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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 Interim Results Announcement

The board of directors (the “**Board**”) of China Huarong Asset Management Co., Ltd. (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries for the six months ended June 30, 2019. The Audit Committee of the Board has reviewed the interim results. This results announcement complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to the preliminary announcements of interim results. The printed version of the 2019 interim report of the Company will be published and delivered to the holders of the H Shares of the Company and will be available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.chamc.com.cn) in September 2019.

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1 Definitions

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

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

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

MOF	the Ministry of Finance of the PRC (中華人民共和國財政部)
non-performing loan(s) or NPL(s)	loan(s) classified as substandard, doubtful and loss under the five-category loan classification system (as applicable) adopted by financial institutions pursuant to applicable PRC guidelines
OFAC	the Office of Foreign Assets Control of U.S.
PRC GAAP	generally accepted accounting principles in the PRC
Prospectus	the prospectus for the Company's listing in Hong Kong dated October 16, 2015
Protection of State Secret Laws	Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法》), Implementation Measures for the Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法實施條例》) and related laws and regulations
Relevant Persons	has the meaning as defined in the Prospectus
Reporting Period	the six months ended June 30, 2019
RMB or Renminbi	Renminbi, the lawful currency of the PRC
ROAA	return on average assets
ROAE	return on average equity attributable to equity holders
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
Share(s)	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares
Shareholder(s)	holder(s) of the Share(s)
State Council	the State Council of the PRC (中華人民共和國國務院)
Supervisor(s)	supervisor(s) of the Company
U.S. or United States	the United States of America
US\$ or U.S. dollar or USD	United States dollars, the lawful currency of the United States
Value Estimation	has the meaning as defined in the Prospectus

2 Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Wang Zhanfeng
Authorized representatives	Li Xin, Yang Pei
Secretary to the Board	Yang Pei (The qualification is subject to the approval by the CBIRC)
Joint company secretaries	Yang Pei, Ngai Wai Fung
Registered address	No. 8 Financial Street, Xicheng District, Beijing, China
Postal code of place of registration	100033
Website	www.chamc.com.cn
Principal place of business in Hong Kong	40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares interim report	www.hkexnews.hk
Place for maintaining interim reports available for inspection	Board office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock code	2799
H Share registrar	Computershare Hong Kong Investor Services Limited (Address: Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong)
Registration number of financial license	J0001H111000001

Social Credit Code	911100007109255774
Legal advisor as to PRC Law and place of business	Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing, China
Legal advisor as to Hong Kong law and place of business	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

3 Financial Summary

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

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

	As at June 30, 2019 (unaudited) <i>(in millions of RMB, except for per share data and ratios)</i>	As at December 31, 2018 (audited)
Assets		
Cash and balances with central bank	29,085.2	29,909.1
Deposits with financial institutions	137,376.2	107,500.2
Placements with financial institutions	851.2	843.6
Financial assets at fair value through profit or loss (“FVTPL”)	380,032.3	391,181.0
Financial assets held under resale agreements	28,069.5	20,126.9
Contract assets	91.6	114.7
Loans and advances to customers	202,835.0	190,654.0
Finance lease receivables	83,553.0	99,002.9
Debt instruments at fair value through other comprehensive income	125,366.9	147,387.3
Equity instruments at fair value through other comprehensive income	3,136.7	3,244.3
Inventories	19,305.5	19,243.0
Debt instruments at amortized cost	613,582.5	612,133.1
Interests in associates and joint ventures	31,760.8	36,975.5
Investment properties	5,459.3	5,326.1
Property and equipment	12,139.2	10,684.5
Right-of-use assets	3,326.4	—
Deferred tax assets	13,882.1	15,018.7
Other assets	23,252.5	20,478.4
Goodwill	264.3	263.4
Total assets	<u>1,713,370.2</u>	<u>1,710,086.7</u>
Liabilities		
Borrowings from central bank	1,413.6	2,402.2
Deposits from financial institutions	5,996.7	7,307.6
Placements from financial institutions	663.1	300.2
Financial assets sold under repurchase agreements	24,453.9	24,410.0
Borrowings	755,182.8	760,995.5
Financial liabilities at fair value through profit or loss	3,313.4	4,728.3
Due to customers	227,655.4	209,116.5
Tax payable	1,236.1	3,731.9
Contract liabilities	1,389.2	954.4
Lease liabilities	1,413.5	—
Deferred tax liabilities	492.8	605.8
Bonds and notes issued	367,872.1	353,305.3
Other liabilities	153,090.4	173,624.0
Total liabilities	<u>1,544,173.0</u>	<u>1,541,481.7</u>

	As at June 30, 2019 (unaudited) <i>(in millions of RMB, except for per share data and ratios)</i>	As at December 31, 2018 (audited)
Equity		
Share capital	39,070.2	39,070.2
Capital reserve	19,029.5	19,107.4
Surplus reserve	6,971.8	6,971.8
General reserve	16,625.1	15,872.8
Other reserves	1,258.0	987.8
Retained earnings	39,727.3	38,630.2
Equity attributable to equity holders of the Company	122,681.9	120,640.2
Perpetual capital instruments	19,328.7	20,258.5
Non-controlling interests	27,186.6	27,706.3
Total equity	169,197.2	168,605.0
Total equity and liabilities	1,713,370.2	1,710,086.7
Financial ratios		
Liability to total asset ratio ⁽¹⁾	90.1 %	90.1 %
	For the six months ended June 30, 2019 (unaudited)	2018 (unaudited)
Annualized ROAE ⁽²⁾	4.1 %	1.1 %
Annualized ROAA ⁽³⁾	0.3 %	0.1 %
Cost-to-income ratio ⁽⁴⁾	21.9 %	24.9 %
Basic earnings per share ⁽⁵⁾ (RMB)	0.06	0.02
Diluted earnings per share ⁽⁶⁾ (RMB)	N/A	N/A

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

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

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

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

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

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

4 Management Discussion and Analysis

4.1 Economic, Financial and Regulatory Environment

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

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

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

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

4.2 Analysis of Financial Statements

4.2.1 Changes in Accounting Policies

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

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

4.2.2 Operating Results of the Group

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

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

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

4.2.2.1 Total income

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

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

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

4.2.2.1.1 Income from distressed debt assets

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

4.2.2.1.2 Fair value changes on distressed debt assets

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

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

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

4.2.2.1.3 Fair value changes on other financial assets and liabilities

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

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

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

- (1) The valuation of some equity investments of the Group increased significantly over the end of 2018 due to the continued downturn in the domestic stock market in 2018 and the rally in the stock market in the first half of 2019.
- (2) The decrease in realized interest income for the period due to the Group's ongoing shrinkage of non-core businesses and non-advantages businesses, which caused the investment scale of funds and trust products to decline consecutively.

4.2.2.1.4 Interest income

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

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

Interest income derives from the Group's debt investment, which is measured at amortized cost and at fair value through other comprehensive income, excluding that from the acquisition-and-restructuring businesses of the Group. Following by the strategy of promoting the return of the core business, downsizing and risk resolution, the Group continued to decline the investment scale of the debt assets of the parent company and some non-financial subsidiaries, which result in a relatively sharp decrease in the interest income. The Group's interest income decreased by 19.6% from

RMB24,130.8 million in the first half of 2018 to RMB19,392.8 million in the first half of 2019. In particular, the Group's interest income from both the debt instruments measured at amortized cost other than distressed debt assets and the debt instruments at FVTOCI other than distressed debt assets decreased by 31.4% from RMB15,198.7 million in the first half of 2018 to RMB10,421.7 million in the first half of 2019.

