial institution subsidiaries		**65,952,080**	61,147,564
Other changes in operating receivables		**(7,713,877)**	4,347,578
Other changes in operating payables		**(4,665,935)**	(45,644,020)
Cash from/(used in) operations		**90,364,628**	(20,371,964)
Income tax paid		**(7,500,764)**	(8,803,312)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**82,863,864**	(29,175,276)
INVESTING ACTIVITIES			
Cash receipts from disposals of financial assets		**156,462,847**	218,063,569
Cash receipts from interest income arising from investment other than held for trading		**20,695,203**	36,049,815
Cash receipts from dividend income		**2,222,227**	2,490,474
Cash receipts from disposals/liquidation of associates and joint ventures		**9,971,071**	8,499,279
Cash receipts from disposals of property and equipment, and other assets		**162,442**	245,492
Cash payments for purchases of financial assets		**(109,984,230)**	(125,805,308)
Cash payments for investment in associates and joint ventures		**(1,897,379)**	(5,546,350)
Cash payments for pledge deposits in bank		**(733,206)**	(2,455,694)
Cash payments for purchases of property and equipment, investment properties and other assets		**(2,505,832)**	(3,692,079)
Cash payments for rental deposits		**(12,768)**	—
Net cash outflow on acquisitions of subsidiaries		**—**	(105,059)
Net cash (outflow)/inflow on disposals of subsidiaries	66	**(3,371,765)**	778,341
NET CASH FROM INVESTING ACTIVITIES		**71,008,610**	128,522,480

FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2019	2018
FINANCING ACTIVITIES			
Cash payments for consolidated structured entities	64	**(22,263,101)**	(57,964,700)
Cash payments for acquisition of additional interests in subsidiaries		**(1,523,258)**	(101,120)
Issuance of perpetual capital instruments		**—**	200,000
Redemption of perpetual capital instruments		**(1,200,000)**	(3,150,000)
Proceeds of borrowings of non-financial institution subsidiaries	64	**155,145,774**	152,900,022
Repayments of borrowings of non-financial institution subsidiaries	64	**(210,182,082)**	(238,461,360)
Repayments of leases liabilities	64	**(770,148)**	—
Cash receipts from bonds and notes issued	64	**172,037,181**	149,987,279
Cash payments for transaction cost of bonds and notes issued	64	**(95,800)**	(103,096)
Cash repayments for bonds and notes redeemed	64	**(161,914,714)**	(139,915,365)
Interest paid for bonds and notes issued and other borrowings	64	**(22,948,105)**	(25,759,812)
Dividends paid	64	**(1,413,025)**	(3,749,759)
Cash payments for distribution to holders of perpetual capital instruments		**(797,309)**	(953,733)
NET CASH USED IN FINANCING ACTIVITIES		**(95,924,587)**	(167,071,644)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**57,947,887**	(67,724,440)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**101,319,323**	169,120,081
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(32,853)**	(76,318)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	57	**159,234,357**	101,319,323
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES INCLUDE:			
Interest received		**53,730,250**	84,222,931
Interest paid		**(35,122,595)**	(32,405,843)
		18,607,655	51,817,088

(Amounts in thousands of Renminbi, unless otherwise stated)

I. GENERAL INFORMATION

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

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

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

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

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

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by International Accounting Standards Board ("IASB") for the first time in the current year:

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

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

1. IFRS 16 *Leases*

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

Definition of a lease

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

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

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

As a lessee — continued

As at 1 January 2019, the Group recognised additional lease liabilities. For certain lease arrangements, the Group measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the Group's incremental borrowing rates at the date of initial application by applying IFRS 16.C8(b)(i) transition. For other lease arrangements, the Group recognised right-of-use assets at amounts equal to the related lease liabilities, adjusted by accrued lease payment by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

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

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

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

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

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

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

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

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

As a lessee — continued

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

The carrying amount of right-of-use assets for own use and those under subleases (classified as investment properties) as at 1 January 2019 comprises the following:

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

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

As a lessee — continued

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

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

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

Effective from 1 January 2019, leasehold lands which were classified as inventories are measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses.

As a lessor

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

Sales and leaseback transactions

The Group acts as a buyer-lessor

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

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

Sales and leaseback transactions — continued

The Group acts as a buyer-lessor — continued

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

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

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

Sales and leaseback transactions — continued

The Group acts as a buyer-lessor — continued

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

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

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

Sales and leaseback transactions — continued

The Group acts as a buyer-lessor — continued

The following tables summarise the material impacts of applying IFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statement profit or loss and other comprehensive income for the year ended 31 December 2019 for each of the line items affected.

Line items that were not significantly affected by the changes have not been included.

Material impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of IFRS 16, as a lessor
Assets			
Debt instruments at amortised cost	642,085,956	(41,306,688)	600,779,268
Finance lease receivables	68,040,296	41,306,688	109,346,984

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

	As reported	Adjustments	Amounts without application of IFRS 16, as a lessor
Interest income	38,530,000	(1,269,301)	37,260,699
Finance lease income	5,911,550	1,269,301	7,180,851

Material impact on the consolidated statement of cash flow

	As reported	Adjustments	Amounts without application of IFRS 16, as a lessor
New decrease/(increase) in finance lease receivables	30,460,795	(41,567,595)	(11,106,800)
New (increase)/decrease in debt instruments at amortised cost	(91,597,215)	41,567,595	(50,029,620)

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

New and revised IFRSs is issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

II. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — continued

1. IFRS 16 *Leases* — continued

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards — continued

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

III. SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

2. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values and certain non-financial assets which are stated at deemed cost, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

2. Basis of preparation — continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

3. Basis of consolidation — continued

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. Basis of consolidation — continued

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

4. Business combinations — continued

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

5. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note III. 4 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

5. Goodwill — continued

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described in note III. 6 below.

6. Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purpose are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstance, except for the fact that IFRS 9, IFRS 15 and IFRS 16 have not yet been adopted by some of these associates or joint ventures. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

6. Interests in associates and joint ventures — continued

When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint ventures becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

6. Interests in associates and joint ventures — continued

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

7. Cash and cash equivalents

Cash consists of cash on hand and deposits which is not subject to any restriction for use. Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Foreign currencies

The functional currency of the Company and its subsidiaries operating in Mainland China is RMB. The Company's subsidiaries operating outside Mainland China choose their functional currency on the basis of the primary economic environment in which they operate.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using the rate of exchange prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rate for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

8. Foreign currencies — continued

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

9. Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

9.1 Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

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

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

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of 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.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly

9. Financial instruments — continued

9.1 Classification and subsequent measurement of financial assets — continued

reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

(ii) Debt instruments/receivables classified as at FVTOCI

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 allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently 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.

9. Financial instruments — continued

9.1 Classification and subsequent measurement of financial assets — continued

(iii) Equity instruments designated as at FVTOCI — continued

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

(iv) 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.

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 any dividend or interest earned on the financial asset and is included in the "fair value changes on distressed debt assets" or "fair value changes on other financial asssts and liabilities" line items.

9.2 Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under ECL model on financial assets (including loans and advances to customers, financial assets held under resale agreements, debt instruments at FVTOCI, debt instruments at amortised cost and other financial assets) and other items (finance lease receivables, credit enhancement and credit commitments) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument, (referred to as Stage 2 and Stage 3). 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, (referred to as Stage 1). 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, payment in advance and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances or 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.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

9.2 Impairment of financial assets and other items subject to impairment assessment under IFRS 9 — continued

(i) Significant increase in credit risk

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;

- 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.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

9.2 Impairment of financial assets and other items subject to impairment assessment under IFRS 9 — continued

(i) Significant increase in credit risk — continued

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 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.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

9. Financial instruments — continued

9.2 Impairment of financial assets and other items subject to impairment assessment under IFRS 9 — continued

(iii) Credit-impaired financial assets — continued

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivable in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

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.

9. Financial instruments — continued

9.2 Impairment of financial assets and other items subject to impairment assessment under IFRS 9 — continued

(v) Measurement and recognition of ECL — continued

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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;

- Past-due status;

- Nature and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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.

For financial guarantee contracts, 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.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

- the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and

- the cash flows that the Group expects to receive if the loan is drawn down.

9. Financial instruments — continued

9.2 Impairment of financial assets and other items subject to impairment assessment under IFRS 9 — continued

(v) Measurement and recognition of ECL — continued

Except for investments in debt instruments/receivables 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. Such amount represents the changes in the investment revaluation reserve in relation to accumulated loss allowance.

(vi) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation (see note V.27);

- for loan commitments and financial guarantee contracts: as a provision; and

- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

9. Financial instruments — continued

9.3 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

9.4 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Perpetual capital instruments issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavorable to the Group, are classified as equity instruments and are initially recorded at the proceeds received, net of direct issue costs.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

9.4 Financial liabilities and equity instruments — continued

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's

9. Financial instruments — continued

9.4 Financial liabilities and equity instruments — continued

Financial liabilities at FVTPL — continued

credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contracts liabilities are measured initially at their fair values. It is subsequently measured 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 amortisation recognised over the guarantee period.

9.5 Derivative financial instruments

Derivatives are initially recognised at fair value at the date when the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

9. Financial instruments — continued

9.5 Derivative financial instruments — continued

Embedded derivatives — continued

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

9.6 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

10. Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in 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; and
- 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.

10. Hedge accounting — continued

Assessment of hedging relationship and effectiveness — continued

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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

11. Inventories

Properties under development and properties for sale

Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of IFRS 16, properties under development and properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development for sale are transferred to properties for sale upon completion.

12. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes).

All investment properties upon the incorporation of the Company were revalued by reference to the valuation carried out during the financial restructuring. The revalued amount was adopted as the deemed cost of the related investment properties.

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost or deemed cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost or deemed cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of IFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

13. Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purposes are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

13. Property and equipment — continued

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "other assets" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment other than construction in progress are as follows:

Category	Depreciation	Residual value rates	Annual depreciation rates
Leasehold land and buildings	5–35 years	3%–5%	2.71%–19.40%
Machinery equipment	5–20 years	3%–5%	4.75%–19.40%
Electronic equipment, furniture and fixtures	3–10 years	3%–5%	9.50%–32.33%
Motor vehicles	5–10 years	3%–5%	9.50%–19.40%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

14. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

14. Borrowing costs — continued

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

15. Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

16. Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

16. Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) — continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

17. Resale and repurchase agreements

17.1 Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statements of financial position. The cost (including interests) of purchasing such assets is presented under "financial assets held under resale agreements" in the consolidated statements of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

17.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the statements of financial position. The proceeds (including interests) from selling such assets are presented under "financial assets sold under repurchase agreements" in the consolidated statements of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

18. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

19. Revenue from contracts with customers

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.

A performance obligation represents a good or 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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

19.1 Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

19. Revenue from contracts with customers — continued

19.2 Variable consideration

For contracts that contain variable consideration (including floating management fee), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

19.3 Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

19.4 Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (commission expenses) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

19. Revenue from contracts with customers — continued

19.4 Incremental costs of obtaining a contract — continued

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

19.5 Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its construction contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

20. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

20. Taxation — continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

20. Taxation — continued

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

21. Leases

21.1 Definition of a lease (upon application of IFRS 16 in accordance with transitions in note II.1)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

21.2 The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note II.1)

Allocation of consideration to components of a contract

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

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

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

Short-term leases

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

21. Leases — continued

21.2 The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note II.1) — continued

Right-of-use assets

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

The cost of right-of-use asset includes:

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

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

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

Refundable rental deposits

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

Lease liabilities

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

21. Leases — continued

21.2 The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note II.1) — continued

Lease liabilities — continued

The lease payments include:

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

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

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

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

21. Leases — continued

21.2 The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note II.1) — continued

Lease modifications — continued

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

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

21.3 The Group as lessee (prior to 1 January 2019)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

21.4 The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note II.1)

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

21. Leases — continued

21.4 The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note II.1) — continued

Classification and measurement of leases — continued

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Upon application of IFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

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

Sublease

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

Lease modification

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

21. Leases — continued

21.5 Sales and leaseback transactions (upon application of IFRS 16 in accordance with transitions in note II.1)

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a buyer-lessor

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

21.6. The Group as lessor (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

21.7 Leasehold land and building (prior to 1 January 2019)

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land (i.e. land use rights) are accounted for as operating leases and amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

22. Fiduciary activities

The Group's fiduciary activities mainly include trust and asset custody services.

The trust service of the Group refer to the business that the Group acts as trustee to undertake investment activity within the agreed period and scope on behalf of the third-party lenders who provide the fund.

The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

23. Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the PRC government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Annuity Scheme

The employees of the Company and some subsidiaries of the Group participate in annuity scheme set up by the Group (the "Annuity Scheme"). The Group made annuity contributions with reference to employees' salaries of last year, and the contributions are expensed in profit or loss when incurred. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

23. Employee benefits — continued

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service costs (including past service costs, gains and losses on curtailment and settlements);
- interest expenses; and
- remeasurement.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

23. Employee benefits — continued

Retirement benefit costs and termination benefits — continued

The Group presents the first two components of its defined benefit costs in profit or loss in "Operating expenses". Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficits in the Group's defined benefit plan.

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

24. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note III, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

Critical judgements in applying accounting policies

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

1. Impairment of financial assets

Significant increase of credit risk and determination of credit impairment: As explained in note III.9, 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 (other than purchased or original credit-impaired assets). IFRS 9 does not define what constitutes a significant increase in credit risk or credit impairment. In assessing whether the credit risk of an asset has significantly increased or an asset became credit impaired, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note III.9.2 and note V.62.1 for more details.

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 V.62.1 for details of the characteristics 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 V.62.1 for more details on ECL.

2. Control on structured entities

The Group's management needs to assess whether the Group has all the following: (a) power over the structured entity, (b) exposure to significant variable returns from its involvement with the structured entity, and (c) the ability to use its power over the structured entity to affect its returns. If such power, exposure and ability exist, the Group has to consolidate such structured entity.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

2. Control on structured entities — continued

When the Group served as manager or trustee of the structured entity, the Group uses the following judgments to determine whether control exists in a structured entity: the scope of decision-making as a manager or trustee, the power held by other parties, the remuneration and the exposure to variability of returns. The Group reassesses whether or not it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in note III.3. The judgments the Group used in determining whether or not it has control over the structured entities are detailed in note V.32.

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:

1. Impairment of financial assets

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. More details of forward looking information are set out in note V.62.1.(iii).

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. More details of PD and LGD are set out in note V.62.1.(iv).

2. Fair value of financial instruments

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. As at 31 December 2019, the fair value of Level 3 financial assets that are measured at fair value on a recurring basis amounted to RMB385,845 million (31 December 2018: RMB450,466 million). Details of Level 3 fair value measurements are set out in note V.63.1.

V. 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 focuses on types of goods or services delivered or provided.

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 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.

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.

V. EXPLANATORY NOTES — continued

1. Segment information — continued

Year ended 31 December 2019	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets	**35,067,829**	**—**	**—**	**—**	**35,067,829**
Fair value changes on distressed debt assets	**9,963,734**	**—**	**—**	**—**	**9,963,734**
Fair value changes on other financial assets and liabilities	**10,557,131**	**2,213,335**	**(1,014,567)**	**(28,654)**	**11,727,245**
Interest income	**9,204,874**	**23,029,582**	**10,011,049**	**(3,715,505)**	**38,530,000**
Finance lease income	**—**	**5,826,999**	**84,551**	**—**	**5,911,550**
Gains/(losses) from derecognition of financial assets measured at amortised cost	**12,250**	**126,882**	**(34,404)**	**—**	**104,728**
(Losses)/gains from derecognition of debt instruments at fair value through other comprehensive income	**(112,750)**	**3,333**	**99,578**	**—**	**(9,839)**
Commission and fee income	**472,317**	**1,434,613**	**789,318**	**(100,462)**	**2,595,786**
Net (losses)/gains on disposals or deemed disposal of subsidiaries, associates and joint ventures	**(27,281)**	**130**	**1,468,348**	**—**	**1,441,197**
Dividend income	**1,282,873**	**40,675**	**1,327,300**	**(831,868)**	**1,818,980**
Other income and other net gains or losses	**3,369,795**	**899,972**	**1,580,319**	**(344,787)**	**5,505,299**
Total	**69,790,772**	**33,575,521**	**14,311,492**	**(5,021,276)**	**112,656,509**
Interest expenses	**(34,871,434)**	**(14,889,700)**	**(14,257,490)**	**3,761,895**	**(60,256,729)**
Commission and fee expenses	**(215,638)**	**(1,874,614)**	**(171,516)**	**54,050**	**(2,207,718)**
Operating expenses	**(6,687,309)**	**(4,744,032)**	**(1,977,566)**	**270,109**	**(13,138,798)**
Impairment losses under expected credit loss model	**(7,387,419)**	**(6,374,699)**	**(11,263,253)**	**59,157**	**(24,966,214)**
Impairment losses on other assets	**102,396**	**(90,831)**	**(1,509,538)**	**—**	**(1,497,973)**
Total	**(49,059,404)**	**(27,973,876)**	**(29,179,363)**	**4,145,211**	**(102,067,432)**
Change in net assets attributable to other holders of consolidated structured entities	**(1,880,168)**	**140,841**	**1,108,032**	**—**	**(631,295)**
Share of results of associates and joint ventures	**739,629**	**—**	**272,676**	**—**	**1,012,305**
Profit before tax	**19,590,829**	**5,742,486**	**(13,487,163)**	**(876,065)**	**10,970,087**
Income tax expense					**(8,700,835)**
Profit for the year					**2,269,252**
Capital expenditure	**485,336**	**3,043,722**	**542,274**	**—**	**4,071,332**
Depreciation and amortisation	**1,248,616**	**1,081,476**	**128,298**	**(277,678)**	**2,180,712**
As at 31 December 2019					
Segment assets	**852,849,750**	**573,775,805**	**347,989,092**	**(81,796,038)**	**1,692,818,609**
Including: Interests in associates and joint ventures	**6,397,421**	**—**	**21,681,503**	**—**	**28,078,924**
Deferred tax assets					**12,193,797**
Total assets					**1,705,012,406**
Segment liabilities	**746,955,403**	**522,828,557**	**342,632,616**	**(74,246,620)**	**1,538,169,956**
Deferred tax liabilities					**478,546**
Tax payable					**2,887,422**
Total liabilities					**1,541,535,924**

1. Segment information — continued

Year ended 31 December 2018	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets	34,449,570	—	—	—	34,449,570
Fair value changes on distressed debt assets	8,657,926	—	—	—	8,657,926
Fair value changes on other financial assets and liabilities	3,766,268	(207,379)	(3,929,879)	(15,437)	(386,427)
Interest income	8,970,582	21,363,342	17,988,546	(3,513,231)	44,809,239
Finance lease income	—	6,673,585	110,787	—	6,784,372
Gains from derecognition of financial assets measured at amortised cost	41,175	2,565	33,123	—	76,863
Losses from derecognition of debt instruments at fair value through other comprehensive income	—	(25,032)	(54,217)	—	(79,249)
Commission and fee income	1,714,184	1,495,914	1,677,413	(194,203)	4,693,308
Net gains on disposals or deemed disposal of subsidiaries, associates and joint ventures	203,321	—	24,712	—	228,033
Dividend income	2,847,518	108,078	1,019,874	(1,583,264)	2,392,206
Other income and other net gains or losses	4,120,199	863,579	938,201	(294,673)	5,627,306
Total	64,770,743	30,274,652	17,808,560	(5,600,808)	107,253,147
Interest expenses	(37,110,205)	(14,088,278)	(16,335,879)	3,436,234	(64,098,128)
Commission and fee expenses	(588,801)	(1,365,745)	(301,973)	176,623	(2,079,896)
Operating expenses	(7,058,493)	(4,836,670)	(2,954,884)	300,052	(14,549,995)
Impairment losses on financial assets	(5,380,547)	(6,271,198)	(5,678,122)	32,070	(17,297,797)
Impairment losses on other assets	(370,320)	(189,850)	(2,208,844)	—	(2,769,014)
Total	(50,508,366)	(26,751,741)	(27,479,702)	3,944,979	(100,794,830)
Change in net assets attributable to other holders of consolidated structured entities	(1,821,022)	976,146	(1,083,318)	—	(1,928,194)
Share of results of associates and joint ventures	462,924	79	1,018,739	—	1,481,742
Profit before tax	12,904,279	4,499,136	(9,735,721)	(1,655,829)	6,011,865
Income tax expense					(4,502,860)
Profit for the year					1,509,005
Capital expenditure	137,463	2,714,150	871,315	—	3,722,928
Depreciation and amortisation	286,952	728,241	370,376	—	1,385,569
As at 31 December 2018					
Segment assets	866,250,051	545,778,885	355,404,796	(72,365,704)	1,695,068,028
Including: Interests in associates and joint ventures	7,768,968	6,449	29,200,037	—	36,975,454
Deferred tax assets					15,018,661
Total assets					1,710,086,689
Segment liabilities	752,223,753	497,956,323	348,971,694	(62,007,772)	1,537,143,998
Deferred tax liabilities					605,835
Tax payable					3,731,887
Total liabilities					1,541,481,720

2. Income from distressed debt assets

The amount represents interest income arising from distressed debt assets classified as debt instruments at FVTOCI and debt instruments at amortised cost, which include loans acquired from financial institutions and other debt assets acquired from non-financial institutions (see notes V.27 and V.30).

3. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets mandatorily measured at FVTPL during the year (see note V.22).

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

4. Fair value changes on other financial assets and liabilities

	Year ended 31 December,	
	2019	2018
Listed and unlisted shares and funds	**7,659,897**	(1,901,634)
Debt instruments	**1,097,751**	551,892
Derivatives	**677,553**	(233,529)
Other investments and financial liabilities	**2,292,044**	1,196,844
Total	**11,727,245**	(386,427)

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

5. Interest income

	Year ended 31 December,	
	2019	2018
Debt instruments at amortised cost other than distressed debt assets	**18,086,072**	23,789,289
Debt instruments at FVTOCI other than distressed debt assets	**2,523,282**	3,750,955
Loans and advances to customers		
Corporate loans and advances	**7,352,320**	7,383,673
Personal loans and advances	**6,396,394**	4,606,933
Loans to margin clients	**872,368**	580,517
Deposits with financial institutions	**1,638,124**	2,301,682
Financial assets held under resale agreements	**1,006,958**	1,518,585
Balances with central bank	**415,760**	476,618
Placements with financial institutions	**238,722**	400,987
Total	**38,530,000**	44,809,239

6. Commission and fee income

	Year ended 31 December,	
	2019	2018
Securities and futures brokerage business	**942,392**	975,892
Asset management business	**612,429**	2,303,066
Trust business	**514,592**	844,160
Banking and consumer finance business	**493,193**	480,882
Fund management business	**33,180**	89,308
Total	**2,595,786**	4,693,308

(1) Disaggreation of revenue

	Year ended 31 December,	
	2019	2018
By geographical markets		
Mainland China	**2,422,880**	4,109,689
Hong Kong	**172,906**	539,861
Others	**—**	43,758
Total	**2,595,786**	4,693,308

6. Commission and fee income — continued

(1) Disaggreation of revenue — continued

	Year ended 31 December,	
	2019	2018
Timing of revenue recognition		
A point in time	**1,435,585**	1,456,774
Over time	**1,160,201**	3,236,534
Total	**2,595,786**	4,693,308

(2) Performance obligations for contracts with customers

(a) Asset management business, including trust business and fund management business

The Group acts as trustee, manager or general partners to provide asset management services to special purpose entities including trusts, asset management plans and private equity funds.

