



中国信达资产管理股份有限公司 CHINA CINDA ASSET MANAGEMENT CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 01359 Preference Shares Stock Code: 04607

2020 Interim Report



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1. Definitions

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

(our) Company	China Cinda Asset Management Co., Ltd.
(our) Group	China Cinda Asset Management Co., Ltd. and its subsidiaries
Articles	the current articles of association of China Cinda Asset Management Co., Ltd.
CBIRC	China Banking and Insurance Regulatory Commission
Cinda Futures	Cinda Futures Co., Ltd., a subsidiary of the Company
Cinda Hong Kong	China Cinda (HK) Holdings Company Limited, a subsidiary of the Company
Cinda International	Cinda International Holdings Limited, a subsidiary of the Company (a company listed on the Hong Kong Stock Exchange, stock code: 00111)
Cinda Investment	Cinda Investment Co., Ltd., a subsidiary of the Company
Cinda Leasing	Cinda Financial Leasing Co., Ltd., a subsidiary of the Company
Cinda Real Estate	Cinda Real Estate Co., Ltd., a subsidiary of the Company (a company listed on the Shanghai Stock Exchange, stock code: 600657)
Cinda Securities	Cinda Securities Co., Ltd., a subsidiary of the Company
COVID-19/Epidemic	Corona Virus Disease 2019
Domestic Share(s)	ordinary share(s) with nominal value of RMB1.00 each in the share capital of the Company, which is (are) subscribed for or credited as fully paid in Renminbi
First State Cinda Fund	First State Cinda Fund Management Co., Ltd., a subsidiary of the Company
H Share(s)	ordinary share(s) in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
Happy Life	Happy Life Insurance Co., Ltd., which remained as a subsidiary of the Company during the Reporting Period. As approved at the 2018 annual general meeting of the Company and by the CBIRC, the Company transferred all of its 50.995% equity interests in Happy Life. As at the date of this report, Happy Life was no longer a subsidiary of the Company.
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
Hong Kong SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
IFRS	International Financial Reporting Standards issued by the International Accounting Standards Board
Jingu Trust	China Jingu International Trust Co., Ltd., a subsidiary of the Company
MOF	the Ministry of Finance of the PRC
NCB China	Nanyang Commercial Bank (China) Limited, a company established in the PRC and a wholly-owned subsidiary of NCB Hong Kong
NCB Hong Kong	Nanyang Commercial Bank, Limited, a company incorporated in Hong Kong and a licensed bank in Hong Kong, a subsidiary of the Company
NCB	NCB Hong Kong and its subsidiaries
Offshore Preference Shares	160,000,000 non-cumulative perpetual preference shares with a par value of RMB100 per share non-publicly issued by the Company in the offshore market on September 30, 2016, which are listed and traded on the Hong Kong Stock Exchange (stock code: 04607)
PRC GAAP	Accounting Standards for Business Enterprises and the Application Guidance thereof promulgated by MOF, as well as other relevant regulations
Reporting Period	the six months ended June 30, 2020
RMB	Renminbi
Zhongrun Development	Zhongrun Economic Development Co., Ltd., a subsidiary of the Company

2. Corporate Information

Official Chinese name	中國信達資產管理股份有限公司
Chinese abbreviation	中國信達
Official English name	China Cinda Asset Management Co., Ltd.
English abbreviation	China Cinda
Legal representative	Zhang Zi'ai
Authorized representatives	Zhang Zi'ai, Ai Jiuchao
Board Secretary	Ai Jiuchao
Company Secretary	Ai Jiuchao
Registered address	No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC
Postal code of place of registration	100031
Website	www.cinda.com.cn
Principal place of business in Hong Kong	12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares interim report	www.hkexnews.hk
Place for maintaining interim report available for inspection	Board of Directors' Office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock short name of H Shares	China Cinda
Stock code of H Shares	01359
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong
Place of listing of Offshore Preference Shares	The Stock Exchange of Hong Kong Limited
Stock short name of Offshore Preference Shares	CINDA 16USDPREF
Stock code of Offshore Preference Shares	04607
Social credit code	91110000710924945A
Registration number of financial license	J0004H111000001
Legal advisors as to PRC Law	Haiwen & Partners Zhong Lun Law Firm Tian Yuan Law Firm Fangda Partners
Legal advisors as to Hong Kong Law	Herbert Smith Freehills LLP Hogan Lovells
Domestic accounting firm	Ernst & Young Hua Ming LLP
International accounting firm	Ernst & Young

3. Financial Summary

The financial information contained in this report was prepared in accordance with the IFRS. Unless otherwise specified, the financial information herein is the consolidated data of the Group and denominated in RMB. Since January 1, 2018, the Group has adopted IFRS 9 – Financial Instruments, and the differences arising from the adoption of IFRS 9 were directly reflected in shareholders' equity on January 1, 2018. For 2018 and the subsequent years and periods, the financial data was prepared according to IFRS 9, while the data of prior years before 2018 was prepared according to the International Accounting Standard 39 – Financial Instruments.

In 2019, as approved at the general meeting, the Company transferred all the shares of Happy Life it held, which accounted for 50.995% of the total share capital of Happy Life. As at December 13, 2019, the Company entered into a legally binding transfer agreement with the transferees, and thus its equity interests in Happy Life were classified as assets held for sale. After such classification, insurance business was no longer a business segment of the Group, and accordingly, it was presented as a discontinued operation. As at June 30, 2020, Happy Life was still classified as assets held for sale. For the Group's financial data for the first half of 2020, the results of the discontinued operation and the results of continuing operations were presented separately, of which the profit or loss after tax from the discontinued operation was charged into the income statement separately. The comparative consolidated statement of profit or loss has been re-presented as if the operation discontinued during the current period had been discontinued at the beginning of the comparative periods.

As at the date of this report, the Company no longer held any share of Happy Life. For details, please refer to the "EVENTS AFTER THE REPORTING PERIOD" in Note 5 to the Interim Condensed Consolidated Financial Statements.

3. Financial Summary

	As at and for the		As at and for the year ended December 31,			
	six months ended June 30,		2019	2018	2017	2016
	2020	2019	2019	2018	2017	2016
	(in millions of RMB)					
Continuing operations						
Income from distressed debt assets at amortized cost	9,105.6	8,437.5	16,403.6	19,308.3	-	-
Income from distressed debt assets classified as receivables	-	-	-	-	17,773.0	15,539.2
Fair value changes on distressed debt assets	7,474.2	6,270.3	13,645.3	11,451.5	8,266.4	5,716.2
Fair value changes on other financial instruments	2,343.6	9,873.3	14,840.1	16,085.0	2,582.2	2,656.3
Investment income	317.5	110.0	464.5	152.9	29,465.7	17,991.3
Net insurance premiums earned	-	-	-	-	19,266.9	16,635.8
Interest income	12,013.8	12,531.9	25,401.6	25,005.7	20,640.8	14,506.5
Revenue from sale of inventories	9,659.2	4,919.1	18,169.4	17,446.4	14,425.5	10,954.6
Other income and other net gains or losses	4,906.0	3,322.0	7,222.4	8,653.6	7,614.0	7,657.3
Total income	45,819.9	45,464.1	96,146.9	98,103.4	120,034.6	91,657.2
Impairment losses on assets	(4,598.6)	(3,433.9)	(8,924.2)	(8,156.2)	(11,404.7)	(4,813.7)
Insurance costs	-	-	-	-	(20,913.7)	(17,549.0)
Interest expense	(19,922.1)	(22,885.2)	(44,366.6)	(46,286.5)	(35,911.1)	(23,223.8)
Purchases and changes in inventories	(6,366.2)	(3,105.7)	(12,868.8)	(11,382.2)	(10,355.8)	(8,455.8)
Other costs and expenses	(5,249.8)	(4,887.7)	(12,398.2)	(11,549.3)	(15,651.5)	(14,315.4)
Total costs and expenses	(36,136.7)	(34,312.5)	(78,557.8)	(77,374.2)	(94,236.7)	(68,357.7)
Change in net assets attributable to other holders of consolidated structured entities	(20.1)	(169.9)	(237.5)	(519.8)	(1,284.7)	(2,331.7)
Share of results of associates and joint ventures	1,050.1	1,748.1	1,920.8	2,488.4	1,617.7	797.7
Profit before tax from continuing operations	10,713.1	12,729.8	19,272.4	22,697.8	26,130.8	21,765.5
Income tax expense	(3,636.2)	(3,865.5)	(5,754.6)	(6,951.9)	(7,373.0)	(5,783.5)
Profit for the period/year from continuing operations	7,077.0	8,864.3	13,517.8	15,745.9	18,757.8	15,982.0
Discontinued operation						
Profit/(loss) after tax for the period/year from a discontinued operation	268.7	681.6	1,500.4	(3,866.0)	-	-
Profit for the Period/Year	7,345.6	9,545.9	15,018.2	11,879.9	18,757.8	15,982.0
Profit attributable to:						
- Equity holders of the Company	6,340.7	8,685.3	13,052.9	12,036.1	18,122.4	15,512.2
- Non-controlling interests	1,004.9	860.6	1,965.3	(156.2)	635.4	469.8

3. Financial Summary

	As at and for the six months ended June 30,		As at and for the year ended December 31,			
	2020	2019	2019	2018	2017	2016
	(in millions of RMB)					
Assets						
Cash and balances with central banks	17,495.5	13,442.6	19,002.1	16,651.9	21,511.1	17,368.0
Deposits with banks and other financial institutions	75,596.8	72,326.5	70,837.6	80,102.6	54,429.2	75,801.3
Financial assets at fair value through profit or loss	411,852.2	431,870.0	412,164.6	428,791.0	213,795.9	149,045.5
Available-for-sale financial assets	-	-	-	-	273,182.7	212,495.9
Financial assets at fair value through other comprehensive income	120,610.9	139,865.8	136,803.0	116,827.6	-	-
Financial assets at amortized cost	235,538.7	240,627.3	227,645.1	252,416.7	-	-
Financial assets classified as receivables	-	-	-	-	234,226.9	198,787.2
Loans and advances to customers	349,918.1	345,468.5	337,859.1	336,616.5	312,117.5	294,936.6
Assets held for sale	61,391.8	-	61,394.2	-	-	6,018.9
Other assets	259,413.5	244,641.3	247,524.3	264,352.9	277,674.2	220,027.5
Total assets	1,531,817.5	1,488,242.0	1,513,230.0	1,495,759.2	1,386,937.5	1,174,480.9
Liabilities						
Borrowings from the central bank	993.9	1,010.8	1,010.9	986.1	986.1	986.1
Due to customers	284,411.4	272,059.1	275,205.8	254,099.9	226,220.8	204,629.0
Accounts payable to brokerage clients	16,785.2	14,562.0	14,320.3	10,315.8	12,393.8	16,272.1
Borrowings	534,565.0	541,478.3	536,591.3	570,870.2	580,352.1	450,514.8
Accounts payable	3,809.2	4,170.8	5,050.8	5,303.8	3,220.9	3,053.9
Bonds issued	336,872.1	292,660.3	304,849.6	283,115.1	206,482.6	152,497.6
Liabilities held for sale	55,743.5	-	57,924.1	-	-	3,628.6
Other liabilities	106,462.8	178,531.0	129,866.7	192,499.8	189,016.6	194,928.8
Total liabilities	1,339,643.1	1,304,472.3	1,324,819.5	1,317,190.7	1,218,672.9	1,026,510.9
Equity						
Equity attributable to equity holders of the Company	167,200.0	161,377.8	164,898.1	156,492.8	149,394.5	139,216.7
Non-controlling interests	24,974.4	22,391.9	23,512.3	22,075.6	18,870.2	8,753.3
Total equity	192,174.3	183,769.7	188,410.5	178,568.5	168,264.7	147,970.0
Total equity and liabilities	1,531,817.5	1,488,242.0	1,513,230.0	1,495,759.2	1,386,937.5	1,174,480.9

3. Financial Summary

	As at and for the		As at and for the year ended December 31,			
	six months ended June 30,		2019	2018	2017	2016
	2020	2019	2019	2018	2017	2016
	(in millions of RMB)					
Financial indicators						
Return on average shareholders' equity ⁽¹⁾⁽³⁾ (%)	8.76	12.62	8.56	8.32	13.88	14.12
Return on average assets ⁽²⁾⁽³⁾ (%)	0.96	1.28	1.00	0.82	1.46	1.69
Cost-to-income ratio ⁽⁴⁾ (%)	25.71	23.39	30.68	30.51	24.89	27.00
Earnings per share ⁽⁵⁾ (RMB)	0.17	0.23	0.31	0.29	0.45	0.43
Net assets per share ⁽⁶⁾ (RMB)	3.82	3.67	3.76	3.54	3.36	3.09

Notes:

- (1) Represents the percentage of net profit (including net profit for the period from a discontinued operation) attributable to ordinary shareholders of the Company for the period in the average balance of equity attributable to ordinary shareholders of the Company as at the beginning and the end of the period.
- (2) Represents the percentage of net profit for the period (including profit attributable to non-controlling interests and net profit for the period from a discontinued operation) in the average balance of total assets as at the beginning and the end of the period.
- (3) The average return on shareholder equity and average return on total assets for the six months ended June 30 are annualized.
- (4) Represents the ratio of the sum of employee benefits, depreciation and amortization and other expenses for the period to total income net of insurance costs, commission and fee expenses, purchases and changes in inventories and interest expense for the period. The above amount includes both the amount of continuing operations and the amount of discontinued operation.
- (5) Represents the net profit for the period (including net profit for the period from a discontinued operation) attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue.
- (6) Represents the net assets attributable to equity holders of the Company after deducting the amount of the preference shares at the end of the period divided by the number of ordinary shares as at the end of the period.

4. Management Discussion and Analysis

4.1 Economic and Regulatory Environment

Since early 2020, the outbreak of COVID-19 plunged the world economy into a deep recession, with the international trade and investment shrinking sharply, international financial markets in turmoil, international exchanges restricted, economic globalization experiencing a backlash, protectionism and unilateralism prevailing, and geopolitical risks rising. The extremely loose fiscal and monetary policies intensively launched by major economies have pushed up financial asset prices, but the effect on the real economy remains to be seen.

In the first half of 2020, China's economy was hit severely by the Epidemic, with GDP declining by 1.6% year-on-year in the first half, and declining by 6.8% year-on-year in Q1. In the face of COVID-19, the whole country has united as one. Major strategic achievements have been made in the battle against the Epidemic, and the outbreak in China has been basically brought under control. The resumption of work, production, business and markets have been promoted orderly, production demand has been continued to improve, employment and price have generally stabilized, and the economy has shown signs of recovery, with a positive growth of 3.2% achieved in Q2. In addition, new growth drivers are increasing, the digital economy is heating up, the development of new types of consumption such as online retailing is accelerating, the development of high-tech industries is improving, the layout of new infrastructure is accelerating, and new products are growing rapidly.

The Chinese government has coordinated and pushed forward the Epidemic prevention and control as well as economic and social development, adhered to the overall keynote of seeking progress amidst stability, stepped up efforts to ensure stability on six fronts and maintain security in six areas, and implemented the strategy of expanding domestic demand steadfastly to maintain the overall situation of economic development and social stability. We will make greater efforts to hedge against the impact of the Epidemic through macro policies. The proactive fiscal policy has become more positive and promising, increasing the deficit rate to above 3.6% and issuing RMB1 trillion of special national bonds to fight the Epidemic in 2020. The prudent monetary policy is more flexible and appropriate, lowering the deposit reserve ratio for three times since 2020 and increasing the line of inclusive refinancing and rediscount of RMB1.8 trillion to maintain a reasonable and abundant liquidity. The supply-side structural reform of the financial system has been deepened and a modern financial system being highly adaptive, competitive and inclusive has been improved. Capital market reform has been comprehensively deepened, financial products have been innovated, financial structure has been optimized, and financial institutions have been guided to increase their support for the real economy, especially for small and micro enterprises and private enterprises. Two-way financial liberalization at a high level has been further expanded, relaxation of restrictions on foreign shareholding has been continued, the internationalization of RMB has been promoted steadily.

4. Management Discussion and Analysis

In order to implement the principles of the 19th National Congress of CPC and the Central Economic Work Conference, the regulatory authorities have taken countermeasures based on overall analysis, dealt with affairs flexibly and appropriately in phases, by subjects and by categories, struck an effective balance between growth guarantee and risk prevention, and maintained overall risk stability. First, to be prepared for sharp rebound in non-performing assets. Categorization of the assets of financial institutions has been continued, the disposal of non-performing assets has been intensified, and the channels for the disposal of non-performing assets has been broadened so as to carry out write-offs and disposals as far as necessary. Second, to enrich the participants of non-performing assets market. The fifth national financial asset management company has been approved, and the business scope of financial asset investment companies has been further widened; provinces and municipalities including Beijing and Sichuan have actively explored cross-border transfer of non-performing assets on a pilot basis. Third, to expand business scope of non-performing assets. To pilot the transfer of non-performing corporate loans one by one and personal non-performing loans in bulk, so as to clear the blocking points of the policy on the disposal of non-performing assets. On the whole, the Epidemic has had a significant impact on the operation of the non-performing asset industry, while it has also accelerated the opening up of the non-performing asset market both internally and externally, presenting both opportunities and challenges to the industry.

4.2 Analysis of Financial Statements

4.2.1 Operating Results of the Group

In the first half of 2020, in the face of downward macroeconomic pressure and the impact of COVID-19, the Group actively implemented the decisions and arrangements of the CPC Central Committee and the State Council, as well as the regulatory requirements of “concentrating on and highlighting the core business”, focused on the core business of distressed assets, and performed its professional duties. Our business operations were stable and orderly, and the risks were generally under control, but we also faced great pressure and challenges.