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

4.2.2.1.5 Finance lease income

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

4.2.2.1.6 Commission and fee income

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

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

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

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

Commission and fee income from securities and futures brokerage business decreased by 38.2% from RMB702.2 million in the first half of 2018 to RMB434.3 million in the first half of 2019, commission and fee income from the trust business decreased by 58.0% from RMB497.8 million

in the first half of 2018 to RMB209.0 million in the first half of 2019. The decrease of revenue is mainly caused by the strict control of Huarong Securities and Huarong Trust for their brokerage business, promoting business transformation and upgrading and slowing down of business expansion following the regulatory requirement.

4.2.2.1.7 Other income and other net gains or losses

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

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

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

4.2.2.2 Total expenses

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

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

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

4.2.2.2.1 Interest expenses

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

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

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

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

4.2.2.2.2 Operating expenses

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

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

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

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

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

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

4.2.2.2.3 Impairment losses under ECL model

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

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

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

4.2.2.2.4 Impairment losses on other assets

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

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

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

4.2.2.3 Income tax expense

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

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

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

4.2.2.4 Segment operating results

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

- (1) distressed asset management segment: mainly includes distressed debt asset management business of the Company, policy-based DES asset management through commercial buy-out of the DES asset management business of the Company, distressed asset management business conducted by our subsidiaries, distressed asset-based special situations investments business and distressed asset-based property development business as well as market-oriented DES business of the Group.
- (2) financial services segment: mainly includes securities and futures business, financial leasing business, banking services business and consumer finance business.
- (3) asset management and investment segment: mainly includes trust business, private equity funds business, financial investments business, international business and other businesses.

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

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

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

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

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

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

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

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

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

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

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

4.2.3 Financial Positions of the Group

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

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

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

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

4.2.3.1 Assets

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

4.2.3.1.1 Deposits with financial institutions

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

4.2.3.1.2 Financial assets at fair value through profit or loss

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

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

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

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

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

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

4.2.3.1.3 Loans and advances to customers

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

	As at June 30, 2019	As at December 31, 2018	Change	Change in percentage
	<i>(in millions of RMB, except for percentages)</i>			
Loans and advances to customers at amortized cost				
Corporate loans and advances	124,702.4	119,311.2	5,391.2	4.5%
Personal loans and advances				
— Loans for business operations	13,077.7	12,740.8	336.9	2.6%
— Mortgages	21,768.0	18,511.7	3,256.3	17.6%
— Personal consumption loans	30,079.9	27,562.9	2,517.0	9.1%
— Others	2,604.0	2,802.7	(198.7)	(7.1%)
Subtotal	67,529.6	61,618.1	5,911.5	9.6%
Loans to margin clients	6,312.7	6,282.4	30.3	0.5%
Gross amount of loans and advances to customers at amortized cost	198,544.7	187,211.7	11,333.0	6.1%

	As at June 30, 2019	As at December 31, 2018	Change	Change in percentage
<i>(in millions of RMB, except for percentages)</i>				
Less: Allowance for impairment losses				
— 12-month ECL	(2,399.4)	(1,967.7)	(431.7)	21.9%
— Lifetime ECL	(3,958.5)	(3,158.6)	(799.9)	25.3%
Subtotal	(6,357.9)	(5,126.3)	(1,231.6)	24.0%
Net amount of loans and advances to customers at amortized cost	192,186.8	182,085.4	10,101.4	5.5%
Loans and advances to customers at fair value through other comprehensive income				
— Discounted bills	10,648.2	8,568.6	2,079.6	24.3%
Net amount of loans and advances to customers	202,835.0	190,654.0	12,181.0	6.4%

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

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

4.2.3.1.4 Finance lease receivables

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

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

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

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

4.2.3.1.5 Debt instruments at fair value through other comprehensive income

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

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

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

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

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

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

Debt instruments at FVTOCI are measured at fair value in the financial statements, and the allowance for impairment losses based on the ECL model for such debt instruments are recognised in other comprehensive income ("OCI") and accumulated under the heading of investment

revaluation reserve, impairment losses are recognised in profit or loss with corresponding adjustments to OCI without reducing the carrying amounts of these debt instruments. As at December 31, 2018 and June 30, 2019, the allowance for impairment for debt instruments at FVTOCI presented under the investment revaluation reserve amounted to RMB3,259.4 million and RMB4,130.0 million, respectively, representing an increase of 26.7%.

4.2.3.1.6 Debt instruments at amortized cost

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

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

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

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

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

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

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

As at December 31, 2018 and June 30, 2019, based on the ECL model, the Group's allowance for impairment losses for debt instruments at amortized cost were RMB50,929.5 million and RMB59,114.6 million, respectively, representing an increase of 16.1%. The allowance for

impairment losses for distressed debt assets at amortized cost were RMB22,926.5 million and RMB24,070.0 million, respectively, representing a provision rate of 7.9% and 8.1%, respectively. The allowance for impairment losses for other debt assets at amortized cost were RMB28,003.0 million and RMB35,044.6 million, representing a provision rate of 7.5% and 9.3%, respectively.

4.2.3.2 Liabilities

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

4.2.3.2.1 Borrowings

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

4.2.3.2.2 Due to customers

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

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

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

4.2.3.2.3 Bonds and notes issued

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

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

4.2.4 Contingent Liabilities

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

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

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

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

4.3 Business Overview

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

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

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

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

4.3.1 Distressed Asset Management

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

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

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

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

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

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

- (1) Operating income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets (acquisition-and-disposal model); and (ii) income from distressed debt assets (acquisition-and-restructuring model), as shown in the condensed consolidated financial statements.
- (2) Market-oriented debt-to-equity swap is primarily conducted by the Company and Huarong Ruitong Equity Investment Management Co., Ltd (華融瑞通股權投資管理有限公司) ("Huarong Ruitong") and other subsidiaries.
- (3) Income from market-oriented debt-to-equity swap includes realized income and unrealized income arising from market-oriented debt-to-equity swap business.
- (4) Distressed asset-based special situations investments business conducted by our subsidiaries was primarily conducted by Huarong Rongde, China Huarong Western Development Investment Co., Ltd. ("China Huarong Western"), Huarong (Tianjin Free Trade Zone) Investment Co., Ltd. ("Huarong Tianjin Investment"), Huarong Guangdong Free Trade Zone Investment Holdings Co., Ltd. ("Huarong Guangdong Holdings") and other subsidiaries.
- (5) Gross amount of distressed debt assets equals the sum of the Company's (i) distressed debt assets presented under financial assets at FVTPL (acquisition-and-disposal model); and (ii) distressed debt assets presented under debt instruments at amortized costs and at FVTOCI (acquisition-and-restructuring model), as shown in the condensed consolidated financial statements.
- (6) Allowance for impairment losses for distressed debt assets equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortized costs and at FVTOCI, as shown in the condensed consolidated financial statements, of which, the allowance for impairment losses for distressed debt assets is presented under the debt instruments at FVTOCI as a part of the investment revaluation reserve, which has no effect on the net carrying amount of distressed debt assets.