The Group is titled fixed and variable considerations for its provision of asset management services. The Group deducts and collects fixed considerations from funds under management regularly over the service period and recognised the revenue over time. For certain asset management service contracts, the Group is entitled additional revenue according to investment performance, and the relevant revenue is recognise when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) Securities and futures business

Apart from asset management services, the Group also provides securities and futures transaction dealing, and securities underwriting services.

The Group's securities and futures transaction dealing services represents clients to perform clearing and settlements of securities, futures and funds according to clients' instructions. The Group collects transaction price as a certain percentage of transaction prices when the instructed transaction is cleared. The Group recognise revenue at a point when the services are completed.

The Group provides underwriting services in respect of equity or debt instruments issued by customers. Transaction price is collected as a certain percentage of funds raised when the securities are successfully issued. The relevant revenue is recognised at one point when the services are completed. Progress payments received by the Group before the issue of the securities are recognised as contract liabilities.

6. Commission and fee income — continued

(2) Performance obligations for contracts with customers — continued

(c) Banking and consumer finance business

Banking and consumer finance business of the Group mainly includes financial product distribution, fiduciary, settlement and clearing services.

The Group distributes financial products for other financial institutions. Performance obligation is satisfied when customers enter into contracts with the relevant financial institutions. The Group retains commissions from these financial institutions usually on monthly or quarterly basis.

The Group provides fiduciary, settlement and clearing services to its customers and performance obligations are satisfied at a point when the services are completed. The Group retains relevant fees from its customers on transaction basis.

(3) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 the expected timing of recognising revenue are as follows:

	Year ended 31 December, 2019	
	Asset management business	**Trust business**
Within one year	**11,487**	**129,791**
More than one year but not more than two years	**2,910**	**55,901**
More than two years	**300**	**123,440**
Total	**14,697**	**309,132**

	Year ended 31 December, 2018	
	Asset management business	**Trust business**
Within one year	120,513	200,027
More than one year but not more than two years	26,257	39,844
More than two years	24,389	127,426
Total	171,159	367,297

V. EXPLANATORY NOTES — continued

6. Commission and fee income — continued

(3) Transaction price allocated to the remaining performance obligation for contracts with customers — continued

These amounts disclosed above do not include transaction price allocated to performance obligations which is part of a contract that has an original expected duration of one year or less. It also does not include any estimates in variable considerations that the Group will recognise in the future.

(4) Relationship between disaggregation of revenue and revenue information disclosed in segment

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

7. Dividend income

	Year ended 31 December,	
	2019	2018
Financial assets at FVTPL	**1,655,012**	2,392,206
Equity instruments at FVTOCI	**163,968**	—
Total	**1,818,980**	2,392,206

8. Other income and other net gains or losses

	Year ended 31 December,	
	2019	2018
Revenue from properties development(1)	**2,394,840**	3,192,915
Income arising from operating leases:		
— Rental income that is fixed	**879,612**	698,960
Government grants(2)	**168,537**	497,129
Net gain/(loss) on exchange differences	**248,661**	(112,221)
Others	**1,813,649**	1,350,523
Total	**5,505,299**	5,627,306

8. Other income and other net gains or losses — continued

(1) Revenue from properties development

The Group entered into contracts with customers to sell properties. According to contract terms, in conjunction with external legal factors, the Group is of the view that it does not have enforceable right to payment from customers for performance completed to date. Therefore, the relevant revenue is recognised at one point when properties are transferred.

Customers have to pay first down payments to the Group according to a certain percentage of transaction prices when they entered into sales and purchases agreements. In additional, the Group collects partial transaction prices in advance from customers for certain properties under progress sold. The Group recognises cumulative amounts received for purchases of properties as contract liabilities initially, and recognises them as revenue from contract liabilities, when customers obtain control over the these properties.

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

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

9. Interest expenses

Interest expenses mainly arises from the distressed asset management, banking and financial leasing business of the Group.

	Year ended 31 December,	
	2019	2018
Borrowings	**(39,199,396)**	(44,125,461)
Bonds and notes issued	**(14,591,771)**	(14,713,925)
Due to customers	**(5,001,475)**	(3,011,373)
Financial assets sold under repurchase agreements	**(672,450)**	(1,194,515)
Deposits from financial institutions	**(257,317)**	(529,839)
Placements from financial institutions	**(57,852)**	(87,128)
Lease liabilities	**(54,056)**	—
Borrowings from central bank	**(52,255)**	(87,446)
Other liabilities	**(370,157)**	(348,441)
Total	**(60,256,729)**	(64,098,128)

10. Commission and fee expenses

	Year ended 31 December,	
	2019	2018
Banking and consumer finance business	**(1,469,939)**	(1,004,675)
Securities and futures brokerage business	**(419,809)**	(372,623)
Asset management business	**(313,740)**	(645,472)
Fund management and other business	**(4,230)**	(57,126)
Total	**(2,207,718)**	(2,079,896)

11. Operating expenses

	Year ended 31 December,	
	2019	2018
Employee benefits[1]	**(5,089,709)**	(5,311,866)
Turnover tax and surcharges	**(641,291)**	(766,561)
Others	**(7,407,798)**	(8,471,568)
Including:		
Cost of properties development and sales	**(1,441,872)**	(1,938,044)
Depreciation of property and equipment	**(965,894)**	(858,458)
Depreciation of right-of-use assets	**(688,679)**	—
Rental for short-term leases	**(349,639)**	—
Amortisation	**(346,712)**	(406,518)
Depreciation of investment properties	**(179,427)**	(120,593)
Rental and management fee for leases	**(160,867)**	(738,415)
Auditors' remuneration	**(31,694)**	(36,570)
Total	**(13,138,798)**	(14,549,995)

(1) Employee benefits

	Year ended 31 December,	
	2019	2018
Wages or salaries, bonuses, allowances and subsidies	**(3,349,926)**	(3,382,668)
Defined contribution plans[i]	**(547,279)**	(635,474)
Staff welfare	**(321,426)**	(330,399)
Social insurance	**(292,578)**	(315,919)
Housing funds	**(269,239)**	(287,861)
Labor union and staff education expenses	**(154,509)**	(136,710)
Early retirement benefits	**(35,962)**	(109,880)
Others	**(118,790)**	(112,955)
Total	**(5,089,709)**	(5,311,866)

(i) Defined contribution plans include pension scheme, unemployment insurance and corporate annuity scheme set up by the Company and certain other group entities.

V. EXPLANATORY NOTES — continued

12. Impairment losses under expected credit loss model

	Year ended 31 December,	
	2019	2018
Debt instruments at amortised cost (note V.62.1)	**(17,038,872)**	(12,620,382)
Loans and advances to customers (note V.62.1)	**(4,399,038)**	(3,901,306)
Financial assets held under resale agreements	**(1,014,467)**	(578,695)
Debt instrument at FVTOCI (note V.62.1)	**(1,748,502)**	105,815
Financial lease receivables (note V.62.1)	**(501,849)**	(240,251)
Others	**(263,486)**	(62,978)
Total	**(24,966,214)**	(17,297,797)

13. Impairment losses on other assets

	Year ended 31 December,	
	2019	2018
Interests in associates and joint ventures (note V.31)	**(1,132,912)**	(2,316,737)
Foreclosed assets	**(66,711)**	(174,367)
Property and equipment	**(45,249)**	(94,482)
Goodwill (note V.39)	**(250,775)**	(89,974)
Others	**(2,326)**	(93,454)
Total	**(1,497,973)**	(2,769,014)

14. Income tax expense

	Year ended 31 December,	
	2019	2018
Current income tax		
PRC Enterprise Income tax	**(6,279,542)**	(6,354,622)
Hong Kong profits tax	**(350,096)**	(219,705)
(Under)/over-provision in prior years	**(26,661)**	64,963
Deferred income tax (note V.37)	**(2,044,536)**	2,006,504
Total	**(8,700,835)**	(4,502,860)

14. Income tax expense — continued

The statutory income tax rate applicable to PRC enterprises was 25% for the year of 2019 (2018: 25%).

The preferential income tax rate applicable to PRC enterprises within the scope of the western development area was 15% for the year of 2019 (2018: 15%).

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

Reconciliation of consolidated profit before tax to income tax expense is as follows:

	Year ended 31 December,	
	2019	2018
Profit before tax	**10,970,087**	6,011,865
Income tax calculated at the tax rate of 25%	**(2,742,522)**	(1,502,966)
Tax effect of income not taxable for tax purpose	**555,825**	540,457
Tax effect of expenses not deductible for tax purpose	**(724,363)**	(369,334)
Tax effect of different tax rate of subsidiaries	**(180,352)**	240,711
(Under)/over-provisions in prior years	**(26,661)**	64,963
Effect of unused tax losses and deductible temporary differences not recognised as deferred tax assets	**(6,083,905)**	(3,492,941)
Utilisation of deductible temporary differences previously not recognised	**140,439**	16,250
Income tax expense	**(8,700,835)**	(4,502,860)

V. EXPLANATORY NOTES — continued

15. Earnings per share

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

	Year ended 31 December,	
	2019	2018
Earnings:		
Profit attributable to equity holders of the Company	**1,424,432**	1,575,501
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**39,070,208**	39,070,208
Basic earnings per share (RMB Yuan)	**0.04**	0.04

No diluted earnings per share has been presented for the years ended 31 December 2019 and 2018 as the Group had no potential ordinary shares in issue during the years.

16. Dividends

	Year ended 31 December,	
	2019	2018
Dividends for ordinary shareholders of the company recognised as distribution during the year:		
Final dividend for 2018[(1)]	**472,750**	—
Final dividend for 2017	**—**	6,598,954

(1) Distribution of final dividend for 2018

On 20 June 2019, the Company declared dividends of RMB0.121 yuan per 10 shares (tax inclusive), in an aggregate amount of RMB473 million for the year ended 31 December 2018.

(2) Subsequent to the end of the reporting period, a cash dividend in respect of the year ended 31 December 2019 of RMB0.110 yuan per 10 shares (tax inclusive), in an aggregate amount of RMB430 million, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

17. Emoluments of directors and supervisors

	Year ended 31 December 2019				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
WANG Zhanfeng[1]	—	451	234	16	701
LI Xin[2]	—	450	234	16	700
Non-executive directors					
WANG Cong[3][10]	—	—	—	—	—
DAI Lijia[3][10]	—	—	—	—	—
LI Yi[3][4]	—	—	—	—	—
ZHOU Langlang[3]	—	—	—	—	—
Independent non-executive directors					
TSE Hau Yin	250	—	—	—	250
LIU Junmin	250	—	—	—	250
SHAO Jingchun	250	—	—	—	250
SONG Fengming[5]	63	—	—	—	63
ZHU Ning[6]	208	—	—	—	208
Supervisors					
MA Zhongfu[7]	—	376	195	13	584
DONG Juan[8]	—	—	—	—	—
XU Li	200	—	—	—	200
ZHENG Shengqin	20	—	—	—	20
CHEN Jin	20	—	—	—	20
Total	1,261	1,277	663	45	3,246

V. EXPLANATORY NOTES — continued

17. Emoluments of directors and supervisors — continued

	Year ended 31 December 2018				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
WANG Zhanfeng(1)	—	291	148	10	449
LI Xin(2)	—	291	148	10	449
WANG Lihua(9)	—	366	182	22	570
Non-executive directors					
WANG Cong(3)	—	—	—	—	—
DAI Lijia(3)	—	—	—	—	—
LI Yi(3)(4)	—	—	—	—	—
ZHOU Langlang(3)	—	—	—	—	—
Independent non-executive directors					
TSE Hau Yin	250	—	—	—	250
LIU Junmin	250	—	—	—	250
SHAO Jingchun	250	—	—	—	250
SONG Fengming(5)	250	—	—	—	250
Supervisors					
MA Zhongfu(7)	—	432	222	15	669
DONG Juan(8)	—	—	—	—	—
XU Li	200	—	—	—	200
ZHENG Shengqin	20	—	—	—	20
CHEN Jin	20	—	—	—	20
Total	1,240	1,380	700	57	3,377

(1) WANG Zhanfeng was appointed Executive Director and Chairman in September 2018.

(2) LI Xin was appointed Executive Director and President in September 2018.

(3) The above-mentioned non-executive directors have not received any remuneration from the Group in this year.

(4) LI Yi resigned in October 2019.

(5) SONG Fengming rendered his resignation as an independent non-executive director in September 2018, and his resignation was approved by CBIRC and became effective in March 2019.

(6) ZHU Ning was appointed as an independent non-executive director in March 2019.

V. EXPLANATORY NOTES — continued

17. Emoluments of directors and supervisors — continued

(7) MA Zhongfu resigned in October 2019.

(8) In accordance with the regulations of the relevant state departments and upon her own application, DONG Juan waived all remuneration from the Group in 2019 and 2018.

(9) WANG Lihua resigned in November 2018.

(10) Subsequent to the end of the reporting period, WANG Cong and DAI Lijia resigned as non-executive directors of the Company.

The executive directors and supervisors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company and/or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as the directors of the Company.

The total compensation packages for these directors and supervisors for the years ended 31 December 2019 and 2018 have not been approved by the general meeting, or finalised in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed in a separate announcement when determined.

During the year, no emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as set out in note V.18 below as an inducement to join or upon joining the Group or as a compensation for loss of office. Bonus was determined based on the performance of individuals by the Group on a discretionary basis.

18. Five highest paid individuals

The emoluments of the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2019 and 2018 were as follows:

	Year ended 31 December,	
	2019	2018
Salaries and other benefits	**3,429**	3,491
Employer's contribution to pension scheme	**354**	497
Discretionary and performance related incentive payments	**10,920**	9,272
Total	**14,703**	13,260

18. Five highest paid individuals — continued

Among the five individuals with the highest emoluments in the Group, none of them was a director nor supervisor during the year of 2019 and 2018. The number of these five individuals whose emoluments fall within the following bands is as follows:

	Year ended 31 December,	
	2019	2018
HKD2,500,001 to HKD3,000,000	**1**	4
HKD3,000,001 to HKD3,500,000	**3**	—
HKD3,500,001 to HKD4,000,000	**1**	1
	5	5

19. Cash and balances with central bank

	As at 31 December,	
	2019	2018
Cash	**447,889**	604,188
Mandatory reserve deposits with central bank(1)	**21,501,726**	24,602,756
Surplus reserve deposits with central bank(2)	**8,646,863**	4,319,320
Other deposits with central bank	**178,212**	382,834
Total	**30,774,690**	29,909,098

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

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

As at 31 December 2019, the RMB and foreign currency mandatory reserve deposits placed with the PBOC were mainly based on 9.5% (31 December 2018: 12%) and 5% (31 December 2018: 5%) of eligible RMB and foreign currency deposits of Huarong Xiangjiang Bank Corporation Limited ("Huarong Xiangjiang Bank"), a subsidiary of the Company. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

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

V. EXPLANATORY NOTES — continued

20. Deposits with financial institutions

	As at 31 December,	
	2019	2018
Banks[(1)]	**146,668,486**	104,644,547
Clearing settlement funds[(1)(2)]	**2,187,231**	2,202,533
Other financial institutions	**606,247**	653,162
Total	**149,461,964**	107,500,242

(1) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at 31 December 2019, the bank balances and clearing settlement funds held on behalf of customers by the Group amounted to RMB5,181 million (31 December 2018: RMB4,746 million). The Group has recognised the corresponding amount in accounts payable to brokerage clients and margin deposit received from securities customers (see note V.50).

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

21. Placements with financial institutions

The Group's placements as at 31 December 2019 and 2018 were conducted with commercial banks and other financial institutions.

22. Financial assets and financial liabilities at FVTPL

	As at 31 December,	
	2019	2018
Distressed debt assets	**173,071,741**	166,370,280
Funds	**48,251,590**	59,361,725
Trust products	**27,920,759**	42,867,043
Equity instruments		
— Listed	**26,892,473**	23,149,465
— Unlisted	**33,552,989**	28,001,634
Debt securities		
— Corporate bonds	**8,114,738**	15,797,463
— Government bonds	**1,760,109**	—
— Financial institution bonds	**586,935**	648,469
— Public sector and quasi-government bonds	**1,966,136**	413,469
Wealth management products[(1)]	**14,690,357**	13,347,104
Convertible bonds	**9,686,578**	12,819,736
Structured products[(2)(3)]	**8,466,928**	8,580,833
Asset management plans	**6,790,890**	10,307,930
Other debt assets	**3,149,511**	5,179,572
Negotiable certificates of deposit	**2,131,873**	2,668,343
Entrusted loans	**597,056**	742,526
Asset-backed securities	**39,241**	264,559
Others	**—**	660,824
Total	**367,669,904**	391,180,975

	As at 31 December,	
	2019	2018
Financial liabilities mandatorily measured at FVTPL		
Derivatives as hedging instruments[(3)]	**219,378**	—
Financial liabilities designated as at FVTPL		
Interest of other holders of consolidated structured entities[(4)]	**3,004,475**	4,728,291
Total	**3,223,853**	4,728,291

22. Financial assets and financial liabilities at FVTPL — continued

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

(2) The Group entered into a series of structured transactions that are managed on the fair value basis. Such structured products are accounted for as financial assets mandatorily measured at FVTPL for the years ended 31 December 2019 and 2018 according to their investment management strategy or the contractual cash flows are not solely payments of principal and interest..

As at 31 December 2019, included in structured products were credit linked notes of RMB2,274 million (31 December 2018: RMB2,279 million). Credit linked notes are debt instruments but their returns can be adversely impacted by credit-related performance of reference assets.

The Group entered into a number of total return swap arrangements under which the Group pays counterparties a reference interest rate and receives from counterparties total returns of reference assets. The Group therefore is exposed to default risks of the reference assets. As at 31 December 2019, the fair value and nominal value of these total return swaps amounted to RMB739 million (31 December 2018: RMB660 million) and RMB1,653 million (31 December 2018: RMB2,171 million), respectively.

(3) The Group entered into a series of interest rate swap and cross-currency swap contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency denominated bonds and notes issued. The terms of the derivative contracts have been negotiated to match the terms of the respective designated hedged items and therefore the hedge is considered highly effective. As at 31 December 2019, the fair value of these hedging instruments amounted to RMB219 million (31 December 2018: RMB415 million and were included in structured products classified as financial assets at FVTPL).

(4) In respect of these liabilities designated at FVTPL, the Group is required at maturities to pay amounts according to other investors' share in the underlying assets of special structure entities consolidated. The amount ultimately paid by the Group depends on the fair values of these assets at maturities and may be different from the carrying amounts as at 31 December 2019.

23. Financial assets held under resale agreements

	As at 31 December,	
	2019	2018
By collateral type:		
Securities	**23,654,458**	20,004,868
Bills	**290,357**	—
Others	**209,510**	746,095
Subtotal	**24,154,325**	20,750,963
Less: Allowance for ECL		
— 12-month ECL	**(3,500)**	(27,760)
— Lifetime ECL	**(1,624,890)**	(596,260)
Subtotal	**(1,628,390)**	(624,020)
Net Financial assets held under resale agreements	**22,525,935**	20,126,943

23. Financial assets held under resale agreements — continued

The majority of these financial assets held under resale agreements arises from its securities business and banking business.

As at 31 December 2019, the Group received pledged securities with a fair value of approximately RMB23,806 million (31 December 2018: RMB21,427 million). As at 31 December 2019, RMB290 million of them could be resold or repledged by the Group in the absence of default by their owners (31 December 2018: Nil). For the years ended 31 December 2019 and 2018, the Group did not repledge the securities. The Group has an obligation to return the pledged securities to their counterparties on the maturity dates of the resale agreements.

24. Contract assets

	As at 31 December,	
	2019	2018
Construction contracts	**—**	114,715

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

25. Loans and advances to customers

	As at 31 December,	
	2019	2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances		
— Loans and advances	**116,712,715**	119,311,190
Subtotal	**116,712,715**	119,311,190
Personal loans and advances		
— Loans for business operations	**18,504,210**	12,740,825
— Mortgages	**24,430,038**	18,511,719
— Personal consumption loans	**31,028,230**	27,562,917
— Others	**2,546,254**	2,802,609
Subtotal	**76,508,732**	61,618,070
Loans to margin clients	**6,142,737**	6,282,373
Gross loans and advances to customers — measured at amortised costs	**199,364,184**	187,211,633
Less: Allowance for ECL		
— 12-month ECL	**(1,941,342)**	(1,967,655)
— Lifetime ECL	**(4,912,474)**	(3,158,610)
Subtotal	**(6,853,816)**	(5,126,265)
Net loans and advances to customers measured at amortised cost	**192,510,368**	182,085,368
Loans and advances measured at fair value through other comprehensive income		
— Discounted bills	**18,754,716**	8,568,670
Net loans and advances to customers	**211,265,084**	190,654,038

The movements of expected credit loss on loans and advances during the years ended 31 December 2019 and 2018 are detailed in note V.62.1.

26. Finance lease receivables

	As at 31 December, 2019
Minimum finance lease receivables:	
Within one year	**22,314,907**
In the second year	**25,337,404**
In the third year	**14,675,877**
In the fourth year	**7,646,320**
In the fifth year	**3,114,288**
After five years	**6,810,243**
Gross amount of finance lease receivables	**79,899,039**
Less: Unearned finance income	**(9,051,818)**
Net amount of finance lease receivables	**70,847,221**
Less: Allowance for ECL	
— 12-month ECL	**(490,499)**
— Lifetime ECL	**(2,316,426)**
Subtotal	**(2,806,925)**
Carrying amount of finance lease receivables	**68,040,296**
Present value of minimum finance lease receivables:	
Within one year	**19,791,894**
In the second year	**22,461,386**
In the third year	**13,023,473**
In the fourth year	**6,776,369**
In the fifth year	**2,759,562**
After five years	**6,034,537**
Total	**70,847,221**

26. Finance lease receivables — continued

	As at 31 December, 2018
Minimum finance lease receivables:	
Within 1 year (inclusive)	39,607,536
1–5 years (inclusive)	66,137,849
Over 5 years	8,942,512
Gross amount of finance lease receivables	114,687,897
Less: Unearned finance income	(13,232,839)
Net amount of finance lease receivables	101,455,058
Less: Allowance for ECL	
— 12-month ECL	(484,815)
— Lifetime ECL	(1,967,303)
Subtotal	(2,452,118)
Carrying amount of finance lease receivables	99,002,940
Present value of minimum finance lease receivables:	
Within 1 year (inclusive)	34,044,015
1–5 years (inclusive)	58,967,138
Over 5 years	8,443,905
Total	101,455,058

The movements of expected credit loss on finance lease receivables during the years ended 31 December 2019 and 2018 are detailed in noted V.62.1.