In the first half of 2020, the net profit attributable to equity holders of the Company amounted to RMB6,340.7 million, representing a decrease of RMB2,344.6 million, or 27.0% year-on-year. Annualized ROAE and annualized ROAA were 8.76% and 0.96%, respectively.

4. Management Discussion and Analysis

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Continuing operations				
Income from distressed debt assets				
at amortized cost	9,105.6	8,437.5	668.1	7.9
Fair value changes on distressed debt assets	7,474.2	6,270.3	1,203.9	19.2
Fair value changes on other financial instruments	2,343.6	9,873.3	(7,529.7)	(76.3)
Investment income	317.5	110.0	207.5	188.6
Interest income	12,013.8	12,531.9	(518.1)	(4.1)
Revenue from sale of inventories	9,659.2	4,919.1	4,740.1	96.4
Commission and fee income	2,096.4	1,827.8	268.6	14.7
Net gains on disposal of subsidiaries, associates and joint ventures	1,197.2	87.4	1,109.8	1,269.8
Other income and other net gains or losses	1,612.5	1,406.9	205.6	14.6
Total income	45,819.9	45,464.1	355.8	0.8
Commission and fee expense	(296.8)	(331.3)	34.5	(10.4)
Purchases and changes in inventories	(6,366.2)	(3,105.7)	(3,260.5)	105.0
Employee benefits	(2,532.6)	(2,108.8)	(423.8)	20.1
Impairment losses on assets	(4,598.6)	(3,433.9)	(1,164.7)	33.9
Interest expense	(19,922.1)	(22,885.2)	2,963.1	(12.9)
Other expenses	(2,420.5)	(2,447.7)	27.2	(1.1)
Total costs and expenses	(36,136.7)	(34,312.5)	(1,824.2)	5.3
Change in net assets attributable to other holders of consolidated structured entities	(20.1)	(169.9)	149.8	(88.2)
Share of results of associates and joint ventures	1,050.1	1,748.1	(698.0)	(39.9)
Profit before tax from continuing operations	10,713.1	12,729.8	(2,016.7)	(15.8)
Income tax expense	(3,636.2)	(3,865.5)	229.3	(5.9)
Profit for the period from continuing operations	7,077.0	8,864.3	(1,787.3)	(20.2)
Discontinued operation				
Profit after tax for the period from a discontinued operation	268.7	681.6	(412.9)	(60.6)
Profit for the period	7,345.6	9,545.9	(2,200.3)	(23.0)
Profit attributable to:				
– Equity holders of the Company	6,340.7	8,685.3	(2,344.6)	(27.0)
– Non-controlling interests	1,004.9	860.6	144.3	16.8

4. Management Discussion and Analysis

4.2.1.1 Total Income from Continuing Operations

In the first half of 2020, the total income from continuing operations of the Group basically remained stable compared with the same period of last year, increasing from RMB45,464.1 million in the first half of 2019 to RMB45,819.9 million in the first half of 2020, with an increase of 0.8%, mainly because the revenue from sales of inventories and the fair value changes on distressed debt assets increased significantly compared with the same period of last year, which was partly offset by the decline of the fair value changes on other financial instruments.

Income from Distressed Debt Assets at Amortized Cost

The income from distressed debt assets at amortized cost of the Group, including the interest income and gains or losses from disposal of restructured distressed debt assets, increased by 7.9% from RMB8,437.5 million in the first half of 2019 to RMB9,105.6 million in the first half of 2020. Such income from distressed debt assets accounted for 18.6% and 19.9% of the total income from continuing operations in the corresponding periods, respectively. The increase in the income from distressed debt assets at amortized cost was mainly due to the increase in the income from the restructured distressed debt assets of the Company.

In the first half of 2020, the monthly average balance of distressed debt assets at amortized cost amounted to RMB197,675.2 million (the first half of 2019: RMB221,086.8 million). The annualized monthly average return of such distressed debt assets increased from 8.5% in the first half of 2019 to 9.2% in the first half of 2020, mainly because the overall revenue level of the restructured distressed assets business was improved.

Fair Value Changes on Distressed Debt Assets

The fair value changes on distressed debt assets of the Group increased by 19.2% from RMB6,270.3 million in the first half of 2019 to RMB7,474.2 million in the first half of 2020. The fair value changes on acquisition-operation distressed debt assets decreased by 3.3% from RMB6,503.4 million in the first half of 2019 to RMB6,288.8 million in the first half of 2020, accounting for 14.3% and 13.7% of the total income from continuing operations in the corresponding periods, respectively.

4. Management Discussion and Analysis

The table below sets out the components of fair value changes on acquisition-operation distressed debt assets of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Realized fair value changes	4,771.1	5,061.2	(290.1)	(5.7)
Unrealized fair value changes	1,517.7	1,442.2	75.5	5.2
Subtotal	6,288.8	6,503.4	(214.6)	(3.3)

The table below sets out the changes on acquisition-operation distressed debt assets at fair value of the Group as at the dates and for the periods indicated.

	For the six months ended June 30 (in millions of RMB)
As at December 31, 2018	189,113.9
Acquisition in the period	17,556.9
Disposal in the period	(22,961.3)
Unrealized fair value changes	1,442.2
As at June 30, 2019	185,151.7
As at December 31, 2019	197,621.3
Acquisition in the period	12,808.0
Disposal in the period	(19,353.6)
Unrealized fair value changes	1,517.7
As at June 30, 2020	192,593.4

In the first half of 2020, the fair value changes on acquisition-operation distressed debt assets of the Group decreased by 3.3% over the same period of 2019. In particular, the realized fair value changes decreased by 5.7% from RMB5,061.2 million in the first half of 2019 to RMB4,771.1 million in the first half of 2020; the unrealized fair value changes increased by 5.2% from RMB1,442.2 million in the first half of 2019 to RMB1,517.7 million in the first half of 2020.

4. Management Discussion and Analysis

In the first half of 2020, due to the impact of the macroeconomic downturn and COVID-19, the acquisition-operation business slowed down in acquisition and disposal, and the scale of new acquisition and disposal decreased from RMB17,556.9 million and RMB22,961.3 million in the first half of 2019 to RMB12,808.0 million and RMB19,353.6 million in the first half of 2020, respectively.

Fair Value Changes on Other Financial Instruments

The fair value changes on other financial instruments of the Group included the gains or losses from the disposal of financial assets classified as at fair value through profit or loss (excluding the distressed debt assets at fair value through profit or loss), interest income, dividend income and unrealized fair value changes on such assets, and the realized and unrealized fair value changes on loans and advances to customers classified as being at fair value through profit or loss, as well as on financial liabilities at fair value through profit or loss.

The fair value changes on other financial instruments of the Group decreased by 76.3% from RMB9,873.3 million in the first half of 2019 to RMB2,343.6 million in the first half of 2020, accounting for 21.7% and 5.1% of the total income from continuing operations for the respective periods. Of which, the fair value changes on DES Assets were RMB4,416.2 million and RMB984.3 million, respectively, accounting for 9.7% and 2.1% of the total income from continuing operations for the respective periods.

4. Management Discussion and Analysis

The table below sets out the components of fair value changes on financial instruments at fair value through profit or loss (excluding distressed debt assets at fair value through profit or loss) of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Fair value changes on financial instruments at fair value through profit or loss				
DES Assets of the Company ⁽¹⁾	(1,712.0)	5,549.4	(7,261.4)	(130.9)
Others	780.1	4,186.8	(3,406.7)	(81.4)
Interest income	(2,492.1)	1,362.6	(3,854.7)	(282.9)
Dividend income	1,721.5	1,415.8	305.7	21.6
DES Assets of the Company	2,334.1	2,908.1	(574.0)	(19.7)
Others	204.2	229.4	(25.2)	(11.0)
Total	2,129.9	2,678.7	(548.8)	(20.5)
Total	2,343.6	9,873.3	(7,529.7)	(76.3)

Note:

- (1) Comprising the realized net gains on disposal and the unrealized fair value changes on DES Assets classified as financial assets at fair value through profit or loss.

The fair value changes on DES Assets classified as financial assets at fair value through profit or loss decreased by 81.4% from RMB4,186.8 million in the first half of 2019 to RMB780.1 million in the first half of 2020, mainly due to the decrease in fair value changes on the DES Assets of the Company as a result of the weaker performance of capital market as compared with the same period of last year.

The fair value changes of other financial assets at fair value through profit or loss changed from the gains of RMB1,362.6 million in the first half of 2019 to the loss of RMB2,492.1 million in the first half of 2020, mainly due to the decline in the valuation of certain projects under the influence of the macroeconomic environment and COVID-19.

Investment Income

In the first half of 2020, the investment income of the Group was RMB317.5 million, representing an increase of 188.6% from RMB110.0 million in the first half of 2019, of which the investment income of financial assets at fair value through other comprehensive income was RMB314.0 million, representing an increase of 178.4% compared with RMB112.8 million in the first half of 2019, mainly due to the increase in the investment income of financial assets at fair value through other comprehensive income of Cinda Hong Kong, Cinda Securities and other subsidiaries.

4. Management Discussion and Analysis

Interest Income

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

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Loans and advances to customers	8,276.8	8,409.6	(132.8)	(1.6)
Financial assets at fair value through other comprehensive income	1,477.7	1,544.6	(66.9)	(4.3)
Other debt assets at amortized cost	1,079.6	919.0	160.6	17.5
Deposits with banks and other financial institutions	735.8	531.1	204.7	38.5
Placements with banks and other financial institutions	205.3	487.4	(282.1)	(57.9)
Others	238.6	640.2	(401.6)	(62.7)
Total	12,013.8	12,531.9	(518.1)	(4.1)

The interest income of the Group in the first half of 2020 decreased by 4.1% when compared with the same period of last year, mainly due to the decline in interest income from placements with banks and other financial institutions, loans and advances to customers and other interest income, partly offset by the increase in interest income from deposits with banks and other financial institutions.

- (1) The interest income from placements with banks and other financial institutions of the Group decreased by 57.9% from RMB487.4 million in the first half of 2019 to RMB205.3 million in the first half of 2020, mainly due to the decrease in the daily average balance and average interest rate of placements with banks and other financial institutions of NCB.
- (2) The interest income from loans and advances to customers of the Group decreased by 1.6% from RMB8,409.6 million in the first half of 2019 to RMB8,276.8 million in the first half of 2020, mainly due to the decrease in the business scale of financial leasing of Cinda Leasing.
- (3) Other interest income of the Group decreased by 62.7% from RMB640.2 million in the first half of 2019 to RMB238.6 million in the first half of 2020, mainly due to the decrease in the business scale and interest rate of the financial assets held under resale agreements of the Company.
- (4) The interest income from deposits with banks and other financial institutions of the Group increased by 38.5% from RMB531.1 million in the first half of 2019 to RMB735.8 million in the first half of 2020, mainly due to the increase in the balance of deposits with banks and other financial institutions of the Company.

4. Management Discussion and Analysis

Commission and Fee Income

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

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Securities and futures brokerage	550.9	492.2	58.7	11.9
Banking business	461.4	426.0	35.4	8.3
Fund and asset management business	353.6	357.9	(4.3)	(1.2)
Agency business	322.2	305.2	17.0	5.6
Trustee services	167.9	128.5	39.4	30.7
Securities underwriting	122.7	37.7	85.0	225.5
Consultancy and financial advisory services	80.2	39.4	40.8	103.6
Others	37.4	41.0	(3.6)	(8.8)
Total	2,096.4	1,827.8	268.6	14.7

The commission and fee income of the Group increased by 14.7% from RMB1,827.8 million in the first half of 2019 to RMB2,096.4 million in the first half of 2020, mainly due to the increase in the commission and fee income from securities underwriting business, consultancy and financial advisory services and securities and futures brokerage business.

- (1) The commission and fee income from securities underwriting business increased by 225.5% from RMB37.7 million in the first half of 2019 to RMB122.7 million in the first half of 2020, mainly due to the increase in the income from securities underwriting business of Cinda Securities, driven by the active offerings in the securities market.
- (2) The commission and fee income from securities and futures brokerage business increased by 11.9% from RMB492.2 million in the first half of 2019 to RMB550.9 million in the first half of 2020, mainly due to the increase in the income from securities brokerage business of Cinda Securities.
- (3) The commission and fee income from consultancy and financial advisory services increased by 103.6% from RMB39.4 million in the first half of 2019 to RMB80.2 million in the first half of 2020, mainly due to the increase in the income from consultancy services of Cinda Securities.

4. Management Discussion and Analysis

Revenue from Sale of Inventories and Purchases and Changes in Inventories

The table below sets out the components of revenue from sale of inventories and purchases and changes in inventories of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Revenue from sale of inventories	9,659.2	4,919.1	4,740.1	96.4
Purchases and changes in inventories including:	(6,366.2)	(3,105.7)	(3,260.5)	105.0
Revenue from sales of properties held for sale	9,564.8	4,905.4	4,659.4	95.0
Purchases and changes in properties held for sale	(6,275.4)	(3,092.3)	(3,183.1)	102.9
Gross profit from sales of properties held for sale	3,289.4	1,813.1	1,476.3	81.4
Gross profit margin from sales of properties held for sale (%)	34.4	37.0	(2.6)	(7.0)

The revenue from sales of inventories of the Group increased by 96.4% from RMB4,919.1 million in the first half of 2019 to RMB9,659.2 million in the first half of 2020, the purchases and changes in inventories increased by 105.0% from RMB3,105.7 million in the first half of 2019 to RMB6,366.2 million in the first half of 2020, mainly due to the significant increase in the project delivery scale of Cinda Real Estate compared with the same period of last year, resulting in quick growth of revenue from sales of properties held for sale and purchases and changes in properties held for sale.

Net Gains on Disposal of Subsidiaries, Associates and Joint Ventures

The net gains on disposal of subsidiaries, associates and joint ventures of the Group increased by 1,269.8% from RMB87.4 million in the first half of 2019 to RMB1,197.2 million in the first half of 2020, mainly due to the significant increase in the proceeds from disposal of associates by the Company in the first half of 2020.

4. Management Discussion and Analysis

Other Income and Other Net Gains or Losses

Other income and other net gains or losses of the Group increased by 14.6% from net gains of RMB1,406.9 million in the first half of 2019 to net gains of RMB1,612.5 million in the first half of 2020, mainly due to the increase in foreign exchange gains, partly offset by the decline in the revenue from hotel operation. The foreign exchange gains increased by 221.1% from RMB218.2 million in the first half of 2019 to RMB700.7 million in the first half of 2020, mainly due to the exchange rate fluctuations of the USD and HKD in the first half of 2020; the revenue from hotel operation decreased by 74.0% from RMB236.9 million in the first half of 2019 to RMB61.7 million in the first half of 2020, mainly due to the impact of COVID-19 on the hotel business of the subsidiaries.

4.2.1.2 Total Income from a Discontinued Operation

The income from a discontinued operation of the Group refers to the income generated from Happy Life, which was classified as held for sale. The income from a discontinued operation of the Group increased by 6.6% from RMB7,804.4 million in the first half of 2019 to RMB8,317.5 million in the first half of 2020, mainly because of the increase in net insurance premiums earned and investment income, which was partly offset by the decline of the fair value changes on other financial instruments.

The table below sets out the components of the income from a discontinued operation of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Net insurance premiums earned	6,542.7	5,571.7	971.0	17.4
Fair value changes on other financial instruments	1,023.2	1,774.0	(750.8)	(42.3)
Interest income	502.4	437.6	64.8	14.8
Investment income	226.1	15.3	210.8	1,377.8
Commission and fee income	29.5	18.9	10.6	56.1
Other income and other net gains or losses	(6.5)	(13.1)	6.6	50.4
Total income from a discontinued operation	8,317.5	7,804.4	513.1	6.6

4. Management Discussion and Analysis

Net Insurance Premiums Earned

The table below sets out the components of the net insurance premiums earned of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Gross written premiums	6,609.2	5,633.0	976.2	17.3
Less: Premiums ceded to reinsurers	17.7	14.9	2.8	18.8
Withdrawal of unearned premium reserves	48.9	46.4	2.5	5.4
Net insurance premiums earned	6,542.7	5,571.7	971.0	17.4

The net insurance premiums earned increased by 17.4% from RMB5,571.7 million in the first half of 2019 to RMB6,542.7 million in the first half of 2020, among which gross written premiums increased by 17.3% from RMB5,633.0 million in the first half of 2019 to RMB6,609.2 million in the first half of 2020, mainly due to the increase in premiums in the life insurance business of Happy Life.

Fair Value Changes on Other Financial Instruments

In the first half of 2020, the income from fair value changes on other financial instruments from a discontinued operation had a year-on-year decrease of RMB750.8 million, mainly because the balance of Happy Life's investment in funds and asset management plans measured at fair value decreased; meanwhile, Happy Life disposed of some investments with higher floating losses in the first half of 2019 and no such events occurred in the first half of 2020, resulting in the decrease in fair value changes on other financial instruments.

4. Management Discussion and Analysis

4.2.1.3 Total Costs and Expenses from Continuing Operations

In the first half of 2020, total costs and expenses from continuing operations of the Group increased slightly compared with the same period of last year.