4.3.1.1 Distressed debt asset management business of the Company

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

4.3.1.1.1 Sources for acquisition of distressed debt assets

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

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

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

As at June 30, 2019 As at December 31, 2018
(in millions of RMB)

**Gross amount of distressed debt assets
at the end of the period⁽²⁾**

FI Distressed Assets	158,924.5	29.8%	169,819.1	31.9%
NFE Distressed Assets	373,690.4	70.2%	363,127.3	68.1%
Total	<u>532,614.9</u>	<u>100.0%</u>	<u>532,946.4</u>	<u>100.0%</u>

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

4.3.1.1.1 FI Distressed Assets

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

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

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

4.3.1.1.1.2 NFE Distressed Assets

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

4.3.1.1.2 Business models of distressed debt asset management

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

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

	For the six months ended June 30,			
	2019		2018	
	Amount	Percentage	Amount	Percentage
<i>(in millions of RMB, except for percentages)</i>				
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	16,884.7	20.2%	19,540.4	21.1%
Acquisition-and-restructuring	66,803.4	79.8%	72,973.3	78.9%
Total	83,688.1	100.0%	92,513.7	100.0%
Income from distressed debt assets for the period				
Acquisition-and-disposal ⁽¹⁾	4,797.7	23.9%	2,891.0	15.8%
Acquisition-and-restructuring ⁽²⁾	15,303.9	76.1%	15,454.5	84.2%
Total	20,101.6	100.0%	18,345.5	100.0%
As at June 30, 2019 As at December 31, 2018				
<i>(in millions of RMB, except for percentages)</i>				
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal ⁽³⁾	167,710.5	31.5%	162,691.0	30.5%
Acquisition-and-restructuring ⁽⁴⁾	364,904.4	68.5%	370,255.4	69.5%
Total	532,614.9	100.0%	532,946.4	100.0%

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

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

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

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

4.3.1.1.2.1 Acquisition-and-disposal model

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.3.1.1.2.2 Acquisition-and-restructuring model

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

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

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

	For the six months ended June 30,	
	2019	2018
	<i>(in millions of RMB, except for percentages)</i>	
Number of new projects (quantity)	251	258
Acquisition cost of newly added distressed debt assets	66,803.4	72,973.3
Income from distressed debt assets		
Operating income from distressed debt assets ⁽¹⁾	15,246.4	15,103.3
Financial advisory income	57.5	351.2
Total	<u>15,303.9</u>	<u>15,454.5</u>
Annualized return on monthly average gross amount of distressed debt assets (excluding financial advisory income) ⁽²⁾	8.2%	8.7%
	As at June 30, 2019	As at December 31, 2018
	<i>(in millions of RMB, except for percentages)</i>	
Number of existing projects as of the end of the period (quantity)	1,567	1,565
Gross amount of distressed debt assets ⁽³⁾	364,904.4	370,255.4
Allowance for impairment losses ⁽⁴⁾	(26,850.1)	(24,514.7)
Net carrying amount of distressed debt assets ⁽⁵⁾	341,612.6	348,659.5
Allowance to distressed debt assets ratio ⁽⁶⁾	7.4%	6.6%
Gross amount of stage III distressed debt assets ⁽⁷⁾	41,946.0	36,199.2
Allowance for impairment losses for stage III distressed debt assets ⁽⁸⁾	(20,828.7)	(19,009.7)
Distressed debt assets collateral ratio ⁽⁹⁾	36.3%	37.1%

- (1) The operating income from distressed debt assets equals the Company's income from distressed debt assets, as shown in the condensed consolidated financial statements.
- (2) Annualized return on monthly average gross amount of distressed debt assets equals the annualized operating income from distressed debt assets divided by the average gross amount of distressed debt assets at the end of each month of that period.
- (3) Gross amount of distressed debt assets equals the sum of the Company's gross amount of distressed debt assets presented under debt instruments at amortized cost and at FVTOCI, as shown in the condensed consolidated financial statements.
- (4) Allowance for impairment losses equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortized cost and at FVTOCI, as shown in the condensed consolidated financial statements, of which, allowance for impairment losses for the distressed debt assets presented under debt instruments at FVTOCI are presented as a part of the investment revaluation reserve.
- (5) Net carrying amount of distressed debt assets equals the gross amount of the Company's net amount of distressed debt assets presented under debt instruments at amortized costs and balance of distressed debt assets presented under debt instruments at FVTOCI.

- (6) Allowance to distressed debt assets ratio equals the allowance for impairment losses divided by the gross amount of distressed debt assets.
- (7) Gross amount of stage III distressed debt assets is balance of stage III distressed debt assets based on the stage division model.
- (8) Allowance for impairment losses for stage III distressed debt assets is the allowance for impairment losses for distressed debt assets which is classified as stage III.
- (9) Distressed debt assets collateral ratio equals the percentage of the total amount of collateralized distressed debt assets to the total appraised value of the collateral securing these assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.3.1.3 Market-oriented DES business

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

- (1) The model of "issuing shares for repaying debts": By participating in the private placement of listed companies for repayment of bank loans, the Group increased the efficiency of DES implementation and effectively supported the development of real economy.
- (2) The model of "changing debt collection to equity": The Group specified real enterprise clients to ease liquidity problems and helped enterprises "de-leverage" by changing debt collection to equity.
- (3) The model of "offsetting debts with equity": An enterprise helps real enterprises reduce debts and ease liquidity problems through debt restructuring, i.e. offsetting debts with high-quality equities including equity of listed companies.

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

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

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

4.3.1.4 Distressed debt asset management business conducted by our subsidiaries

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

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

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

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

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

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

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

	As at June 30, 2019	As at December 31, 2018
	<i>(in millions of RMB)</i>	
Total assets	42,551.6	41,146.1
	For the six months ended June 30, 2019	2018
	<i>(in millions of RMB)</i>	
Income	962.0	974.9
Net profit	330.8	15.9

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

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

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

4.3.2 Financial Services

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

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

	As at June 30, 2019	As at December 31, 2018
	<i>(in millions of RMB)</i>	
Securities and Futures Business		
Total assets	76,212.4	79,618.4
Total equity	12,065.9	11,884.9
Financial Leasing Business		
Total assets	131,615.6	124,458.4
Total equity	15,315.3	14,860.1
Banking Services Business		
Total assets	355,449.7	335,451.9
Total equity	23,535.9	21,961.0
Consumer Finance Business		
Total assets	6,092.7	8,152.2
Total equity	505.4	680.7
	For the six months ended June 30,	
	2019	2018
	<i>(in millions of RMB)</i>	
Securities and Futures Business		
Total income	3,001.4	2,262.6
Profit before tax	66.3	(300.0)
Financial Leasing Business		
Total income	4,144.6	3,738.9
Profit before tax	1,162.2	1,100.8
Banking Services Business		
Total income	9,418.6	8,754.4
Profit before tax	1,977.0	1,789.8
Consumer Finance Business		
Total income	566.9	559.5
Profit before tax	(233.7)	54.7

4.3.2.1 Securities and futures business

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

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

	For the six months ended June 30,		Regulatory requirements
	2019	2018	
Profitability indicators ⁽¹⁾			
Net profit margin ⁽²⁾	1.9%	(13.3%)	—
Annualized ROAE ⁽³⁾	0.9%	(4.6%)	—
Annualized ROAA ⁽⁴⁾	0.1%	(0.5%)	—
	As at June 30, 2019	As at December 31, 2018	Regulatory requirements
Risk control indicators ⁽⁵⁾			
Net capital to total risks ratio	179.6%	182.3%	Not lower than 100%
Net capital to net assets ratio	119.6%	133.8%	Not lower than 40%
Net capital to liabilities ratio	51.5%	48.5%	Not lower than 8%
Net assets to liabilities ratio	43.0%	36.2%	Not lower than 20%
Equity securities and derivatives of proprietary trading to net capital ratio	5.0%	4.9%	Not higher than 100%
Fixed income securities of proprietary trading to net capital ratio	167.9%	159.7%	Not higher than 500%

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

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

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

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

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

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

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

4.3.2.2 Financial leasing business

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

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

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

	For the six months ended June 30,	
	2019	2018
Profitability indicators		
Annualized ROAA ⁽¹⁾	1.4%	1.3%
Annualized ROAE ⁽²⁾	11.6%	11.7%
Net interest spread ⁽³⁾	2.0%	1.4%
Net interest margin ⁽⁴⁾	2.6%	2.0%
	As at	As at
	June 30,	December 31,
	2019	2018
Asset quality indicators		
Distressed asset ratio ⁽⁵⁾	1.56%	1.49%
Provision coverage ratio ⁽⁶⁾	160.3%	156.0%
Capital adequacy indicators		
Core capital adequacy ratio ⁽⁷⁾	12.1%	12.3%
Capital adequacy ratio ⁽⁷⁾	12.9%	13.0%

- (1) Annualized ROAA equals the annualized net profit for the period divided by the average of total assets as of the beginning and the end of the period.
- (2) Annualized ROAE equals the annualized net profit attributable to shareholders for the period as a percentage of the average balance of shareholder's equity as of the beginning and the end of the period.
- (3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.
- (4) Net interest margin equals net interest income divided by the average daily balance of interest-earning assets.
- (5) Distressed asset ratio equals the balance of distressed assets divided by finance lease receivables. Distressed assets are defined as those initially recognized finance lease receivables which have objective evidence of impairment as a result of one or more events and such events have had an impact on the expected future cash flows of finance lease receivables that can be reliably estimated.
- (6) Provision coverage ratio equals the balance of allowance for impairment losses divided by the balance of distressed assets.
- (7) Disclosed by the means reported to CBIRC.