27. Debt instruments at FVTOCI

	As at 31 December,	
	2019	2018
Distressed debt assets	**64,573,237**	100,445,929
Debt securities		
— Corporate bonds	**20,923,922**	26,494,833
— Public sector and quasi-government bonds	**5,047,069**	6,144,591
— Financial institution bonds	**890,329**	319,240
— Government bonds	**455,034**	284,500
Entrusted loans(1)	**4,283,029**	4,421,136
Asset management plans	**3,874,250**	4,255,391
Debt instruments	**1,878,915**	1,902,184
Trust products	**1,258,522**	2,490,562
Asset-backed securities	**555,033**	628,941
Total	**103,739,340**	147,387,307

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

The movements of expected credit loss on debt instruments at FVTOCI during the years ended 31 December 2019 and 2018 are detailed in note V.62.1.

28. Equity instruments at FVTOCI

	As at 31 December,	
	2019	2018
Listed investments(1)	**222,083**	31,770
Unlisted investments(2)	**3,361,578**	3,212,538
Total	**3,583,661**	3,244,308

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

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

V. EXPLANATORY NOTES — continued

28. Equity instruments at FVTOCI — continued

In the current year, the Group disposed of certain investments at their fair value of RMB228 million as at the date of disposal as the investment no longer meets the investment objective of the Group after group restructuring carried out by the investee. A cumulative loss on disposal of RMB400 million has been transferred to retained earnings. The Group received RMB164 million dividend from equity instruments at FVTOCI during the year ended 31 December 2019 (the year ended 31 December 2018: Nil).

29. Inventories

	As at 31 December,	
	2019	2018
Property development costs	**16,393,413**	16,726,555
Properties for sale	**2,144,584**	1,899,710
Land development costs	**609,384**	616,770
Total	**19,147,381**	19,243,035

During the year, borrowing costs of RMB835 million (2018: RMB870 million) were capitalised in the costs of inventory.

Analysis of leasehold lands:

As at 1 January 2019	
Carrying amount	**8,195,654**
As at 31 December 2019	
Carrying amount	**8,191,785**
For the year ended 31 December 2019	
Total cash outflow	**54,132**
Additions	**104,686**

Effective from 1 January 2019, the carrying amount of leasehold lands is measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at 31 December 2019.

30. Debt instruments at amortised cost

	As at 31 December,	
	2019	2018
Distressed debt assets		
Loans acquired from financial institutions	**27,334,528**	24,042,643
Other debt assets acquired from non-financial institutions	**293,838,586**	265,041,671
Subtotal	**321,173,114**	289,084,314
Less: Allowance for ECL		
— 12-month ECL	**(1,394,118)**	(2,748,284)
— Lifetime ECL	**(19,644,006)**	(20,178,201)
Subtotal	**(21,038,124)**	(22,926,485)
Carrying amount of distressed debt assets	**300,134,990**	266,157,829
Other debt assets		
Trust products	**102,574,799**	114,321,352
Debt securities	**83,037,861**	86,699,355
Entrusted loans[(1)]	**73,898,769**	78,871,297
Debt instruments	**73,719,964**	84,360,813
Receivables arising from sales and leaseback arrangements	**41,567,595**	—
Asset management plans	**9,199,223**	7,076,241
Others	**854,069**	2,649,200
Subtotal	**384,852,280**	373,978,258
Less: Allowance for ECL		
— 12-month ECL	**(4,307,803)**	(3,970,302)
— Lifetime ECL	**(38,593,511)**	(24,032,677)
Subtotal	**(42,901,314)**	(28,002,979)
Carrying amount of other debt assets	**341,950,966**	345,975,279
Total	**642,085,956**	612,133,108

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

30. Debt instruments at amortised cost — continued

During the year ended 31 December 2019, the Group disposed of certain financial assets measured at amortised cost, primarily because a subsidiary Huarong Xiangjiang Bank had to manage its liquidity.

The movements of expected credit loss on debt instruments at amortised cost during the years ended 31 December 2019 and 2018 are detailed in note V.62.1.

31. Interests in associates and joint ventures

	As at 31 December,	
	2019	2018
Interests in associates		
Cost of investments in associates	**17,702,795**	19,506,224
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**(388,675)**	510,846
Less: Allowance for impairment losses	**(2,034,673)**	(2,975,724)
Subtotal	**15,279,447**	17,041,346
Interests in joint ventures		
Cost of investments in joint ventures	**13,713,749**	20,391,904
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**(238,308)**	(245,322)
Less: Allowance for impairment losses	**(675,964)**	(212,474)
Subtotal	**12,799,477**	19,934,108
Total	**28,078,924**	36,975,454
Fair value of listed companies	**626,600**	3,575,497

During the year, the Group received an aggregate of dividend of RMB1,164 million (the year ended 31 December 2018: RMB1,621 million) from associates and joint ventures.

During the year, the Group ceased to have significant influences over certain associates due to the loss of representation in board of directors of these associates and partial disposal of these interests. The Group has accounted for the remaining interests in these associates as financial assets at FVTPL. The realised and deemed gains recognised on the disposals during the year amounted to RMB820 million.

V. EXPLANATORY NOTES — continued

31. Interests in associates and joint ventures— continued

The Group performed an impairment test on the interests in associates and joint ventures at the end of the reporting period and assessed recoverable amounts, being the higher of the fair value and the value in use of the related investments. Provision was made for the items with recoverable amounts being lower than the carrying amounts and the impairment losses were recognised in profit or loss. The fair value of these associates and joint ventures were mainly the unadjusted quotation in the active market. As at 31 December 2019, the Group provided a provision of RMB1,133 million (31 December 2018: RMB2,317 million) for interests in associates and joint ventures.

Details of the Group's principal associates and joint ventures are as follows:

Name of entity	Place of incorporation/ establishment	Principal place of business	Carrying amount		Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities
			At 31 December,		At 31 December,		At 31 December,		
			2019	2018	**2019**	2018	**2019**	2018	
					%	%	%	%	
Associates									
Ruikong (Holdings) Ltd.	Hong Kong, PRC	Hong Kong, PRC/ Netherlands	**2,088,347**	2,048,991	**22.59**	22.59	**22.59**	22.59	Investment holding
Huarong Jinshang Asset Management Co., Ltd.(1)	Taiyuan, PRC	Mainland China	**1,975,442**	N/A	**48.88**	51.00	**48.88**	51.00	Asset Management
Panda Green Energy Group Ltd.	Bermuda, UK	Hong Kong, PRC	**1,598,258**	1,822,371	**21.74**	21.74	**21.74**	21.74	Energy Industry
Joint ventures									
Sacred Heart Healthcare L.P(2)	Cayman Islands	Mainland China	**2,680,954**	2,637,528	**83.33**	83.33	**50.00**	50.00	Fund

(1) In prior years, Huarong Jinshang Asset Management Co., Ltd. ("Huarong Jinshang") was a subsidiary as the Group held its 51.00% of ordinary shares. Subsequent to capital injections made by shareholders other than the Group during the year, the paid-in capital of Huarong Jinshang increased to RMB3,130 million and accordingly the equity interests held by the Group decreased from 51.00% to 48.88%. The Group has representations in the board of directors of Huarong Jinshang. Therefore, the Group is able to exercise significant influence and account for it as an associate. Please refer to note V.66 for detail of the disposal.

(2) Sacred Heart Healthcare L.P. (Sacred Heart Health Partnership, hereinafter referred to as "Sacred Heart Fund") has a variety of equity structure, the proportion of shareholding is determined according to the proportion of the Group's contribution amount to the total equity of these entities.

The above individually material associates and joint ventures only have significant impacts to the statement of financial positions, but their impacts to profit or loss and other comprehensive income are not significant. Therefore, only the individual carrying amounts recorded in these consolidated financial statements are disclosed and these carrying amounts mainly reflect the Group's share of net assets of these investees.

32. Interests in consolidated structured entities

To determine whether control exists in a structured entity, the Group uses the following judgments:

(1) For a structured entity that the Group sponsors and provides financial guarantee, the Group therefore has an obligation to fund the losses beyond its investment, if any, in accordance with the guarantee agreements. The Group then concludes that its exposure to variability of returns is of such significance that the structured entity will be consolidated.

(2) For private equity funds where the Group involves as both general partner and limited partner, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The fund will be consolidated if the Group acts in the role of principal.

(3) For trust products or asset management plans where the Group involves as trustee/manager and/or as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the trust products or asset management plans that is of such significance that it indicates that the Group is a principal. The trust products or asset management plans will be consolidated if the Group acts in the role of principal.

The Group had consolidated certain structured entities during the year. They mainly include trust products, asset management plans and private equity funds.

As at 31 December 2019, interests in these consolidated structured entities held by the Group amounted to RMB82,142 million (31 December 2018: RMB96,054 million).

The financial impact of these trust products, asset management plans and private equity funds on the Group's financial position as at 31 December 2019 and 2018, and results and cash flows for the years then ended, though consolidated, are not significant individually and therefore not disclosed separately.

Interests held by other interest holders are presented as other liabilities and financial liabilities at FVTPL in the consolidated statement of financial position as disclosed in notes V.50 and V.22. The change in net assets attributable to other holders of consolidated structured entities and fair value changes on financial aggregately amounted to RMB631 million and RMB22 million for the year ended 31 December 2019 (the year ended 31 December 2018: RMB1,928 million and RMB38 million).

33. Interests in unconsolidated structured entities

Apart from the structured entities the Group has consolidated as detailed in note V.32, the Group also served as general partner, manager or trustee of certain structured entities and therefore had power over them. However, in the opinion of the directors of the Company, the variable returns the Group exposed to over these structured entities are not significant. The Group therefore did not consolidate these structured entities.

The Group classified the investments in these unconsolidated structured entities as financial assets at FVTPL, debt instruments at FVTOCI, debt instruments at amortised cost or interests in associates and joint ventures as appropriate.

The size of assets under management, carrying amount and maximum exposure to loss of the Group's investments in unconsolidated structured entities that are sponsored by the Group are as follows:

	31 December 2019				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	126,482,598	2,788,709	2,788,709	498,447	
				364,603	Commission and fee income
				25,185	Interest income
				108,659	Fair value changes on other financial assets and liabilities
Private equity funds	50,346,651	8,689,902	8,689,902	175,717	
				9,421	Commission and fee income
				26,190	Interest income
				140,106	Fair value changes on other financial assets and liabilities
Asset management plans	148,248,036	5,772,786	5,772,786	618,077	
				316,969	Commission and fee income
				237,137	Interest income
				63,971	Fair value changes on other financial assets and liabilities
Total	325,077,285	17,251,397	17,251,397	1,292,241	

33. Interests in unconsolidated structured entities — continued

	31 December 2018				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	180,423,744	3,896,522	3,896,522	536,437	
				432,963	Commission and fee income
				89,207	Interest income
				14,267	Fair value changes on other financial assets and liabilities
Private equity funds	73,660,661	18,171,983	18,171,983	324,977	
				22,455	Commission and fee income
				10,042	Interest income
				292,480	Fair value changes on other financial assets and liabilities
Asset management plans	220,372,977	5,131,202	5,131,202	560,025	
				374,043	Commission and fee income
				107,982	Interest income
				78,000	Fair value changes on other financial assets and liabilities
Total	474,457,382	27,199,707	27,199,707	1,421,439	

Meanwhile, the Group also holds interests in the unconsolidated structured entities sponsored by independent third parties through investments. As at 31 December 2019, the carrying amount and maximum exposure to loss amounted to RMB200,938 million (31 December 2018: RMB236,620 million). As at 31 December 2019 and 2018, these investments are accounted for in financial assets at FVTPL, debt instruments at FVTOCI, debt instruments at amortised cost and interests in joint ventures.

34. Investment properties

	As at 31 December,	
	2019	2018
Cost		
At 31 December 2018	**5,791,637**	—
Adjustment upon application of IFRS 16 (note II.1)	**135,029**	—
At beginning of the year	**5,926,666**	2,480,508
Purchases	**150,272**	212,520
Transfer in	**503,838**	3,099,087
Transfer out	**(28,601)**	(478)
At end of the year	**6,552,175**	5,791,637
Accumulated depreciation		
At beginning of the year	**465,582**	345,125
Charge for the year	**179,427**	120,593
Transfer in	**4,156**	—
Transfer out	**(7,856)**	(136)
At end of the year	**641,309**	465,582
Net book value		
At beginning of the year	**5,461,084**	2,135,383
At end of the year	**5,910,866**	5,326,055

As at 31 December 2019, the fair value of the Group's investment properties amounted to RMB9,860 million (31 December 2018: RMB9,310 million).

The Group leases out buildings under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 5 years, with unilateral rights to extend the lease beyond initial period held by lessees only.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

For the year ended 31 December 2019, the total cash outflow for leased properties under sub-leases amounted to RMB31 million. For the year ended 31 December 2019, income from subleasing of right-of-use assets amounted to RMB35 million.

34. Investment properties — continued

During the year, the Group transferred inventories of RMB322 million (31 December 2018: RMB3,099 million) and construction in progress of RMB182 million (31 December 2018: Nil) to investment properties.

The Group's investment properties are located in active real estate markets, and the internal appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market. The estimation is taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the property. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value measurement is classified as Level 3.

35. Property and equipment

	Leasehold land and buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles and vessels	Construction in progress	Total
Costs						
As at 1 January 2019	**5,748,530**	**3,367,101**	**1,436,467**	**2,602,926**	**926,821**	**14,081,845**
Purchases	**301,788**	**26,433**	**170,014**	**2,237,698**	**173,611**	**2,909,544**
Disposals	**(15,799)**	**(280,793)**	**(74,612)**	**(44,560)**	**—**	**(415,764)**
Transfer in	**396,454**	**—**	**754**	**—**	**14,456**	**411,664**
Transfer out	**—**	**—**	**—**	**—**	**(441,576)**	**(441,576)**
As at 31 December 2019	**6,430,973**	**3,112,741**	**1,532,623**	**4,796,064**	**673,312**	**16,545,713**
Accumulated depreciation						
As at 1 January 2019	**1,261,386**	**485,084**	**1,051,717**	**463,968**	**—**	**3,262,155**
Charge for the year	**303,949**	**15,661**	**184,478**	**461,806**	**—**	**965,894**
Disposals	**(3,381)**	**(105,692)**	**(45,830)**	**(32,922)**	**—**	**(187,825)**
As at 31 December 2019	**1,561,954**	**395,053**	**1,190,365**	**892,852**	**—**	**4,040,224**
Allowance for impairment losses						
As at 1 January 2019	**76,792**	**58,399**	**—**	**—**	**—**	**135,191**
Provided for the year	**21,038**	**21,601**	**2,610**	**—**	**—**	**45,249**
As at 31 December 2019	**97,830**	**80,000**	**2,610**	**—**	**—**	**180,440**
Net book values						
As at 1 January 2019	**4,410,352**	**2,823,618**	**384,750**	**2,138,958**	**926,821**	**10,684,499**
As at 31 December 2019	**4,771,189**	**2,637,688**	**339,648**	**3,903,212**	**673,312**	**12,325,049**

35. Property and equipment — continued

	Leasehold Land and Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles and vessels	Construction in progress	Total
Costs						
As at 1 January 2018	5,535,916	3,289,012	1,353,100	243,413	715,292	11,136,733
Purchases	130,459	149,459	94,868	2,378,626	531,229	3,284,641
Disposals	(8,227)	(71,370)	(31,178)	(19,372)	(68,845)	(198,992)
Acquisition of subsidiaries	4,392	—	1,652	259	—	6,303
Transfer in	85,990	—	18,025	—	14,456	118,471
Transfer out	—	—	—	—	(265,311)	(265,311)
As at 31 December 2018	5,748,530	3,367,101	1,436,467	2,602,926	926,821	14,081,845
Accumulated depreciation						
As at 1 January 2018	1,073,948	349,862	848,062	178,961	—	2,450,833
Charge for the year	189,859	142,314	225,829	300,456	—	858,458
Disposals	(2,421)	(7,092)	(22,174)	(15,449)	—	(47,136)
As at 31 December 2018	1,261,386	485,084	1,051,717	463,968	—	3,262,155
Allowance for impairment losses						
As at 1 January 2018	—	40,709	—	—	—	40,709
Provided for the year	76,792	17,690	—	—	—	94,482
As at 31 December 2018	76,792	58,399	—	—	—	135,191
Net book values						
As at 1 January 2018	4,461,968	2,898,441	505,038	64,452	715,292	8,645,191
As at 31 December 2018	4,410,352	2,823,618	384,750	2,138,958	926,821	10,684,499
Including:						
Net book value of assets pledged for borrowings as at 31 December 2018	18	—	4,432	1,031	—	5,481

As at 31 December 2019, properties that the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB180 million (31 December 2018: RMB181 million). The directors of the Company do not anticipate the aforesaid matters to have any significant adverse effect on the Group's operations.

As at 31 December 2019, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB366 million (31 December 2018: RMB675 million).

V. EXPLANATORY NOTES — continued

36. Right-of-use assets

	Buildings	Leasehold land	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Total
Costs						
As at 1 January 2019	**1,659,834**	**2,007,057**	**529**	**1,118**	**3,197**	**3,671,735**
Addition	**853,916**	**—**	**—**	**1,653**	**1,981**	**857,550**
Disposals	**(90,053)**	**—**	**—**	**—**	**—**	**(90,053)**
Transfer in	**—**	**880**	**—**	**—**	**—**	**880**
As at 31 December 2019	**2,423,697**	**2,007,937**	**529**	**2,771**	**5,178**	**4,440,112**
Accumulated depreciation						
As at 1 January 2019	**—**	**214,626**	**—**	**—**	**—**	**214,626**
Charge for the year	**628,069**	**57,919**	**170**	**505**	**2,016**	**688,679**
Disposals	**(33,166)**	**—**	**—**	**—**	**—**	**(33,166)**
Transfer in	**—**	**354**	**—**	**—**	**—**	**354**
As at 31 December 2019	**594,903**	**272,899**	**170**	**505**	**2,016**	**870,493**
Net book values						
As at 1 January 2019	**1,659,834**	**1,792,431**	**529**	**1,118**	**3,197**	**3,457,109**
As at 31 December 2019	**1,828,794**	**1,735,038**	**359**	**2,266**	**3,162**	**3,569,619**

	Year ended 31 December, 2019
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16	**349,639**
Total cash outflow for leases	**770,148**

For interest expenses on lease liabilities for the year ended 31 December 2019, please refer to note V.9 for details.

36. Right-of-use assets — continued

For both years, lease contracts of the Group are entered into for fixed term of 4 months to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, lease liabilities of RMB1,983 million are recognised with related right-of-use assets of RMB1,835 million and investment properties of RMB106 million as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

37. Deferred taxation

For the purpose of presentation on the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the analysis of the deferred tax balances:

	As at 31 December,	
	2019	2018
Deferred tax assets	**12,193,797**	15,018,661
Deferred tax liabilities	**(478,546)**	(605,835)
Total	**11,715,251**	14,412,826

37. Deferred taxation — continued

	Changes in fair value of financial assets at FVTOCI	Changes in fair value of financial assets at FVTPL	Accrued but not paid staff costs	Allowance for impairment losses	Lease arrangement	Others	Total
As at 31 December 2018	**(443,215)**	**1,938,646**	**405,811**	**13,142,479**	**—**	**(630,895)**	**14,412,826**
Adjustment on initial application of IFRS 16	**—**	**—**	**—**	**—**	**(1,004)**	**1,027**	**23**
As at 1 January 2019 (restated)	**(443,215)**	**1,938,646**	**405,811**	**13,142,479**	**(1,004)**	**(629,868)**	**14,412,849**
(Charge)/credit to profit or loss (note V.14)	**—**	**(1,310,099)**	**82,591**	**(1,116,536)**	**6,564**	**292,944**	**(2,044,536)**
(Charge)/credit to other comprehensive income	**(544,766)**	**—**	**—**	**—**	**—**	**—**	**(544,766)**
Disposals of subsidiaries	**—**	**(41,032)**	**—**	**(81,995)**	**—**	**14,731**	**(108,296)**
As at 31 December 2019	**(987,981)**	**587,515**	**488,402**	**11,943,948**	**5,560**	**(322,193)**	**11,715,251**
As at 1 January 2018	(368,215)	579,797	439,645	13,378,379	—	(1,554,201)	12,475,405
Credit/(charge) to profit or loss (note V.14)	—	1,358,849	(33,834)	(235,900)	—	917,389	2,006,504
(Charge)/credit to other comprehensive income	(75,000)	—	—	—	—	5,917	(69,083)
As at 31 December 2018	(443,215)	1,938,646	405,811	13,142,479	—	(630,895)	14,412,826

As at 31 December 2019, the Group's unused tax losses and deductible temporary differences not recognised as deferred tax assets amounted to RMB7,866 million and RMB38,658 million respectively (31 December 2018: RMB3,867 million and RMB18,908 million respectively).

V. EXPLANATORY NOTES — continued

37. Deferred taxation — continued

The expiry dates of unused tax losses are as follows:

	As at 31 December,	
	2019	2018
1 to 5 years	**4,083,600**	1,790,698
Undated	**3,781,947**	2,076,236
Total	**7,865,547**	3,866,934

38. Other assets

	As at 31 December,	
	2019	2018
Other receivables	**14,390,976**	9,911,384
Foreclosed assets(1)	**3,094,869**	3,009,072
Payments in advance(2)	**1,496,703**	2,588,698
Deductible value-added tax	**519,529**	517,297
Prepaid expenses	**480,653**	550,487
Clearing and settlement receivables	**356,805**	580,254
Dividends receivable	**20,143**	64,480
Land use rights(2)	**—**	1,792,431
Receivable from disposals of investments	**—**	251,664
Others	**1,552,262**	1,212,549
Total	**21,911,940**	20,478,316

(1) The Group disposes foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

(2) Prepaid rental and land use rights were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in note II.1.

39. Goodwill

	As at 31 December, **2019**	2018
Cost		
At 1 January	**353,331**	342,051
Exchange difference	**7,353**	11,280
At 31 December	**360,684**	353,331
Impairment		
At 1 January	**(89,974)**	—
Exchange difference	**(1,872)**	—
Impairment loss recognised in the year	**(250,775)**	(89,974)
At 31 December	**(342,621)**	(89,974)
Net goodwill at 31 December	**18,063**	263,357

Impairment testing on goodwill

The gross balance was mainly comprised of goodwill of RMB245 million and RMB90 million arising from acquisitions of Huarong Investment Stock Corporation Ltd. ("HISC") and Huarong International Financial Holdings Limited ("HIFH") respectively.