The table below sets out the components of the total costs and expenses from continuing operations of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Interest expense	(19,922.1)	(22,885.2)	2,963.1	(12.9)
Purchases and changes in inventories	(6,366.2)	(3,105.7)	(3,260.5)	105.0
Impairment losses on assets	(4,598.6)	(3,433.9)	(1,164.7)	33.9
Employee benefits	(2,532.6)	(2,108.8)	(423.8)	20.1
Business depreciation and amortization	(1,000.7)	(752.9)	(247.8)	32.9
Commission and fee expense	(296.8)	(331.3)	34.5	(10.4)
Tax and surcharges	(245.7)	(277.4)	31.7	(11.4)
Other expenses	(1,174.1)	(1,417.4)	243.3	(17.2)
Total	(36,136.7)	(34,312.5)	(1,824.2)	5.3

The total costs and expenses from continuing operations of the Group increased by 5.3% from RMB34,312.5 million in the first half of 2019 to RMB36,136.7 million in the first half of 2020, mainly due to the increase in purchases and changes in inventories and impairment losses on assets, partly offset by the decrease in interest expense.

4. Management Discussion and Analysis

Interest Expense

The table below sets out the principal components of interest expense of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Borrowings	(10,532.4)	(13,589.3)	3,056.9	(22.5)
Bonds issued	(6,500.6)	(6,277.2)	(223.4)	3.6
Due to customers	(2,465.1)	(2,371.6)	(93.5)	3.9
Placements from banks and other financial institutions	(100.4)	(88.9)	(11.5)	12.9
Financial assets sold under repurchase agreements	(97.5)	(87.3)	(10.2)	11.7
Deposits from banks and other financial institutions	(64.4)	(312.6)	248.2	(79.4)
Accounts payable to brokerage clients	(24.7)	(21.8)	(2.9)	13.3
Lease liabilities	(17.4)	(20.1)	2.7	(13.4)
Others	(119.6)	(116.4)	(3.2)	2.7
Total	(19,922.1)	(22,885.2)	2,963.1	(12.9)

In the first half of 2020, the interest expense of the Group was RMB19,922.1 million, representing a decrease of 12.9% from RMB22,885.2 million in the first half of 2019.

The interest expense on borrowings decreased by 22.5% from RMB13,589.3 million in the first half of 2019 to RMB10,532.4 million in the first half of 2020 and the interest expense on bonds issued increased by 3.6% from RMB6,277.2 million in the first half of 2019 to RMB6,500.6 million in the first half of 2020, mainly due to the decline of the market interest rate and the continuous optimization of debt structure of the Group by effective control of debt growth and promotion of standardized financing.

The interest expense on due to customers increased by 3.9% from RMB2,371.6 million in the first half of 2019 to RMB2,465.1 million in the first half of 2020, mainly due to the increase in the balance of due to customers of NCB.

4. Management Discussion and Analysis

Impairment Losses on Assets

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

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Financial assets at amortized cost				
Distressed debt assets	(2,941.0)	51.9	(2,992.9)	5,766.7
Other debt investments	(69.4)	(76.8)	7.4	(9.6)
Loans and advances to customers	(1,527.1)	(1,280.1)	(247.0)	19.3
Accounts receivable	130.4	(614.5)	744.9	(121.2)
Credit commitments	(84.8)	(19.3)	(65.5)	339.4
Financial assets held under resale agreements	(61.9)	0.8	(62.7)	7,837.5
Properties held for sale	(27.9)	–	(27.9)	100.0
Financial assets at fair value through other comprehensive income	(19.8)	(1.9)	(17.9)	942.1
Interests in associates and joint ventures	–	(1,423.0)	1,423.0	(100.0)
Other assets	3.0	(70.8)	73.8	(104.2)
Total	(4,598.6)	(3,433.9)	(1,164.7)	33.9

The impairment losses on assets of the Group increased by 33.9% from RMB3,433.9 million in the first half of 2019 to RMB4,598.6 million in the first half of 2020, mainly due to the increase in impairment losses on distressed debt assets at amortized cost, partly offset by the decrease in impairment losses on interests in associates and joint ventures and accounts receivable.

- (1) The impairment losses on distressed debt assets at amortized cost changed from a reversal of RMB51.9 million in the first half of 2019 to a provision of RMB2,941.0 million in the first half of 2020, mainly due to the impact of the macroeconomic downturn and the Epidemic, certain financial assets at amortized cost held by the Company were under great pressure, and the Company increased the provision for impairment of credit risk out of prudence.
- (2) The Company made an impairment loss provision of RMB1,423.0 million for the investment in associates and joint ventures in the first half of 2019 but did not make such provision in the first half of 2020.

4. Management Discussion and Analysis

- (3) The impairment losses on accounts receivable changed from a provision of RMB614.5 million in the first half of 2019 to a reversal of RMB130.4 million in the first half of 2020, mainly due to the decrease of accounts receivable of the Company and Cinda Securities.

4.2.1.4 Total Expenses from a Discontinued Operation

The expenses from a discontinued operation of the Group refers to the expenses from Happy Life, which was classified as held for sale. The expenses from a discontinued operation increased by 12.6% from RMB7,133.9 million in the first half of 2019 to RMB8,034.0 million in the first half of 2020, mainly due to the increase in insurance costs.

The table below sets out the components of the expenses from a discontinued operation of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Insurance costs	(6,847.6)	(5,800.6)	(1,047.0)	18.0
Commission and fee expense	(619.3)	(668.7)	49.4	(7.4)
Employee benefits	(319.1)	(315.5)	(3.6)	1.1
Interest expense	(142.3)	(175.6)	33.3	(19.0)
Business depreciation and amortization	–	(34.5)	34.5	(100.0)
Impairment losses on assets	(0.8)	(16.3)	15.5	(95.1)
Tax and surcharges	(3.5)	(3.2)	(0.3)	9.4
Other expenses	(101.4)	(119.6)	18.2	(15.2)
Total expenses from a discontinued operation	(8,034.0)	(7,133.9)	(900.1)	12.6

4. Management Discussion and Analysis

Insurance Costs

The insurance costs of Happy Life increased by 18.0% from RMB5,800.6 million in the first half of 2019 to RMB6,847.6 million in the first half of 2020, mainly due to the increase in other insurance expenses, partly offset by reverses for insurance contracts.

The table below sets out the principal components of insurance costs of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Reverses/(reserves) for insurance contracts	3,399.4	(3,117.5)	6,516.9	(209.0)
Interests credited and policyholder dividends	(326.1)	(387.6)	61.5	(15.9)
Refund of reinsurance premiums	11.7	5.2	6.5	(125.0)
Other insurance expenses ⁽¹⁾	(9,932.6)	(2,300.7)	(7,631.9)	331.7
Total	(6,847.6)	(5,800.6)	(1,047.0)	18.0

Note:

(1) Consists primarily of claims incurred, surrender payments and general and administrative expenses.

4.2.1.5 Income Tax Expense

The table below sets out the income tax expense attributable to continuing operations of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Profit before tax from continuing operations	10,713.1	12,729.8	(2,016.7)	(15.8)
Income tax expense attributable				
to continuing operations	(3,636.2)	(3,865.5)	229.3	(5.9)
Effective tax rate attributable				
to continuing operations (%)	33.9	30.4	3.5	11.5

4. Management Discussion and Analysis

The income tax expense attributable to continuing operations of the Group decreased by 5.9% from RMB3,865.5 million in the first half of 2019 to RMB3,636.2 million in the first half of 2020, mainly due to the decrease in profit before tax. The effective tax rate attributable to continuing operations of the Group was 30.4% and 33.9% in the first half of 2019 and the first half of 2020, respectively.

The table below sets out the income tax expense attributable to a discontinued operation of the Group for the periods indicated.

	For the six months ended June 30,			
	2020	2019	Change	Change in percentage
	(in millions of RMB)			(%)
Profit before tax from a discontinued operation	296.5	679.4	(382.9)	(56.4)
Income tax expense attributable to a discontinued operation	(27.9)	2.2	(30.1)	1,368.2
Profit for the period from a discontinued operation	268.7	681.6	(412.9)	(60.6)

4.2.1.6 Segment Results of Operations

The Group has two business segments:

- (1) Distressed asset management business, which mainly includes (i) management and disposal of distressed debt assets acquired from financial institutions and non-financial enterprises; (ii) investment, management and disposal of DES Assets; (iii) conducting distressed asset management business in a comprehensive way, such as restructuring of distressed entities and distressed assets, special situations investment; and (iv) entrusted operation business;
- (2) Financial services business, which mainly includes banking, securities, futures, mutual funds, trusts, leasing and insurance.

4. Management Discussion and Analysis

The following table sets forth the segment operation results and financial positions of the Group's business segments as at the dates and for the periods indicated⁽¹⁾.

	For the six months ended June 30,							
	2020	2019	2020	2019	2020	2019	2020	2019
	Distressed asset management		Financial services		Elimination		Consolidation	
	(in millions of RMB)							
Total income	35,171.5	35,143.9	19,355.3	18,781.8	(389.4)	(657.2)	54,137.4	53,268.5
Percentage of total (%)	65.0	66.0	35.8	35.3				
Total costs and expenses	(28,419.6)	(26,195.5)	(16,145.2)	(15,834.0)	394.1	583.0	(44,170.7)	(41,446.5)
Profit before tax	7,779.6	10,512.0	3,225.3	2,971.5	4.7	(74.3)	11,009.6	13,409.2
Percentage of total (%)	70.6	78.4	29.3	22.2				
Profit margin before tax (%)	22.1	29.9	16.7	15.8			20.3	25.2
Return on average net assets before tax ⁽²⁾ (%)	14.1	19.2	8.0	8.1			11.6	14.8

	As at	As at	As at	As at	As at	As at	As at	As at
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
	Distressed asset management		Financial services		Unallocated part and elimination ⁽³⁾		Consolidation	
	(in millions of RMB)							
Total assets	969,126.9	945,229.0	586,093.9	597,068.0	(23,403.3)	(29,067.0)	1,531,817.5	1,513,230.0
Percentage of total (%)	63.3	62.5	38.3	39.5				
Net assets	107,705.9	112,299.5	82,950.8	77,595.9	1,517.6	(1,484.9)	192,174.3	188,410.5
Percentage of total (%)	56.0	59.6	43.2	41.2				

4. Management Discussion and Analysis

Notes:

- (1) The segment operation results include both results from continuing operations and a discontinued operation. The segment total assets and net assets include the assets and liabilities held for sale. As Happy Life belonged to the financial services segment before it was classified as held for sale, the corresponding results from the discontinued operation, assets and liabilities held for sale were accounted into the financial services segment. For the segment data of continuing operations and the relevant gains or losses from the discontinued operation, please see Note IV.51 “Segment information” and Note IV.55 “Discontinued operation”.
- (2) Represents the annualized ratio of profit before tax to the average net asset balance as at the beginning and the end of the period.
- (3) Represents primarily income tax payable and deferred tax assets and liabilities that were not allocated to each business segment.

Distressed asset management business is our core business and principal income contributor. In the first half of 2019 and the first half of 2020, the income generated from distressed asset management accounted for 66.0% and 65.0% of our total income, respectively, and the profit before tax generated from distressed asset management accounted for 78.4% and 70.6% of our total profit before tax, respectively. As at December 31, 2019 and June 30, 2020, the total assets of our distressed asset management accounted for 62.5% and 63.3% of our total assets, and the net assets of our distressed asset management accounted for 59.6% and 56.0% of our net assets, respectively. In the first half of 2019 and the first half of 2020, the profit margin before tax of this segment was 29.9% and 22.1%, respectively, and annualized return on average net asset before tax was 19.2% and 14.1%, respectively. The profit contribution of distressed asset management in the first half of 2020 decreased slightly when compared with the first half of 2019, mainly due to the impact of the macroeconomic environment and COVID-19, the income from distressed asset business of the Company was basically flat compared with the same period of last year, while costs and expenses increased.

As a key component of the business of the Group and an important cross-selling driver, the financial services business benefited from our synergistic operations and management strategies. The total income of the financial services segment in the first half of 2020 increased by 3.1%, and the proportion in the total revenue of the Group increased by 0.5 percentage points compared with the same period of last year, which basically remained stable.

For details of the development of each business segment of the Group, please refer to “Business Overview”.

4.2.2 Summary of Financial Position of the Group

In the first half of 2020, the assets and liabilities of the Group both increased slightly compared with the end of last year. As at December 31, 2019 and June 30, 2020, the total assets of the Group amounted to RMB1,513,230.0 million and RMB1,531,817.5 million, respectively, representing an increase of 1.2%; total liabilities of the Group amounted to RMB1,324,819.5 million and RMB1,339,643.1 million, respectively, representing an increase of 1.1%; and total equity amounted to RMB188,410.5 million and RMB192,174.3 million, respectively, representing an increase of 2.0%.

4. Management Discussion and Analysis

The table below sets forth the major items of the Interim Condensed Consolidated Statement of Financial Position of the Group as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Assets				
Cash and balances with central banks	17,495.5	1.1	19,002.1	1.3
Deposits with banks and other financial institutions	75,596.8	4.9	70,837.6	4.7
Financial assets at fair value through profit or loss	411,852.2	26.9	412,164.6	27.2
Financial assets at fair value through other comprehensive income	120,610.9	7.9	136,803.0	9.0
Loans and advances to customers	349,918.1	22.8	337,859.1	22.3
Financial assets at amortized cost	235,538.7	15.4	227,645.1	15.0
Assets held for sale	61,391.8	4.0	61,394.2	4.1
Other assets	259,413.5	16.9	247,524.3	16.4
Total assets	1,531,817.5	100.0	1,513,230.0	100.0
Liabilities				
Borrowings from the central bank	993.9	0.1	1,010.9	0.1
Accounts payable to brokerage clients	16,785.2	1.3	14,320.3	1.1
Due to customers	284,411.4	21.2	275,205.8	20.8
Borrowings	534,565.0	39.9	536,591.3	40.5
Accounts payable	3,809.2	0.3	5,050.8	0.4
Bonds issued	336,872.1	25.1	304,849.6	23.0
Liabilities held for sale	55,743.5	4.2	57,924.1	4.4
Other liabilities	106,462.8	7.9	129,866.7	9.8
Total liabilities	1,339,643.1	100.0	1,324,819.5	100.0
Equity				
Equity attributable to equity holders of the Company	167,200.0	87.0	164,898.1	87.5
Non-controlling interests	24,974.4	13.0	23,512.3	12.5
Total equity	192,174.3	100.0	188,410.5	100.0
Total equity and liabilities	1,531,817.5		1,513,230.0	

4. Management Discussion and Analysis

4.2.2.1 Assets

Monetary Capital

Monetary capital primarily consists of cash, principal deposits, balances with central banks, clearing settlement funds and deposits with banks and other financial institutions that Cinda Securities holds on behalf of its customers in the securities brokerage business. As at December 31, 2019 and June 30, 2020, monetary capital amounted to RMB89,839.7 million and RMB93,092.3 million, respectively, representing an increase of 3.6%, mainly due to an increase in bank deposits and deposits with banks and other financial institutions.

Financial Assets at Fair Value through Profit or Loss

The table below sets forth the principal components of the Group's financial assets at fair value through profit or loss as at the dates indicated.

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage (%)
(in millions of RMB)				
Financial assets classified as at fair value through profit or loss				
Listed investments				
Equity investments	14,018.7	9,565.8	4,452.9	46.6
Debt securities	7,967.8	10,491.0	(2,523.2)	(24.1)
Funds	3,246.4	2,071.0	1,175.4	56.8
Corporate convertible bonds	71.2	55.6	15.6	28.1
Unlisted investments				
Distressed debt assets	192,593.4	197,621.3	(5,027.9)	(2.5)
Funds	90,525.8	89,143.8	1,382.0	1.6
Equity investments	50,509.8	55,791.2	(5,281.4)	(9.5)
Debt instruments	28,586.8	28,148.6	438.2	1.6
Trust products and asset management plans	19,544.9	15,459.8	4,085.1	26.4
Security investments	2,553.8	1,642.9	910.9	55.4
Wealth management products	1,521.1	1,475.9	45.2	3.1
Derivative financial assets	656.2	619.3	36.9	6.0
Others	56.4	78.4	(22.0)	(28.1)
Total	411,852.2	412,164.6	(312.4)	(0.1)

4. Management Discussion and Analysis

As at December 31, 2019 and June 30, 2020, financial assets at fair value through profit or loss were RMB412,164.6 million and RMB411,852.2 million, respectively, among which, trust products and asset management plans and funds investments were increased, while distressed debt assets and listed debt securities investments were reduced.

- (1) As at December 31, 2019 and June 30, 2020, trust products and asset management plans at fair value through profit or loss were RMB15,459.8 million and RMB19,544.9 million, respectively, representing an increase of 26.4%, mainly due to the increase in trust products investment of the Company and Cinda Investment.
- (2) As at December 31, 2019 and June 30, 2020, total listed and unlisted funds investments at fair value through profit or loss were RMB91,214.8 million and RMB93,772.2 million, respectively, representing an increase of 2.8%, mainly due to the increase in private fund investment of the Company.
- (3) As at December 31, 2019 and June 30, 2020, distressed debt assets at fair value through profit or loss were RMB197,621.3 million and RMB192,593.4 million, respectively, representing a decrease of 2.5%, mainly because the investment schedule of the acquisition-operation business of the Company was slowed down, and the balance of the acquisition-operation distressed debt assets declined slightly, due to the impact of the Epidemic.
- (4) As at December 31, 2019 and June 30, 2020, listed debt securities investments at fair value through profit or loss were RMB10,491.0 million and RMB7,967.8 million, respectively, representing a decrease of 24.1%, mainly because Cinda Hong Kong disposed of a large scale of government bond investment.

4. Management Discussion and Analysis

The table below sets forth the major components of the Group's equity investments at fair value through profit or loss by types of investment and listing status as at the dates indicated.