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

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

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

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

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

4.3.2.3 Banking services business

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

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

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

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

	For the six months ended June 30,	
	2019	2018
Profitability indicators		
Annualized ROAA ⁽¹⁾	0.9%	0.9%
Annualized ROAE ⁽²⁾	13.8%	13.7%
Net interest spread ⁽³⁾	2.3%	2.6%
Net interest margin ⁽⁴⁾	2.6%	2.8%
	As at	As at
	June 30,	December 31,
	2019	2018
Asset quality indicators		
Non-performing loan ratio ⁽⁵⁾	1.59%	1.58%
Provision coverage ratio ⁽⁶⁾	155.6%	153.9%
Allowance to total loans ⁽⁷⁾	2.5%	2.4%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio ⁽⁸⁾	9.6%	9.6%
Capital adequacy ratio ⁽⁸⁾	12.6%	12.7%
Other indicators		
Liquidity ratio ⁽⁹⁾	60.9%	63.8%

- (1) Annualized ROAA equals the annualized net profit for the period divided by the average of total assets at the beginning and end of the period.
- (2) Annualized ROAE equals the annualized net profit attributable to shareholders for the period as a percentage of the average balance of shareholders' equity at the beginning and end of the period.
- (3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.
- (4) Net interest margin equals net interest income divided by the average daily interest-earning assets.
- (5) Non-performing loan ratio equals the balance of non-performing loans divided by total loans and advances to customers.
- (6) Provision coverage ratio equals the balance of allowance for impairment losses divided by the balance of non-performing loans.
- (7) Allowance to total loans equals the balance of allowance for impairment losses divided by total loans and advances to customers.
- (8) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBIRC regulations.
- (9) Liquidity ratio is calculated according to CBIRC regulations.

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

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

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

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

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

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

4.3.2.4 Consumer finance business

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

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

4.3.3 Asset Management and Investment Business

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

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

	As at June 30, 2019	As at December 31, 2018
	<i>(in millions of RMB)</i>	
Trust business		
Outstanding trust AUM	162,999.5	189,293.8
Financial investments of the Company		
Balance of financial investments ⁽¹⁾	39,483.1	42,563.4
International business		
Total assets	244,223.3	237,912.8
	For the six months ended June 30,	
	2019	2018
	<i>(in millions of RMB)</i>	
Trust business		
Total trust income	730.7	863.9
Including: trust commission and fee income	209.2	497.8
Profit before tax	(80.7)	47.6
Private fund		
Total income	(808.5)	592.3
Financial investments of the Company		
Investment income from financial investments ⁽²⁾	943.7	1,862.8
International business		
Total income	5,098.8	6,464.5
Profit before tax	(4,547.5)	(1,638.6)

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

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

4.3.3.1 Trust business

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

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

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

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

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

4.3.3.2 Private fund business

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

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

4.3.3.3 Financial investment business of the Company

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

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

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

4.3.3.4 International business

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

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

4.3.4 Business Synergy

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

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

4.3.5 Human Resources Management

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

Employees

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

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

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

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

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

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

Remuneration policy

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

Education and training

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

4.3.6 No Material Changes

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

4.4 Risk Management

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

4.4.1 Comprehensive Risk Management System

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

In the first half of 2019, the Group further improved the organizational structure of comprehensive risk management through the institutional reform of its headquarters, optimized the management and control responsibilities of Risk Management Department, highlighted the positioning of comprehensive risk management, strengthened the vertical management of risk lines, and improved the professionalism of risk management; newly established the Internal Control and Compliance Department to improve the independence and professionalism of internal control and compliance management; further standardized the responsibilities of relevant departments in comprehensive risk management, clearly defined the responsibility boundaries of risk management in the Group and subsidiary levels and improved the "Three Lines of Defense" of risk management. The Group has earnestly strengthened risk appetite and risk limits management. Based on the principles of stability and prudence, the Group formulated the 2019 Risk Management Strategies and Risk Appetite Policy (《2019 年度風險管理策略和風險偏好政策》) and 2019 Risk Limits Plan (《2019 年度風險限額方案》), giving full play to the guiding and binding role of appetite and limits. The Group strengthened the monitoring, analysis, and management and control of the its risk status, closely

tracked changes in asset quality, liquidity risk, capital market volatility, operational risk, reputation risk, etc., and took effective measures to control and defuse risks, so as to provide strong guarantee for the Company's steady operation.

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

4.4.2 Credit Risk Management

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

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

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

4.4.3 Market Risk Management

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

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

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

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

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

4.4.4 Liquidity Risk Management

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

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

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

4.4.5 Operation Risk Management

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

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

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

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

4.4.6 Reputation Risk Management

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

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

4.4.7 Internal Audit

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

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

4.4.8 Anti-money Laundering Work

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

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

4.5 Capital Management

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

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

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

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

4.6 Outlook

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

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

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

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

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

5 Changes in Share Capital and Information on Substantial Shareholders

5.1 Changes in Share Capital

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

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

5.2 Substantial Shareholders

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

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

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

Note: (L) refers to long position

Notes:

- (1) The data is based on the Corporate Substantial Shareholder Notice from the MOF filed with the Hong Kong Stock Exchange on December 1, 2015.
- (2) According to the Corporate Substantial Shareholder Notices from the MOF and Central Huijin Investment Ltd. filed with the Hong Kong Stock Exchange, respectively, on December 17, 2015, Fabulous Treasure Investments Limited directly holds 1,716,504,000 H Shares of the Company. As Agricultural Bank of China Limited, ABC International Holdings Limited, ABCI Investment Management Limited, Glorious Align Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by the MOF and Central Huijin Investment Ltd., therefore, for the purpose of the SFO, the MOF, Central Huijin Investment Ltd., Agricultural Bank of China Limited, ABC International Holdings Limited, ABCI Investment Management Limited, Glorious Align Limited and SOL Investment Fund LP are deemed to be interested in the long positions held by Fabulous Treasure Investments Limited.
- (3) According to the Corporate Substantial Shareholder Notice from Warburg Pincus & Co., Warburg Pincus Private Equity XI, L.P., Warburg Pincus XI, L.P., WP Global LLC and WP XI International II Ltd filed with the Hong Kong Stock Exchange, respectively, on November 30, 2018, Warburg Pincus Financial International Ltd directly holds 2,060,000,000 H Shares of the Company. As WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP XI International II Ltd, WP Financial L.P., Warburg Pincus International L.P. and Warburg Pincus Financial International Ltd are all corporations directly or indirectly controlled by Warburg Pincus & Co., therefore, for the purpose of the SFO, Warburg Pincus & Co., WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP XI International II Ltd, WP Financial L.P. and Warburg Pincus International L.P. are deemed to be interested in the long positions held by Warburg Pincus Financial International Ltd.
- (4) According to the Corporate Substantial Shareholder Notice from Sino-Ocean Group Holding Limited (formerly known as Sino-Ocean Land Holdings Limited) filed with the Hong Kong Stock Exchange on September 13, 2016, Fabulous Treasure Investments Limited and Shining Grand Limited directly holds 1,716,504,000 and 54,906,000 H Shares of the Company, respectively. As Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP, Fabulous Treasure Investments Limited and Shining Grand Limited are all corporations directly or indirectly controlled by Sino-Ocean Group Holding Limited, for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited and SOL Investment Fund LP are deemed to be interested in the long positions of 1,716,504,000 H Shares of the Company held by Fabulous Treasure Investments Limited, and for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited and Sino-Ocean Land (Hong Kong) Limited are deemed to be interested in the long positions of 54,906,000 H Shares of the Company held by Shining Grand Limited.
- (5) According to the Individual Substantial Shareholder Notices from Ko Kwong Woon Ivan and Siu Lai Sheung filed with the Hong Kong Stock Exchange, respectively, on December 16, 2015, Fabulous Treasure Investments Limited directly holds 1,716,504,000 H Shares of the Company. As RECAS Global Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by Ko Kwong Woon Ivan and Siu Lai Sheung, therefore, for the purpose of the SFO, Ko Kwong Woon Ivan, Siu Lai Sheung, RECAS Global Limited, SOL Investment Fund GP Limited and SOL Investment Fund LP are deemed to be interested in the long positions held by Fabulous Treasure Investments Limited.
- (6) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at June 30, 2019.
- (7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at June 30, 2019.