As at 31 December 2019, the recoverable amounts of the goodwill arising from these two acquisitions were determined to be

- for HISC, its value in use, which is calculated using cash flow projection based on financial budget approved by management covering a five-year period, terminal growth rate of 3.03% (31 December 2018: 3.2%) for cash flows beyond the five-year period, and a discount rate of 12.37% (31 December 2018: 12.3%). An impairment of RMB251 million was recognised during the year ended 31 December 2019;

- for HIFH, its fair value less costs of disposals. The fair value of HIFH was determined by quoted prices of its shares and therefore it is categorised as Level 1. An impairment of RMB90 million was recognised during the year ended 31 December 2018.

40. Borrowings from central bank

	As at 31 December,	
	2019	2018
Due within 1 year	**3,641,673**	2,402,169

As at 31 December 2019, borrowings from central bank carry interest at market rates which range from 2.75% to 3.25% (31 December 2018: 2.75% to 3.90%) per annum.

41. Deposits from financial institutions

	As at 31 December,	
	2019	2018
Banks	**633,138**	4,751,353
Other financial institutions	**9,643,531**	2,556,230
Total	**10,276,669**	7,307,583

Deposits from financial institutions carry interest at market rates which range from 0.30% to 4.00% (31 December 2018: 0.35% to 5.23%) per annum.

42. Placements from financial institutions

	As at 31 December,	
	2019	2018
Banks	**2,253,597**	—
Other financial institutions	**—**	300,153
Total	**2,253,597**	300,153

Placements from financial institutions carry interest at market rates which range from 0.85% to 6.00% (31 December 2018: 0.30% to 4.60%) per annum.

V. EXPLANATORY NOTES — continued

43. Financial assets sold under repurchase agreements

	As at 31 December,	
	2019	2018
Bonds	**15,665,408**	19,056,095
Loans and advances to customers	**—**	3,953,787
Beneficial rights of debt instruments	**—**	1,400,134
Total	**15,665,408**	24,410,016

44. Borrowings

	As at 31 December,	
	2019	2018
Unsecured loans	**692,926,260**	649,429,694
Guaranteed loans(1)	**36,980,694**	71,769,892
Pledged loans	**23,906,939**	32,976,544
Loans secured by properties	**7,692,534**	6,819,380
Total	**761,506,427**	760,995,510

(1) Among the balance of guaranteed loans, a balance of RMB29,627 million (31 December 2018: RMB55,413 million) was borrowed by subsidiaries of the Company and guaranteed by the Company.

The carrying amounts of assets pledged for borrowings are listed as follows:

	As at 31 December,	
	2019	2018
Finance lease receivables	**20,442,260**	38,049,400
Inventories	**6,246,974**	9,564,985
Deposits with financial institutions	**5,415,030**	4,681,824
Investment properties	**2,225,793**	4,004,111
Others	**3,589,527**	2,242,481
Total	**37,919,584**	58,542,801

44. Borrowings — continued

	As at 31 December,	
	2019	2018
Carrying amount repayable[(1)]:		
Within one year	**441,294,808**	460,746,169
More than one year, but not exceeding two years	**171,399,986**	174,537,531
More than two years, but not exceeding five years	**100,607,108**	57,960,272
More than five years	**27,438,328**	36,215,499
Subtotal	**740,740,230**	729,459,471
Carrying amount of borrowings that contain a repayment on demand clause repayable[(1)]:		
Within one year	**16,599,534**	16,845,100
More than one year, but not exceeding two years	**1,589,857**	6,750,934
More than two years, but not exceeding five years	**2,576,806**	7,940,005
Subtotal	**20,766,197**	31,536,039
Total	**761,506,427**	760,995,510

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

The exposure of the Group's fixed-rate borrowings by remaining contractual maturity periods are as follows:

	As at 31 December,	
	2019	2018
Within one year	**431,094,911**	394,491,886
More than one year, but not exceeding two years	**170,963,395**	174,075,146
More than two years, but not exceeding five years	**99,921,166**	58,664,691
More than five years	**25,606,422**	35,732,674
Total	**727,585,894**	662,964,397

In addition, the Group has variable-rate borrowings which carry interest based on borrowing or deposit benchmark interest rate of PBOC, Shanghai Inter-bank Offered Rate ("SHIBOR"), Hong Kong Inter-bank Offered Rate ("HIBOR"), London Inter-bank Offered Rate ("LIBOR") or prime rate.

44. 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 31 December,	
	2019	2018
Effective interest rate		
Fixed-rate borrowings	**1.80%–10.00%**	3.00%–10.00%
Variable-rate borrowings	**1.60%–7.50%**	1.60%–9.80%

As at 31 December 2019, the Group failed to comply with certain financial conditions stipulated in certain lending and borrowing agreements, and the relevant amount of these borrowings was RMB5,669 million (31 December 2018: RMB23,688 million). Up to the date of the issuance of these consolidated financial statements, the Group has repaid an aggregate amount of RMB1,468 million (31 December 2018: RMB7,120 million) and for the remaining balances, the Group is in active dialogue with the relevant banks. These banks still provide normal banking facilities to the Group and have not yet requested early repayments of borrowings.

45. Due to customers

	As at 31 December,	
	2019	2018
Demand deposits		
Corporate customers	**66,837,524**	82,228,418
Individual customers	**19,233,296**	19,092,892
Time deposits		
Corporate customers	**70,490,136**	55,072,139
Individual customers	**50,515,767**	30,477,840
Pledged deposits	**7,803,263**	7,364,094
Others	**11,934,731**	14,881,101
Total	**226,814,717**	209,116,484

V. EXPLANATORY NOTES — continued

46. Tax payable

	As at 31 December,	
	2019	2018
Enterprise income tax	**2,307,578**	3,157,997
Hong Kong profits tax	**579,844**	573,890
Total	**2,887,422**	3,731,887

47. Contract liabilities

	As at 31 December,	
	2019	2018
Properties development contracts	**575,076**	954,376

As at 1 January 2018 contract liabilities amounted to RMB2,533 million.

Typical payment terms which impact on the amount of contract liabilities recognised are disclosed in the information about the Group's performance obligation which is set out in note V.8.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities.

	For the year ended 31 December,	
	2019	2018
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Properties development	**900,638**	2,485,400

The most significant changes in contract liabilities is related to revenue recognised and cash received in advance during current and prior year.

48. Lease liabilities

	As at 31 December,
	2019
Lease liabilities payable:	
Within one year	**763,555**
Within a period of more than one year but not more than two years	**433,632**
Within a period of more than two years but not more than five years	**620,454**
Within a period of more than five years	**165,613**
Total	**1,983,254**

V. EXPLANATORY NOTES — continued

49. Bonds and notes issued

	As at 31 December, 2019	As at 31 December, 2018	Term	Coupon rate per annum	Interest payment terms
Mid-term U.S. dollar notes	**105,884,544**	97,607,756	1–30 years	2.75%-5.50% fixed rate	Interest payable semi-annually
Financial bonds	**79,131,458**	73,466,289	3–5 years	3.35%-5.42% fixed rate	Interest payable annually
Negotiable certificates of deposit	**68,916,112**	70,980,371	1–12 months	2.75%-5.20%	Interest payable on maturity date
Mid-term U.S. dollar notes	**27,047,699**	21,093,767	3–5 years	3 months LIBOR+1.15%-1.85%	Interest payable quarterly
Tier II capital bonds(1)(2)	**25,701,949**	25,686,940	10 years	4.95%-6.00% fixed rate	Interest payable annually
Corporate bonds	**19,892,272**	18,015,220	3–5 years	3.80%-6.60% fixed rate	Interest payable annually
Subordinate bonds	**13,434,936**	10,814,544	3–4 years	3.50%-5.80% fixed rate	Interest payable annually
Micro bonds(3)	**6,677,956**	—	3 years	3.60%-3.70% fixed rate	Interest payable annually
Mid-term SGD notes	**5,195,738**	5,024,428	4–8 years	3.20%-3.80% fixed rate	Interest payable semi-annually
Euro bonds	**3,888,877**	3,896,788	5 years	1.625% fixed rate	Interest payable annually
Green financial bonds	**3,611,305**	3,609,666	3 years	4.90%-5.35% fixed rate	Interest payable annually
Beneficiary certificates	**2,537,154**	4,842,730	14 days–3 years	4.80%-6.00% fixed rate	Interest payable semi-annually or on maturity date
U.S. Dollar bonds	**2,091,005**	8,376,163	5 years	4.00% fixed rate	Interest payable annually
Leasing asset-backed securities(4)(5)(6)	**1,813,402**	4,343,448	6–10 years	4.00%-5.30% fixed rate and/or floating rate	Interest payable quarterly
Mid-term HK dollar notes	**896,432**	—	1 year	3.00% fixed rate	Interest payable semi-annually
Private placement note instrument	**624,749**	3,109,802	2 years	4.70% fixed rate	Interest payable annually
Asset-backed securities	**—**	1,424,539	159–723 days	5.50%-6.70% fixed rate	Interest payable on maturity date
Interbank bonds	**—**	1,012,848	270 days	5.21% fixed rate	Interest payable on maturity date
Total	**367,345,588**	353,305,299			

V. EXPLANATORY NOTES — continued

49. Bonds and notes issued — continued

(1) As at 31 December 2019, for certain Tier II capital bonds of RMB10,203 million (31 December 2018: RMB10,199 million), the Company has the right to exercise early redemption partially or fully on 29 June 2022. If no early redemption is exercised, the coupon rate of the bonds will remain at 4.95% per annum.

(2) As at 31 December 2019, for Tier II capital bonds of RMB3,085 million and RMB2,454 million (31 December 2018: RMB3,082 million and RMB2,455 million), Huarong Xiangjiang Bank has the right to exercise early redemption partially or fully on 29 June 2020 and 17 July 2022, respectively. If no early redemption is exercised, the coupon rate of the bonds will remain at 6.00% and 5.00% per annum, respectively.

(3) Huarong Xiangjing Bank issued 3-year fixed interest rate micro bonds in inter-bank bond markets on 7 March 2019 and 23 April 2019, respectively. The aggregate face value of these bonds were RMB6,500 million and carried interests at 3.6% and 3.7% per annum. Funds subscribed from these issues will be advanced to micro-enterprises to provide financial services to micro-enterprises.

(4) Huarong Financial Leasing set up an asset securitisation trust of RMB4,411 million in April 2016. Floating rates for Class A and Class B asset-backed securities are determined as PBOC one-year deposit rate plus 2.10% and 2.95% per annum.

(5) Huarong Financial Leasing set up an asset securitisation trust of RMB4,990 million in February 2017. These asset-backed securities are comprised of Class A-1, Class A-2 and Class B. The tenure of these securities is 6 years. The coupon rate of Class A-1 is 4.40% per annum, while those of Class A-2 and Class B are PBOC one-year fixed deposit rates plus 3.25% and 3.70% per annum.

(6) Huarong Financial Leasing set up an asset securitisation trust of RMB4,961 million in November 2017. These asset-backed securities are comprised of Class A-1, Class A-2, Class A-3 and Class B. The tenure of these securities is 10 years. The coupon rate of Class A-1 is 5.30% per annum, while those of Class A-2, Class A-3 and Class B are PBOC one-year fixed deposit rates plus 4.06%, 4.30% and 4.50%, respectively, per annum.

50. Other liabilities

	As at 31 December,	
	2019	2018
Payables to interest holders of consolidated structured entities	**72,983,379**	92,869,809
Other payables[1]	**23,962,556**	35,406,407
Guarantee deposits received from customers	**15,467,628**	16,767,821
Amounts received in advance[2]	**7,607,708**	7,312,953
Account payable to brokerage clients	**4,726,446**	4,152,730
Letter of credit	**4,697,511**	—
Dividends payable	**4,436,341**	4,364,099
Employee benefits payable	**4,067,872**	4,026,682
Amounts due to China Trust Protection Fund	**2,600,000**	2,800,000
Sundry taxes payable	**1,603,573**	1,884,439
Account payable to financial institutions	**868,652**	2,012,096
Margin deposit received from securities customers	**364,074**	318,348
Bills payable[3]	**276,357**	798,136
Provisions[4]	**260,289**	204,692
Others	**961,308**	705,905
Total	**144,883,694**	173,624,117

(1) Accrued lease liabilities relating to rent free period were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in note II.

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

(3) These bank acceptance bills are payable to the suppliers by Huarong Financial Leasing for equipment purchased when conducting its financial leasing business.

(4) The movement of the loss allowance during the year in credit enhancement and credit commitment are as follows:

	2019	2018
As at 1 January	**93,502**	6,000
Provided for the year	**56,838**	87,502
As at 31 December	**150,340**	93,502

Provisions are also made by the Group relating to litigation claims on the Group's entities. As at 31 December 2019 and 2018, total amount of provisions arising from legal actions of the Group was RMB110 million and RMB112 million, respectively.

51. Share capital of the Company

	Year ended 31 December,	
	2019	2018
Authorised, issued and fully paid		
At beginning and end of the year	**39,070,208**	39,070,208

	As at 31 December 2018 and 2019	
	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

52. Capital reserve

The balance of capital reserve mainly represents share premium arising from the Company's initial public offering of H shares and other share issuances in prior years.

53. Surplus reserve

Under PRC Laws, the Company and its domestic subsidiaries are required to transfer 10% of their net profit determined under the PRC Generally Accepted Accounting Principles to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital of the respective entity.

The surplus reserve of the Group disclosed represents only the surplus reserve appropriated by the Company.

54. General reserve

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

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

For the year ended 31 December 2019, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB808 million (2018: RMB2,990 million) to general reserve pursuant to the regulatory requirements in the PRC. Among which, the Company transferred RMB752 million to general reserve for the year ended 31 December 2019 (2018: RMB2,833 million).

55. Other reserves

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of equity instruments at FVTOCI and debt instruments at FVTOCI that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those equity instruments at FVTOCI and debt instruments at FVTOCI are disposed of or are determined to be impaired.

The hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain and loss arising on changes in fair value of the hedging instrument that are recognised and accumulated under the heading of other reserves will be reclassified to profit or loss when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy or when the hedged forecast transaction is no longer expected to occur.

56. Perpetual capital instruments

Movement of the perpetual capital instruments is as follows:

	Principal	Distribution	Total
Balance at 1 January 2018	22,912,407	273,014	23,185,421
Increase in perpetual capital instruments	200,000	—	200,000
Decrease in perpetual capital instruments	(3,150,000)	—	(3,150,000)
Profit attributable to holders of perpetual capital instruments	—	976,844	976,844
Distribution to holders of perpetual capital instruments	—	(953,733)	(953,733)
Balance at 31 December 2018	19,962,407	296,125	20,258,532
Decrease in perpetual capital instruments	**(1,200,000)**	**—**	**(1,200,000)**
Disposal of subsidiary (Note V.66)	**(700,000)**	**—**	**(700,000)**
Profit attributable to holders of perpetual capital instruments	**—**	**869,353**	**869,353**
Distribution to holders of perpetual capital instruments	**—**	**(797,309)**	**(797,309)**
Balance at 31 December 2019	**18,062,407**	**368,169**	**18,430,576**

There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers. The perpetual capital instruments are callable. When the issuers and/or the guarantors elect to declare dividends, the distribution to the holders of perpetual capital instruments shall be made at the distribution rate as defined in the subscription agreements.

57. Cash and cash equivalents

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

	As at 31 December,	
	2019	2018
Cash on hand	**447,889**	604,188
Balances with central bank	**8,646,863**	4,319,320
Deposits with financial institutions	**134,690,769**	89,250,788
Placements with financial institutions	**2,709,546**	843,160
Financial assets held under resale agreements	**12,739,290**	6,301,867
Total	**159,234,357**	101,319,323

58. Contingent liabilities

Legal proceedings

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2019, total claim amount of pending litigations was RMB1,944 million (31 December 2018: RMB1,796 million) for the Group, and total provision of RMB110 million (31 December 2018: RMB112 million) for the Group was made based on court judgments or the advice of legal counsels. The directors of the Company believe that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

59. Commitments

(1) Credit enhancement

As at 31 December 2019, the Group provided credit enhancement for counterparties involving in borrowing arrangements in the amount of RMB9 million (31 December 2018: RMB532 million). No impairment allowance was made for credit enhancement as at 31 December 2019 (31 December 2018: RMB6 million).

(2) Credit commitments

	As at 31 December,	
	2019	2018
Bank bill acceptance	**12,911,537**	11,861,498
Undrawn credit card commitments	**7,386,924**	6,830,089
Loan commitments	**4,875,867**	5,438,779
Letters of credit issued	**1,499,646**	1,747,958
Letters of guarantee issued	**440,625**	733,854
Total	**27,114,599**	26,612,178

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

Impairment allowance of RMB150 million was made for credit commitments as at 31 December 2019 (31 December 2018: RMB88 million).

(3) Other commitments

	As at 31 December,	
	2019	2018
Contracted but not provided for		
— commitments for the acquisition of property and equipment	**224,198**	201,360

60. Transfers of financial assets

Repurchase agreements

The Group entered into sales agreements with certain counterparties on its financial assets, in which the Group was subject to simultaneous agreements with commitments to repurchase these financial assets at specified future dates and prices. As stipulated in the repurchase agreements, there is no transfer of legal ownership of these financial assets to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these financial assets during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these financial assets and therefore these financial assets have not been derecognised from the financial statements but regarded as "collateral" for the secured lending from the counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

	Carrying amount of pledged assets		**Related liabilities**	
	As at 31 December,		**As at 31 December,**	
	2019	2018	**2019**	2018
Debt instruments at fair value through other comprehensive income	**7,752,518**	8,665,568	**5,208,790**	8,834,663
Debt instruments at amortised cost	**13,782,448**	9,267,641	**9,528,955**	8,679,962
Loans and advances to customers	**—**	3,955,012	**—**	3,953,787
Financial assets at fair value through profit or loss	**946,074**	6,115,763	**927,663**	2,941,604
Total	**22,481,040**	28,003,984	**15,665,408**	24,410,016

Asset-backed securities

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. As the underlying assets, the finance lease receivables, did not meet the criteria of derecognition, the Group did not derecognise such finance lease receivables, and the consideration received was treated as financial liabilities. As at 31 December 2019, the carrying amount of such transferred but not derecognised finance lease receivables to RMB4,765 million (31 December 2018: RMB7,774 million), the carrying amounts of the corresponding financial liabilities which are recognised as bonds and notes issued and other liabilities amounted to RMB1,831 (31 December 2018: RMB4,343 million).

61. Related party transactions

(1) The MOF

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

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

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

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

	As at 31 December,	
	2019	2018
Financial assets at amortised cost	**8,498,545**	8,940,096
Dividends payable	**4,180,733**	4,180,733
Financial assets at fair value through profit or loss	**1,760,108**	—
Debt instruments at fair value through other comprehensive income	**431,369**	284,500
Other payables	**12,347**	12,255

V. EXPLANATORY NOTES — continued

61. Related party transactions — continued

(1) The MOF — continued

The Group had the following transactions with the MOF:

	Year ended 31 December,	
	2019	2018
Interest income	**308,288**	333,968
Fair value changes on other financial assets and liabilities	**15,285**	3,910

(2) Government related entities

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

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

(3) Associates and joint ventures

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

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

	As at 31 December,	
	2019	2018
Financial assets at amortised cost	**3,374,531**	6,155,424
Other assets	**816,191**	23,701
Financial assets at fair value through profit or loss	**32,053**	68,093
Other liabilities	**6,693**	69

61. Related party transactions — continued

(3) Associates and joint ventures — continued

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

	Year ended 31 December,	
	2019	2018
Interest income	**195,231**	461,407
Rental income	**11,937**	1,252
Commission and fee income	**5,305**	8,227
Operating expenses	**1,827**	7,501
Other income	**—**	56

Trust asset management:

As at 31 December 2019, associates and joint ventures held a trust of RMB13 million issued by the Group (31 December 2018: RMB14 million).

(4) Annuity Scheme

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

	Year ended 31 December,	
	2019	2018
Contribution to Annuity Schemes	**179,426**	181,796

61. Related party transactions — continued

(5) Key management personnel

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

	Year ended 31 December,	
	2019	2018
Emoluments of key management personnel		
— Fees	**1,261**	1,240
— Salaries and other benefits	**3,658**	4,299
— Employer's contribution to pension scheme	**208**	294
— Discretionary and performance related incentive payments	**2,239**	4,619
Total (before tax)	**7,366**	10,452

The total compensation packages for the above key management personnel for the years ended 31 December 2019 and 2018 have not yet been finalised in accordance with regulations of the relevant authorities in the PRC.

The number of key management personnel whose emoluments fall within the following bands is as follows:

	Year ended 31 December,	
	2019	2018
HKD nil to HKD500,000	**15**	12
HKD500,001 to HKD1,000,000	**9**	7
HKD1,000,001 to HKD1,500,000	**—**	2
HKD1,500,001 to HKD2,000,000	**—**	3
	24	24

62. Financial risk management

Overview

The Group's primary objectives of risk management are to ensure (1) the prudent operation and sound business development of the Group; (2) the execution of significant decisions to achieve business targets and ensure operational efficiency; and (3) that risk parameters are managed within a range consistent with the Group's strategies and business targets. Based on this, the Group has refined a particular philosophy of risk management culture and established a risk management model and an organisational structure. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The most significant types of risk to the Group include credit risk, market risk, liquidity risk and distressed assets risk. Market risk includes interest rate risk, foreign exchange risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies. The Board has established Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's overall risk exposures regularly.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures relating to risk management. Risk Management Department and other relevant functional units are responsible for monitoring financial risks.

62.1 Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. Credit risk mainly arises from loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes. The nature of credit risk of distressed debt assets classified as debt instruments at amortised cost, debt instruments at FVTOCI and financial assets at FVTPL is similar to those mentioned above. Risk management of the distressed assets is detailed in note V.62.4 together with other types of distressed assets.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(i) 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, 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.

(ii) Significant increase in credit risk

The Group monitors all financial assets, contract assets, credit enhancement and credit commitments 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.

62. Financial risk management — continued

62.1 Credit risk — continued

(ii) 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 following data are typically used to monitor the Group's exposures:

- Changes in business, financial and economic conditions;

- Credit rating information supplied by external rating agencies;

- Information obtained by periodic review of customer files including audited financial statements review, market data such as prices of quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, consumer price index, and producer price index. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

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.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ii) Significant increase in credit risk — continued

Internal credit risk ratings — continued

The Group considers credit risk has significantly increased if there is:

- Overdue principal or interests by more than 30 days; or
- Significant downgrade in internal rating or external rating; or
- Significant adverse changes in the operation or financial situation of the issuer or debtor.

(iii) 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 external information to generate different scenarios of future forecast of relevant economic variables. The external information used includes economic data, for instance, GDP growth rate, consumer price index and changes in loans balances of financial institutions.

(iv) Measurement of ECL

The key inputs used for measuring ECL are:

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

62. Financial risk management — continued

62.1 Credit risk — continued

(iv) 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.