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage
(in millions of RMB)				
(%)				
The Group				
Listed	14,018.7	9,565.8	4,452.9	46.6
Unlisted	50,509.8	55,791.2	(5,281.4)	(9.5)
Total	64,528.5	65,357.0	(828.5)	(1.3)
The Company				
Listed	8,352.3	5,354.5	2,997.8	56.0
Unlisted	25,096.3	28,403.7	(3,307.4)	(11.6)
Subtotal	33,448.6	33,758.2	(309.6)	(0.9)
Among which:				
DES Assets	31,382.7	31,836.0	(453.3)	(1.4)
Others	2,065.9	1,922.2	143.7	7.5
Subtotal	33,448.6	33,758.2	(309.6)	(0.9)

Financial Assets at Fair Value through Other Comprehensive Income

The financial assets at fair value through other comprehensive income include debt instruments held by the Group that meet the conditions that the contractual terms give rise on specific dates to cash flow consisting solely of payments of principal and interest on the principal outstanding, while with a business model whose objective is achieved by both collecting contractual cash flows and selling, and the equity instruments at fair value through other comprehensive income designated by the Group.

4. Management Discussion and Analysis

The table below sets forth the major components of the Group's financial assets at fair value through other comprehensive income as at the dates indicated.

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage
(in millions of RMB)				
				(%)
Debt securities	115,306.5	131,379.2	(16,072.7)	(12.2)
Equity instruments	4,255.4	4,227.6	27.8	0.7
Interest receivable	1,049.0	1,196.3	(147.3)	(12.3)
Total	120,610.9	136,803.0	(16,192.1)	(11.8)

As at December 31, 2019 and June 30, 2020, financial assets at fair value through other comprehensive income were RMB136,803.0 million and RMB120,610.9 million, respectively, representing a decrease of 11.8%, mainly due to the decline in such debt securities investments of Cinda Hong Kong and Cinda Securities.

4. Management Discussion and Analysis

Loans and Advances to Customers

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

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage (%)
(in millions of RMB)				
By business type				
Corporate and personal loans and advances	310,643.0	294,211.9	16,431.1	5.6
Loans to margin clients	8,512.7	7,458.4	1,054.3	14.1
Finance lease receivables	40,362.4	44,459.2	(4,096.8)	(9.2)
Total	359,518.1	346,129.5	13,388.6	3.9
By security type				
Mortgaged	71,590.7	102,876.8	(31,286.1)	(30.4)
Pledged	130,955.5	68,909.6	62,045.9	90.0
Guaranteed	45,245.3	53,365.1	(8,119.8)	(15.2)
Unsecured	111,726.6	120,978.0	(9,251.4)	(7.6)
Total	359,518.1	346,129.5	13,388.6	3.9
Allowances for impairment losses	(9,600.0)	(8,270.4)	(1,329.6)	16.1
Net balance	349,918.1	337,859.1	12,059.0	3.6

4. Management Discussion and Analysis

The table below sets forth the principal components of the Group's corporate and personal loans and advances by business type as at the dates indicated.

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage (%)
(in millions of RMB)				
Corporate loans and advances				
Loans and advances	260,361.7	245,348.8	15,012.9	6.1
Discounted bills	1,361.7	2,036.5	(674.8)	(33.1)
Subtotal	261,723.4	247,385.3	14,338.1	5.8
Personal loans and advances				
Mortgages	27,008.0	26,316.5	691.5	2.6
Personal consumption loans	21,911.6	20,510.1	1,401.5	6.8
Subtotal	48,919.6	46,826.6	2,093.0	4.5
Total	310,643.0	294,211.9	16,431.1	5.6

As at June 30, 2020, the balance of discounted bills was RMB1,361.7 million, all of which were assets formed by the discounted bills business of NCB, representing a decrease of 33.1% from RMB2,036.5 million as at December 31, 2019.

As at June 30, 2020, the balance of personal consumption loans was RMB21,911.6 million, all of which were assets formed by the personal consumption loans business of NCB, representing an increase of 6.8% from RMB20,510.1 million as at December 31, 2019.

Financial Assets at Amortized Cost

Financial assets at amortized cost are the debt instruments held by the Group that meet both of the following conditions: (1) the financial assets are held in the business model whose objective is achieved by collecting contractual cash flow; and (2) according to the contractual terms of the financial assets, the cash flow generated at a particular date is only the principal and the interest on the outstanding amount of principal.

4. Management Discussion and Analysis

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

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage
	(in millions of RMB)			(%)
Distressed debt assets				
Acquired from financial institutions	6,927.8	10,080.5	(3,152.7)	(31.3)
Acquired from non-financial institutions	192,984.0	184,439.4	8,544.6	4.6
Subtotal	199,911.9	194,519.9	5,392.0	2.8
Interest accrued	5,448.1	3,426.1	2,022.0	59.0
Allowances for impairment losses	(14,296.6)	(11,510.6)	(2,786.0)	24.2
Net balance	191,063.3	186,435.4	4,627.9	2.5
Other financial assets at amortized cost				
Trust products and asset management plans	18,319.9	17,348.9	971.0	5.6
Security investments	4,926.2	6,043.9	(1,117.7)	(18.5)
Others	21,828.5	18,598.2	3,230.3	17.4
Subtotal	45,074.6	41,991.0	3,083.6	7.3
Interest accrued	911.8	660.3	251.5	38.1
Allowances for impairment losses	(1,511.0)	(1,441.6)	(69.4)	4.8
Net balance	44,475.4	41,209.7	3,265.7	7.9
Total	235,538.7	227,645.1	7,893.6	3.5

4. Management Discussion and Analysis

As at June 30, 2020, the total balances of distressed debt assets at amortized cost were RMB199,911.9 million, all of which are the Group's restructured distressed debt assets, increasing by 2.8% from RMB194,519.9 million as at December 31, 2019.

As at June 30, 2020, the total balances of other financial assets at amortized cost were RMB45,074.6 million, increasing by 7.3% from RMB41,991.0 million as at December 31, 2019.

As at June 30, 2020, the impaired distressed debt assets at amortized cost of the Company were RMB7,272.8 million, accounting for 3.53% of the total distressed debt assets at amortized cost. As at June 30, 2020, the allowance for impairment losses on distressed debt assets at amortized cost of the Company was RMB14,217.3 million, the coverage ratio of the impaired distressed debt assets at amortized cost was 195.5%, and the coverage ratio of allowance to total distressed debt assets at amortized cost was 6.9%.

4.2.2.2 Liabilities

Liabilities of the Group mainly consist of borrowings, bonds issued and due to customers, accounting for 39.9%, 25.1% and 21.2% of the total liabilities of the Group as at June 30, 2020, respectively.

The table below sets forth the components of the Group's interest-bearing liabilities as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB)				
Borrowings	534,565.0	44.4	536,591.3	45.5
Bonds issued	336,872.1	27.9	304,849.6	25.9
Due to customers	284,411.4	23.6	275,205.8	23.3
Accounts payable to brokerage clients	16,785.2	1.4	14,320.3	1.2
Financial assets sold under repurchase agreements	14,912.2	1.2	19,495.6	1.7
Placements from banks and other financial institutions	9,141.3	0.8	14,084.8	1.2
Deposits from banks and other financial institutions	8,645.2	0.7	14,157.1	1.2
Total	1,205,332.4	100.0	1,178,704.5	100.0

4. Management Discussion and Analysis

Borrowings

As at June 30, 2020, the balance of borrowings of the Group amounted to RMB534,565.0 million, decreasing by 0.4% from RMB536,591.3 million as at December 31, 2019, and basically remaining stable.

Bonds Issued

The table below sets forth the components of the bonds issued by the Group as at the dates indicated.

	As at June 30, 2020	As at December 31, 2019
(in millions of RMB)		
Financial bonds	108,728.6	93,851.3
Asset-backed securities	83,016.5	70,141.9
USD guaranteed senior notes	81,386.8	77,528.9
Corporate bonds	26,489.5	24,867.6
Tier-2 capital bonds	10,008.5	10,189.4
Mid-term notes	7,221.8	5,076.3
Subordinated notes	4,945.3	4,871.6
Debt financing plan	3,364.2	2,988.5
Beneficiary certificates	3,293.2	1,224.3
Certificates of deposit	2,785.5	2,218.9
Subordinated bonds	2,662.7	8,930.7
Debt financing instruments	2,067.0	2,003.9
Asset-backed notes	854.5	909.2
HKD bonds	48.1	47.2
Total	336,872.1	304,849.6

As at December 31, 2019 and June 30, 2020, the balance of bonds issued by the Group amounted to RMB304,849.6 million and RMB336,872.1 million, respectively. The balance of bonds issued continued to increase, mainly because the Group continuously refined the structure of liabilities by carrying out direct financing with a focus on bond financing. Bonds issued in the first half of 2020 mainly consist of (1) financial bonds at carrying amount of RMB25.00 billion issued by the Company; and (2) asset-backed securities at a carrying amount of RMB29.94 billion issued by the Company.

4. Management Discussion and Analysis

Due to Customers

As at December 31, 2019 and June 30, 2020, the balance of the amount due to customers of the Group amounted to RMB275,205.8 million and RMB284,411.4 million, respectively, with an increase of 3.3%. Due to customers of the Group came from NCB.

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

	As at June 30, 2020	As at December 31, 2019	Change	Change in percentage (%)
(in millions of RMB)				
Demand deposits	97,361.3	86,726.0	10,635.3	12.3
Corporate	51,396.1	47,822.3	3,573.8	7.5
Personal	45,965.2	38,903.7	7,061.5	18.2
Time deposits	169,295.3	176,449.0	(7,153.7)	(4.1)
Corporate	88,878.4	86,160.2	2,718.2	3.2
Personal	80,416.9	90,288.8	(9,871.9)	(10.9)
Guarantee deposits	16,308.9	10,363.6	5,945.3	57.4
Interest payable	1,445.9	1,667.2	(221.3)	(13.3)
Total	284,411.4	275,205.8	9,205.6	3.3

4.2.3 Contingent Liabilities

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

As at December 31, 2019 and June 30, 2020, the claim amounts of pending litigation of which the Group was defendant were RMB2,473.8 million and RMB3,703.1 million, respectively, and provisions of RMB54.9 million and RMB55.7 million for the Group were made based on court judgments or the advice of legal counsel, respectively. The Company believes that the final result of these lawsuits will not have material impacts on the financial position or operations of the Group.

4. Management Discussion and Analysis

4.2.4 Difference between Condensed Consolidated Financial Statements Prepared under the PRC GAAP and IFRS

There is no difference in the net profit and shareholders' equity for the Reporting Period between the Interim Condensed Consolidated Financial Statements prepared by the Company under the PRC GAAP and IFRS, respectively.

4.3 Business Overview

The principal business segments of the Group include (1) distressed asset management business, including business conducted with respect to distressed assets, such as debt asset management, management of DES Assets, other distressed asset management, and entrusted operation businesses; and (2) financial services business including banking, securities, futures, mutual funds, trusts, leasing and insurance.

The table below sets out the total income of each business segment for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Total income	% of total	Total income	% of total
	(in millions of RMB)			
Distressed asset management	35,171.5	65.0	35,143.9	66.0
Financial services	19,355.3	35.8	18,781.8	35.3
Elimination	(389.4)	(0.8)	(657.2)	(1.3)
Total	54,137.4	100.0	53,268.5	100.0

4. Management Discussion and Analysis

The table below sets out the profit before tax of each business segment for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Profit before tax	% of total	Profit before tax	% of total
	(in millions of RMB)			
Distressed asset management	7,779.6	70.6	10,512.0	78.4
Financial services	3,225.3	29.3	2,971.5	22.2
Elimination	4.7	0.1	(74.3)	(0.6)
Total	11,009.6	100.0	13,409.2	100.0

4.3.1 Distressed Asset Management

The distressed asset management business of the Group includes (1) management and disposal of distressed debt assets acquired from financial institutions and non-financial enterprises; (2) investment, management and disposal of DES Assets; (3) conducting distressed asset management business in a comprehensive way, such as restructuring of distressed entities and distressed assets, special situations investment; and (4) entrusted operation business.

Distressed asset management is the main business and the primary source of income and profit of the Group. In the first half of 2019 and the first half of 2020, the income from the distressed asset management business accounted for 66.0% and 65.0% of the total income of the Group, respectively, and the profit before tax from the distressed asset management business accounted for 78.4% and 70.6% of the profit before tax of the Group, respectively.

4. Management Discussion and Analysis

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

	As at June 30, 2020	As at December 31, 2019
	(in millions of RMB)	
Net balance of distressed debt assets ⁽¹⁾	384,693.1	385,449.7
Book value of DES Assets	76,734.8	77,009.4
Book value of other distressed assets ⁽²⁾	142,531.6	123,961.2

	For the six months ended June 30,	
	2020	2019
	(in millions of RMB)	
Distressed debt assets		
Acquisition cost of distressed debt assets	43,150.5	47,698.1
Income from distressed debt assets ⁽³⁾	15,462.9	14,943.7
DES Assets		
Gains on fair value changes ⁽⁴⁾	984.3	4,416.2
Gains on other equity ⁽⁵⁾	501.8	772.3
Other distressed assets		
Income from other distressed assets ⁽⁶⁾	2,563.9	4,816.8

Notes:

- (1) Equivalent to the sum of the Company's "distressed debt assets at fair value through profit or loss" and "distressed debt assets at amortized cost", as presented in the Interim Condensed Consolidated Financial Statements.
- (2) Primarily includes book value of assets such as non-standard debt investments and equity investments, investments in fixed income asset management products, investments in securitized asset products and debenture investments related to the distressed asset business.
- (3) Equivalent to the sum of the Company's "fair value changes on acquisition-operation distressed debt assets" and "income from distressed debt assets at amortized cost", as presented in the Interim Condensed Consolidated Financial Statements.
- (4) Refers to income of the DES Assets at fair value through profit or loss attributed to distressed asset management segment including the net gains on disposal of DES Assets, dividend income, interest income and unrealized fair value changes.
- (5) Refers to the net gains or losses from DES Assets accrued in associates and joint ventures attributed to distressed asset management segment; dividend income from DES Assets at fair value through other comprehensive income.
- (6) Refers to gains on other distressed asset business, including loss and profit from fair value changes.

4. Management Discussion and Analysis

4.3.1.1 Source of Acquisition of Distressed Debt Assets

The Company classifies the distressed debt assets into two main categories based on the source of acquisition: (1) non-performing loans and other distressed debt assets from banks and other distressed debt assets from non-banking financial institutions (“FI Distressed Assets”) and (2) receivables from non-financial enterprises (“NFE Distressed Assets”).

The table below sets forth the key financial indicators of the Company’s FI Distressed Assets and NFE Distressed Assets as at the dates and for the periods indicated.

	As at June 30, 2020		As at December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Net balance of distressed debt assets⁽¹⁾				
FI Distressed Assets	187,586.5	48.8	192,258.8	49.9
NFE Distressed Assets	197,106.6	51.2	193,190.9	50.1
Total	384,693.1	100.0	385,449.7	100.0

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Acquisition cost of distressed debt assets⁽²⁾				
FI Distressed Assets	12,478.5	28.9	17,248.1	36.2
NFE Distressed Assets	30,672.0	71.1	30,450.0	63.8
Total	43,150.5	100.0	47,698.1	100.0
Income from distressed debt assets⁽³⁾				
FI Distressed Assets	5,890.3	38.1	6,669.9	44.6
NFE Distressed Assets	9,572.6	61.9	8,273.8	55.4
Total	15,462.9	100.0	14,943.7	100.0

4. Management Discussion and Analysis

Notes:

- (1) Equivalent to the sum of the Company's "distressed debt assets at fair value through profit or loss" and "net balance of distressed debt assets at amortized cost", as presented in the Interim Condensed Consolidated Financial Statements.
- (2) Represents the carrying amount of distressed debt assets acquired during the period indicated.
- (3) Equivalent to the sum of the Company's "fair value changes on acquisition-operation distressed debt assets" and "income from distressed debt assets at amortized cost", as presented in the Interim Condensed Consolidated Financial Statements.

FI Distressed Assets

The FI Distressed Assets acquired by the Company primarily include non-performing loans and other distressed debt assets from banks, including large commercial banks, joint-stock commercial banks, city and rural commercial banks, policy banks and foreign banks. We also acquire distressed debt assets from non-bank financial institutions.

The table below sets forth the FI Distressed Assets in terms of acquisition costs among different types of banks and non-banking financial institutions for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Acquisition Amount	% of total	Acquisition Amount	% of total
	(in millions of RMB)			
Large commercial banks	5,593.2	44.8	3,780.5	21.9
Joint-stock commercial banks	2,027.4	16.3	7,783.5	45.2
City and rural commercial banks	2,238.9	17.9	3,035.3	17.6
Other banks ⁽¹⁾	67.5	0.5	524.9	3.0
Non-banking financial institutions ⁽²⁾	2,551.5	20.5	2,123.9	12.3
Total	12,478.5	100.0	17,248.1	100.0

Notes:

- (1) Include banking financial institutions such as policy banks and foreign banks.
- (2) Mainly include non-banking financial institutions such as trust companies and finance companies.

NFE Distressed Assets

The NFE Distressed Assets acquired by the Company are primarily distressed assets which were held by non-financial enterprises or managed by financial institutions as trustee. The NFE Distressed Assets primarily include accounts receivable, other receivables, corporate bonds, entrustment loans and trust loans, etc.

4. Management Discussion and Analysis

4.3.1.2 Business Model of Distressed Debt Assets

The Company mainly employs two business models in distressed debt asset management, which are (1) Acquisition-Operation Model and (2) Restructuring Model.

The table below sets forth details on the acquisition and disposal of distressed assets by the Company using Acquisition-Operation Model and Restructuring Model as at the dates and for the periods indicated.