5.2.2 Substantial Shareholders

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

MOF

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

China Life Insurance (Group) Company

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

Warburg Pincus LLC

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

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

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

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

6 Directors, Supervisors and Senior Management

6.1 Basic Information

6.1.1 Directors

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

6.1.2 Supervisors

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

6.1.3 Senior Management

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

6.2 Changes

6.2.1 Director

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

6.2.2 Senior Management

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

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

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

6.3 Material Changes during the Reporting Period

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

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

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

7 Significant Events

7.1 Corporate Governance

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

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

7.2 Shareholders' General Meeting

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

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

7.3 Board

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

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

7.4 Board of Supervisors

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

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

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

7.5 Senior Management

During the Reporting Period, the senior management of the Company organized and implemented the Company’s management and operation within the scope of authorities delegated by the Articles of Association and the Board of Directors. The senior management of the Company firmly seized the major opportunities from supply-side structural reform and economic transformation and upgrading, actively changed the development concept, adjusted the business model and development mode aiming at achieving operation goals of high-quality development of “prominent main business, financial soundness, risk controllable, and synergistic effect”; it adhered to the core and main business, allocated resources leanly, increased total factor productivity, and actively

supported the service of the real economy; it confirmedly promoted the downsizing and risk resolution, and enhanced the ability of sustainable development; it firmly established responsibility awareness, risk awareness and compliance awareness, and comprehensively strengthened the construction of corporate governance and internal control mechanisms; it enhanced corporate transparency, and shaped a good corporate image; and performed its duties faithfully and diligently, and conducted the business in an orderly and effective manner.

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

7.6 Corporate Governance Code

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

7.7 Internal Control

7.7.1 Development of Internal Control System

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

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

7.7.2 Internal Control Measures for Sanctions Risks and Excluded DES Companies

Internal Control Measures for Sanctions Risks

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

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

2. The Group has compiled the compliance operational handbook and compliance review manual to sort out procedures of business activities of the Company and to identify and highlight relevant compliance issues on preventing sanctions risks.
3. The Group has compiled the Questionnaire on Due Diligence Investigation in respect of Sanctions and Export Control of Investees and issued it to all units of the Group as a basic tool of due diligence investigation on sanctions risks.
4. The Group has prepared the Commitment Letter of Sanction Risk Control and issued it to all units within the Group as a basic tool for the control of sanctions risks.
5. Upon listing, the Company has been strictly complying with the Company's requirements for preventing the OFAC sanction risks and identifying sanction risks of potential investment opportunities in a timely manner when conducting the newly added equity investment business. Since the listing of the Company, there was no OFAC sanction risk involved in the newly added equity investment projects.
6. For DES Companies trading with the sanctioned countries or persons, as shown in public information, which was disclosed in the Prospectus, the Group has corresponding business groups and project managers to take responsibility for the daily management of the enterprise. According to the daily management information accessible to the Company, no relevant sanction matters have been found imposed on such enterprises and no matters affecting the production and operation have occurred due to sanction risks for the time being.
7. The Group has engaged an attorney to provide assistance to the Company in evaluating sanctions risks of the Group every six months and carried out the necessary training on sanctions risks for relevant personnel.
8. The Group has engaged an attorney to review internal control policies and procedures regarding the legal sanctions and will improve relevant internal control measures according to the attorney's advice.

Internal Control Measures for Excluded DES Companies

1. For the Excluded DES Companies, the Group has the corresponding business groups and project managers responsible for the daily management of the enterprises. The Group promptly obtained the daily operation and management information of the enterprises through attending the Shareholders' general meetings, the Board meetings and the meetings of Board of Supervisors of the invested enterprises and conducting regular visits. Since the listing of the Company, there are no major legal disputes and compliance risks in relation to the Company in this type of enterprise.
2. The Group will regularly evaluate the potential risks from the Excluded DES Companies based on the information obtained. If any potential risks are identified, the Group will seek specific advice from reputable external legal counsels with relevant professional expertise and experience, and take measures accordingly.

3. The Group has comprehensively carried out the disposal plan for the Excluded DES Companies. For details of the disposal of the Excluded DES Companies, please refer to “7. Significant Events — 7.10 Disposal of Equity in Excluded DES Companies”.
4. The Group will not make any further investments in the Excluded DES Companies or increase the portfolio of DES Assets for which we cannot obtain sufficient information for Value Estimation due to restrictions from the Protection of State Secret Laws.
5. The Group will regularly review new laws and regulations on protection of state secrets.
6. The Group will regularly review and update the internal control policies and procedures for the Excluded DES Companies.

Future Businesses of DES Companies and Investment Plans Involving DES Companies

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

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

7.8 Distribution of Profit and Dividend

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

7.9 Use of Proceeds

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

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

7.10 Disposal of Equity in Excluded DES Companies

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

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

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

7.11 Material Litigation and Arbitration

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

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

7.12 Major Acquisition and Disposal of Assets and Merger

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

7.13 Implementation of Share Incentive Scheme

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

7.14 Major Connected Transactions

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

7.15 Major Contracts and Their Implementation

7.15.1 Major Custodies, Underwriting and Leasing

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

7.15.2 Material Guarantees

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

7.16 Purchase, Sale and Redemption of Listed Securities

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

7.17 Securities Transactions by Directors, Supervisors and Senior Management

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

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

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

7.19 Review of the Interim Results Announcement

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

This results announcement has been reviewed and approved by the Board and the Audit committee of the Board.

8. Review Report and Condensed Consolidated Financial Statements

REVIEW REPORT AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed consolidated financial statements of China Huarong Asset Management Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 87 to 153, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TO THE BOARD OF DIRECTORS OF CHINA HUARONG ASSET MANAGEMENT CO., LTD.
— continued