62. Financial risk management — continued

62.1 Credit risk — continued

(v) Grouping based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- industry;
- geographic location of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

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

	As at 31 December,	
	2019	2018
Distressed debt assets at amortised cost	**321,173,114**	289,084,314
Distressed debt assets at FVTOCI	**64,573,237**	100,445,929
Loans and advances to customers	**218,118,900**	195,780,303
Finance lease receivables	**70,847,221**	101,455,058
Subtotal	**674,712,472**	686,765,604
Allowance for ECL		
Distressed debt assets at amortised cost	**(21,038,124)**	(22,926,485)
Loans and advances to customers measured at amortised cost	**(6,853,816)**	(5,126,265)
Finance lease receivables	**(2,806,925)**	(2,452,118)
Subtotal	**(30,698,865)**	(30,504,868)
Net carrying amount		
Distressed debt assets at amortised cost	**300,134,990**	266,157,829
Distressed debt assets at FVTOCI	**64,573,237**	100,445,929
Loans and advances to customers	**211,265,084**	190,654,038
Finance lease receivables	**68,040,296**	99,002,940
Total	**644,013,607**	656,260,736

For financial assets at FVTOCI (including distressed debt assets and loans and advances to customers) disclosed above, no loss allowance is recognised as the carrying amount is measured at fair value. The loss allowances from those financial assets were recognised in impairment losses on financial assets and OCI. As at 31 December 2019, the loss allowance of distressed debt assets at FVTOCI and the loans and advances to customers at FVTOCI were RMB4,367 million (31 December 2018: RMB2,920 million) and RMB11 million (31 December 2018: RMB1 million), respectively.

62. Financial risk management — continued

62.1 Credit risk — continued

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

Analysed by geographical area

	As at 31 December,			
	2019		2018	
Area	**Gross amount**	**%**	Gross amount	%
Central Region	**306,013,677**	**45.3**	289,093,120	42.1
Western Region	**126,933,036**	**18.8**	139,971,281	20.4
Yangtze River Delta	**92,935,682**	**13.8**	102,714,783	15.0
Bohai Rim	**65,123,968**	**9.7**	66,925,966	9.7
Pearl River Delta	**58,861,601**	**8.7**	60,092,574	8.8
Northeastern Region	**18,219,762**	**2.7**	21,160,755	3.1
Overseas	**6,624,746**	**1.0**	6,807,125	0.9
Total	**674,712,472**	**100.0**	686,765,604	100.0

Notes:

Central Region:	Including Shanxi, Henan, Hunan, Hubei, Anhui, Jiangxi, Hainan.
Western Region:	Including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Guangxi, Gansu, Qinghai, Xinjiang, Ningxia, Inner Mongolia, Tibet.
Yangtze River Delta:	Including Shanghai, Jiangsu, Zhejiang.
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.

62. Financial risk management — continued

62.1 Credit risk — continued

(vi) 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

	As at 31 December,			
	2019		2018	
Industry	**Gross amount**	**%**	Gross amount	%
Corporate business				
Real estate	**215,020,924**	**31.9**	213,414,460	31.0
Water, environment and public utilities management	**81,057,010**	**12.0**	91,771,586	13.4
Manufacturing	**65,852,493**	**9.8**	78,486,192	11.4
Construction	**49,650,909**	**7.4**	50,671,834	7.4
Leasing and commercial services	**43,980,139**	**6.5**	43,910,328	6.4
Transportation, logistics and postal services	**14,987,807**	**2.2**	18,397,281	2.7
Mining	**6,551,527**	**1.0**	9,894,981	1.4
Others	**114,960,194**	**17.0**	112,318,499	16.4
Subtotal	**592,061,003**	**87.8**	618,865,161	90.1
Personal business				
Personal consumption loans	**31,028,230**	**4.6**	27,562,917	4.0
Mortgages	**24,430,038**	**3.6**	18,511,719	2.7
Loans for business operations	**18,504,210**	**2.7**	12,740,825	1.9
Others	**2,546,254**	**0.4**	2,802,609	0.4
Subtotal	**76,508,732**	**11.3**	61,618,070	9.0
Loans to margin clients	**6,142,737**	**0.9**	6,282,373	0.9
Total	**674,712,472**	**100.0**	686,765,604	100.0

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

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

By contractual maturity and security type

	Gross amount as at 31 December 2019				Gross amount as at 31 December 2018			
	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Up to 1 year	1 to 5 years	Over 5 years	Total
Unsecured	**27,718,566**	**32,589,949**	**11,320,841**	**71,629,356**	23,384,291	23,204,912	14,314,780	60,903,983
Guaranteed	**53,848,456**	**25,923,066**	**10,052,840**	**89,824,362**	42,106,508	77,013,483	7,693,816	126,813,807
Collateralised	**30,569,006**	**358,578,183**	**58,881,980**	**448,029,169**	37,150,419	343,091,707	43,509,455	423,751,581
Pledged	**28,476,103**	**29,813,938**	**6,939,544**	**65,229,585**	21,093,724	49,116,461	5,086,048	75,296,233
Total	**140,612,131**	**446,905,136**	**87,195,205**	**674,712,472**	123,734,942	492,426,563	70,604,099	686,765,604

(vii) Past due distressed debt assets at amortised cost and at FVTOCI, loans and advances to customers and finance lease receivables

	Gross amount as at 31 December 2019						Gross amount as at 31 December 2018					
	Past due up to 90 days	**Past due 91 to 360 days**	**Past due 361 days to 3 years**	**Past due Over 3 years**	**Past due Total**	**Past due amount as a% of total gross amount**	Past due up to 90 days	Past due 91 to 360 days	Past due 361 days to 3 years	Past due Over 3 years	Past due Total	Past due amount as a% of total gross amount
Distressed debt assets at amortised cost	**8,364,756**	**11,423,613**	**22,069,412**	**3,592,484**	**45,450,265**	**14.2**	8,471,222	19,599,614	6,303,744	3,319,838	37,694,418	13.0
Distressed debt assets at FVTOCI	**2,076,795**	**4,260,783**	**2,622,578**	**—**	**8,960,156**	**13.9**	3,441,856	914,124	188,704	—	4,544,684	4.5
Loans and advances to customers	**4,183,341**	**3,397,924**	**1,359,603**	**72,992**	**9,013,860**	**4.1**	1,508,805	2,396,745	957,456	12,903	4,875,909	2.5
Finance lease receivables	**1,059,766**	**914,589**	**1,146,198**	**383,344**	**3,503,897**	**4.9**	66,848	451,357	1,332,287	241,360	2,091,852	2.1
Total	**15,684,658**	**19,996,909**	**27,197,791**	**4,048,820**	**66,928,178**	**9.9**	13,488,731	23,361,840	8,782,191	3,574,101	49,206,863	7.2

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(viii) Maximum credit risk exposure without taking into account any collateral or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure per class of financial assets to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk mainly arises from distressed debt assets acquired from financial institutions and non-financial institutions, loans and advances to customers, finance lease receivables, investment securities, and treasury operations of its banking activities. For loan commitments and financial guarantee contracts, the amounts represent the amounts committed or guaranteed, respectively.

At the end of the reporting period, maximum exposure to credit risk is as follows:

	As at December 31,	
	2019	2018
Balances with central bank	**30,326,801**	29,304,910
Deposits with financial institutions	**149,461,964**	107,500,242
Placements with financial institutions	**2,709,937**	843,638
Financial assets at fair value through profit or loss (excluding distressed debt assets)	**134,152,701**	157,394,478
Financial assets held under resale agreements	**22,525,935**	20,126,943
Loans and advances to customers	**211,265,084**	190,654,038
Finance lease receivables	**68,040,296**	99,002,940
Debt instruments at FVTOCI	**103,739,340**	147,387,307
Debt instruments at amortised cost	**642,085,956**	612,133,108
Other assets	**14,715,437**	6,709,124
Subtotal	**1,379,023,451**	1,371,056,728
Credit enhancements	**8,800**	532,000
Credit commitments	**27,114,599**	26,612,178
Subtotal	**27,123,399**	27,144,178
Total	**1,406,146,850**	1,398,200,906

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(viii) Maximum credit risk exposure without taking into account any collateral or other credit enhancements — continued

Distressed debt assets at FVTPL may contain certain elements of credit risk. The risks that such assets are exposed to are detailed in note V. 62.4. The carrying amount of distressed debt assets at FVTPL amounted to RMB173,072 million for the Group as at 31 December 2019 (31 December 2018: RMB166,370 million).

(ix) Credit quality

(1) Loss allowance

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

	As at December 31,	
	2019	2018
Financial assets held under resale agreements	**1,628,390**	624,020
Loans and advances to customers	**6,864,593**	5,127,167
Finance lease receivables	**2,806,925**	2,452,118
Debt instruments at FVTOCI	**4,761,201**	3,259,432
Debt instruments at amortised cost	**63,939,438**	50,929,464
Credit enhancement and commitments	**150,340**	93,502
Total	**80,150,887**	62,485,703

No loss allowance is recognised in the statement of financial position for debt instruments at FVTOCI as the carrying amount is at fair value.

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movement of loss allowance

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

Loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	1,860,927	667,773	1,273,543	3,802,243
Changes in the loss allowance				
— Transfer to stage 1	47,288	(47,046)	(242)	—
— Transfer to stage 2	(439,683)	470,307	(30,624)	—
— Transfer to stage 3	(251,418)	(155,678)	407,096	—
— Provided for the year	1,951,746	356,654	3,708,225	6,016,625
— Reversal for the year	(1,199,660)	(473,747)	(441,912)	(2,115,319)
— Write-offs	—	—	(2,677,007)	(2,677,007)
— Others	(643)	—	101,268	100,625
As at 31 December 2018	1,968,557	818,263	2,340,347	5,127,167
Changes in the loss allowance				
— Transfer to stage 1	**40,774**	**(40,200)**	**(574)**	**—**
— Transfer to stage 2	**(9,269)**	**23,953**	**(14,684)**	**—**
— Transfer to stage 3	**(16,834)**	**(202,352)**	**219,186**	**—**
— Provided for the year	**973,956**	**717,110**	**4,611,173**	**6,302,239**
— Reversal for the year	**(1,005,065)**	**(443,445)**	**(454,691)**	**(1,903,201)**
— Write-offs	**—**	**—**	**(3,062,918)**	**(3,062,918)**
— Others	**—**	**—**	**401,306**	**401,306**
As at 31 December 2019	**1,952,119**	**873,329**	**4,039,145**	**6,864,593**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movement of loss allowance — continued

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	501,255	1,107,623	886,434	2,495,312
Changes in the loss allowance				
— Transfer to stage 1	189	(189)	—	—
— Transfer to stage 2	(48,223)	76,162	(27,939)	—
— Transfer to stage 3	(8,316)	(197,502)	205,818	—
— Provided for the year	252,434	260,614	960,457	1,473,505
— Reversal for the year	(214,378)	(637,808)	(381,068)	(1,233,254)
— Write-offs	—	—	(369,694)	(369,694)
— Others	1,854	—	84,395	86,249
As at 31 December 2018	484,815	608,900	1,358,403	2,452,118
Changes in the loss allowance				
— Transfer to stage 1	**74,765**	**(74,765)**	**—**	**—**
— Transfer to stage 2	**(16,419)**	**16,419**	**—**	**—**
— Transfer to stage 3	**(28,264)**	**(253,320)**	**281,584**	**—**
— Provided for the year	**32,724**	**261,743**	**434,314**	**728,781**
— Reversal for the year	**(57,408)**	**(70,092)**	**(99,432)**	**(226,932)**
— Write-offs	**—**	**—**	**(148,010)**	**(148,010)**
— Others	**286**	**78**	**604**	**968**
As at 31 December 2019	**490,499**	**488,963**	**1,827,463**	**2,806,925**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movement of loss allowance — continued

Debt instruments at FVTOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	2,560,071	591,273	151,892	3,303,236
Changes in the loss allowance				
— Transfer to stage 1	72,149	(72,149)	—	—
— Transfer to stage 2	(305,296)	305,296	—	—
— Transfer to stage 3	(84,918)	(460,110)	545,028	—
— Provided for the year	428,563	347,130	1,211,061	1,986,754
— Reversal for the year	(1,948,343)	(106,942)	(37,284)	(2,092,569)
— Others	117,148	(1,837)	(53,300)	62,011
As at 31 December 2018	839,374	602,661	1,817,397	3,259,432
Changes in the loss allowance				
— Transfer to stage 1	**28,428**	**(28,428)**	**—**	**—**
— Transfer to stage 2	**(144,729)**	**455,646**	**(310,917)**	**—**
— Transfer to stage 3	**(54,488)**	**(87,224)**	**141,712**	**—**
— Provided for the year	**129,213**	**620,644**	**2,346,085**	**3,095,942**
— Reversal for the year	**(614,096)**	**(336,800)**	**(396,544)**	**(1,347,440)**
— Others	**98,238**	**—**	**(344,971)**	**(246,733)**
As at 31 December 2019	**281,940**	**1,226,499**	**3,252,762**	**4,761,201**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movement of loss allowance — continued

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	16,618,671	10,228,888	11,483,315	38,330,874
Changes in the loss allowance				
— Transfer to stage 1	698,528	(698,528)	—	—
— Transfer to stage 2	(2,629,464)	3,005,273	(375,809)	—
— Transfer to stage 3	(2,716,286)	(4,042,562)	6,758,848	—
— Provided for the year	5,766,738	5,627,258	20,464,820	31,858,816
— Reversal for the year	(11,130,427)	(3,337,015)	(4,770,992)	(19,238,434)
— Others	110,826	86,277	(218,895)	(21,792)
As at 31 December 2018	6,718,586	10,869,591	33,341,287	50,929,464
Changes in the loss allowance				
— Transfer to stage 1	**281,491**	**(281,491)**	**—**	**—**
— Transfer to stage 2	**(645,070)**	**1,300,708**	**(655,638)**	**—**
— Transfer to stage 3	**(825,824)**	**(5,718,956)**	**6,544,780**	**—**
— Provided for the year	**3,349,424**	**3,646,006**	**21,071,366**	**28,066,796**
— Reversal for the year	**(2,947,387)**	**(2,551,793)**	**(5,528,744)**	**(11,027,924)**
— Write-offs	**—**	**—**	**(689,737)**	**(689,737)**
— Others	**(229,299)**	**(178,426)**	**(2,931,436)**	**(3,339,161)**
As at 31 December 2019	**5,701,921**	**7,085,639**	**51,151,878**	**63,939,438**

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

Changes in assumptions during the year are mainly changes in forward looking information and revision of estimates in probabilities of default by taking into account latest default experience.

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance

More information about the significant changes in the gross carrying amount of financial assets during the year that contributed to movement of the loss allowance, is provided at the table below:

Loans and advances to customers

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2018	146,592,431	7,383,541	2,344,330	156,320,302
Changes in the gross amount				
— Transfer to stage 1	519,602	(519,135)	(467)	—
— Transfer to stage 2	(5,118,991)	5,189,593	(70,602)	—
— Transfer to stage 3	(3,112,192)	(2,428,758)	5,540,950	—
— New financial assets originated or purchased	105,695,514	—	—	105,695,514
— Financial assets that have been derecognised	(60,399,783)	(2,493,320)	(665,403)	(63,558,506)
— Write-offs	—	—	(2,677,007)	(2,677,007)
As at 31 December 2018	184,176,581	7,131,921	4,471,801	195,780,303
Allowances for impairment loss as at 31 December 2018	1,968,557	818,263	2,340,347	5,127,167
As at 1 January 2019	**184,176,581**	**7,131,921**	**4,471,801**	**195,780,303**
Changes in the gross amount				
— Transfer to stage 1	**359,407**	**(358,363)**	**(1,044)**	**—**
— Transfer to stage 2	**(4,159,110)**	**4,179,962**	**(20,852)**	**—**
— Transfer to stage 3	**(5,680,917)**	**(1,209,072)**	**6,889,989**	**—**
— New financial assets originated or purchased	**123,420,227**	**—**	**—**	**123,420,227**
— Financial assets that have been derecognised	**(93,633,152)**	**(3,712,138)**	**(673,422)**	**(98,018,712)**
— Write-offs	**—**	**—**	**(3,062,918)**	**(3,062,918)**
As at 31 December 2019	**204,483,036**	**6,032,310**	**7,603,554**	**218,118,900**
Allowances for impairment loss as at 31 December 2019	**1,952,119**	**873,329**	**4,039,145**	**6,864,593**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance — continued

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	93,109,966	3,348,494	1,268,950	97,727,410
Changes in the gross amount				
— Transfer to stage 1	3,973	(3,973)	—	—
— Transfer to stage 2	(3,345,781)	3,452,613	(106,832)	—
— Transfer to stage 3	(600,347)	(781,090)	1,381,437	—
— New assets originated or purchased	10,846,586	—	—	10,846,586
— Assets that have been derecognised	(5,456,614)	(745,780)	(546,850)	(6,749,244)
— Write-offs	—	—	(369,694)	(369,694)
As at 31 December 2018	94,557,783	5,270,264	1,627,011	101,455,058
Allowances for impairment loss as at 31 December 2018	484,815	608,900	1,358,403	2,452,118
As at 1 January 2019	**94,557,783**	**5,270,264**	**1,627,011**	**101,455,058**
Changes in the gross amount				
— Transfer to stage 1	**1,091,073**	**(1,091,073)**	**—**	**—**
— Transfer to stage 2	**(1,669,074)**	**1,669,074**	**—**	**—**
— Transfer to stage 3	**(706,408)**	**(444,155)**	**1,150,563**	**—**
— New assets originated or purchased	**1,646,934**	**—**	**—**	**1,646,934**
— Assets that have been derecognised	**(31,223,884)**	**(727,841)**	**(155,036)**	**(32,106,761)**
— Write-offs	**—**	**—**	**(148,010)**	**(148,010)**
As at 31 December 2019	**63,696,424**	**4,676,269**	**2,474,528**	**70,847,221**
Allowances for impairment loss as at 31 December 2019	**490,499**	**488,963**	**1,827,463**	**2,806,925**

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance — continued

Debt instruments at FVTOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	154,329,550	3,235,509	188,384	157,753,443
Changes in the gross amount				
— Transfer to stage 1	741,035	(741,035)	—	—
— Transfer to stage 2	(11,413,495)	11,413,495	—	—
— Transfer to stage 3	(2,361,672)	(1,170,675)	3,532,347	—
— New financial assets originated or purchased	45,371,027	—	—	45,371,027
— Financial assets that have been derecognised	(53,648,685)	(1,553,259)	(535,219)	(55,737,163)
As at 31 December 2018	133,017,760	11,184,035	3,185,512	147,387,307
Allowances for impairment loss as at 31 December 2018	839,374	602,661	1,817,397	3,259,432
As at 1 January 2019	**133,017,760**	**11,184,035**	**3,185,512**	**147,387,307**
Changes in the gross amount				
— Transfer to stage 1	**168,610**	**(168,610)**	**—**	**—**
— Transfer to stage 2	**(24,979,383)**	**25,714,349**	**(734,966)**	**—**
— Transfer to stage 3	**(3,979,375)**	**(2,554,952)**	**6,534,327**	**—**
— New financial assets originated or purchased	**22,163,912**	**—**	**—**	**22,163,912**
— Financial assets that have been derecognised	**(61,009,264)**	**(3,879,485)**	**(923,130)**	**(65,811,879)**
As at 31 December 2019	**65,382,260**	**30,295,337**	**8,061,743**	**103,739,340**
Allowances for impairment loss as at 31 December 2019	**281,940**	**1,226,499**	**3,252,762**	**4,761,201**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance — continued

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	594,423,830	62,743,007	20,945,199	678,112,036
Changes in the gross amount				
— Transfer to stage 1	4,397,189	(4,397,189)	—	—
— Transfer to stage 2	(67,494,262)	67,870,071	(375,809)	—
— Transfer to stage 3	(39,521,439)	(15,622,401)	55,143,840	—
— New financial assets originated or purchased	248,796,115	—	—	248,796,115
— Financial assets that have been derecognised	(243,882,402)	(13,003,477)	(6,959,700)	(263,845,579)
As at 31 December 2018	496,719,031	97,590,011	68,753,530	663,062,572
Allowances for impairment loss as at 31 December 2018	6,718,586	10,869,591	33,341,287	50,929,464
As at 1 January 2019	**496,719,031**	**97,590,011**	**68,753,530**	**663,062,572**
Changes in the gross amount				
— Transfer to stage 1	**4,197,320**	**(4,197,320)**	**—**	**—**
— Transfer to stage 2	**(59,547,838)**	**61,164,731**	**(1,616,893)**	**—**
— Transfer to stage 3	**(46,011,648)**	**(36,458,491)**	**82,470,139**	**—**
— New financial assets originated or purchased	**322,304,910**	**—**	**—**	**322,304,910**
— Financial assets that have been derecognised	**(220,596,698)**	**(46,190,808)**	**(11,864,845)**	**(278,652,351)**
— Write-offs	**—**	**—**	**(689,737)**	**(689,737)**
As at 31 December 2019	**497,065,077**	**71,908,123**	**137,052,194**	**706,025,394**
Allowances for impairment loss as at 31 December 2019	**5,701,921**	**7,085,639**	**51,151,878**	**63,939,438**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(4) Modified financial assets

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. The adjustment of the modified assets can only be made after meeting specified criteria throughout the observation period. As at 31 December 2019, the carrying amount of financial assets with such modified contractual cash flows was not significant.

(5) Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost. The main types of collateral include leasehold land and buildings, machinery and equipment, shares, accounts receivable and bank deposits.

In addition to the financial assets held under resale agreements as set out in note V.23, the fair value of collateral held by the Group amounted to RMB1,710,820 million as at 31 December 2019 (31 December 2018: RMB1,876,661 million). Assets foreclosed by the group was disclosed in note V.38. The Group did not repledge any collateral held. The Group has to return the collateral when the relevant borrowers repay the balances.

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(5) Collateral held as security and other credit enhancements — continued

The Group requests collateral and guarantees for financial assets including loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost. The most relevant indicator of their creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against such financial assets is not routinely updated.

For credit-impaired of financial assets including loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost, the Group obtains appraisals of collateral to inform its credit risk management actions. As at 31 December 2019 the net carrying amount of such financial assets was RMB94,921 million (31 December 2018: RMB38,913 million) and the value of the respective collateral was RMB362,364 million (31 December 2018: RMB123,320 million).