	As at June 30, 2020		As at December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Net balance of distressed debt assets				
Acquisition-operation distressed assets ⁽¹⁾	193,158.8	50.2	198,146.5	51.4
Restructured distressed assets ⁽²⁾	191,534.3	49.8	187,303.2	48.6
Total	384,693.1	100.0	385,449.7	100.0

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
(in millions of RMB)				
Acquisition cost of distressed debt assets				
Acquisition-operation distressed assets	12,808.0	29.7	17,556.9	36.8
Restructured distressed assets	30,342.5	70.3	30,141.2	63.2
Total	43,150.5	100.0	47,698.1	100.0
Income from distressed debt assets				
Acquisition-operation distressed assets ⁽³⁾	6,330.1	40.9	6,506.2	43.5
Restructured distressed assets ⁽⁴⁾	9,132.8	59.1	8,437.5	56.5
Total	15,462.9	100.0	14,943.7	100.0

4. Management Discussion and Analysis

Notes:

- (1) Equivalent to the Company's "distressed debt assets at fair value through profit or loss", as presented in the Interim Condensed Consolidated Financial Statements.
- (2) Equivalent to the Company's "distressed debt assets at amortized cost" minus impairment losses, as presented in the Interim Condensed Consolidated Financial Statements.
- (3) Equivalent to the Company's realized and unrealized "fair value changes on acquisition-operation distressed debt assets", as presented in the Interim Condensed Consolidated Financial Statements.
- (4) Equivalent to the Company's "income from distressed debt assets at amortized cost", as presented in the Interim Condensed Consolidated Financial Statements.

Acquisition-Operation Distressed Assets

Acquisition-Operation Distressed Assets refer to distressed debt assets acquired from financial institutions and non-financial institutions through competitive biddings, public auctions, listing shares or negotiated purchases by the Company. Based on the characteristics of the distressed debt assets, the Company applied suitable strategies to maximize the value of assets and achieve cash recovery, including debt restructuring, debt-to-equity swap, receipt of assets and equity in satisfaction of debt, litigation recovery and disposal, etc.

The table below sets forth certain details of the general operation of the Acquisition-operation Distressed Assets of the Company as at the dates and for the periods indicated.

	As at June 30, 2020	As at December 31, 2019
	(in millions of RMB)	
Net balance of Acquisition-operation Distressed Assets	193,158.8	198,146.5

	For the six months ended June 30, 2020	2019
	(in millions of RMB)	
Acquisition cost of Acquisition-operation Distressed Assets	12,808.0	17,556.9
Carrying amount of Acquisition-operation Distressed Assets disposed ⁽¹⁾	18,950.6	23,549.2
Unrealized fair value changes	1,572.5	1,452.8
Net income from Acquisition-operation Distressed Assets	6,330.1	6,506.2
Internal rate of return ⁽²⁾ (%)	14.7	15.9

4. Management Discussion and Analysis

Notes:

- (1) Represents the amounts of Acquisition-Operation Distressed Assets disposed in a given period.
- (2) The internal rate of return, or IRR, is the annualized implied discount rate calculated from a series of cash flows. It is the return that equates the present value of all capital invested in the Acquisition-Operation Distressed Assets to the present value of all returns of capital, or the discount rate that will provide a net present value of all cash flows equal to zero.

In the first half of 2020, the Company overcame the negative effects of the COVID-19, took effective measures to cope with the new situation in the distressed asset market and continued to promote high quality development of acquisition-operation business. In terms of asset acquisition, the Company strengthened the communication with banks and other financial institutions, adjusted acquisition pace, made use of professional advantages on valuation and pricing of distressed assets, quoted prudently and reasonably, which resulted in effective acquisition. In terms of asset disposal, the Company enhanced the classification of assets, strengthened the construction of disposal channels, accelerated asset turnover, enhanced cash recovery, and achieved stable net income.

Restructured Distressed Assets

The primary sources of our Restructured Distressed Assets are non-financial enterprises. When acquiring debts, the Company would enter into a tripartite agreement with the creditor and debtor. We acquire the debts from the creditor, and we, the debtor and its related parties also enter into a restructuring agreement that details a series of arrangements of reorganization including the repayment amount, repayment method, repayment schedule, and collateral and guarantee agreements, with the goal of improving the operating conditions of the debtor, recovering the debt in full and achieving target gains.

The table below sets forth certain details of the general operation of the Restructured Distressed Assets of the Company as at the dates and for the periods indicated.

	As at June 30, 2020	As at December 31, 2019
(in millions of RMB)		
Net balance of Restructured Distressed Assets	191,534.3	187,303.2
Balance of impaired Restructured Distressed Assets	7,272.8	5,706.1
Impaired Restructured Distressed Assets ratio ⁽¹⁾ (%)	3.53	2.87
Allowance for impairment losses	14,217.3	11,412.4
Impaired Restructured Distressed Assets coverage ratio ⁽²⁾ (%)	195.5	200.0

4. Management Discussion and Analysis

	For the six months ended June 30,	
	2020	2019
	(in millions of RMB)	
Acquisition cost of Restructured Distressed Assets	30,342.5	30,141.2
Income from Restructured Distressed Assets	9,132.8	8,437.5
Annualized return on monthly average balance ⁽³⁾ (%)	9.2	8.5

Notes:

- (1) Equals the balance of impaired Restructured Distressed Assets divided by gross balance of Restructured Distressed Assets.
- (2) Equals the balance of allowance for impairment losses divided by the balance of impaired Restructured Distressed Assets.
- (3) Equals income from Restructured Distressed Assets divided by monthly average balance of Restructured Distressed Assets.

In the first half of 2020, the Company stuck to the principle of seeking improvement in stability, made good efforts on distressed asset management business by centering on distressed assets and distressed enterprises, and continuously promoted assets structure optimization and business model promotion of Restructured Distressed Assets business. In this regard, the Company (i) increased investments in robust business and innovative business while consolidating the existing businesses, and actively extended business areas such as the separation of the primary and subsidiary businesses of state-owned enterprises, assistance for industry leaders with local characteristics, debt risk alleviation of leading coal enterprises, crisis settlement of large enterprise groups and bankruptcy and reorganization investment, revitalization of distressed real estate projects with other investors; (ii) strengthened the strategy of client-centric and policy of headquarter-to-headquarter marketing, cooperated with preponderant industry investors, captured significant business opportunities, and made great efforts to create an “extensive distressed asset” ecosystem; and (iii) continued to make prudent and effective investments, sped up the activation and disposal of inefficient assets, optimized the asset portfolio, and promoted the high-quality development of restructuring business.

4. Management Discussion and Analysis

The table below sets forth details of the Restructured Distressed Assets of the Company classified by industry as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Acquisition Amount	% of total	Acquisition Amount	% of total
	(in millions of RMB)			
Real estate	106,351.2	51.7	97,974.3	49.3
Manufacturing	28,812.7	14.0	25,859.4	13.0
Leasing and commercial services	8,781.7	4.3	10,717.9	5.4
Construction	9,441.2	4.6	8,918.5	4.5
Water conservancy, environment and public facility management	5,792.9	2.8	5,230.8	2.6
Mining	13,034.3	6.3	12,642.3	6.4
Transportation, logistics and postal services	2,513.8	1.2	4,848.9	2.4
Others	31,023.8	15.1	32,523.5	16.4
Total	205,751.6	100.0	198,715.6	100.0

The table below sets forth details of the Restructured Distressed Assets of the Company classified by region as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Acquisition Amount	% of total	Acquisition Amount	% of total
	(in millions of RMB)			
Yangtze River Delta	38,079.7	18.5	36,009.5	18.1
Pearl River Delta	26,828.4	13.0	24,908.4	12.5
Bohai Rim	49,790.9	24.2	47,667.3	24.0
Central Region	55,126.0	26.8	57,263.8	28.8
Western Region	33,662.7	16.4	30,503.5	15.4
Northeast Region	2,263.9	1.1	2,363.1	1.2
Total	205,751.6	100.0	198,715.6	100.0

4. Management Discussion and Analysis

4.3.1.3 DES Assets Management

The Company acquires DES Assets through debt-to-equity swap, receipt of equity in satisfaction of debt and other transactions related to distressed asset management.

The table below sets forth certain details of DES Assets of the Company classified by different accounting items as at the dates indicated.

	As at June 30, 2020	As at December 31, 2019
(in millions of RMB)		
Total book value		
DES Assets at fair value through profit or loss	33,925.5	33,656.2
DES Assets at interests in associates and joint ventures	39,575.2	39,153.6
DES Assets at fair value through other comprehensive income	3,234.1	4,199.6
Total	76,734.8	77,009.4

DES Assets Income

In the first half of 2019 and the first half of 2020, the gains on fair value changes of DES Assets of the Company amounted to RMB4,416.2 million and RMB984.3 million, respectively, while the gains realized with other accounting approaches amounted to RMB772.3 million and RMB501.8 million, respectively.

The table below sets forth details of the income on DES Assets of the Company for the periods indicated.

	For the six months ended June 30, 2020	2019
(in millions of RMB)		
Fair value changes ⁽¹⁾	984.3	4,416.2
Gains realized with other accounting approaches ⁽²⁾	501.8	772.3

Note:

- (1) Refers to fair value changes of the DES Assets at fair value through profit or loss including the net gains or losses on disposal of DES Assets, dividend income, interest income and unrealized fair value changes.
- (2) Includes net gains or losses from DES Assets accrued in associates and joint ventures and dividend income from DES Assets at fair value through other comprehensive income.

4. Management Discussion and Analysis

In the first half of 2020, the Company continued to thoroughly engage in the supply-side structural reform and actively grasped the policy opportunities, such as the mixed ownership reform of state-owned enterprises and market-oriented DES. First, the Company further enhanced the disposal of existing DES projects and accelerated the disposal of listed DES Assets. Second, the Company continued to promote the market-oriented DES business and made positive progress in some projects. While supporting the real economy to reduce leverage, the Company has further consolidated its professional brand image in the market-oriented DES field.

4.3.1.4 Other Distressed Asset Businesses

Other distressed asset business of the Group is the investment business conducted in a comprehensive operation method other than distressed debt asset business and DES business. Income of such business comprises fixed income as the dominant income and floating income as the auxiliary income. The risk characteristic of such business comprises credit risk and market risk. The Group mainly conducts other distressed asset business through the Company, Cinda Hong Kong, Cinda Investment and Zhongrun Development.

Other Distressed Asset Business of the Company

Other distressed asset business of the Company primarily refers to the investment business, in which the Company focuses on distressed entities aid and distressed assets revitalizing. By means of private funds, trust plans and asset management plans, the Company uses its own funds in specific projects to resolve the existing risk and also obtain investment income, mainly including fixed-income asset management product investment, securitization product investment and bond investment.

As at December 31, 2019 and June 30, 2020, the investment balance of other distressed asset business of the Company amounted to RMB123.96 billion and RMB142.53 billion, respectively. In the first half of 2019 and the first half of 2020, the income of other distressed asset business of the Company amounted to RMB4.82 billion and RMB2.56 billion, respectively.

Other Distressed Asset Business of Cinda Hong Kong

Under the model of “core business of distressed assets + investment banking” and by strengthening the cooperation with the Group headquarter and domestic branches and subsidiaries, Cinda Hong Kong focused on the development of the restructuring business of distressed assets, distressed entities with cross-border demands, and participated in relevant investment and financing projects such as cross-border industrial restructuring, cross-border mergers and acquisitions and overseas settlement, which are supported by the national policies of industrial transformation and upgrading. The main types of business include restructuring business of distressed entities and distressed assets, acquisition and disposal business of overseas non-performing loans of Chinese financial institutions, acquisition and restructuring business of defaulted offshore USD denominated bonds issued by Chinese entities and supportive business of global resource integration of the Group’s strategic clients.

4. Management Discussion and Analysis

As at December 31, 2019 and June 30, 2020, the investment balance of other distressed asset business of Cinda Hong Kong amounted to RMB44.10 billion and RMB46.30 billion, respectively. In the first half of 2019 and the first half of 2020, the income of other distressed asset business of Cinda Hong Kong amounted to RMB1.60 billion and RMB1.37 billion, respectively.

Other Distressed Asset Business of Cinda Investment

By sticking to the primary function and main business of “extensive distressed asset”, deepening the position of “distressed asset investment”, and through the combination of equity and debt, resources integration, initiative management and cooperation with industry investors, etc., Cinda Investment vigorously promotes substantial restructuring of distressed entities and distressed assets in the real estate sector. It also actively engages in settlement and rescue of default and crisis events in such areas as shanty house rebuilding and urban renewal, and properly participates in the separation of the primary and subsidiary businesses of state-owned enterprises, mixed ownership reform, disposal of zombie enterprises and enterprises in extreme plight, and prudently engages in the bail-out of listed companies and their controlling shareholders. It also continues to improve its abilities in differentiated, characteristic, and professional operations. In mitigating regional financial risks, serving the real economy, and supporting supply-side structural reforms, it has formed its operational characteristics with obvious comparative advantages, effective and strong coordination, and accomplished risk management and control, as well as healthy financial structure.

As at December 31, 2019 and June 30, 2020, the investment balance of other distressed asset business of Cinda Investment amounted to RMB54.00 billion and RMB54.20 billion, respectively. In the first half of 2019 and the first half of 2020, the income of other distressed asset business of Cinda Investment amounted to RMB2.10 billion and RMB1.90 billion, respectively.

Other Distressed Asset Business of Zhongrun Development

Based on its professional ability and brand advantages in the field of enterprise custody, bankruptcy and liquidation management, Zhongrun Development focuses on the enterprise bankruptcy management segment by conducting reorganization of enterprises, establishing the dedicated platform to provide bankruptcy costs and debt financing in the bankruptcy procedure for distressed enterprises and by exploring special investment opportunities such as enterprise restructuring and reorganization by means of custody, liquidation and reorganization, so as to collaborate and promote the “extensive distressed asset” business.

As at December 31, 2019 and June 30, 2020, the investment balance of the other distressed asset business of Zhongrun Development amounted to RMB2.42 billion and RMB2.45 billion, respectively. In the first half of 2019 and the first half of 2020, the income of the other distressed asset business of Zhongrun Development amounted to RMB0.13 billion and RMB0.09 billion, respectively.

4. Management Discussion and Analysis

4.3.1.5 Other Investments

Cinda Real Estate

By taking advantage of its real estate expertise, Cinda Real Estate is committed to creating a professional real estate service platform within the “extensive distressed asset” business of the Group. It provides professional post-investment management services and professional consultancy services for the real estate-related projects of the Group, revitalizes distressed real estate-related assets and enhances values of such assets through equity merger and entrusted construction, so as to provide effective methods for asset disposal and realization.

In the first half of 2019 and the first half of 2020, Cinda Real Estate achieved revenue from sales of properties held for sale of RMB4.91 billion and RMB9.61 billion, respectively. The main reason for the substantial increase in the first half of 2020 is that the delivery area of real estate projects had a large increase compared with the same period of last year according to the project schedule.

4.3.1.6 Entrusted Operation

The Group provides entrusted operation services to distressed assets and entities under the engagement of government, enterprises and financial institutions. The entrusted distressed asset operation business was mainly conducted by the Company. As at December 31, 2019 and June 30, 2020, the balance of the entrusted operation distressed assets amounted to RMB18.16 billion and RMB11.40 billion, respectively.

4.3.2 Financial Services Business

According to the strategic plan, the Group has focused on the development of the financial services business that can provide services and support to the development of distressed assets business. A synergistic financial services platform has been established, covering banking, securities, futures, mutual funds, trusts, leasing and insurance business. The Group is committed to providing customized financial services and comprehensive solutions to customers.

In the first half of 2019 and the first half of 2020, the income from the financial services business accounted for 35.3% and 35.8% of the total income of the Group, respectively, and the profit before tax from the distressed asset management business accounted for 22.2% and 29.3% of the profit before tax of the Group, respectively.

4. Management Discussion and Analysis

The table below sets forth the key financial data of the financial service subsidiaries of the Group as at the dates and for the periods indicated.

	For the six months ended June 30,							
	2020		2019		As at June 30, 2020		As at December 31, 2019	
	Income	Profit before tax	Income	Profit before tax	Total assets	Net assets	Total assets	Net assets
	(in millions of RMB)							
NCB	7,325.0	2,439.5	7,666.8	1,983.5	429,993.5	54,367.7	437,016.0	51,556.3
Cinda Securities	2,178.6	438.2	1,722.9	245.4	47,640.4	11,352.3	45,422.5	9,624.2
Jingu Trust	217.7	59.4	226.5	83.5	4,755.7	4,088.8	5,295.3	4,043.6
Cinda Leasing	1,257.2	3.2	1,398.2	(14.6)	44,241.2	7,317.5	48,819.5	7,204.7
Happy Life ⁽¹⁾	8,312.2	290.3	7,738.0	590.0	60,908.9	5,214.2	63,061.8	5,195.1

Note:

- (1) In December 2019, Happy Life was classified as assets held for sale and turned into a discontinued operation. As at June 30, 2020, Happy Life was still classified as assets held for sale.

4.3.2.1 Banking Business

The Group conducts banking business in Hong Kong and Mainland China through NCB (mainly including NCB Hong Kong and NCB China).

The development of NCB played an important role in the Group. Considering both internal and external economic conditions and its strategies, the Group has put forward the goal of developing NCB into a platform for group account management, cross-selling and integrated financial services, as well as a growth point of group collaboration and transformation, which will promote the development of the entire financial services sector. Based on the above development object and functional position, NCB effectively utilizes its highly complementary products and customer channels with the Group, fully implements the transformation strategy, actively promotes the synergy of the Group and continues to strengthen risk prevention and control, which has resulting in stable performance and achieved sustainable and stable development.

4. Management Discussion and Analysis

The table below sets forth the key financial and business indicators of NCB as at the dates and for the periods indicated.