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	As at 30 June, 2019 (Unaudited)	As at 31 December, 2018 (Audited)
Assets			
Cash and balances with central bank	15	29,085,151	29,909,098
Deposits with financial institutions	16	137,376,201	107,500,242
Placements with financial institutions		851,179	843,638
Financial assets at fair value through profit or loss	17	380,032,321	391,180,975
Financial assets held under resale agreements	18	28,069,511	20,126,943
Contract assets		91,595	114,715
Loans and advances to customers	19	202,834,970	190,654,038
Finance lease receivables	20	83,553,030	99,002,940
Debt instruments at fair value through other comprehensive income	21	125,366,919	147,387,307
Equity instruments at fair value through other comprehensive income	22	3,136,748	3,244,308
Inventories	23	19,305,526	19,243,035
Debt instruments at amortised cost	24	613,582,487	612,133,108
Interests in associates and joint ventures	25	31,760,790	36,975,454
Investment properties	26	5,459,256	5,326,055
Property and equipment	26	12,139,179	10,684,499
Right-of-use assets		3,326,426	—
Deferred tax assets		13,882,116	15,018,661
Other assets	27	23,252,509	20,478,316
Goodwill		264,325	263,357
Total assets		1,713,370,239	1,710,086,689
Liabilities			
Borrowings from central bank		1,413,569	2,402,169
Deposits from financial institutions	28	5,996,740	7,307,583
Placements from financial institutions		663,067	300,153
Financial assets sold under repurchase agreements	29	24,453,941	24,410,016
Borrowings	30	755,182,807	760,995,510
Financial liabilities at fair value through profit or loss	17	3,313,390	4,728,291
Due to customers	31	227,655,364	209,116,484
Tax payable	32	1,236,082	3,731,887
Contract liabilities		1,389,210	954,376
Lease liabilities		1,413,527	—
Deferred tax liabilities		492,801	605,835
Bonds and notes issued	33	367,872,142	353,305,299
Other liabilities	34	153,090,411	173,624,117
Total liabilities		1,544,173,051	1,541,481,720

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

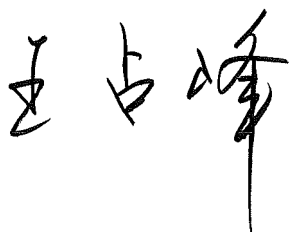
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AS AT 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	As at 30 June, 2019 (Unaudited)	As at 31 December, 2018 (Audited)
Equity			
Share capital	35	39,070,208	39,070,208
Capital reserve		19,029,523	19,107,353
Surplus reserve		6,971,780	6,971,780
General reserve	36	16,625,102	15,872,819
Other reserves		1,257,950	987,763
Retained earnings		39,727,372	38,630,165
Equity attributable to equity holders of the Company		122,681,935	120,640,088
Perpetual capital instruments		19,328,664	20,258,532
Non-controlling interests		27,186,589	27,706,349
Total equity		169,197,188	168,604,969
Total equity and liabilities		1,713,370,239	1,710,086,689

The condensed consolidated financial statements on pages 87 to 153 were approved and authorised for issue by the Board of Directors and are signed on its behalf by:



CHAIRMAN



EXECUTIVE DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to equity holders of the Company												
					Other Reserves						Non-controlling interests		
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings	Subtotal	Perpetual capital instruments	Non-controlling interests	Total
As at 31 December 2018 (audited)	39,070,208	19,107,353	6,971,780	15,872,819	1,168,099	(308,590)	207,974	(79,720)	38,630,165	120,640,088	20,258,532	27,706,349	168,604,969
Adjustments (Note II.2.1)	—	—	—	—	—	—	—	—	(15,326)	(15,326)	—	(1,407)	(16,733)
As at 1 January 2019 (restated)	39,070,208	19,107,353	6,971,780	15,872,819	1,168,099	(308,590)	207,974	(79,720)	38,614,839	120,624,762	20,258,532	27,704,942	168,588,236
Profit for the period	—	—	—	—	—	—	—	—	2,519,188	2,519,188	485,314	(192,300)	2,812,202
Other comprehensive income/(expense) for the period	—	—	—	—	768,360	(21,643)	(685,604)	27,452	—	88,565	—	170,069	258,634
Total comprehensive income/(expense) for the period	—	—	—	—	768,360	(21,643)	(685,604)	27,452	2,519,188	2,607,753	485,314	(22,231)	3,070,836
Dividends declared	—	—	—	—	—	—	—	—	(472,750)	(472,750)	—	(233,945)	(706,695)
Redemption of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(1,000,000)	—	(1,000,000)
Distribution relating to perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(415,182)	—	(415,182)
Appropriation to general reserve	—	—	—	752,283	—	—	—	—	(752,283)	—	—	—	—
Change in ownership interest in subsidiaries	—	(110,447)	—	—	—	—	—	—	—	(110,447)	—	(245,000)	(355,447)
Realised loss of equity instruments at fair value through other comprehensive income	—	—	—	—	181,622	—	—	—	(181,622)	—	—	—	—
Others	—	32,617	—	—	—	—	—	—	—	32,617	—	(17,177)	15,440
As at 30 June 2019 (unaudited)	39,070,208	19,029,523	6,971,780	16,625,102	2,118,081	(330,233)	(477,630)	(52,268)	39,727,372	122,681,935	19,328,664	27,186,589	169,197,188
As at 1 January 2018	39,070,208	19,015,028	5,299,688	12,882,925	1,250,856	(848,366)	234,355	(20,798)	48,315,604	125,199,500	23,185,421	30,947,238	179,332,159
Profit for the period	—	—	—	—	—	—	—	—	684,561	684,561	503,194	(51,047)	1,136,708
Other comprehensive expense for the period	—	—	—	—	126,369	45,253	114,621	(59,018)	—	227,225	—	(202,701)	24,524
Total comprehensive income/(expense) for the period	—	—	—	—	126,369	45,253	114,621	(59,018)	684,561	911,786	503,194	(253,748)	1,161,232
Dividends declared	—	—	—	—	—	—	—	—	(6,598,954)	(6,598,954)	—	(936,344)	(7,535,298)
Issuance of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	200,000	—	200,000
Redemption of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(900,000)	—	(900,000)
Distribution relating to perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(403,651)	—	(403,651)
Appropriation to general reserve	—	—	—	1,991,499	—	—	—	—	(1,991,499)	—	—	—	—
Disposals of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(14,956)	(14,956)
Effect of acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	82,692	82,692
Change in ownership interest in subsidiaries	—	(23,279)	—	—	—	—	—	—	—	(23,279)	—	(87,301)	(110,580)
As at 30 June 2018 (unaudited)	39,070,208	18,991,749	5,299,688	14,874,424	1,377,225	(803,113)	348,976	(79,816)	40,409,712	119,489,053	22,584,964	29,737,581	171,811,598

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

— continued

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Amounts in thousands of Renminbi, unless otherwise stated)

I. GENERAL INFORMATION

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

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

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

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

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

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

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

2. Principal accounting policies

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

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

Application of new and amendments to IFRSs

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

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

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

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

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

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

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

Definition of a lease

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.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases — continued*

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 — continued

As a lessee

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.

Right-of-use assets

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

The cost of right-of-use asset includes:

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases — continued*

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 — continued

As a lessee — continued

Right-of-use assets — continued

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

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

Leasehold land and building

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

Refundable rental deposits

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

Lease liabilities

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

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.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases — continued*

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 — continued

As a lessee — continued

Lease liabilities — continued

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.

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

Taxation

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

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 — continued

As a lessor

Allocation of consideration to components of a contract

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

Refundable rental deposits

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

Sublease

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

Lease modification

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

Sales and leaseback transactions

The Group acts as a buyer-lessor

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases — continued*

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

Definition of a lease

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

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

As a lessee

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

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

- i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery equipment, motor vehicles, electronic equipment, furniture and fixtures was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases — continued*

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 — continued

As a lessee — continued

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

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

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

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

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

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 — continued

As a lessee — continued

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

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

- (a) Upfront payments of RMB1,792 million for leasehold lands in the PRC and rental prepayment of RMB60 million for other leases were classified as other assets as at 31 December 2018. Upon application of IFRS 16, other assets of RMB1,852 million were reclassified to right-of-use assets.
- (b) Upon application of IFRS 16, certain properties held by the Group under leases met the definition of investment properties and therefore they were recognised on 1 January 2019.
- (c) Rent free period: These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

2.1 *Impacts and changes in accounting policies of application on IFRS 16 Leases — continued*

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 — continued

As a lessor

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

Sales and leaseback transactions

The Group acts as a buyer-lessor

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

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

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

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

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 — continued

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

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

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES — continued

2. Principal accounting policies — continued

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

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 — continued

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

Material impact on the condensed consolidated statement of financial position

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

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

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

III. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

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

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

IV. EXPLANATORY NOTES

1. Segment information

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

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

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

Distressed asset management operations

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

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.