As at 31 December 2019, the Group has finance lease receivables at a carrying amount of RMB7,910 million (31 December 2018: RMB7,247 million) which are secured by the property and equipment leased to the lessee.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(6) Investment securities analysed by credit rating from reputable rating agencies

	As at 31 December 2019					
	AAA	**AA**	**A**	**Below A**	**Unrated**	**Total**
Government bonds	**8,246,597**	**—**	**—**	**—**	**16,283,496**	**24,530,093**
Public sector and quasi-government bonds	**700,222**	**—**	**14,548,026**	**—**	**33,012,598**	**48,260,846**
Financial institution bonds	**3,420,234**	**1,196,972**	**—**	**—**	**2,745,445**	**7,362,651**
Corporate bonds	**11,766,758**	**12,523,385**	**4,205,338**	**7,369,170**	**6,763,892**	**42,628,543**
Convertible bonds	**127,991**	**26,832**	**—**	**—**	**9,531,755**	**9,686,578**
Asset-backed securities	**250,010**	**335,673**	**—**	**—**	**8,591**	**594,274**
Total	**24,511,812**	**14,082,862**	**18,753,364**	**7,369,170**	**68,345,777**	**133,062,985**

	As at 31 December 2018					
	AAA	AA	A	Below A	Unrated	Total
Government bonds	6,872,464	—	—	—	14,802,669	21,675,133
Public sector and quasi-government bonds	194,930	—	20,634,247	—	33,371,367	54,200,544
Financial institution bonds	2,770,291	1,644,599	—	—	4,493,880	8,908,770
Corporate bonds	13,556,364	12,490,887	823,069	7,261,321	17,885,832	52,017,473
Convertible bonds	75,455	—	—	—	12,744,281	12,819,736
Asset-backed securities	381,717	359,215	—	—	152,568	893,500
Total	23,851,221	14,494,701	21,457,316	7,261,321	83,450,597	150,515,156

As at 31 December 2019, among debt securities held by the Group, debt securities issued within Mainland China amounted to RMB120,366 million (31 December 2018: RMB127,043 million), and their credit ratings are assessed by domestic credit agents; debt securities issued outside Mainland China amounted to RMB12,697 million (31 December 2018: RMB23,472 million), and their credit ratings are assessed by international credit agents.

(x) Other financial assets

Other financial assets include deposits and placement with financial institutions, financial assets held under resale agreements and balances with central bank. The directors of the Company consider that their credit risks are not significant.

62. Financial risk management — continued

62.2 Market risk

Market risk is the risk of loss, in respect of the Group's on-and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities.

The risk of fair value and cash flows changes due to interest rate changes are mainly related to the Group's fixed rates and floating rates financial instruments.

The Group manages its interest rate risk by:

- minimising the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities; and

- regularly performing quantitative analysis, including periodic sensitivity analysis.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.2 Market risk — continued

Interest rate risk — continued

At the end of the reporting period, the Group's financial assets and financial liabilities at carrying amounts, categorised by remaining maturity based on the earlier of contractual repricing or maturity dates are as follows:

	As at 31 December 2019						
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central bank	30,136,024	—	—	—	—	638,666	30,774,690
Deposits with financial institutions	139,987,523	3,081,542	5,967,113	300,000	—	125,786	149,461,964
Placements with financial institutions	2,500,260	209,286	—	—	—	391	2,709,937
Financial assets at fair value through profit or loss	29,640,827	2,128,227	13,138,443	37,603,671	8,285,036	276,873,700	367,669,904
Financial assets held under resale agreements	21,445,857	—	470,828	—	—	609,250	22,525,935
Loans and advances to customers	42,213,729	16,575,739	94,001,724	46,327,649	11,061,055	1,085,188	211,265,084
Finance lease receivables	1,968,600	2,934,690	15,449,140	40,445,788	5,772,448	1,469,630	68,040,296
Debt instruments at fair value through other comprehensive income	16,036,129	6,235,390	31,053,681	47,559,230	2,271,145	583,765	103,739,340
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	3,583,661	3,583,661
Debt instruments at amortised cost	139,656,935	24,196,693	137,846,576	311,585,691	26,497,781	2,302,280	642,085,956
Other financial assets	—	—	—	—	—	14,715,437	14,715,437
Total financial assets	423,585,884	55,361,567	297,927,505	483,822,029	53,887,465	301,987,754	1,616,572,204
Borrowings from central bank	—	(40,000)	(3,600,000)	—	—	(1,673)	(3,641,673)
Deposits from financial institutions	(3,747,175)	(980,000)	(5,510,000)	—	—	(39,494)	(10,276,669)
Placements from financial institutions	(1,399,446)	(50,000)	(800,000)	—	—	(4,151)	(2,253,597)
Financial assets sold under repurchase agreements	(14,012,742)	(1,650,632)	—	—	—	(2,034)	(15,665,408)
Borrowings	(48,998,550)	(77,869,770)	(328,290,911)	(275,724,859)	(27,266,720)	(3,355,617)	(761,506,427)
Financial liabilities at fair value through profit or loss	—	—	(180,430)	(1,324)	(28,868)	(3,013,231)	(3,223,853)
Due to customers	(113,396,659)	(16,139,725)	(19,246,681)	(67,321,848)	(6,800,029)	(3,909,775)	(226,814,717)
Lease liabilities	(32,931)	(51,817)	(331,448)	(1,226,474)	(124,016)	(216,568)	(1,983,254)
Bonds and notes issued	(21,570,907)	(22,888,409)	(98,744,723)	(143,892,327)	(77,911,078)	(2,338,144)	(367,345,588)
Other financial liabilities	(1,380,643)	(1,256,261)	(2,638,343)	(9,398,012)	(6,648,785)	(108,192,247)	(129,514,291)
Total financial liabilities	(204,539,053)	(120,926,614)	(459,342,536)	(497,564,844)	(118,779,496)	(121,072,934)	(1,522,225,477)
Interest rate gap	219,046,831	(65,565,047)	(161,415,031)	(13,742,815)	(64,892,031)	180,914,820	94,346,727

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.2 Market risk — continued

Interest rate risk — continued

	As at 31 December 2018						
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central bank	28,981,556	—	—	—	—	927,542	29,909,098
Deposits with financial institutions	95,298,852	5,522,918	6,576,474	100,000	—	1,998	107,500,242
Placements with financial institutions	500,345	343,160	—	—	—	133	843,638
Financial assets at fair value through profit or loss	20,983,202	10,195,991	22,099,082	31,994,094	14,319,505	291,589,101	391,180,975
Financial assets held under resale agreements	12,137,904	587,217	5,573,995	1,476,185	—	351,642	20,126,943
Loans and advances to customers	36,155,720	14,740,223	78,515,320	45,505,857	14,742,164	994,754	190,654,038
Finance lease receivables	5,674,583	5,424,514	25,484,105	56,922,351	5,497,387	—	99,002,940
Debt instruments at fair value through other comprehensive income	3,547,702	7,063,964	50,631,541	84,051,749	1,197,717	894,634	147,387,307
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	3,244,308	3,244,308
Debt instruments at amortised cost	54,206,529	35,218,001	180,646,695	309,909,662	30,467,305	1,684,916	612,133,108
Other financial assets	—	—	—	—	—	6,709,124	6,709,124
Total financial assets	257,486,393	79,095,988	369,527,212	529,959,898	66,224,078	306,398,152	1,608,691,721
Borrowings from central bank	—	(520,000)	(1,880,000)	—	—	(2,169)	(2,402,169)
Deposits from financial institutions	(176,843)	—	(6,800,000)	(240,000)	—	(90,740)	(7,307,583)
Placements from financial institutions	(300,000)	—	—	—	—	(153)	(300,153)
Financial assets sold under repurchase agreements	(19,269,578)	(3,566,879)	(1,564,859)	—	—	(8,700)	(24,410,016)
Borrowings	(44,075,738)	(89,415,813)	(333,507,865)	(263,455,216)	(27,456,418)	(3,084,460)	(760,995,510)
Financial liabilities at fair value through profit or loss	—	—	(1,600,755)	(3,127,536)	—	—	(4,728,291)
Due to customers	(122,776,274)	(9,502,013)	(29,183,761)	(40,268,414)	(4,055,010)	(3,331,012)	(209,116,484)
Bonds and notes issued	(2,700,042)	(17,769,749)	(99,233,559)	(164,352,373)	(67,206,702)	(2,042,874)	(353,305,299)
Other financial liabilities	(5,759,360)	(137,769)	(3,950,974)	(8,262,404)	(33,149,985)	(72,368,678)	(123,629,170)
Total financial liabilities	(195,057,835)	(120,912,223)	(477,721,773)	(479,705,943)	(131,868,115)	(80,928,786)	(1,486,194,675)
Interest rate gap	62,428,558	(41,816,235)	(108,194,561)	50,253,955	(65,644,037)	225,469,366	122,497,046

62. Financial risk management — continued

62.2 Market risk — continued

Interest rate risk — continued

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield rate on the Group's profit before tax and other comprehensive income before tax, based on the Group's positions of interest-generating assets and interest-bearing liabilities at the end of the reporting period.

This sensitivity analysis is performed by assuming that:

- Interest income and expenses are changed by 100 basis points when interest generating assets and interest bearing liabilities within one year are reset or reinvested/replaced with similar assets or liabilities when they become matured. No changes in fair value are assumed in this assessment for financial assets at FVTPL.

- The fair value of financial instruments at FVTOCI changes in respond to this change of 100 basis points.

Interest rate sensitivity analysis

	Year ended 31 December,			
	2019		2018	
	Profit before tax	**Other comprehensive income before tax**	Profit before tax	Other comprehensive income before tax
+ 100 basis points	**625,425**	**(1,715,833)**	(155,925)	(1,754,986)
- 100 basis points	**(625,425)**	**1,764,369**	155,925	1,788,511

62. Financial risk management — continued

62.2 Market risk — continued

Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and operating performance. The Group conducts the majority of its businesses in RMB, with certain foreign currency transactions conducted in United States Dollars ("USD"), Hong Kong Dollars ("HKD") or other currencies.

At the end of the reporting period, a breakdown of the financial assets and liabilities analysed by currency is as follows:

	As at 31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	**30,760,054**	**14,436**	**199**	**1**	**30,774,690**
Deposits with financial institutions	**116,534,354**	**19,776,872**	**12,654,299**	**496,439**	**149,461,964**
Placements with financial institutions	**2,500,260**	**209,677**	**—**	**—**	**2,709,937**
Financial assets at fair value through profit or loss	**327,868,682**	**15,385,787**	**21,006,334**	**3,409,101**	**367,669,904**
Financial assets held under resale agreements	**22,525,935**	**—**	**—**	**—**	**22,525,935**
Loans and advances to customers	**208,646,493**	**26,562**	**2,592,029**	**—**	**211,265,084**
Finance lease receivables	**65,628,038**	**2,412,258**	**—**	**—**	**68,040,296**
Debt instruments at fair value through other comprehensive income	**95,776,007**	**7,963,333**	**—**	**—**	**103,739,340**
Equity instruments at fair value through other comprehensive income	**832,192**	**2,565,010**	**186,459**	**—**	**3,583,661**
Debt instruments at amortised cost	**571,213,898**	**14,953,627**	**55,918,431**	**—**	**642,085,956**
Other financial assets	**12,387,438**	**759,399**	**1,564,149**	**4,451**	**14,715,437**
Total financial assets	**1,454,673,351**	**64,066,961**	**93,921,900**	**3,909,992**	**1,616,572,204**
Borrowings from central bank	**(3,641,673)**	**—**	**—**	**—**	**(3,641,673)**
Deposits from financial institutions	**(10,276,669)**	**—**	**—**	**—**	**(10,276,669)**
Placements from financial institutions	**(2,253,597)**	**—**	**—**	**—**	**(2,253,597)**
Financial assets sold under repurchase agreements	**(13,640,861)**	**(2,024,547)**	**—**	**—**	**(15,665,408)**
Borrowings	**(724,677,443)**	**(32,692,483)**	**(4,136,501)**	**—**	**(761,506,427)**
Financial liabilities at fair value through profit or loss	**(3,004,475)**	**(219,378)**	**—**	**—**	**(3,223,853)**
Due to customers	**(226,511,751)**	**(290,362)**	**(3,031)**	**(9,573)**	**(226,814,717)**
Lease liabilities	**(1,595,086)**	**(10)**	**(386,675)**	**(1,483)**	**(1,983,254)**
Bonds and notes issued	**(222,341,314)**	**(135,146,947)**	**(896,463)**	**(8,960,864)**	**(367,345,588)**
Other financial liabilities	**(128,725,532)**	**(695,802)**	**(92,957)**	**—**	**(129,514,291)**
Total financial liabilities	**(1,336,668,401)**	**(171,069,529)**	**(5,515,627)**	**(8,971,920)**	**(1,522,225,477)**
Net exposure	**118,004,950**	**(107,002,568)**	**88,406,273**	**(5,061,928)**	**94,346,727**

62. Financial risk management — continued

62.2 Market risk — continued

Foreign exchange risk — continued

	As at 31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	29,903,867	5,089	141	1	29,909,098
Deposits with financial institutions	89,944,853	9,937,777	7,340,143	277,469	107,500,242
Placements with financial institutions	500,345	343,293	—	—	843,638
Financial assets at fair value through profit or loss	282,619,521	12,853,737	92,161,069	3,546,648	391,180,975
Financial assets held under resale agreements	20,120,035	—	6,908	—	20,126,943
Loans and advances to customers	186,966,037	77,967	3,604,660	5,374	190,654,038
Finance lease receivables	96,034,186	2,968,754	—	—	99,002,940
Debt instruments at fair value through other comprehensive income	140,063,187	7,324,120	—	—	147,387,307
Equity instruments at fair value through other comprehensive income	794,465	2,449,843	—	—	3,244,308
Debt instruments at amortised cost	540,708,960	27,873,642	43,550,506	—	612,133,108
Other financial assets	6,080,039	25,998	603,087	—	6,709,124
Total financial assets	1,393,735,495	63,860,220	147,266,514	3,829,492	1,608,691,721
Borrowings from central bank	(2,402,169)	—	—	—	(2,402,169)
Deposits from financial institutions	(7,307,583)	—	—	—	(7,307,583)
Placements from financial institutions	(300,153)	—	—	—	(300,153)
Financial assets sold under repurchase agreements	(19,078,287)	(5,028,402)	(303,327)	—	(24,410,016)
Borrowings	(701,453,793)	(44,987,894)	(10,060,064)	(4,493,759)	(760,995,510)
Financial liabilities at fair value through profit or loss	(4,728,291)	—	—	—	(4,728,291)
Due to customers	(208,801,975)	(269,322)	(732)	(44,455)	(209,116,484)
Bonds and notes issued	(217,306,395)	(127,077,686)	—	(8,921,218)	(353,305,299)
Other financial liabilities	(122,879,509)	(82,146)	(667,515)	—	(123,629,170)
Total financial liabilities	(1,284,258,155)	(177,445,450)	(11,031,638)	(13,459,432)	(1,486,194,675)
Net exposure	109,477,340	(113,585,230)	136,234,876	(9,629,940)	122,497,046

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.2 Market risk — continued

Foreign exchange risk — continued

Foreign exchange rate sensitivity analysis

The table below indicates the potential effect on profit before tax and other comprehensive income before tax of a 5% appreciation or depreciation of RMB spot and forward exchange rates against all other currencies.

	Year ended 31 December,			
	2019		2018	
	Profit before tax	**Other comprehensive income before tax**	Profit before tax	Other comprehensive income before tax
5% appreciation	**643,480**	**(535,740)**	(696,770)	(488,698)
5% depreciation	**(643,480)**	**535,740**	696,770	488,698

Price risk

Certain equity financial assets included in financial assets at FVTPL and financial assets at FVTOCI are subject to price risk which may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may be caused by factors relating to the financial instrument itself or the issuer, and it also may be caused by market factors.

The following table illustrates the potential impact of an increase or decrease of 10 percent in price on these equity financial assets at FVTPL and financial assets at FVTOCI measured at fair value on the Group's profit before tax and other comprehensive income before tax.

	Year ended 31 December,			
	2019		2018	
	Profit before tax	**Other comprehensive income before tax**	Profit before tax	Other comprehensive income before tax
+10 percent	**2,449,052**	**921,093**	2,509,963	1,884,500
- 10 percent	**(2,449,052)**	**(921,093)**	(2,509,963)	(1,884,500)

62. Financial risk management — continued

62.3 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all business operations and can be affected by a range of group-specific and market-wide events.

The Group manages its liquidity risk by:

- optimising assets and liabilities structure;

- implementing a centralised liquidity management system by pooling group-wide funds and maintaining an efficient internal fund transfer mechanism within the Group; and

- regularly performing quantitative analysis.

Due to its business nature, the Group has diverse funding sources, including taking deposits from the public (for its banking operations), issues of debt instruments and perpetual capital instruments and banking borrowings.

62. Financial risk management — continued

62.3 Liquidity risk — continued

The tables below present the cash flows of financial assets and financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

	As at 31 December 2019							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central bank	21,663,610	9,098,148	–	12,854	–	–	–	30,774,612
Deposits with financial institutions	29,597,194	105,311,589	5,422,203	2,152,690	6,716,505	300,710	154,453	149,655,344
Placements with financial institutions	–	–	2,500,966	210,556	–	–	–	2,711,522
Financial assets at fair value through profit or loss	277,125,118	5,042,146	24,712,187	2,648,727	15,780,433	41,452,423	8,305,484	375,066,518
Financial assets held under resale agreements	10,599,434	–	13,090,667	–	513,868	–	–	24,203,969
Loans and advances to customers	4,121,415	–	20,720,254	20,091,456	74,626,486	89,117,334	40,234,308	248,911,253
Finance lease receivables	2,953,521	–	2,322,523	3,479,178	16,513,206	47,820,368	6,810,243	79,899,039
Debt instruments at fair value through other comprehensive income	7,578,103	–	9,144,277	9,387,807	35,825,853	53,364,939	2,468,513	117,769,492
Equity instruments at fair value through other comprehensive income	3,583,661	–	–	–	–	–	–	3,583,661
Debt instruments at amortised cost	67,569,143	–	84,739,599	38,519,541	198,113,816	322,369,074	29,317,831	740,629,004
Other financial assets	386,290	6,973,567	404,067	1,372,032	4,406,446	1,127,091	45,944	14,715,437
Total financial assets	425,177,489	126,425,450	163,056,743	77,874,841	352,496,613	555,551,939	87,336,776	1,787,919,851
Borrowings from central bank	–	–	–	(63,542)	(3,665,103)	–	–	(3,728,645)
Deposits from financial institutions	–	(3,348,319)	(405,879)	(991,652)	(5,661,027)	–	–	(10,406,877)
Placements from financial institutions	–	–	(1,434,583)	(56,860)	(816,221)	–	–	(2,307,664)
Financial assets sold under repurchase agreements	–	–	(14,178,955)	(1,855,132)	–	–	–	(16,034,087)
Borrowings	–	(21,769,962)	(32,408,676)	(84,950,481)	(347,609,491)	(294,041,577)	(28,827,147)	(809,607,334)
Financial liabilities at fair value through profit or loss	(3,013,231)	–	–	–	(180,430)	(1,324)	(28,868)	(3,223,853)
Due to customers	–	(104,023,317)	(10,418,949)	(16,959,351)	(20,218,600)	(78,104,028)	(8,291,527)	(238,015,772)
Lease liabilities	(11,330)	(142,641)	(52,307)	(83,296)	(736,380)	(1,050,162)	(131,687)	(2,207,803)
Bonds and notes issued	–	–	(23,513,505)	(25,362,125)	(111,674,086)	(163,469,917)	(98,338,014)	(422,357,647)
Other financial liabilities	(50,807,490)	(29,530,605)	(2,579,367)	(7,394,370)	(14,759,153)	(14,640,572)	(10,700,267)	(130,411,824)
Total financial liabilities	(53,832,051)	(158,814,844)	(84,992,221)	(137,716,809)	(505,320,491)	(551,307,580)	(146,317,510)	(1,638,301,506)
Net position	371,345,438	(32,389,394)	78,064,522	(59,841,968)	(152,823,878)	4,244,359	(58,980,734)	149,618,345

Maturity analysis for derivative financial assets and liabilities are not presented separately as the amount is insignificant.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.3 Liquidity risk — continued

As disclosed in note V.49, there are early redemption options for certain bonds and notes issued. If these options are exercised, the maturity profile can be earlier than presented above.

In respect of financial liabilities at FVTPL, the ultimate cash outflow depends on the corresponding underlying assets, and the actual amount can be different from those presented above.

	As at 31 December 2018							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central bank	24,972,359	6,071,056	63,060	13,444	—	—	—	31,119,919
Deposits with financial institutions	32,854,569	56,927,862	10,704,168	5,560,347	6,581,687	411,383	—	113,040,016
Placements with financial institutions	—	—	500,434	346,163	—	—	—	846,597
Financial assets at fair value through profit or loss	242,374,462	26,113,474	15,995,439	21,116,108	31,842,941	37,165,667	16,930,020	391,538,111
Financial assets held under resale agreements	5,900,240	—	6,582,826	660,678	5,884,764	1,651,710	—	20,680,218
Loans and advances to customers	3,026,986	—	20,565,040	17,529,559	62,881,468	86,406,076	41,105,026	231,514,155
Finance lease receivables	2,523,187	—	3,649,699	6,278,960	29,534,346	66,282,381	6,419,324	114,687,897
Debt instruments at fair value through other comprehensive income	1,404,062	—	4,806,544	13,738,752	72,796,614	86,724,699	1,406,622	180,877,293
Equity instruments at fair value through other comprehensive income	3,244,308	—	—	—	—	—	—	3,244,308
Debt instruments at amortised cost	27,929,500	—	33,190,154	53,739,519	238,908,672	325,374,854	30,568,914	709,711,613
Other financial assets	712,067	575,956	28,637	3,574	4,262,073	1,125,747	1,070	6,709,124
Total financial assets	344,941,740	89,688,348	96,086,001	118,987,104	452,692,565	605,142,517	96,430,976	1,803,969,251
Borrowings from central bank	—	—	—	(537,133)	(1,906,465)	—	—	(2,443,598)
Deposits from financial institutions	—	(176,918)	—	(15,643)	(7,057,614)	(252,097)	—	(7,502,272)
Placements from financial institutions	—	—	(300,383)	—	—	—	—	(300,383)
Financial assets sold under repurchase agreements	—	(620,544)	(18,675,147)	(3,897,536)	(1,610,349)	—	—	(24,803,576)
Borrowings	—	(39,024,795)	(40,918,416)	(80,982,648)	(352,734,708)	(272,562,110)	(33,752,269)	(819,974,946)
Financial liabilities at fair value through profit or loss	—	—	—	—	(1,600,755)	(3,127,536)	—	(4,728,291)
Due to customers	—	(114,304,592)	(9,255,003)	(9,797,145)	(30,408,166)	(47,703,928)	(5,155,119)	(216,623,953)
Bonds and notes issued	—	—	(4,507,933)	(18,562,166)	(116,664,972)	(182,278,739)	(73,941,709)	(395,955,519)
Other financial liabilities	(13,910,327)	(49,293,705)	(634,555)	(783,144)	(12,179,993)	(24,761,978)	(38,582,762)	(140,146,464)
Total financial liabilities	(13,910,327)	(203,420,554)	(74,291,437)	(114,575,415)	(524,163,022)	(530,686,388)	(151,431,859)	(1,612,479,002)
Net position	331,031,413	(113,732,206)	21,794,564	4,411,689	(71,470,457)	74,456,129	(55,000,883)	191,490,249

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.4 Risk management of distressed assets

62.4.1 Overview

Risk of distressed assets includes 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 purchases, disposals or management activities, which result in the recoverable amount of the distressed assets lower than their carrying amounts.