	As at June 30, 2020	As at December 31, 2019
(in billions of RMB)		
Total assets	430.0	437.0
Total loans	242.5	235.7
Total deposits	312.7	309.8
Asset quality indicators (%)		
Non-performing loan ratio ⁽¹⁾	0.71	0.67
Capital adequacy ratio indicators (%)		
Total debt-to-capital ratio ⁽²⁾	20.00	21.73
Tier-1 capital ratio ⁽³⁾	16.16	17.99
Tier-1 capital ratio of common equities ⁽⁴⁾	13.23	14.58
Other indicators (%)		
Liquidity coverage ratio ⁽⁵⁾	156.69	154.97

	For the six months ended June 30,	
	2020	2019
(in billions of RMB)		
Net interest income	3.0	2.9
Net commission and fee income	0.8	0.7
Profitability indicators (%)		
Annualized return on average assets ⁽⁶⁾	1.00	0.84
Annualized return on average shareholder's equity ⁽⁷⁾	9.01	8.38
Net interest margin ⁽⁸⁾	1.52	1.51
Cost-to-income ratio ⁽⁹⁾	32.50	33.79

4. Management Discussion and Analysis

Note:

- (1) Equals the sum of loans classified as substandard, doubtful and loss divided by total loans to customers.
- (2) Equals the sum of tier-1 capital and tier-2 capital divided by net risk-weighted assets.
- (3) Equals tier-1 capital divided by net risk-weighted assets.
- (4) Equals tier-1 capital of common equities divided by net risk-weighted assets.
- (5) Equals high-quality liquid asset reserves divided by the difference between cash outflows over the next 30 days and cash inflows over the next 30 days.
- (6) Equals profit after tax for the period divided by the average of assets as at the beginning and the end of the period, which is annualized.
- (7) Equals net profit attributable to equity holders for the period divided by the average of equity attributable to equity holders as at the beginning and the end of the period, which is annualized.
- (8) Equals net interest income divided by daily average balance of interest-generating assets, which is annualized.
- (9) Equals operating expenses divided by operating income.

NCB Hong Kong

Rooted in Hong Kong, NCB Hong Kong focuses on providing professional service and deep cultivation, and it is well-known for its expertise for personal wealth management and corporate banking services. NCB Hong Kong continues to develop various wealth and asset management products to help corporate and personal customers to hedge and manage interest rate and exchange rate risks. Moreover, it has made substantial investments in the RMB bond market and expanded the domestic financing channels. In particular, it has developed new services for free trade zone lending, domestic cash account financing and pledge-style RMB bond repurchase in Mainland China, with an aim to diversify the sources of RMB denominated funds and decrease interest expense.

	As at June 30, 2020	As at December 31, 2019
	(in billions of RMB)	
Balance of retail deposits	116.1	119.2
Balance of retail loans	30.6	29.4

	For the six months ended June 30, 2020	2019
	(in billions of RMB)	
From retail customers		
Net interest income	0.4	0.4
Net commission and fee income	0.3	0.3

4. Management Discussion and Analysis

	As at June 30, 2020	As at December 31, 2019
	(in billions of RMB)	
Balance of corporate deposits	103.9	100.0
Balance of corporate loans	144.4	140.6

	For the six months ended June 30, 2020	2019
	(in billions of RMB)	
From corporate customers		
Net interest income	1.1	1.1
Net commission and fee income	0.3	0.3

NCB China

NCB China, which leverages the resources of the Group and the advantages of its parent bank NCB Hong Kong, is characterized by cross-border integrated financial and asset management services. It constantly improves the level of serving domestic and overseas customers by upholding the principle of “dedicated to serving customers” and transforming into a fintech institution.

4. Management Discussion and Analysis

The table below sets forth the key financial and business indicators of NCB China as at the dates and for the periods indicated.

	As at June 30, 2020	As at December 31, 2019
(in billions of RMB)		
Total assets	140.5	140.1
Total loans	78.8	73.2
Total deposits	105.4	94.8
Asset quality indicators (%)		
Non-performing loan ratio	0.92	0.84
Provision coverage ratio	193.93	189.82
Capital adequacy ratio indicators (%)		
Core tier-one capital adequacy ratio	15.74	16.71
Tier-one capital adequacy ratio	15.74	16.71
Capital adequacy ratio	16.48	17.37

	For the six months ended June 30,	
	2020	2019
(in billions of RMB)		
Net interest income	1.1	1.0
Net commission and fee income	0.2	0.2
Profitability indicators (%)		
Annualized return on average assets	0.69	0.34
Annualized return on average shareholder's equity	6.71	3.59

The principal businesses of NCB China include corporate banking business, personal banking business and financial markets business.

4. Management Discussion and Analysis

The corporate banking business of NCB China mainly includes deposits, loans, settlement, trade-related products and other banking services for corporate customers. By relying on the comprehensive banking service model, NCB China takes full advantage of the business characteristics of the integration of the domestic and overseas platforms and takes active steps to serve corporate customers under the national “Belt and Road” strategy with a flexible portfolio of cross-border products and service solutions.

The personal banking business of NCB China mainly includes deposit, credit and debit cards, consumer credit and mortgage loans and personal assets management services for personal customers. In actively response to the national call, NCB China has intensified efforts to develop inclusive finance with a series of products such as “Agriculture-related Loans” and “Pu-Hui-Bao” while sticking to its main business, to serve the real economy.

The financial markets business of NCB China mainly includes: (1) foreign exchange market business, mainly spot, forward and swap foreign exchange transactions; (2) money market business, mainly interbank deposit, lending and loans as well as positive and negative repurchase business; (3) derivatives business, mainly interest rate swap business and agent structured financial services; (4) constant return market business, mainly bond business (including large transferable certificates of deposit); and (5) commodity business, mainly gold and silver deferred business, gold forward and gold swap business.

The table below sets forth certain deposit and loan details of NCB China as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Balance	% of total	Balance	% of total
	(in billions of RMB)			
Loans				
Corporate Banking Business	60.5	76.7	55.7	76.2
Personal Banking Business	18.3	23.3	17.4	23.8
Total	78.8	100.0	73.2	100.0
Deposits				
Corporate Banking Business	94.6	89.7	84.1	88.7
Personal Banking Business	10.8	10.3	10.7	11.3
Total	105.4	100.0	94.8	100.0

4. Management Discussion and Analysis

4.3.2.2 Cinda Securities

The Group conducts securities, futures and fund management business through Cinda Securities and its subsidiaries. In the first half of 2019 and the first half of 2020, the revenue of Cinda Securities amounted to RMB1,163.9 million and RMB1,569.8 million, respectively.

Cinda Securities

The table below sets forth the business income of Cinda Securities and their corresponding percentages for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Securities brokerage	355.4	22.6	326.3	28.0
Investment banking	264.4	16.9	91.2	7.8
Asset management	41.4	2.6	28.3	2.4
Futures	56.5	3.6	68.1	5.9
Others	852.1	54.3	650.0	55.9
Total	1,569.8	100.0	1,163.9	100.0

Securities brokerage: As at December 31, 2019 and June 30, 2020, the number of clients of Cinda Securities' securities brokerage business amounted to 1.741 million and 1.817 million. The total value of its AUM amounted to RMB185.04 billion and RMB205.62 billion, respectively. In the first half of 2019 and the first half of 2020, the turnover of Cinda Securities' securities brokerage business amounted to RMB961.73 billion and RMB1,196.44 billion, respectively.

Investment banking: In the first half of 2019 and the first half of 2020, Cinda Securities' underwriting fee and commission income amounted to RMB73.7 million and RMB259.2 million, respectively.

Asset management: As at December 31, 2019 and June 30, 2020, the AUM balance of Cinda Securities amounted to RMB105.68 billion and RMB120.45 billion, respectively. In the first half of 2019 and the first half of 2020, the commission and fee income from Cinda Securities' asset management business as trustee amounted to RMB28.3 million and RMB41.4 million, respectively.

4. Management Discussion and Analysis

Other businesses: Mainly includes investment business and credit business. In the first half of 2019 and the first half of 2020, the gains realized from the investment business of Cinda Securities amounted to RMB255.4 million and RMB401.7 million, respectively. As at December 31, 2019 and June 30, 2020, the turnover of margin financing business of the Cinda Securities amounted to RMB6.86 billion and RMB8.02 billion, respectively. The turnover of stock pledge business amounted to RMB1.77 billion and RMB1.29 billion, respectively.

Cinda Futures

The Group conducts futures business through Cinda Futures. In the first half of 2019 and the first half of 2020, income from the futures business of Cinda Futures amounted to RMB68.1 million and RMB56.5 million, respectively. The operating profit realized amounted to RMB18.3 million and RMB14.7 million, respectively.

First State Cinda Fund

The Group conducts mutual fund business through First State Cinda Fund, and those mutual funds are classified into monetary funds, equity funds, bond funds and hybrid funds, which invest in equity assets and fixed income assets mainly. As at December 31, 2019 and June 30, 2020, the Group had 24 and 27 mutual securities investment funds with the total AUM of public funds and asset management plans amounted to RMB21.80 billion and RMB31.84 billion, respectively. In the first half of 2019 and the first half of 2020, management fee income from mutual funds and asset management plans amounted to RMB49.6 million and RMB121.2 million, respectively.

Cinda International

The Group conducts cross-border securities brokerage, financial product trading, investment banking and asset management businesses in Hong Kong through Cinda International. In the first half of 2019 and the first half of 2020, the revenue of Cinda International amounted to RMB107.1 million and RMB105.2 million respectively.

4.3.2.3 Trusts

The Group conducts trust business through Jingu Trust. As at December 31, 2019 and June 30, 2020, the existing trust AUM amounted to RMB100.29 billion and RMB129.51 billion, respectively, and the Group managed 141 and 150 existing trust projects, respectively. In the first half of 2019 and the first half of 2020, the fees and commission income generated from trust business were RMB0.13 billion and RMB0.18 billion, respectively, accounting for 56.4% and 80.9% of Jingu Trust's total revenue in respective periods.

4. Management Discussion and Analysis

The table below sets forth details of distribution by industry of the trust AUM of the Group as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Infrastructure	14,234.0	11.0	9,254.0	9.2
Real estate	14,844.0	11.5	17,152.0	17.1
Securities markets	2,179.0	1.7	2,878.0	2.9
Industry and commerce	30,378.0	23.4	13,693.0	13.7
Financial institutions	5,965.0	4.6	4,588.0	4.6
Asset-backed securitization	18,149.0	14.0	19,304.0	19.2
Others	43,762.0	33.8	33,422.0	33.3
Total	129,511.0	100.0	100,291.0	100.0

4.3.2.4 Financial Leasing

The Group conducts financial leasing business through Cinda Leasing. As at December 31, 2019 and June 30, 2020, the net finance lease receivables of the Group was RMB41.69 billion and RMB37.13 billion, respectively. In the first half of 2019 and the first half of 2020, the net revenue generated by the financial leasing business of the Group was RMB688.2 million and RMB676.6 million, respectively, and the net profit generated from the financial leasing business of the Group was RMB108.3 million and RMB112.8 million, respectively.

The product types of the Group's financial leasing business include specialized products and non-specialized products. In the first half of 2020, the total income was RMB173.3 million and RMB519.4 million, respectively, representing 75% and 25% of Cinda Leasing's total income for the periods, respectively.

The financial leasing clients of the Group are mainly from industries including manufacturing, mining, water conservancy, environment and public utilities management, construction, transportation, logistics and postal services.

4. Management Discussion and Analysis

The table below sets forth the outstanding finance lease receivables of the Group by industry as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Manufacturing	14,421.6	35.7	15,570.5	35.0
Mining	1,808.0	4.5	2,043.5	4.6
Water conservancy, environment and public facility management	3,895.1	9.7	4,218.8	9.5
Construction	58.2	0.1	59.2	0.1
Transportation, logistics and postal services	5,347.2	13.2	4,530.7	10.2
Others	14,832.3	36.8	18,036.5	40.6
Total	40,362.4	100.0	44,459.2	100.0

4.3.2.5 Insurance Business

The Group engages in insurance business through Happy Life. Happy Life mainly offers various types of life and health insurance, accident insurance and reinsurance.

In December 2019, the Company entered into a legally binding transfer agreement with the transferees, and thus its equity interests in Happy Life were classified as assets held for sale. After such classification, insurance was no longer a business segment of the Group, and accordingly, it was presented as our discontinued operation.

4. Management Discussion and Analysis

The table below sets forth the details of original premium incomes of the main types of life insurance products and their respective percentage of the total income for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB)			
Life insurance	5,757.0	87.1	4,803.5	85.3
Ordinary life insurance	5,243.9	79.3	4,064.8	72.2
Participating life insurance	503.1	7.6	729.7	13
Others	10.0	0.2	9.0	0.2
Health insurance	751.6	11.4	692.4	12.3
Accidental injury insurance	100.7	1.5	137.2	2.4
Total	6,609.2	100.0	5,633.0	100.0

4.3.2.6 Business Synergy

In the first half of 2020, the Group proactively built the “comprehensive synergy” brand and alternative investment banking model, and strove to overcome the impact of the COVID-19 and improve the overall efficiency of the Group. With diversified scenarios, unblock channels, positive motivation in place and under the client-centered and market-oriented principle, the Group capitalized on the expertise of its subsidiaries to achieve the high-quality development goal of providing comprehensive services through whole-process business coordination.

In the first half of 2020, the Group recorded business synergy scale totaling RMB224.84 billion from 1,918 customers, which realized synergy income of RMB1.88 billion, among which, NCB recorded business synergy scale totaling RMB69.33 billion, which realized synergy income of RMB0.45 billion; Cinda Securities recorded business synergy scale totaling RMB13.52 billion, which realized synergy income of RMB0.04 billion; Cinda Leasing recorded business synergy scale totaling RMB19.95 billion, which realized synergy income of RMB0.54 billion; Cinda Investment recorded business synergy scale totaling RMB18.26 billion, which realized synergy income of RMB0.42 billion; Cinda Capital recorded business synergy scale totaling RMB44.21 billion, which realized synergy income of RMB0.09 billion; and Cinda Real Estate recorded business synergy scale totaling RMB46.06 billion, which realized synergy income of RMB0.02 billion.

4. Management Discussion and Analysis

4.3.3 Human Resources Management

In the first half of 2020, faced with the complex situation brought about by COVID-19, the Company, based on the Group's strategy and annual priorities, strengthened the construction of young cadres, broadened the talent selection pipeline, marketized the talent introduction, and made active exploration and practice for the reform of the market-based institutional mechanism, which provided favorable organizational support for the development of the Company.

4.3.3.1 Employees

As at June 30, 2020, the Group had 16,301 employees (excluding those employed through labor dispatch agency), of which 14,397 were in Mainland China and 1,904 were in Hong Kong and Macao. In the Company and its tier-one subsidiaries (head offices), employees with master's degree or above and employees with bachelor's degree accounted for 60% and 32% of the total number of employees, respectively. In order to ensure its stable development in the long run, the Company has attached great importance to its relationship with all employees. The business and financial conditions of the Company are not reliant on particular employee(s).

4.3.3.2 Remuneration Policy

Remuneration policy of the Company is in line with the development strategy of the Company. We strengthen the competitive salary level, improve the construction of the salary system, optimize the salary structure on the basis of legality and compliance, implement differentiated salary distribution strategies, highlight the matching of salary levels and contributions, and focus on linking remuneration payments to risks, which provides support and guarantee for the steady operation as well as attracting and retaining talents for the Company.

4.3.4 No Material Changes

Save as disclosed herein, there have been no material matters affecting the performance of the Company since the publication of the 2019 Annual Report that are required to be disclosed in accordance with Appendix 16 to the Hong Kong Listing Rules.

4.4 Risk Management

4.4.1 Framework of Comprehensive Risk Management

The comprehensive risk management is a continuous process which calls for the participation of the Board, senior management and all levels of employees of the Company to identify all potential risk types and project the extents of risk impacts in strategy setting and normal operations, as well as to effectively manage the Company's risks in different environments within the Company's risk appetite.

4. Management Discussion and Analysis

In the first half of 2020, the Company continued to attach importance to consolidating risk management and control in the Group's work, adhered to the risk management concept of "protecting the bottom-line by managing risks proactively", and facilitated the development of a comprehensive risk management system. The Group further strengthened risk appetite transmission mechanism, provided guidance and discipline on the Group's risk management policies, continued to strictly control new risks and eliminate existing risks, did a solid job in daily risk management, and maintained the overall stability of asset quality; the effectiveness of the Group's risk management was further enhanced, risk information management was improved, and effectiveness of the Group's risk management was further increased.

4.4.2 Risk Appetite

At the beginning of 2020, China Cinda's Risk Appetite Statement of the Group (2020) was formally issued and implemented upon the approval of the Board and subject to its supervision in implementation. The Risk Appetite Statement incorporates the implementation of risk appetite transmission into the overall assessment of each operating unit, which through incentives and constraints, strengthens the implementation of appetite, quantifies the responsibility for communication, guides each operating unit to prepose risk threshold, and proactively manages risks. The Company regularly monitors the implementation of the quantitative risk appetite indicators, and optimizes and adjusts the quantitative risk appetite indicators and qualitative statements in a timely manner.

The overall risk appetite statement of the Company: in the course of business, the Company is devoted to strategically control risk profile, streamline risk sequence, prevent and control risk exposure, maintain a stable risk appetite, and constantly pursue a balanced development of efficiency, quality and scale. The Company attaches importance to the alignment of business size, operating income and risk exposure, and will not pursue higher profits at the expense of the bottom line of risks. The Company strives to maintain the stability and sustainability of profitability within an acceptable risk level, to ensure an endogenous capital growth and to comply with the required capital adequacy and maintain a stable external rating. The Company will also ensure that all business activities are implemented effectively within the risk appetite framework. All substantive risks are to be accurately defined, clearly measured, carefully assessed and proactively managed in the ordinary course of business, so as to align with the risk tolerance and capital adequacy of the Company. The Company will also strive to optimize the risk-adjusted returns of risks within the planned risk tolerance.