IV. EXPLANATORY NOTES — continued

1. Segment information — continued

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

IV. EXPLANATORY NOTES — continued

1. Segment information — continued

	<u>Distressed asset management</u>	<u>Financial services</u>	<u>Asset management and investment</u>	<u>Elimination</u>	<u>Consolidated</u>
As at 30 June 2019					
Segment assets	891,143,960	567,401,562	335,936,286	(94,993,685)	1,699,488,123
Including: Interests in associates and joint ventures	4,633,217	—	27,127,573	—	31,760,790
Deferred tax assets					13,882,116
Total assets					<u>1,713,370,239</u>
Segment liabilities	784,138,630	517,765,969	324,738,997	(84,199,428)	1,542,444,168
Deferred tax liabilities					492,801
Tax payable					1,236,082
Total liabilities					<u>1,544,173,051</u>

IV. EXPLANATORY NOTES — continued

1. Segment information — continued

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

IV. EXPLANATORY NOTES — continued

2. Income from distressed debt assets

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

3. Fair value changes on distressed debt assets

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

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

4. Fair value changes on other financial assets and liabilities

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

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.

IV. EXPLANATORY NOTES — continued

5. Interest income

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

6. Commission and fee income

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

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

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

IV. EXPLANATORY NOTES — continued

7. Other income and other net gains or losses

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

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

8. Interest expenses

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

IV. EXPLANATORY NOTES — continued

9. Operating expenses

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

10. Impairment losses under expected credit loss model

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

11. Impairment losses on other assets

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

IV. EXPLANATORY NOTES — continued

12. Income tax expense

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

13. Earnings per share

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

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

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

14. Dividends

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

IV. EXPLANATORY NOTES — continued

15. Cash and balances with central bank

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

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

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

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

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

16. Deposits with financial institutions

	As at 30 June, 2019	As at 31 December, 2018
Banks ⁽¹⁾	133,521,867	104,644,547
Clearing settlement funds ⁽¹⁾⁽²⁾	2,940,777	2,202,533
Other financial institutions	913,557	653,162
Total	<u>137,376,201</u>	<u>107,500,242</u>

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

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

IV. EXPLANATORY NOTES — continued

17. Financial assets and financial liabilities at FVTPL

	As at 30 June, 2019	As at 31 December, 2018
Financial assets mandatorily measured at FVTPL		
Distressed debt assets	169,814,453	166,370,280
Funds	48,122,649	59,361,725
Trust products	35,624,675	42,867,043
Equity instruments		
— Listed	28,234,280	23,149,465
— Unlisted	29,380,374	28,001,634
Debt securities		
— Corporate bonds	10,246,900	15,797,463
— Financial institution bonds	1,080,497	648,469
— Public sector and quasi-government bonds	464,304	413,469
Wealth management products ⁽¹⁾	19,488,188	13,347,104
Convertible bonds	12,403,271	12,819,736
Asset management plans	9,078,093	10,307,930
Structured products ⁽²⁾⁽³⁾	7,824,712	8,580,833
Other debt assets	3,233,133	5,179,572
Negotiable certificates of deposit	4,283,673	2,668,343
Entrusted Loans	579,084	742,526
Asset-backed securities	174,035	264,559
Others	—	660,824
Total	<u>380,032,321</u>	<u>391,180,975</u>
	As at 30 June, 2019	As at 31 December, 2018
Financial liabilities mandatorily measured at FVTPL		
Derivatives as hedging instruments ⁽³⁾	<u>270,345</u>	—
Financial liabilities designated as at FVTPL		
Interest of other holders of consolidated structured entities ⁽⁴⁾	<u>3,043,045</u>	4,728,291
Total	<u>3,313,390</u>	<u>4,728,291</u>

IV. EXPLANATORY NOTES — continued

17. Financial assets and financial liabilities at FVTPL — continued

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

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

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

- (3) The Group entered into a series of interest rate swap and cross-currency swap contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency denominated bonds and notes issued. The terms of the derivative contracts have been negotiated to match the terms of the respective designated hedged items and therefore the hedge is considered highly effective. As at 31 December 2018, the fair value of these hedging instruments amounted to RMB415 million and were included in structured products classified as financial assets at FVTPL.
- (4) In respect of these liabilities designated at FVTPL, the Group is required at maturities to pay amounts according to other investors' share in the underlying assets of special structure entities consolidated. The amount ultimately paid by the Group depends on the fair values of these assets at maturities and may be different from the carrying amounts as at 30 June 2019.

18. Financial assets held under resale agreements

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

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

IV. EXPLANATORY NOTES — continued

19. Loans and advances to customers

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

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

IV. EXPLANATORY NOTES — continued

20. Finance lease receivables

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

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

IV. EXPLANATORY NOTES — continued

21. Debt instruments at FVTOCI

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

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

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

22. Equity instruments at FVTOCI

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

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

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

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

IV. EXPLANATORY NOTES — continued

23. Inventories

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

24. Debt instruments at amortised cost

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

IV. EXPLANATORY NOTES — continued

24. Debt instruments at amortised cost — continued

	As at 30 June, 2019	As at 31 December, 2018
Less: Allowance for impairment losses		
— 12-month ECL	(3,194,763)	(3,970,302)
— Lifetime ECL	<u>(31,849,786)</u>	<u>(24,032,677)</u>
Subtotal	<u>(35,044,549)</u>	<u>(28,002,979)</u>
Carrying amount of other debt assets	<u>339,840,321</u>	<u>345,975,279</u>
Total	<u><u>613,582,487</u></u>	<u><u>612,133,108</u></u>

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

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

25. Interests in associates and joint ventures

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

IV. EXPLANATORY NOTES — continued

25. Interests in associates and joint ventures — continued

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

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

26. Movement of investment properties, property and equipment

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

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

27. Other assets

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

IV. EXPLANATORY NOTES — continued

28. Deposits from financial institutions

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

29. Financial assets sold under repurchase agreements

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

30. Borrowings

	As at 30 June, 2019	As at 31 December, 2018
Unsecured loans	654,806,250	649,429,694
Guaranteed loans	66,159,669	71,769,892
Pledged loans	28,568,488	32,976,544
Loans secured by properties	5,648,400	6,819,380
Total	<u>755,182,807</u>	<u>760,995,510</u>

IV. EXPLANATORY NOTES — continued

30. Borrowings — continued

	As at 30 June, 2019	As at 31 December, 2018
Carrying amount repayable ⁽¹⁾ :		
Within one year	510,377,338	460,746,169
More than one year, but not exceeding two years	146,904,265	174,537,531
More than two years, but not exceeding five years	60,305,397	57,960,272
More than five years	24,472,405	36,215,499
Subtotal	742,059,405	729,459,471
Carrying amount of borrowings that contain a repayment on demand clause repayable ⁽¹⁾ :		
Within one year	5,030,354	16,845,100
More than one year, but not exceeding two years	6,279,522	6,750,934
More than two years, but not exceeding five years	1,813,526	7,940,005
Subtotal	13,123,402	31,536,039
Total	755,182,807	760,995,510

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

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

IV. EXPLANATORY NOTES — continued

31. Due to customers

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

32. Tax payable

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

IV. EXPLANATORY NOTES — continued

33. Bonds and notes issued

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

34. Other liabilities

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

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

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

IV. EXPLANATORY NOTES — continued

35. Share capital

	For the six months ended 30 June, 2019	For the year ended 31 December, 2018
Authorised, issued and fully paid at beginning and end of the year	<u>39,070,208</u>	<u>39,070,208</u>
	As at 30 June 2019 and 31 December 2018	
	Number of shares (thousands)	Nominal value
Registered, issued and fully paid:		
Domestic shares	14,026,355	14,026,355
H shares	25,043,853	25,043,853
Total	<u>39,070,208</u>	<u>39,070,208</u>

36. General reserve

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

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

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

IV. EXPLANATORY NOTES — continued

37. Cash and cash equivalents

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

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

38. Contingent liabilities

Legal proceedings

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

39. Commitments

(1) Credit enhancement

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

IV. EXPLANATORY NOTES — continued

39. Commitments — continued

(2) Credit commitments

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

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

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

(3) Other commitments

	As at 30 June, 2019	As at 31 December, 2018
Contracted but not provided for — commitments for the acquisition of property and equipment	<u>290,817</u>	<u>201,360</u>

40. Related party transactions

(1) The MOF

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

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

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

IV. EXPLANATORY NOTES — continued

40. Related party transactions — continued

(1) *The MOF — continued*

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

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

The Group had the following transactions with the MOF:

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

(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.