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

62.4.2 Risk management of distressed debt assets

The Group exercises standardised management procedures, including project initiation, due diligence investigation, design and approval of recovery plan and continuous monitoring and management. The Group enhances its risk management by strengthening investigation, review and approval procedures before taking up distressed assets, and monitoring measures after taking up the distressed assets; enhancing risk mitigation effect through collateral; and continuously upgrading the management system of distressed assets.

Specifically, the risks to which distressed debts mandatorily measured as financial assets at FVTPL mainly comprise valuation risk, legal title risk and to certain extent credit risk; while the risks to which distressed debts initially classified as debt instruments at amortised cost and at FVTOCI mainly comprise credit risk.

(i) Valuation risk

Valuation risk is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed debt assets mandatorily measured at FVTPL, due to variance in factors including future cash flows, collection period, discount rate, disposal cost and etc. Measures the Group takes to minimise the valuation risk include:

- Perform investigation strictly on the parties involved in the transaction (including the debtors and the guarantors), collateral provided, repayment sources and etc.; and

- Adopt conservative estimation on incurrence rate, discount rate, and disposal cost when performing valuation and review the difference between actual results and estimation after the completion of the disposal of distressed assets to improve the accuracy of future estimations.

62. Financial risk management — continued

62.4 Risk management of distressed assets — continued

62.4.2 Risk management of distressed debt assets — continued

(i) Valuation risk — continued

The Group has established an independent valuation process for financial assets and financial liabilities. The Operation Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Finance Department records these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

(ii) Legal title risk

Legal title risk is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. Measures the Group takes to minimise the legal title risk include:

- Set up alert management system to ensure the expiry of legal claim periods related to distressed assets are managed effectively;

- Set up periodic revisiting mechanism to interview debtors and monitor the conditions of collateral. Maintain regular investigation report properly to ensure the Group has access to the most updated information; and

- Set up reporting mechanism of significant event to ensure immediate recovery action be taken when certain risk elements emerge.

(iii) Credit risk

In addition to distressed debt assets classified as debt instruments at amortised cost and at FVTOCI, certain distressed debt assets mandatorily measured as at FVTPL may also be subject to credit risk. Depending on the status of the obligor of distressed debt assets that are mandatorily measured at FVTPL, the Group may decide to pursue repayment from the obligor instead of disposing of it to third party, credit risk arises in such situation. Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation.

62. Financial risk management — continued

62.4 Risk management of distressed assets — continued

62.4.2 Risk management of distressed debt assets — continued

(iii) Credit risk — continued

Measures the Group takes to minimise the credit risk of distressed assets include:

- Manage the creditworthiness of counterparties using independent credit rating on the counterparties as reference;

- Select counterparties with appropriate creditworthiness and repayment capability; and

- Require counterparties to provide collateral to cover the credit exposure.

62.4.3 Risk management of assets obtained through debt-to-equity swap

Certain equity classified as equity instruments at FVTPL and at FVTOCI were obtained through debt-to-equity swap. Risk related to these equity instruments is the risk of loss arising from movements in the value of equity shares due to price changes or decline in value of the investees.

Measures the Group takes to minimise the risk related to these equity instruments include:

- Strengthen continuous monitoring, analysis and management of equity values;

- Gain better understanding of macro-economic policies reinforced by the government and assess their impact on the equity investments; and

- Track the value changes dynamically and identify the appropriate timing for disposal to realise the maximum value of equity shares.

62.4.4 Determination of fair value

The Group determines the fair value of distressed debt assets, which are classified as financial assets at FVTPL, by using valuation techniques as these assets usually do not have an active market. Valuation techniques mainly include discounted cash flow method with future cash flow estimated based on recent prices of similar transactions entered between market participants or realisable value of the underlying assets. As at 31 December 2019, the discount rate used by the Group ranged from 1.86% to 13.80% (31 December 2018: 2.48% to 13.80%).

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.4 Risk management of distressed assets — continued

62.4.5 Impairment assessment

The Group performs impairment assessment on distressed debt assets at amortised cost and debt instruments at FVTOCI. Assessment procedures for distressed debt assets at amortised cost are similar to those set out in note V.62.1.

62.5 Capital management

The Group's objectives on capital management are as follows:

- Ensure compliance with regulatory requirements;
- Optimise capital allocation among the Group entities;
- Improve efficiency of capital deployment;
- Safeguard the Group's ability to continue as a going concern to support the Group's development.

In accordance with the requirements of Consolidated Supervision Guidelines on Financial Asset Management Companies (Provisional) (Yinjianfa [2011] No. 20), issued by the CBIRC in 2011, the Group manages its capital based on required minimum capital. Compliance with the requirement of minimum capital is the primary goal of capital management of the Group.

Minimum capital of the Group is the total of minimum capital of the Company and its subsidiaries after taking into account of the percentage of shareholding, and deduction as required by relevant rules and regulations. The Group is required to meet this minimum capital requirement stipulated by the CBIRC.

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Yinjianfa [2016] No. 38) and Capital Rules for Financial Asset Management Companies (Provisional) (Yinjianfa [2017] No. 56), issued by the CBIRC in 2016 and 2017 respectively, the Company is required to maintain a minimum core Tier II Capital Adequacy Ratio ("CAR") at 12.5% respectively. CAR is calculated by dividing the corresponding qualified capital of the Company by its risk-weighted assets. As at 31 December 2019 and 2018, the Company complied with the regulatory requirements on the minimum CAR.

V. EXPLANATORY NOTES — continued

63. Fair value of financial instruments

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

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

	As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	**24,490,519**	**35,913,529**	**307,265,856**	**367,669,904**
Debt instruments at FVTOCI	**8,988,847**	**19,533,274**	**75,217,219**	**103,739,340**
Equity instruments at FVTOCI	**222,083**	**—**	**3,361,578**	**3,583,661**
Loans and advances to customers at FVTOCI	**—**	**18,754,716**	**—**	**18,754,716**
Total assets	**33,701,449**	**74,201,519**	**385,844,653**	**493,747,621**

	As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities at FVTPL	**—**	**(3,223,853)**	**—**	**(3,223,853)**

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

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

There were no significant transfers between level 1 and level 2 for the years ended 31 December 2019 and 2018.

63. Fair value of financial instruments — continued

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

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

Financial assets	Fair value as at 31 December, 2019	Fair value as at 31 December, 2018	Fair value hierarchy
1) Financial assets at FVTPL			
Distressed debt assets	**173,071,741**	166,370,280	Level 3
Funds			
— Listed	**919,210**	813,748	Level 1
— Investing in the underlying assets with open or active quotations	**5,887,732**	4,841,038	Level 2
— Investing in the underlying assets without open or active quotations	**41,444,648**	53,706,939	Level 3
Trust products issued by financial institutions			
— Investing in the underlying assets with open or active quotations	**1,211,018**	860,976	Level 2
— Investing in the underlying assets without open or active quotations	**26,709,741**	42,006,067	Level 3
Equity instruments			
— Listed Shares			
— Unrestricted Shares	**22,349,988**	21,094,983	Level 1
— Restricted Shares	**4,542,485**	2,054,482	Level 3
— Unlisted Shares	**33,552,989**	28,001,634	Level 3
Debt securities			
— Traded in stock exchanges (other)	**1,066,498**	3,190,902	Level 1
— Traded in stock exchanges (private equity bonds)	**127,549**	—	Level 3
— Traded in inter-bank markets	**9,936,821**	6,060,440	Level 2
— Traded over the counter	**1,297,050**	7,608,059	Level 3
Wealth management products	**14,690,357**	13,347,104	Level 2
Convertible bonds			
— Listed	**154,823**	—	Level 1
— Unlisted	**9,531,755**	12,819,736	Level 3

V. EXPLANATORY NOTES — continued

63. Fair value of financial instruments — continued

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

Financial assets	Fair value as at 31 December, 2019	Fair value as at 31 December, 2018	Fair value hierarchy
Structured products	**8,466,928**	8,580,833	Level 3
Other debt assets	**3,149,511**	5,179,572	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	**2,055,728**	4,405,012	Level 2
— Investing in the underlying assets without open or active quotations	**4,735,162**	5,902,918	Level 3
Negotiable certificates of deposit	**2,131,873**	2,668,343	Level 2
Asset-backed securities			
— Investing in the underlying assets with open or active quotations	**—**	152,568	Level 2
— Investing in the underlying assets without open or active quotations	**39,241**	111,991	Level 3
Entrusted Loans	**597,056**	742,526	Level 3
Others	**—**	660,824	Level 3
Subtotal	**367,669,904**	391,180,975	
2) Debt instruments at FVTOCI			
Distressed debt assets	**64,573,237**	100,445,929	Level 3
Debt securities			
— Traded in stock exchanges	**8,904,230**	18,569,868	Level 1
— Traded in inter-bank markets	**18,294,291**	14,282,697	Level 2
— Traded over the counter	**117,833**	390,599	Level 3
Entrust loans	**4,283,029**	4,421,136	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	**768,567**	398,058	Level 2
— Investing in the underlying assets without open or active quotations	**3,105,683**	3,857,333	Level 3
Debt instruments	**1,878,915**	1,902,184	Level 3
Trust products issued by financial institutions	**1,258,522**	2,490,562	Level 3

V. EXPLANATORY NOTES — continued

63. Fair value of financial instruments — continued

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

Financial assets	Fair value as at 31 December, 2019	2018	Fair value hierarchy
Asset-backed securities			
— Traded in active market	**84,617**	243,365	Level 1
— Investing in the underlying assets with open or active quotations	**470,416**	385,576	Level 2
Subtotal	**103,739,340**	147,387,307	
3) Equity instruments at FVTOCI			
Shares			
— Listed shares	**220,083**	31,770	Level 1
— Unlisted shares	**3,361,578**	3,212,538	Level 3
Subtotal	**3,583,661**	3,244,308	
4) Loans and advances to customers at FVTOCI			
Discounted bills	**18,754,716**	8,568,670	Level 2
Total	**493,747,621**	550,381,260	
Financial liabilities			
Financial liabilities mandatorily measured as at FVTPL			
— Derivatives as hedging instruments	**(219,378)**	—	Level 2
Financial liabilities designated as at FVTPL			
— Interests of other holders in consolidated structured entities	**(3,004,475)**	(4,150,203)	Level 2
Interests of other holders in consolidated structured entities	**—**	(578,088)	Level 3
Total	**(3,223,853)**	(4,728,291)	

63. Fair value of financial instruments — continued

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

Valuation methods for financial instruments

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

For Level 2 financial instruments, valuations are generally calculated based on discounted cash flow methods or quoted prices of actively traded underlying assets. For discounted cash flow methods, the most significant inputs are yield curves published by China Central Depository & Clearing Co., Ltd., interest rates publicly available from Shanghai Commercial Paper Exchange, announced expected returns of similar wealth management products sponsored by the same banks, or forward interest rate or exchange rate. Actively traded underlying assets are primarily listed shares or quoted debt instruments. When some of these securities are denominated in currencies other than Renminbi, they are converted at appropriate exchange rates prevailing on the balance sheet dates.

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

63. Fair value of financial instruments — continued

63.2 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 2019	**333,745,861**	**113,507,743**	**3,212,538**	**(578,088)**
Recognised in profit or loss	**3,888,219**	**1,880,165**	**—**	**(82,994)**
Recognised in other comprehensive income	**—**	**(2,149,954)**	**458,972**	**—**
Additions	**80,619,641**	**14,045,759**	**282,670**	**—**
Settlements/disposals	**(110,987,865)**	**(52,066,494)**	**(592,602)**	**661,082**
As at 31 December 2019	**307,265,856**	**75,217,219**	**3,361,578**	**—**
Changes in unrealised losses for the year included in profit or loss for assets and liabilities held at the end of the year	**(1,296,858)**	**(2,163,540)**	**—**	**—**

V. EXPLANATORY NOTES — continued

63. Fair value of financial instruments — continued

63.2 Reconciliation of Level 3 fair value measurements — continued

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

For the years ended 31 December 2018, certain restricted shares were transferred out from Level 3 fair value measurement as they became unrestricted during the year.

63. Fair value of financial instruments — continued

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

	As at 31 December,			
	2019		2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Debt instruments at amortised cost	**642,085,956**	**662,428,417**	612,133,108	639,570,808
Loans and advances to customers	**192,510,368**	**195,269,628**	182,085,368	184,594,330
Total	**834,596,324**	**857,698,045**	794,218,476	824,165,138
Financial liabilities				
Borrowings	**(761,506,427)**	**(764,114,028)**	(760,995,510)	(769,704,073)
Bonds and notes issued	**(367,345,588)**	**(367,360,870)**	(353,305,299)	(352,417,556)
Total	**(1,128,852,015)**	**(1,131,474,898)**	(1,114,300,809)	(1,122,121,629)

63. Fair value of financial instruments — continued

63.3 Fair value of financial assets and financial liabilities that are not measured on a recurring basis — continued

	As at 31 December, **2019**	As at 31 December, 2018	Fair value Hierarchy	Valuation Technique
Financial assets				
Loans and advances to customers	**195,269,628**	184,594,330	Level 3	Discounted cash flows
Debt instruments at amortised cost	**20,684,625**	37,742,114	Level 1	Quoted ask prices in an active market
Debt instruments at amortised cost	**82,274,686**	91,645,594	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Debt instruments at amortised cost	**559,469,106**	510,183,100	Level 3	Discounted cash flows
Total	**857,698,045**	824,165,138		
Financial liabilities				
Borrowings	**(764,114,028)**	(769,704,073)	Level 3	Discounted cash flows
Bonds and notes issued	**(35,498,623)**	(33,088,598)	Level 1	Quoted ask prices in an active market
Bonds and notes issued	**(309,504,770)**	(297,499,278)	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Bonds and notes issued	**(22,357,477)**	(21,829,680)	Level 3	Discounted cash flows
Total	**(1,131,474,898)**	(1,122,121,629)		

63.4 Fair value sensitivity analysis

As at 31 December 2019, for the significant unobserved inputs of Level 3 financial instruments, a slight increase in the discount rate used in isolation would result in a significant decrease in the fair value measurement of the financial instruments that are measured at fair value, and vice versa. A 100 basis point increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the financial instruments that are measured at fair value by RMB4,287 million and RMB4,321 million (31 December 2018: RMB3,684 million and RMB3,761 million).

64. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Bonds and notes issued	Financial liabilities at FVTPL	Lease liabilities	Payables to interest holders of consolidated structured entities	Dividends payable	Total
		note V.49	note V.22	note V.48	note V.50	note V.50	
As at 1 January 2019	154,887,933	353,305,299	4,728,291	1,786,683	92,869,809	4,364,099	611,942,114
Financing cash flows	(67,169,324)	(790,422)	(1,745,376)	(770,148)	(20,517,725)	(1,413,025)	(92,404,020)
Non-cash changes							
Fair value adjustments	—	—	240,938	—	—	—	240,938
Foreign exchange translation	888,293	3,790,280	—	112,000	—	—	4,790,573
Interest expenses	11,436,031	14,591,771	—	54,056	—	—	26,081,858
Interest capitalisation	834,580	—	—	—	—	—	834,580
New leases entered	—	—	—	800,663	—	—	800,663
Disposal of subsidiary	(10,541,124)	(3,551,340)	—	—	—	—	(14,092,464)
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	631,295	—	631,295
Dividends declared	—	—	—	—	—	1,485,267	1,485,267
As at 31 December 2019	90,338,389	367,345,588	3,223,853	1,983,254	72,983,379	4,436,341	540,310,804

64. Reconciliation of liabilities arising from financing activities — continued

	Borrowings	Bonds and notes issued	Financial liabilities at FVTPL	Interests payable	Payables to interest holders of consolidated structured entities	Dividends payable	Total
		note V.49	note V.22		note V.50	note V.50	
As at 1 January 2018	232,528,846	331,962,869	2,547,383	3,097,832	151,672,943	177,460	721,987,333
Financing cash flows	(85,561,338)	9,968,818	2,766,628	(25,759,812)	(60,731,328)	(3,749,759)	(163,066,791)
Non-cash changes							
Fair value adjustments	—	—	(585,720)	—	—	—	(585,720)
Foreign exchange translation	6,419,342	5,317,402	—	—	—	—	11,736,744
Interest expenses	1,501,083	6,056,210	—	21,791,923	—	—	29,349,216
Interest capitalisation	—	—	—	870,057	—	—	870,057
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	1,928,194	—	1,928,194
Dividends declared	—	—	—	—	—	7,936,398	7,936,398
As at 31 December 2018	154,887,933	353,305,299	4,728,291	—	92,869,809	4,364,099	610,155,431

Only cash flows of borrowings of non-financial institution subsidiaries are considered as financing activities in the presentation of consolidated statement of cash flows.

65. Acquisition of subsidiaries

During the years ended 31 December 2019 and 2018, the Group acquired several subsidiaries, but its impacts on the financial position, performance and cash flows of the consolidated financial statements are considered insignificant and therefore the details are not disclosed.

66. Disposals of subsidiaries

As disclosed in note V.31, due to capital injections made by other shareholders of Huarong Jinshang, the equity interests held by the Group of Huarong Jinshang decreased from 51.00% to 48.88% and therefore lost its control over the subsidiary. The principal activity of Huarong Jinshang is investment management.

The net assets of Huarong Jinshang at the date over which control was lost were as follows:

	As at 19 December, 2019
Cash and cash equivalent	**3,371,765**
Property and equipment	**2,944**
Deferred tax assets	**108,296**
Investments	**14,921,455**
Other assets	**1,371,632**
Other liabilities	**(15,243,153)**
Net assets disposed of	**4,532,939**
Loss on disposal of Huarong Jinshang:	
Interest in associate recognised	**1,951,318**
Net assets disposed of	**(4,532,939)**
Non-controlling interests	
— Perpetual capital instruments	**700,000**
— Other non-controlling interests	**1,878,140**
Loss on disposal	**(3,481)**
Net cash outflow arising on disposal	
Cash and cash equivalent disposed of	**(3,371,765)**

67. Particulars of principal subsidiaries

Details of the Company's subsidiaries as at 31 December 2019 are set out below:

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December, 2019 (In '000)	Proportion of ownership held by the Group At 31 December, 2019	2018	Proportion of voting rights held by the Group At 31 December, 2019	2018	Principal activities
				%	%	%	%	
Subsidiaries of the Company								
Huarong Xiangjiang Bank Corporation Limited (華融湘江銀行股份有限公司)[(1) (2) (4)]	Changsha, PRC	October 2010	RMB7,750,431	**40.53**	40.53	**40.53**	40.53	Bank
Huarong Securities Co., Ltd. (華融證券股份有限公司)[(1) (4)]	Beijing, PRC	September 2007	RMB5,840,703	**71.99**	71.99	**71.99**	71.99	Securities
China Huarong Financial Leasing Co., Ltd. (華融金融租賃股份有限公司)[(1) (4)]	Hangzhou, PRC	December 2001	RMB5,926,761	**79.92**	79.92	**79.92**	79.92	Leasing
Huarong Rongde Asset Management Co., Ltd. (華融融德資產管理有限公司)[(4)]	Beijing, PRC	June 2006	RMB1,788,000	**59.30**	59.30	**59.30**	59.30	Asset Management
Huarong International Trust Co., Ltd. (華融國際信託有限責任公司)[(1)]	Urumqi, PRC	August 2002	RMB3,035,653	**76.79**	76.79	**76.79**	76.79	Trust
Huarong Industrial Investment & Management Co., Ltd. (the former Huarong Real Estate Co., Ltd.) (華融實業投資管理有限公司，原華融置業有限責任公司)[(4)]	Zhuhai, PRC	May 1994	RMB1,850,000	**100.00**	100.00	**100.00**	100.00	Real Estate Industry and Investment Management
Huarong Huitong Asset Management Co., Ltd. (華融匯通資產管理有限公司)[(4)]	Beijing, PRC	September 2010	RMB906,700	**100.00**	100.00	**100.00**	100.00	Asset Management
Huarong Zhiyuan Investment & Management Co., Ltd. (華融致遠投資管理有限責任公司)	Beijing, PRC	November 2009	RMB691,000	**100.00**	100.00	**100.00**	100.00	Asset Management
Huarong Consumer Finance Co.,Ltd. (華融消費金融股份有限公司)[(1)]	Hefei, PRC	January 2016	RMB600,000	**55.00**	55.00	**55.00**	55.00	Personal Consumption Loan
China Huarong International Holdings Limited (中國華融國際控股有限公司)[(4)]	Hong Kong, PRC	January 2013	HKD2,771,382	**100.00**	100.00	**100.00**	100.00	Investment Holding
Other Group's entities								
Huarong Futures Co., Ltd.								

67. Particulars of principal subsidiaries — continued

Details of the Company's subsidiaries as at 31 December 2019 are set out below: — continued

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December, 2019 (In '000)	Proportion of ownership held by the Group At 31 December, 2019	2018	Proportion of voting rights held by the Group At 31 December, 2019	2018	Principal activities
				%	%	%	%	
(華融期貨有限責任公司)[1]	Haikou, PRC	September 1993	RMB320,000	**92.50**	92.50	**92.50**	92.50	Futures Broking
Huarong Tianze Investment Limited (華融天澤投資有限公司)	Shanghai, PRC	November 2012	RMB461,000	**100.00**	100.00	**100.00**	100.00	Investment Holding
Huarong Yufu Equity Investment Fund Management Co., Ltd. (華融渝富股權投資基金管理有限公司)	Chongqing, PRC	July 2010	RMB446,306	**91.00**	72.80	**91.00**	72.80	Investment Holding
Huarong Qianhai Wealth Management Co., Ltd. (華融前海財富管理股份有限公司)	Shenzhen, PRC	September 2014	RMB481,618	**68.00**	68.00	**68.00**	68.00	Wealth Management
China Huarong Western Development Investment Co., Ltd. (華融西部開發投資有限公司)	Yinchuan, PRC	December 2014	RMB540,000	**100.00**	100.00	**100.00**	100.00	Asset Management
HIFH (華融國際金融控股有限公司)[(1) (4)]	Bermuda, UK	November 1993	HKD3,588	**51.00**	51.00	**51.00**	51.00	Securities
HISC (華融投資股份有限公司)	Cayman Islands	July 2014	HKD18,160	**50.99**	50.99	**50.99**	50.99	Investment Management
Huarong Guangdong FTA Investment Holdings Limited (華融廣東自貿區投融資控股有限公司)	Guangdong, PRC	November 2015	RMB255,000	**100.00**	51.00	**100.00**	51.00	Investment Management
Huarong (Tianjin FTA) Investment Co., Ltd. (華融(天津自貿試驗區)投資股份有限公司)	Tianjin, PRC	November 2015	RMB255,000	**100.00**	51.00	**100.00**	51.00	Investment Management
Huarong Gannan Finance Investment Limited (華融贛南產融投資有限責任公司)	Ganzhou, PRC	November 2015	RMB200,000	**100.00**	100.00	**100.00**	100.00	Investment Management

Other Group's entities — continued

V. EXPLANATORY NOTES — continued

67. Particulars of principal subsidiaries — continued

Details of the Company's subsidiaries as at 31 December 2019 are set out below: — continued

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December, 2019 (In '000)	Proportion of ownership held by the Group At 31 December, 2019		Proportion of voting rights held by the Group At 31 December, 2019		Principal activities
				2019	2018	**2019**	2018	
				%	%	%	%	
Huarong Huaqiao Asset Management Co., Ltd. (華融華僑資產管理股份有限公司)	Shantou, PRC	December 2015	RMB500,000	**91.00**	51.00	**91.00**	51.00	Investment Management
Huarong Capital Management Co., Ltd. (華融資本管理有限公司)	Beijing, PRC	March 2016	RMB300,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong Kunlun Qinghai Asset Management Co., Ltd. (華融昆崙青海資產管理股份有限公司) [1]	Xining, PRC	June 2016	RMB1,000,000	**75.00**	75.00	**75.00**	75.00	Investment Management
Huarong Emerging Industry Investment Management Co., Ltd. (華融新興產業投資管理股份有限公司)	Beijing, PRC	November 2016	RMB510,000	**100.00**	51.00	**100.00**	51.00	Investment Management
Huarong Innovation Investment Co., Ltd. (華融創新投資股份有限公司)	Beijing, PRC	January 2016	RMB255,000	**100.00**	51.00	**100.00**	51.00	Investment Management
Huarong (Fujian Free Trade Test Area) Investment Co., Ltd. (華融(福建自貿試驗區)投資有限公司)	Xiamen, PRC	June 2016	RMB255,000	**100.00**	56.04	**100.00**	56.04	Investment Management
China Huarong (Macau) International Co., Ltd. (中國華融(澳門)國際股份有限公司)	Macau, PRC	November 2016	MOP233,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong Zhong Guancun Distressed Assets Exchange Center Co., Ltd (華融中關村不良資產交易中心股份有限公司)	Beijing, PRC	January 2017	RMB500,000	**79.60**	79.60	**79.60**	79.60	Investment Management
Huarong Ruitong Equity Investment Co., Ltd. (華融瑞通股權投資管理有限公司)	Beijing, PRC	January 2017	RMB300,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong (HK) Industrial and Financial Investment Limited (華融(香港)產融投資有限公司)	Hong Kong	November 2015	USD4,000	**100.00**	100.00	**100.00**	100.00	Investment Management

The English names of these subsidiaries are for identification purpose only.