4. Management Discussion and Analysis

4.4.3 Risk Management Organizational Structure

The Company continued to promote the establishment of the risk management organization system. The Board assumed the ultimate responsibility for comprehensive risk management, and exercised functions relevant to risk management, considered major issues of risk management, and supervised and evaluated the establishment of risk management system and risk level of the Group through its Risk Management Committee, Audit Committee and Connected Transaction Control Committee. The Board of Supervisors assumed the responsibility of monitoring comprehensive risk management, and is responsible for supervising and inspecting the performance of the Board and the senior management in risk management as well as supervising their rectification. The senior management assumed specific responsibilities of comprehensive risk management in accordance with the authorization of the Board, and is accountable to the Board on the effectiveness of the risk management system. The risk management committee under the senior management exercised part of the risk management duties of the senior management in accordance with the authorization.

In the first half of 2020, the Risk Management Committee of the Board convened four meetings to consider various resolutions and reports, such as the Risk Appetite Statement of the Group, the risk management report of the Group, as well as intra-group transaction and connected transaction management reports. The risk management committee of the senior management convened four meetings to consider various resolutions and reports, such as the credit risk management policy, the market risk limits management plan and risk monitoring and evaluation plan of the Group.

The Company incorporated various requirements of risk management into its management activities and business processes, and gradually established and improved its three lines of defense for risk management including: the business operation departments of the head office, branches and subsidiaries as the first line of defense; the functional departments of risk management as the second line of defense; the functional departments of internal audit as the third line of defense.

In the first half of 2020, the Company further improved its risk governance structure, and since 2019, it has further strengthened the independence, professionalism and capability of risk management of its subsidiaries by setting up risk (compliance) directors in certain subsidiaries to perform their duties. By regularly carrying out performance assessment on the responsible personnel in charge of risk management of its branches and subsidiaries and the responsible personnel in charge of the risk management department, the Company continuously improved the efficiency of its risk management. As a step forward, the Company also carried on its progress in developing a dedicated risk management team, and strived to continuously improve the performance and competence of all Group personnel involving in risk management through training program, qualification verification, job rotation and expertise tests.

4. Management Discussion and Analysis

4.4.4 Risk Management Policy System

The Company has established a comprehensive risk management system which covers all major risk categories, and the system has been constantly revised and improved according to the management needs, giving a contribution to a favorable implementation of the system.

At the beginning of 2020, the Company formulated and issued the Group Risk Management Policy 2020 covering seven major risk categories, namely, credit risk, market risk, operational risk, liquidity risk, connected transaction risk, reputation risk and concentration risk, with a view to further enhancing forward-looking risk management, ensuring that business scale, operating income and risk exposure are well matched, holding the line against systemic risk, and guiding the Group's operating units to conduct business in a compliant and stable manner in accordance with their risk appetite in order to safeguard the quality and liquidity of assets. In addition, in accordance with regulatory requirements and internal management needs, the Company has revised its risk management systems, including the Administrative Measures for Examination of Risks, the Proposal on the Implementation of the Regulatory Requirements of the CBIRC on Associated Transactions and the Interim Measures for Concentration Risk Management, to provide effective guidelines for daily risk management.

4.4.5 Risk Management Tools and System

The Company strengthened monitoring, analysis and risk alert of key areas, industries and customer risks through launching a risk management operation and transmission mechanism that seeks to balance between capital, risk and income, and raised its risk identification, measurement, monitoring and control capabilities by utilizing various risk management tools such as economic capital, risk limit, rating classification, impairment provision, stress test and risk assessment.

In the first half of 2020, the Company overcame various unfavorable factors such as the COVID-19, economic downturn and financial market volatility, and promptly adjusted our control methods and issued control orders to ensure the effectiveness and timeliness of risk management in accordance with regulatory requirements and market changes as well as changes in risk exposure. We continuously optimized the risk monitoring and evaluation program, and promoted the strict control of new risks through the risk incentive restraint mechanism. We conducted stress tests continuously and recommend policies and measures to address risks. With economic capital management on top of the agenda, the Company optimized the risk limit control standard and appropriately assigned the economic capital quota for each business line, with an aim to optimize allocation of business and management resources and boost the overall risk-adjusted profitability.

The Company has actively promoted the construction and integration of information systems related to risk management and has continuously optimized the internal rating system, connected transaction management system and collateral management system. We have promoted the direct connection of information with subsidiaries to enhance the completeness and accuracy of the Group's information, so as to achieve information sharing and eliminate information silos.

4. Management Discussion and Analysis

4.4.6 Management of Credit Risk

Credit risk of the Group is primarily related to its distressed debt asset portfolio, the corporate and personal loans and fixed-income investment portfolio of its financial subsidiaries, the finance lease receivables of its financial leasing business and other on- and off-balance sheet exposures to credit risk under the Consolidated Financial Statements.

The Company has strictly complied with the regulatory requirements of the CBIRC. Under the guidance of the Board and the senior management, the Company has improved the management system of credit risk in order to achieve strategic goals.

In the first half of 2020, in accordance with the Group's risk management policy, the Company proposed the credit risk management principles of "control over total amount, effective investment, overall management, comprehensive coverage, improvement of asset quality, and revitalization of existing assets" to continuously construct a client portfolio that maximizes risk returns under capital constraints, continuously optimize the internal rating system, strengthen risk limits management, establish a system of customer and business limits that match risk appetite and tolerance, strengthen the collateral value management, give full play to the role of collateral risk mitigation, reduce credit risk exposure, improve the risk management mechanism of customer concentration, strive to enhance the forward-looking management and early warning and pre-control capabilities, and control and mitigate credit risks.

4.4.7 Management of Market Risk

Market risk refers to the risk that may bring losses due to adverse movements in interest rates, exchange rates and market prices such as stock and commodity prices, and business losses due to major crises. The market risk management of the Group refers to the process of identifying, measuring, monitoring, controlling and reporting of market risk in accordance with the risk tolerance of the Group to establish and refine the market risk management system, thereby controlling the market risk within acceptable range so as to maximize the risk-adjusted returns and constantly improve the standard of market risk management.

With respect to interest rate risk, the Company has controlled the interest rate risks through flexibly adjusted the financing maturity and pace, reasonably controlled the asset investment period and interest payment method, and improved the matching degree of the maturity structure of assets and liabilities.

With respect to foreign exchange risk, the Company has effectively controlled its exposure of foreign exchange risk mainly by matching currencies used in assets and liabilities. As for the USD bonds and Offshore Preference Shares issued by the Company, investment assets are mainly denominated in USD or HKD pegged to USD, which effectively controlled the foreign exchange risk.

4. Management Discussion and Analysis

In the first half of 2020, the A-share market was affected by multiple factors, including the COVID-19, changes in the international situation, domestic policy stimulation and economic stabilization expectations, and the risk appetite was highly volatile, as a result, the main market indexes showed a fluctuating trend overall. The Company will continue to closely monitor the effects placed by factors such as trends of macroeconomy, the trends of relevant industries, tightness of market liquidity and the regulations and requirements on the value of equity and enterprises, and raise its efforts in research and judgment so as to reasonably formulate and adjust the management strategies of its equity investment in listed companies and endeavor to enhance management effectiveness.

4.4.8 Management of Liquidity Risk

Liquidity risk refers to the risk that, while the Group remains solvent, it fails to obtain sufficient funds or obtain sufficient funds at reasonable cost to repay debts when they fall due, perform other payment obligation to meet the financial needs of normal business development.

The Group attached great importance to liquidity safety, resolutely implemented the regulatory requirements for liquidity risk management, and built a liquidity risk management system under the Group's overall planning based on the information system, so as to effectively prevent liquidity risks of the Group.

The Group has established a two-way transmission mechanism for the asset-liability structure to reasonably adjust the maturity structure of assets and liabilities. We continued to strengthen the monitoring of liquidity risks of the Group's domestic and overseas subsidiaries, analyzed liquidity indicators prospectively, conducted liquidity stress tests on a regular basis, and continuously improve the liquidity risk contingency plans to ensure the safety of the Group's liquidity.

The Group continued to strengthen the establishment of its financing capabilities, continued to optimize and improve its debt structure, actively expanded diversified financing channels such as financial bonds, asset securitization and secondary capital bonds, vigorously promoted standardized direct financing, increased the proportion of long-term liabilities, and built a stable, diversified and innovative financing system. The Group attaches great importance to good communication with rating agencies to safeguard the Group's market reputation and the interests of investors.

4. Management Discussion and Analysis

4.4.9 Management of Operational Risk

Operational risk refers to the risk of losses resulting from an inadequacy or deficiency of internal processes, working staff and information technology systems or from external events.

In the first half of 2020, the Company further improved the operational risk management system, strengthened the reporting mechanism of operational risk loss events, and improved the operational risk evaluation index system; implemented the relevant requirements of the CBIRC on the behavior management of practitioners, and formulated the Employee Behavior Management Measures and Code of Conduct for Employees to establish a framework for the employee behavior management of the Company, clarify standard and prohibited behaviors of employees, and further strengthen the operational risk management.

The Company conducted risk detection within the Group according to the requirements of Administrative Measures for Risk Detection. The branches and subsidiaries of the Group strictly analyzed and effectively rectified the identified risks and potential hazards and thus eliminated some business and operational risks in time. Through risk detection, the branches and subsidiaries of the Group have achieved significant improvements in terms of risk awareness, risk responsiveness and business personnel's professional qualities, thereby further strengthening control of operational risk.

In the first half of 2020, in accordance with the requirements of the CBIRC on developing a “retrospective review” on the disorder in the banking and insurance industry, the Company formulated and issued a work plan clarifying the responsibility allocation and work focus, and carried out a comprehensive work of “retrospective review” to promote the organic unity between the problem rectification and the establishment of the internal control system.

4.4.10 Management of Reputation Risk

Reputation risk refers to the risks of negative comments on the Company from relevant stakeholders as a result of its operations, management and other activities or external events, which leads to loss of the brand and reputation of the Company.

In the first half of 2020, the Company continued to improve the system for reputation risk management, thus improving its reputation risk management. We expanded the coverage of public sentiment monitoring to strengthen the identification, prediction and reporting of hidden reputation risk; carried out evaluation and assessment of reputation risk management of subsidiaries to enhance the control of the Group's reputation risk; carried out investigation of potential reputation risk factors for early warning to strengthen the control of reputation risk at source; and proactively responded to media concerns and public opinion promptly. During the reporting period, reputation risk management of the Company was steadily improved and the image and reputation of the Company were effectively maintained.

4. Management Discussion and Analysis

4.4.11 Anti-Money Laundering

The Company strictly complied with relevant laws and regulations on anti-money laundering and anti-terrorist financing, implemented the “risk-based” anti-money laundering regulatory requirements, earnestly fulfilled its statutory obligations and social responsibilities on anti-money laundering, and promoted the vertical and horizontal development of anti-money laundering.

In the first half of 2020, the company further improved the money laundering risk management mechanism under the comprehensive risk management framework. We formulated group-level anti-money laundering management policies and revised anti-money laundering work methods and corresponding rules; continued to optimize the anti-money laundering information system, enhanced the effective control integrated with operation process; carried out off-site inspections of our anti-money laundering records to enhance the compliance with anti-money laundering controls of business personnel; conducted comprehensive training covering the management, anti-money laundering personnel, business personnel and related functional personnel to improve the anti-money laundering awareness and performance; increased publicity efforts in anti-money laundering, innovated forms of publicity, and expanded the audience coverage. The Company continued to improve the compliance and effectiveness of its anti-money laundering efforts.

4.5 Capital Management

Drawing on advanced industry experience, the Company established a business and development model on the basis of capital constraints with reference to relevant requirements and specific rules on capital supervision issued by the CBIRC. In the process of business expansion, the awareness on capital cost was continuously intensified. The Company put emphasis on the return level of risk assets, and promoted more efficient and high-quality allocation of resources so that the Company could create constant and stable returns for its shareholders by a more intensive operation model with less capital consumption.

In accordance with the Measures for the Capital Management of Financial Asset Management Companies (for Trial Implementation) (Yin Jian Fa [2017] No. 56) and the overall development strategy of the Group, the Company continued to promote the capital restraint oriented business development mechanism, improved the efficiency of capital utilization, promptly monitored the capital changes of every business sector and every product line, and ensured that the stable capital situation was maintained, so as to support the high quality development across the Company’s businesses.

4. Management Discussion and Analysis

The following table sets out the Company's capital adequacy ratio, net capital and risk-weighted assets as at the dates indicated.

	2020 As at June 30	2019 As at December 31
(in millions of RMB)		
Core tier-1 capital adequacy ratio (%)	11.00	11.20
Tier-1 capital adequacy ratio (%)	14.08	14.37
Capital adequacy ratio (%)	16.50	16.76
Net core tier-1 capital	75,924.4	75,335.0
Net tier-1 capital	97,205.6	96,616.3
Net capital	113,877.7	112,695.5
Risk-weighted assets	690,224.5	672,502.1

As at December 31, 2019 and June 30, 2020, the leverage ratio¹ of the Company both were 6.3:1.

4.6 Prospects

In the second half of 2020, with great uncertainties in the global Epidemic, economic and trade situations, external risks and challenges increased significantly, the situation remains complex and grave, China's economic recovery will still be under great pressure. The Chinese government will coordinate Epidemic prevention and control with economic and social development, focus on the tasks to ensure stability on six fronts and maintain security in six areas, and strive to form a new pattern of development in which domestic cycle plays a dominant role and both domestic and international cycles reinforce each other, so as to blaze a new path to effectively respond to shocks and realize a virtuous cycle. The Chinese government will grasp the strategic basis of expanding domestic demand, protect and stimulate the vitality of market entities, fully implement macroeconomic policies to produce the desired results, advance opening-up to a higher level, promote high-quality economic development, maintain overall social stability, and strive to achieve the major targets and tasks for economic and social development throughout the year.

¹ Represents the ratio of interest-bearing debt to equity.

4. Management Discussion and Analysis

Although affected by multiple factors such as the Epidemic, the economic slowdown and external shocks, the macro policies are still relatively loose, the short-term level of financial risk is relatively stable. However, the interruption of market clearing, the tendency towards financial asset bubbles, the timely withdrawal of anti-epidemic support policies may cause changes in the situation of risks. Therefore, the pressure of risk prevention and control is always relatively high. It is estimated that non-performing loans of commercial banks will continue to grow in both the balance and ratios; distressed assets in trust, leasing and other non-banking financial industries will increase rapidly; and risks with respect to small and medium-sized financial institutions will continue to be exposed. Corporations and entities are still facing great operating difficulties, as the asset-liability ratio is rising, profitability and liquidity improvement is difficult to achieve, and demand for disposal of distressed entities and distressed assets is increasing. The market space of financial asset management companies will be further expanded, but the pressure of asset disposal and recovery cannot be ignored.

The Company will continue to fully enforce the principles of 19th National Congress of CPC and the Central Economic Working Conference, deepen the functional positioning of financial asset management companies in the post-epidemic period and make full use of the professional advantages of countercyclical adjustment, financial aid and structural adjustment. Under the principles of “relative concentration, focusing on core business”, the Company will expedite reform and renovation, promote the transformation and upgrade of business models, make greater contributions to the Epidemic prevention and control, real economy development and precaution and defusion of major risks, by adhering to the high-quality development ideas of “professional operation, efficiency first and value creation”. First, the Company will consolidate its existing businesses, increase investment in innovative and stable businesses, optimize its business and asset structure, maintain its leading position in the distressed asset market, and strike a balance between short-term and long-term, risk and return, as well as stability and growth. Second, the Company will focus on its core business, refine its professionalism, accelerate the transformation and upgrade of its business models, improve its business quality, reasonably expand its investment banking business in connection with corporate restructuring, continue to improve its “extensive distressed asset” business system, build an upgraded synergism within the Group, continue to enhance its financial service support, build a high-quality strategic customer base, promote the implementation of customer center strategy, and increase the support for private enterprises and small and medium-sized enterprises, while taking into account both relief measures and restructuring and upgrading. Third, the Company will continue to strengthen the leadership of the Party, improve corporate governance, strengthen the construction of compliance systems, ensure robust and compliant operation, insist on the bottom-line thinking, comprehensively enhance risk management capability, consolidate the quality of assets, and strengthen risk control in key areas; enrich financing channels, strengthen asset-liability management, and ensure capital adequacy and liquidity safety.