IV. EXPLANATORY NOTES — continued

40. Related party transactions — continued

(3) Associates and joint ventures

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

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

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

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

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

Trust asset management:

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

IV. EXPLANATORY NOTES — continued

40. Related party transactions — continued

(4) Annuity Scheme

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

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

(5) Key management personnel

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

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

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

IV. EXPLANATORY NOTES — continued

41. Credit risk

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

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

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

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

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

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

Analysed by geographical area

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

Notes:

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

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

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

Analysed by industry

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

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

(2) *Credit quality*

(i) Loss allowance

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

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

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

(2) Credit quality — continued

(ii) Movement of loss allowance

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

Loans and advances to customers

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

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

(2) Credit quality — continued

(ii) 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	3,146	(3,146)	—	—
— Transfer to stage 2	(12,796)	12,796	—	—
— Transfer to stage 3	(21,645)	(120,275)	141,920	—
— Provided for the period	131,490	210,851	163,194	505,535
— Reversal for the period	(69,382)	(46,657)	(146,749)	(262,788)
— Others	(69)	—	8	(61)
As at 30 June 2019	515,559	662,469	1,516,776	2,694,804

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

(2) Credit quality — continued

(ii) 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	33,798	(33,798)	—	—
— Transfer to stage 2	(126,302)	360,219	(233,917)	—
— Transfer to stage 3	(34,944)	(45,480)	80,424	—
— Provided for the period	109,595	916,436	821,452	1,847,483
— Reversal for the period	(569,034)	(288,708)	(118,944)	(976,686)
— Others	(222)	—	—	(222)
As at 30 June 2019	252,265	1,511,330	2,366,412	4,130,007

IV. EXPLANATORY NOTES — continued

41. Credit risk — continued

(2) Credit quality — continued

(ii) Movement of loss allowance — continued

Debt instruments at amortised cost

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

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

IV. EXPLANATORY NOTES — continued

42. Risk management of distressed assets

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

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

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

43. Fair value of financial instruments

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

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

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

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

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

	As at 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	<u>43,944,636</u>	<u>55,970,482</u>	<u>450,466,142</u>	<u>550,381,260</u>
	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities designated as at FVTPL	<u>—</u>	<u>(4,150,203)</u>	<u>(578,088)</u>	<u>(4,728,291)</u>

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

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

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

Financial assets	Fair value as at		Fair value hierarchy
	30 June, 2019	31 December, 2018	
1) Financial assets at FVTPL			
Distressed debt assets	169,814,453	166,370,280	Level 3
Funds			
— Listed	657,901	813,748	Level 1
— Investing in the underlying assets with open or active quotations	4,113,773	4,841,038	Level 2
— Investing in the underlying assets without open or active quotations	43,350,975	53,706,939	Level 3
Trust products issued by financial institutions			
— Investing in the underlying assets with open or active quotations	938,116	860,976	Level 2
— Investing in the underlying assets without open or active quotations	34,686,559	42,006,067	Level 3
Equity instruments			
— Listed Shares			
— Unrestricted Shares	22,705,448	21,094,983	Level 1
— Restricted Shares	5,528,832	2,054,482	Level 3
— Unlisted Shares	29,380,374	28,001,634	Level 3
Debt securities			
— Traded in stock exchanges (other)	1,704,163	3,190,902	Level 1
— Traded in stock exchanges (private equity bonds)	292,844	—	Level 3
— Traded in inter-bank markets	7,718,421	6,060,440	Level 2
— Traded over the counter	2,076,273	7,608,059	Level 3
Wealth management products			
— With expected return rates announced by the issuers	17,236,362	13,347,104	Level 2
— Without expected return rates announced by the issuers	2,251,826	—	Level 3
Convertible bonds			
— Listed	151,765	—	Level 1
— Unlisted	12,251,506	12,819,736	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	3,143,059	4,405,012	Level 2
— Investing in the underlying assets without open or active quotations	5,935,034	5,902,918	Level 3

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

<u>Financial assets</u>	<u>Fair value as at</u>		<u>Fair value hierarchy</u>
	<u>30 June, 2019</u>	<u>31 December, 2018</u>	
Structured products	7,824,712	8,580,833	Level 3
Other debt assets	3,233,133	5,179,572	Level 3
Negotiable certificates of deposit	4,283,673	2,668,343	Level 2
Entrusted Loans	579,084	742,526	Level 3
Asset-backed securities			
— Investing in the underlying assets with open or active quotations	—	152,568	Level 2
— Investing in the underlying assets without open or active quotations	174,035	111,991	Level 3
Others	—	660,824	Level 3
Subtotal	380,032,321	391,180,975	
2) Debt instruments at FVTOCI			
Distressed debt assets	80,164,997	100,445,929	Level 3
Debt securities			
— Traded in stock exchanges	16,761,466	18,569,868	Level 1
— Traded in inter-bank markets	14,885,745	14,282,697	Level 2
— Traded over the counter	399,541	390,599	Level 3
Entrust loans	4,290,055	4,421,136	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	780,725	398,058	Level 2
— Investing in the underlying assets without open or active quotations	3,469,418	3,857,333	Level 3
Trust products issued by financial institutions	2,156,635	2,490,562	Level 3
Debt instruments	1,936,578	1,902,184	Level 3
Asset-backed securities			
— Traded in active market	144,805	243,365	Level 1
— Investing in the underlying assets with open or active quotations	376,954	385,576	Level 2
Subtotal	125,366,919	147,387,307	

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

Financial assets	Fair value as at		Fair value hierarchy
	30 June, 2019	31 December, 2018	
3) Equity instruments at FVTOCI			
Shares			
— Listed shares	215,973	31,770	Level 1
— Unlisted shares	2,920,775	3,212,538	Level 3
Subtotal	3,136,748	3,244,308	
4) Loans and advances to customers at FVTOCI			
Discounted bills	10,648,193	8,568,670	Level 2
Total	519,184,181	550,381,260	
Financial liabilities			
Financial liabilities mandatorily measured as at FVTPL			
— Derivatives as hedging instruments	(270,345)	—	Level 2
Financial liabilities designated as at FVTPL			
— Interests of other holders in consolidated structured entities	(3,043,045)	(4,150,203)	Level 2
— Interests of other holders in consolidated structured entities	—	(578,088)	Level 3
Total	(3,313,390)	(4,728,291)	

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

Valuation methods for financial instruments

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

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

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

43.2 Reconciliation of Level 3 fair value measurements

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

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

43.2 Reconciliation of Level 3 fair value measurements — continued

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

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

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

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

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

IV. EXPLANATORY NOTES — continued

43. Fair value of financial instruments — continued

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

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

V. APPROVAL OF THE FINANCIAL STATEMENTS

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

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

Beijing, the PRC
August 28, 2019

As at the date of this announcement, the Board comprises Mr. WANG Zhanfeng and Ms. LI Xin as executive directors of the Company; Mr. LI Yi, Ms. WANG Cong, Ms. DAI Lijia and Mr. ZHOU Langlang as non-executive directors 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.