V. EXPLANATORY NOTES — continued

67. Particulars of principal subsidiaries — continued

The above table lists the principal subsidiaries of the Company. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

(1) These subsidiaries are regulated financial institutions, therefore, they have to comply with regulatory requirements on related party transactions or capital requirements. As a result, the ability of the Group to access assets held by these subsidiaries to settle liabilities is restricted. As at 31 December 2019, the aggregate balance of total assets of these subsidiaries before consolidation eliminations amounted to RMB617,764 million (31 December 2018: RMB626,549 million)

(2) Although the Group only has 40.53% of ownership in Huarong Xiangjiang Bank, according to the articles of association and the agreements signed among the shareholders, the directors of the Company conclude that the Group has the power to direct the relevant operation plan and financial policies of Huarong Xiangjiang Bank and has control over Huarong Xiangjiang Bank.

(3) As disclosed in note V.31, due to capital injections by other shareholders of Huarong Jinshang, the equity interest held by the Group is decreased from 51.00% to 48.88%. The directors of the Company conclude that the Group has no power to direct the relevant operation plan and financial policies of Huarong Jinshang and therefore has lost its control over Huarong Jinshang.

(4) The balances of bonds and notes were issued by the Company and its subsidiaries are as follows:

Name of entity	As at 31 December,	
	2019	2018
The Company	**85,521,702**	82,943,697
Huarong Xiangjiang Bank	**84,744,394**	80,127,165
Huarong Securities	**22,150,141**	21,829,680
Huarong Financial Leasing	**14,132,413**	11,473,700
Huarong Rongde	**7,612,146**	5,578,542
Huarong Huitong Asset Management Co., Ltd.	**826,154**	5,023,701
Huarong Industrial Investment & Management Co., Ltd	**12,709,476**	11,116,898
Huarong International Holdings Limited	**139,649,162**	135,211,916
Total	**367,345,588**	353,305,299

Apart from information of bonds and notes issued by certain subsidiaries, no other debt securities had been issued by other subsidiaries at the end of the year.

68. Non-controlling interests in the subsidiaries of the Group

The subsidiaries that have significant non-controlling interests to the Group are set out below. They include Huarong Xiangjiang Bank, Huarong Rongde Asset Management Co., Ltd ("Huarong Rongde"), China Huarong Financial Leasing Co., Ltd ("Huarong Financial Leasing"), Huarong Securities, and Huarong International Trust Co., Ltd ("Huarong Trust").

General information about these subsidiaries has been set out in note V.67. Summarised financial information about these subsidiaries and entities controlled by them, before intra-group eliminations, are as follows:

Huarong Xiangjiang Bank

	As at 31 December,	
	2019	2018
Total assets	**366,776,834**	335,451,910
Total liabilities	**342,795,794**	313,490,918
Equity attributable to equity holders of the subsidiary	**23,919,497**	21,890,658
Non-controlling interests	**61,543**	70,334
Total equity	**23,981,040**	21,960,992
Non-controlling interests of the subsidiary	**14,224,924**	13,018,374

	Year ended 31 December,	
	2019	2018
Total revenue	**19,285,003**	17,684,205
Profit before tax	**3,771,717**	3,382,672
Total comprehensive income	**3,029,816**	2,740,717
Profit attributable to non-controlling interests of the subsidiary	**1,791,031**	1,617,900
Dividend distribution to non-controlling interests	**599,194**	454,614

	Year ended 31 December,	
	2019	2018
Net cash flow from/(used in) operating activities	**8,157,707**	(21,239,881)
Net cash flow used in investing activities	**(134,813)**	(2,214,242)
Net cash flow from financing activities	**418,833**	21,169,894
Net cash inflow/(outflow)	**8,441,727**	(2,284,229)

68. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Securities

	As at 31 December,	
	2019	2018
Current assets	**54,890,456**	59,223,570
Non-current assets	**11,252,229**	20,394,844
Total assets	**66,142,685**	79,618,414
Current liabilities	**31,670,465**	45,903,798
Non-current liabilities	**22,397,476**	21,829,680
Total liabilities	**54,067,941**	67,733,478
Equity attributable to equity holders of the subsidiary	**12,030,286**	11,840,845
Non-controlling interests	**44,458**	44,091
Total equity	**12,074,744**	11,884,936
Non-controlling interests of the subsidiary	**3,369,638**	3,316,621

	Year ended 31 December,	
	2019	2018
Total revenue	**4,979,125**	3,578,342
Profit/(loss) before tax	**4,800**	(1,066,867)
Total comprehensive income/(expense)	**256,136**	(887,397)
Profit/(loss) attributable to non-controlling interests of the subsidiary	**11,496**	(251,921)
Dividend distribution to non-controlling interests	**—**	184,515

	Year ended 31 December,	
	2019	2018
Net cash flow used in operating activities	**(11,138,904)**	(9,527,018)
Net cash flow from investing activities	**13,388,290**	8,474,367
Net cash flow from/(used in) financing activities	**737,876**	(1,158,175)
Net cash inflow/(outflow)	**2,987,262**	(2,210,826)

V. EXPLANATORY NOTES — continued

68. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Financial Leasing

	As at 31 December,	
	2019	2018
Current assets	**38,719,736**	53,039,381
Non-current assets	**99,534,330**	71,419,033
Total assets	**138,254,066**	124,458,414
Current liabilities	**75,492,379**	55,698,116
Non-current liabilities	**46,583,070**	53,900,150
Total liabilities	**122,075,449**	109,598,266
Total equity	**16,178,617**	14,860,148
Non-controlling interests of the subsidiary	**3,248,551**	2,983,812

	Year ended 31 December,	
	2019	2018
Total revenue	**8,340,493**	7,812,341
Profit before tax	**2,279,637**	2,167,701
Total comprehensive income	**1,756,371**	1,561,065
Profit attributable to non-controlling interests of the subsidiary	**351,471**	327,625
Dividend distribution to non-controlling interests	**87,927**	101,751

	Year ended 31 December,	
	2019	2018
Net cash flow from/(used in) operating activities	**5,189,525**	(12,742,421)
Net cash flow from investing activities	**231,382**	6,046,829
Net cash flow from/(used in) financing activities	**1,597,399**	(5,050,835)
Net cash inflow/(outflow)	**7,018,306**	(11,746,427)

68. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Rongde

	As at 31 December,	
	2019	2018
Current assets	**18,727,895**	30,200,407
Non-current assets	**6,471,525**	10,945,706
Total assets	**25,199,420**	41,146,113
Current liabilities	**9,637,962**	13,371,754
Non-current liabilities	**9,953,391**	19,528,436
Total liabilities	**19,591,353**	32,900,190
Equity attributable to the equity holders of the subsidiary	**5,608,067**	6,078,342
Perpetual capital instruments	**—**	2,167,581
Total equity	**5,608,067**	8,245,923
Non-controlling interests of the subsidiary	**2,282,483**	2,473,885
Equity attributable to holders of perpetual capital instruments	**—**	1,000,000

	Year ended 31 December,	
	2019	2018
Total revenue	**2,178,069**	2,329,243
Profit before tax	**785,023**	772,981
Total comprehensive income	**934,687**	137,908
Profit attributable to		
non-controlling interests of the subsidiary	**152,195**	132,052
holders of perpetual capital instruments	**128,344**	149,035
Dividend distribution to non-controlling interests	**50,468**	126,984

	Year ended 31 December,	
	2019	2018
Net cash flow (used in)/from operating activities	**(422,354)**	12,889,941
Net cash flow from/(used in) investing activities	**3,272,597**	(2,157,169)
Net cash flow used in financing activities	**(3,168,123)**	(13,566,772)
Net cash outflow	**(317,880)**	(2,834,000)

V. EXPLANATORY NOTES — continued

68. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Trust

	As at 31 December,	
	2019	2018
Current assets	**17,743,473**	5,029,298
Non-current assets	**4,028,765**	15,013,988
Total assets	**21,772,238**	20,043,286
Total liabilities	**13,524,406**	11,372,481
Total equity	**8,247,832**	8,670,805
Non-controlling interests of the subsidiary	**1,914,461**	2,012,640

	Year ended 31 December,	
	2019	2018
Total revenue	**1,417,939**	1,419,150
Profit before tax	**(346,706)**	201,869
Total comprehensive (expense)/income	**(422,973)**	60,794
(Loss)/profit attributable to non-controlling interests of the subsidiary	**(104,994)**	37,866
Dividend distribution to non-controlling interests	**—**	41,109

	Year ended 31 December,	
	2019	2018
Net cash flow from/(used in) operating activities	**273,977**	(658,108)
Net cash flow (used in)/from investing activities	**(1,033,155)**	810,342
Net cash flow from/(used in) financing activities	**1,351,057**	(841,779)
Net cash inflow/(outflow)	**591,879**	(689,545)

V. EXPLANATORY NOTES — continued

69. Statement of financial position and changes in equity of the Company

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	As at 31 December,	
	2019	2018
Assets		
Cash and balances with central bank	**1,274**	1,271
Deposits with financial institutions	**63,595,807**	42,164,956
Placements with financial institutions	**2,800,814**	—
Financial assets at fair value through profit or loss	**217,458,993**	199,029,813
Financial assets held under resale agreements	**2,782,278**	500,263
Debt instruments at fair value through other comprehensive income	**66,796,143**	107,039,301
Equity instruments at fair value through other comprehensive income	**579,214**	577,332
Debt instruments at amortised cost	**338,948,117**	276,863,700
Amounts due from subsidiaries	**89,876,725**	64,170,648
Interests in consolidated structured entities	**6,397,365**	6,662,795
Investment properties	**503,641**	526,753
Property and equipment	**662,854**	699,646
Right-of-use assets	**326,067**	—
Deferred tax assets	**5,922,214**	7,626,798
Other assets	**4,279,638**	2,879,886
Interests in associates	**72,058**	2,034,457
Interests in subsidiaries	**26,408,017**	24,989,837
Total assets	**827,411,219**	735,767,456
Liabilities		
Borrowings	**571,104,982**	507,265,100
Tax payable	**1,305,526**	1,969,490
Lease liabilities	**307,516**	—
Bonds and notes issued	**85,761,976**	83,259,477
Other liabilities	**42,428,743**	32,887,696
Total liabilities	**700,908,743**	625,381,763

V. EXPLANATORY NOTES — continued

69. Statement of financial position and changes in equity of the Company — continued

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 — continued

	As at 31 December,	
	2019	2018
Equity		
Share capital	**39,070,208**	39,070,208
Capital reserve	**17,136,824**	17,371,028
Surplus reserve	**8,564,210**	6,971,780
General reserve	**10,267,972**	9,515,689
Other reserves	**2,808,403**	1,518,282
Retained earnings	**48,654,859**	35,938,706
Total equity	**126,502,476**	110,385,693
Total equity and liabilities	**827,411,219**	735,767,456

Note: The Company has applied IFRS 16 since 1 January 2019 in accordance with transitional provision stated in note II. Lease liabilities amounted to RMB548 million were recognised on initial application of IFRS 16, of which RMB477 million recognised as right-of-use assets for own use.

V. EXPLANATORY NOTES — continued

69. Statement of financial position and changes in equity of the Company — continued

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves		Retained earnings	Total
					Investment revaluation reserve	Others		
As at 31 December 2018	39,070,208	17,371,028	6,971,780	9,515,689	1,593,593	(75,311)	35,938,706	110,385,693
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	(56,915)	(56,915)
As at 1 January 2019 (Restated)	39,070,208	17,371,028	6,971,780	9,515,689	1,593,593	(75,311)	35,881,791	110,328,778
Profit for the year	—	—	—	—	—	—	15,924,299	15,924,299
Other comprehensive income for the year	—	—	—	—	897,282	59,071	—	956,353
Total comprehensive income/(expense) for the year	—	—	—	—	897,282	59,071	15,924,299	16,880,652
Dividends declared	—	—	—	—	—	—	(472,750)	(472,750)
Appropriation to surplus reserve	—	—	1,592,430	—	—	—	(1,592,430)	—
Appropriation to general reserve	—	—	—	752,283	—	—	(752,283)	—
Others	—	(234,204)	—	—	333,768	—	(333,768)	(234,204)
As at 31 December 2019	39,070,208	17,136,824	8,564,210	10,267,972	2,824,643	(16,240)	48,654,859	126,502,476

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves		Retained earnings	Total
					Investment revaluation reserve	Others		
As at 1 January 2018	39,070,208	17,374,712	5,299,688	6,682,665	1,250,481	(16,389)	30,321,852	99,983,217
Profit for the year	—	—	—	—	—	—	16,720,924	16,720,924
Other comprehensive income/(expense) for the year	—	—	—	—	343,112	(58,922)	—	284,190
Total comprehensive income/(expense) for the year	—	—	—	—	343,112	(58,922)	16,720,924	17,005,114
Dividends declared	—	—	—	—	—	—	(6,598,954)	(6,598,954)
Appropriation to surplus reserve	—	—	1,672,092	—	—	—	(1,672,092)	—
Appropriation to general reserve	—	—	—	2,833,024	—	—	(2,833,024)	—
Others	—	(3,684)	—	—	—	—	—	(3,684)
As at 31 December 2019	39,070,208	17,371,028	6,971,780	9,515,689	1,593,593	(75,311)	35,938,706	110,385,693

VI. EVENTS AFTER THE REPORTING PERIOD

1. On 9 April 2020, the Board of Directors of the Company was resolved to make the following profit appropriations of the Company for the year ended 31 December 2019:

   (i) An appropriation of RMB1,592 million to the statutory surplus reserve;

   (ii) An appropriation of RMB1,085 million to the general reserve; and

   (iii) cash dividend distribution of RMB430 million in aggregate.

   The appropriation of statutory surplus reserve has already been recognised in these consolidated financial statements, while the appropriation to the general reserve and dividend distribution was subject to shareholders' approval.

2. Huarong Financial Leasing, a subsidiary of the Company, issued US dollar corporate notes of USD200 million on 17 February 2020. These bonds carry interests of 3.10% per annum and will mature in 2021.

3. Huarong Finance 2019 Co., Ltd., a subsidiary of China Huarong International Holdings Limited, issued USD400 million floating rate guaranteed notes due 2023, USD300 million floating rate guaranteed notes due 2025, USD400 million 2.50% guaranteed notes due 2023 and USD700 million 3.375% guaranteed notes due 2030 under the USD5,900 million medium term note programme on 19 February 2020.

4. Huarong Rongde, a subsidiary of the Company, non-publicly issued corporate bonds of RMB500 million on 17 March 2020. These bonds carry interests of 4.70% per annum and will mature in 2026.

5. Huarong Securities, a subsidiary of the Company, issued subordinated bonds of RMB3,600 million on 26 March 2020. These bonds carry interests of 4.60% per annum and will mature in 2023.

6. Huarong Securities, a subsidiary of the Company, issued subordinated bonds of RMB3,000 million on 2 April 2020. These bonds carry interests of 3.14% per annum and will mature in 2023.

7. Subsequent to the end of the reporting period, COVID-19 outbreak has spread across cities where the Group operates. The outbreak caused severe disruptions to business activities of these cities since the middle of January 2020. As a result, the financial performance and financial position of the Group, particularly the quality and the return of the credit assets and financial investments, would be affected unfavorably to a certain degree. The Group is still assessing the impacts of this outbreak to its own operations.

VI. EVENTS AFTER THE REPORTING PERIOD — continued

8. Subsequent to the reporting period end, the Board is resolved on 8 April 2020 to dispose of its 91% equity interests in an indirectly held subsidiary, Huarong Huaqiao Asset Management Co., Ltd., to an independent third party. Management will assess the impact of this transaction to these financial statements when its consideration is determined.

VII. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 9 April 2020.

18. List of Domestic and Overseas Entities

18.1 Head Office

China Huarong Asset Management Co., Ltd.
Address: No. 8 Financial Street, Xicheng District, Beijing
Postal code: 100033
Tel: 010-59619088
Fax: 010-59618000

18.2 Branches

China Huarong Asset Management Co., Ltd. — Beijing Branch
Address: No. 293 Fuchengmennei Main Street, Xicheng District, Beijing
Postal code: 100034
Tel: 010-66511186
Fax: 010-66511257

China Huarong Asset Management Co., Ltd. — Tianjin Branch
Address: No. 2–3 Jianshan Road, Hexi District, Tianjin
Postal code: 300211
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Fax: 022-28310013

China Huarong Asset Management Co., Ltd. — Hebei Branch
Address: No. 368 Zhongshan East Road, Shijiazhuang, Hebei Province
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Tel: 0311-89291700
Fax: 0311-89291706

China Huarong Asset Management Co., Ltd. — Shanxi Branch
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Fax: 0351-4602761

China Huarong Asset Management Co., Ltd. — Inner Mongolia Branch
Address: No. 54 Xinhua Street, Hohhot, Inner Mongolia Autonomous Region
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Fax: 0471-6967697

China Huarong Asset Management Co., Ltd. — Liaoning Branch
Address: No. 142 Ningshan Middle Road, Huanggu District, Shenyang, Liaoning Province
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China Huarong Asset Management Co., Ltd. — Jilin Branch
Address: No. 917 Tongzhi Street, Changchun, Jilin Province
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China Huarong Asset Management Co., Ltd. — Heilongjiang Branch
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Fax: 021-63280161

China Huarong Asset Management Co., Ltd. — Jiangsu Branch
Address: No. 42 Beijing East Road, Xuanwu District, Nanjing, Jiangsu Province
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China Huarong Asset Management Co., Ltd. — Zhejiang Branch
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Fax: 0571-87689535

China Huarong Asset Management Co., Ltd. — Anhui Branch
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Fax: 0551-62662566

China Huarong Asset Management Co., Ltd. — Jiangxi Branch
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China Huarong Asset Management Co., Ltd. — Fujian Branch
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China Huarong Asset Management Co., Ltd. — Yunnan Branch
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Fax: 0851-85502443

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China Huarong Asset Management Co., Ltd. — Gansu Branch
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Fax: 0931-8500280

China Huarong Asset Management Co., Ltd. — Xinjiang Branch
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Fax: 0991-2826694

China Huarong Asset Management Co., Ltd. — Dalian Branch
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Fax: 0411-83696111

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China Huarong Asset Management Co., Ltd. — SFTZ Branch
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Fax: 021-63265700

18.3 Principal Platform Subsidiaries

Huarong Securities Co., Ltd.
Address: 11–18/F, PICC Life Insurance Building, No.18 Chaoyangmen North Street, Chaoyang District, Beijing
Postal code: 100020
Tel: 95390
Fax: 010-85556155

China Huarong Financial Leasing Co., Ltd.
Address: Huazu Building, No. 88 Jiangjin Road, Jianggan District, Hangzhou, Zhejiang Province
Postal code: 310007
Tel: 0571-87007875
Fax: 0571-87950511

Huarong Xiangjiang Bank Corporation Limited
Address: South Building, Wanjing Financial Intelligence Center, No. 208 Xiangfu East Road, Yuhua District, Changsha, Hunan Province
Postal code: 410007
Tel: 0731-89828801
Fax: 0731-89828801

Huarong International Trust Co., Ltd.
Address: 12/F, Block B, Tongtai Building, No. 33 Financial Street, Xicheng District, Beijing
Postal code: 100032
Tel: 010-57783648/400-610-9969
Fax: 010-56678537

Huarong Futures Co., Ltd.
Address: 3/F, No. 53-1 Longkun North Road, Haikou, Hainan Province
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Fax: 0898-66779397

Huarong Rongde Asset Management Co., Ltd.
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Huarong Industrial Investment & Management Co., Ltd.
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China Huarong International Holdings Limited
Address: China Huarong Tower, No. 60 Gloucester Road, Wanchai, Hong Kong
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Fax: 00852-31985796

Huarong Consumer Finance Co., Ltd.
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Tel: 0551-62882391
Fax: 0551-62988015

This results announcement may contain forward-looking statements relating to risks and future plans. These forward-looking statements are based on information presently available to us and from other sources which we consider to be reliable. The forward-looking statements relating to the future events or the financial, business or other performance of the Company in the future are subject to uncertainties which could cause the actual results to differ materially. Investors are advised not to place undue reliance on these forward-looking statements. Future plans involved in these forward-looking statements do not represent any guarantee made by the Company to the investors. Investors are advised to pay attention to the investment risks. For details of the major risks faced and the relevant measures taken by the Company, please see "9. Management Discussion and Analysis — 9.4 Risk Management" in this annual results announcement.

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

Beijing, the PRC
April 9, 2020

As at the date of this announcement, the Board comprises Mr. WANG Zhanfeng and Ms. LI Xin as executive directors of the Company; Mr. ZHOU Langlang as a non-executive director of the Company; Mr. TSE Hau Yin, Mr. LIU Junmin, Mr. SHAO Jingchun and Mr. ZHU Ning as independent non-executive directors of the Company.