5. Changes in Share Capital and Information on Substantial Shareholders

5.1 Changes in Ordinary Share Capital

The ordinary share capital of the Company as at June 30, 2020 was as follows:

Class of shares	Number of Shares	Percentage (%)
Domestic Shares	24,596,932,316	64.45
H Shares	13,567,602,831	35.55
Total	38,164,535,147	100.00

5.2 Substantial Shareholders and De Facto Controller

5.2.1 Interests and Short Positions held by Substantial Shareholders and Other Persons

The Company had 1,616 registered shareholders of ordinary shares as at June 30, 2020. To the knowledge of the Directors, the following persons had, or were deemed to have, an interest or short position in the Shares and underlying Shares as at June 30, 2020, which have been recorded in the register kept by the Company under the Section 336 of the Hong Kong SFO:

Name of substantial shareholders	Capacity	Number of Shares held directly and indirectly	Class of shares	Nature of interest	Approximate percentage to the total issued class of Shares (%)	Approximate Class of shares the relevant class of Shares (%)
MOF	Beneficial owner	22,137,239,084	Domestic Shares	Long position	58.00	90.00
National Council for Social Security Fund	Beneficial owner	2,459,693,232	Domestic Shares	Long position	6.44	10.00
	Beneficial owner	2,901,006,093	H Shares	Long position	7.60	21.38
China COSCO Shipping Corporation Limited ⁽¹⁾	Interest of controlled corporation	1,907,845,112	H Shares	Long position	5.00	14.06
DBS Group Holdings Ltd ⁽²⁾	Interest of controlled corporation	703,522,500	H Shares	Long position	1.84	5.19
	Interest of controlled corporation	704,031,405	H Shares	Short position	1.84	5.19

5. Changes in Share Capital and Information on Substantial Shareholders

Note:

- (1) As per the Corporate Substantial Shareholder Notice filed by China COSCO Shipping Corporation Limited with the Hong Kong Stock Exchange on December 30, 2016, Oversea Lucky Investment Limited, directly held 1,907,845,112 H Shares in the Company. As Oversea Lucky Investment Limited, COSCO SHIPPING Financial Holdings Co., Limited and China Shipping (Group) Company are all controlled corporations directly or indirectly owned by China COSCO Shipping Corporation Limited, for the purpose of Hong Kong SFO, each of COSCO SHIPPING Financial Holdings Co., Limited, China Shipping (Group) Company and China COSCO Shipping Corporation Limited is therefore deemed to be interested in the long position of 1,907,845,112 H Shares held by Oversea Lucky Investment Limited in the Company.
- (2) As per the Corporate Substantial Shareholder Notice filed by DBS Group Holdings Ltd with the Hong Kong Stock Exchange on October 3, 2019, DBS Bank Ltd directly held 703,522,500 H Shares (Long position) and 704,031,405 H Shares (Short position) in the Company. As DBS Bank Ltd. is a controlled corporation of DBS Group Holdings Ltd, DBS Group Holdings Ltd is therefore deemed to be interested in 703,522,500 H Shares (Long position) and 704,031,405 H Shares (Short position) in the Company held by DBS Bank Ltd.

5.2.2 Substantial Shareholders

During the Reporting Period, the substantial shareholder and de facto controller of the Company remained unchanged. Details of the substantial shareholder of the Company are as follows:

MOF

The MOF, as a department under the State Council, is the macro-control department in charge of China's fiscal revenue and expenditures, taxation policies and other issues.

5.3 Preference Shares

5.3.1 Issuance and Listing of Preference Shares

During the Reporting Period, the Company did not carry out any issuance and listing of preference shares.

5.3.2 Number of Preference Shareholders and Particulars of Preference Shareholding

As at June 30, 2020, the Company had a total of one preference shareholder (or proxy). Particulars of shareholding of the preference shareholder (or proxy) of the Company are as follows:

Name of shareholder	Nature of shareholder	Class of shares	Increase/decrease during the Reporting Period	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)
The Bank of New York Depository (Nominees) Limited	Foreign legal Person	Offshore Preference Shares	-	160,000,000	100.0

Note: Particulars of shareholding of preference shareholders were based on the information set out in the register of preference shareholders kept by the Company. Based on the information available to the Company, the register of preference shareholders presented the information on proxies of placees.

5. Changes in Share Capital and Information on Substantial Shareholders

5.3.3 Dividend Distribution of Preference Shares

Pursuant to the terms and conditions of the issuance of Offshore Preference Shares, each Offshore Preference Share shall entitle the holder thereof to receive payable and non-cumulative dividends in arrear which have not been otherwise cancelled each year. The Offshore Preference Shares will accrue dividends on their liquidation preference during the period from and including the issue date to but excluding the first reset date, at the rate of 4.45% per annum, and thereafter at the relevant reset dividend rate.

The dividend distribution plan of Offshore Preference Shares was considered and approved at the fifth meeting and the third regular meeting of the Board for 2020 of the Company convened on August 27, 2020, approving the Company to distribute dividends of Offshore Preference Shares on September 30, 2020, at the rate of 4.45% per annum (after tax). The total amount of dividend is USD142.4 million (after tax). For details of the dividend distribution of Offshore Preference Shares, please refer to the relevant announcements dated August 27, 2020 and September 3, 2020 of the Company.

5.3.4 Redemption or Conversion of Preference Shares

The Company has set a trigger event term for the Offshore Preference Shares, upon the occurrence of which the Offshore Preference Shares would be irrevocably and compulsorily converted into certain number of H Shares. The trigger event refers to the earlier of (a) the CBIRC having concluded that without a decision on the conversion into ordinary shares, the Company would become non-viable; and (b) the relevant regulatory authorities such as MOF and PBOC having concluded that without a decision on a public sector injection of capital or equivalent support, the Company would become non-viable. Assuming the trigger event occurs and all Offshore Preference Shares shall be compulsorily converted to H Shares at the initial conversion price, the number will be 7,412,441,791 H Shares.

During the Reporting Period, there was no redemption or conversion of any Offshore Preference Shares.

5.3.5 Restoration of Voting Rights of Preference Shares

During the Reporting Period, there was no restoration of any voting right of preference shares.

5.3.6 Accounting Policy Adopted for Preference Shares and Grounds

According to the relevant requirements of the PRC GAAP and IFRS and the terms of the issuance of Offshore Preference Shares, the Company classifies Offshore Preference Shares as equity instruments. Fee, commission and other transaction costs arising from the issuance of Offshore Preference Shares are deducted from equity. The dividends on Offshore Preference Shares are recognized as profit distribution at the time of declaration.

6. Directors, Supervisors and Senior Management

6.1 General Information

Directors

As at the date of this report, the Board of the Company consisted of Mr. Zhang Zi'ai (Chairman) and Mr. Zhang Weidong as Executive Directors, Mr. He Jieping, Mr. Xu Long, Ms. Zhang Yuxiang, Mr. Zhang Guoqing and Mr. Liu Chong as Non-executive Directors and Mr. Zhu Wuxiang, Mr. Sun Baowen, Mr. Lu Zhengfei and Mr. Lam Chi Kuen as Independent Non-executive Directors.

Supervisors

As at the date of this report, the Board of Supervisors of the Company consisted of Mr. Gong Jiande (Chairman of the Board of Supervisors) as Shareholder Representative Supervisor, Ms. Liu Yanfen, Mr. Zhang Zheng and Mr. Li Chun as External Supervisors, Ms. Gong Hongbing, Mr. Lu Baoxing and Mr. Yuan Liangming as Employee Supervisors.

Senior Management

As at the date of this report, the senior management of the Company consisted of Mr. Zhang Weidong as President, Mr. Liu Ligeng and Mr. Hu Jiliang as Vice Presidents, Mr. Zhao Limin and Mr. Li Hongjiang as Assistants to the President, Mr. Luo Zhenhong as Chief Risk Officer, Mr. Ai Jiuchao as Board Secretary, and Mr. Yang Yingxun as Chief Financial Officer.

6.2 Information on Changes

Directors

As elected at the second extraordinary general meeting for 2019 and approved by CBIRC, Mr. Zhang Weidong was appointed as an Executive Director on January 21, 2020.

Since February 26, 2020, Ms. Yuan Hong had ceased to be a Non-executive Director due to other work arrangement.

As elected at the annual general meeting for 2019 and approved by CBIRC, Ms. Zhang Yuxiang was appointed as a Non-executive Director on August 18, 2020, please refer to the announcement dated August 21, 2020 of the Company for details.

On September 15, 2020, Mr. Wang Shaoshuang was nominated as a Non-executive Director at the the Company's first extraordinary general meeting in 2020. As at the date of this report, the qualification of Mr. Wang Shaoshuang is still pending for approval by CBIRC and his appointment will take effect upon the approval.

6. Directors, Supervisors and Senior Management

During the Reporting Period, Mr. Zhu Wuxiang resigned as an independent director of China Fortune Land Development Co., Ltd.

Since July 2020, Mr. Sun Baowen has been serving as an independent director of AVIC Fund Management Co., LTD.

Except for the above changes, the information regarding the appointments of Directors is consistent with the information disclosed in the annual report for 2019 of the Company, and there is no change on the information which shall be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

Supervisors

The information regarding the appointments of Supervisors is consistent with the information disclosed in the annual report for 2019 of the Company, and there is no change on the information which shall be disclosed pursuant to Rule 13.15B(1) of the Hong Kong Listing Rules.

Senior Management

As appointed at the ninth meeting of the Board in 2019 and approved by the CBIRC, Mr. Zhang Weidong has been serving as the President of the Company since January 21, 2020.

As appointed at the first meeting and the first regular meeting of the Board in 2020, Mr. Hu Jiliang has been serving as a Vice President of the Company since March 31, 2020.

As appointed at the third meeting of the Board in 2020 and approved by the CBIRC, Mr. Yang Yingxun has been serving as the Chief Financial Officer of the Company since August 17, 2020.

Since January 7, 2020, Mr. Zhuang Enyue had ceased to be the Vice President of the Company due to other work arrangement.

Since January 7, 2020, Mr. Liang Qiang had ceased to be the Vice President of the Company due to other work arrangement.

Since June 10, 2020, Mr. Xiang Dang had ceased to be the Assistant to the President of the Company due to other work arrangement.

7. Significant Events

7.1 Corporate Governance

The Company has strictly complied with the requirements of the Company Law of the PRC, the Hong Kong Listing Rules, other laws and regulations, regulatory documents and the Articles, enhanced the principles of good corporate governance, and continued to optimize its corporate governance mechanism, with an aim to improve the scientificity and effectiveness of corporate governance constantly. We have strengthened the overall risk management, improved the informatization level of risk management, strengthened the construction of internal control system, and built a solid foundation of compliance, with an aim to effectively promote the Company's high-quality development.

During the Reporting Period, the Company continued to strive for comprehensive protection of the rights of Shareholders by focusing on information disclosure and investor relationship management. The Company strictly followed the regulations of listing place, adhered to the principle of openness and transparency, timely and fully disclosed information related to shareholders' interests, safeguarded shareholders' right to know, treated domestic and foreign investors fairly, and safeguarded the rights and interests of all shareholders.

Shareholders' General Meeting

The Company held the 2019 annual general meeting in Beijing on June 30, 2020, at which 15 resolutions were reviewed and approved, including the amendments to the Articles, the granting of general mandate to issue additional H-shares to the Board, the external donation plan for 2020, the amendments to the rules of procedures of general meetings, the amendments to the rules of procedures of Board meetings, the amendments to the rules of procedures of the Board of Supervisors meetings, the remuneration settlement scheme for Directors in 2018, the remuneration settlement scheme for Supervisors in 2018, the final financial account plan for 2019, the profit distribution plan for 2019, the budget of investment in capital expenditure for 2020, the appointment of accounting firms for 2020, the work report of the Board for 2019, the report of the Board of Supervisors for 2019, the election of Ms. Zhang Yuxiang as a Non-executive Director, etc. The amendments to the Articles, the granting of general mandate to issue additional H-shares to the Board and the external donation plan for 2020 were special resolutions. The work report of the Independent Non-executive Directors for 2019 was also received at the annual general meeting.

The Company held the first general meeting of shareholders of domestic shares in 2020 and the first general meeting of shareholders of H-shares in 2020 in Beijing on June 30, 2020, reviewed and approved the special resolution of the amendments to the Articles and the ordinary resolution of the amendments to the rules of procedures of general meetings.

7. Significant Events

The convening and holding of the shareholders' general meetings were in strict compliance with applicable laws and regulations and the Hong Kong Listing Rules. The Directors, Supervisors and senior management attended the relevant meetings and the Company published announcements regarding the poll results of the shareholders' general meetings according to the regulatory requirements in a timely manner.

Board

As at the date of this report, the Board comprised 11 members, including two Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. The Independent Non-executive Directors accounted for more than one-third of the total number of the Board members.

During the Reporting Period, the Company held three Board meetings, at which 27 resolutions were reviewed and approved, including the financial final accounts plan for 2019, the profit distribution plan for 2019, the 2019 Annual Report (2019 Results Announcement), appointment of Mr. Hu Jiliang as the Vice President of the Company, risk appetite statement of the Group (2020), 2019 corporate social responsibility report, the remuneration settlement scheme of senior management for 2018, the remuneration settlement scheme for Directors for 2018, the comprehensive business plan of the Group in 2020, the issuance plan of financial bonds in 2020, and the risk management policy of the Group in 2020, the appointment of general manager of the Audit Department, the election of Ms. Zhang Yuxiang for the relevant position in the special committee of the Board, the appointment of Mr. Yang Yingxun as the Chief Financial Officer of the Company, etc.

During the Reporting Period, the Board strictly complied with relevant laws and regulations, regulatory provisions and the Articles, adhered to the general tone of seeking improvement in stability and the concept of high-quality development. They focused on the main responsibilities and core business of the Company, insisted on prudent and compliant management, gave effective play to corporate governance effectiveness, and improved the level of scientific decision-making and efficiency, thus effectively promoting the high-quality transformation and development of the Company based on the concept of "professional operation, efficiency first and value creation".

Board of Supervisors

As at the date of this report, the Board of Supervisors comprised seven members, including one Shareholder Representative Supervisor, three External Supervisors and three Employee Supervisors.

7. Significant Events

The Board of Supervisors duly performs its supervision duties and diligently considers and reviews relevant proposals. During the Reporting Period, the Company convened two meetings of the Board of Supervisors in total, and considered and approved 11 resolutions, including, among others, the annual work plan of the Board of Supervisors for 2020, the final financial account plan for 2019, the profit distribution plan for 2019, the internal control evaluation report for 2019, the report on the due diligence of Directors, Supervisors and senior management for 2019, the report of the Board of Supervisors for 2019, the 2019 Annual Report, and the focus of due diligence supervision on Directors and senior management for 2020.

During the Reporting Period, the Board of Supervisors attached great importance to the function of supervision and carried out various supervision work centering on the Company's core tasks. They urged the Company to strengthen analysis and judgment on the impact of the Epidemic, paid attention to the Company's operation and development, internal risk control and management, and the implementation of regulatory opinions, so as to enhance the application of the supervisory achievements of the Board of Supervisors, and give full play to the important role of the Board of Supervisors in corporate governance.

Senior Management

During the Reporting Period, the senior management of the Company organized and implemented operation and management of the Company under the Articles and authorizations of the Board. In accordance with the business targets set by the Board and with a view to accomplish the second Five-Year Plan of the Company, it consolidated and innovated the core business of distressed assets management, promoted the business transformation and asset structure optimization. It enhanced risk management awareness, strengthened synergy effects of the Group to better accomplish business tasks set by the Board, resulting in good operation management results.

Corporate Governance Code

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code (Appendix 14 to the Hong Kong Listing Rules) and most of the recommended best practice therein.

7. Significant Events

7.2 Information of Risk Management

The Company endeavours to develop a comprehensive risk management system which is in line with the scale and complexity of its business, and has developed a comprehensive risk management framework consisting of four levels and three lines of defense. The four levels are the Board and the Board of Supervisors, the senior management, the risk management department and relevant functional departments at the head office, and the branches and subsidiaries. The three lines of defense are the business operation departments, the functional departments of risk management and the internal audit departments.

Details of the Company's establishment of risk management system, risk management structure and control measures during the Reporting Period are set out in the "Management Discussion and Analysis" – "Risk Management" in this report.

7.3 Internal Control

In the first half of 2020, the Company implemented internal control requirements as stipulated by relevant regulatory authorities and improved its compliance and internal control system continuously. The internal control efficiency was further enhanced.

First, we improved the compliance and internal management system. We comprehensively sorted out the internal compliance control management system, formulated the Compliance Report Management Measures, revised the Minor Violations Points Management Measures, compliance Work Management Rules and other systems; conducted comprehensive benchmarking with the regulatory documents, carried out the system re-inspection and formulated the annual system construction plan accordingly, so as to strengthen the adaptability of the internal control system.

Second, we strengthened business compliance guidance. We strengthened the analysis and interpretation of new regulatory rules and compliance notes, timely issued business guidance, and promoted the delivery of regulatory policies. Centering on the key areas of compliance control, we sorted out the compliance requirements of business development to further clarify the boundary of business compliance.

Third, we deepened the establishment of compliance culture. We conducted a series of training on internal compliance control, deeply interpreted the regulatory requirements and improved the compliance skills of our employees; and carried out the publicity of compliance internal control theme to promote employees' awareness of compliance and internal control.

7.4 Internal Audit

The Company has implemented an internal audit system and allocated full-time auditors to conduct independent and objective supervision, inspection and evaluation on its business operation, risk exposures, revenue and expenditure and internal control. Such designated auditors are also responsible for reporting the material deficiencies found in audit to the Board or the Audit Committee of the Board as well as the Board of Supervisors.

In the first half of 2020, according to the annual internal audit work plan, the Company adopted innovative audit methods to improve the quality and efficiency of audit work and promote internal audit work in an orderly manner. Centering on key businesses, major projects and important control links, as well as financial situation, internal management and control, we organized routine audit of certain branches; implemented regulatory requirements, organized and completed special audits such as the write-off of bad debts and the clearing of institutions; organized the economic responsibility audit of certain middle and senior management of the Company; organized and completed the internal control evaluation work of the Company in 2019, formulated and published the relevant reports, and promoted the relevant rectification work. In addition, we revised and improved the internal audit system, strengthened the construction of internal audit team, organized systematic operation and performance capacity training for internal audit personnel, in order to promote the continuous improvement and development of internal audit.

7.5 Profit and Dividend Distribution

The Company formulated and implemented the cash dividend policy in line with the requirements of the Articles and resolutions of the shareholders' general meeting. The cash dividend policy has clear distribution standard and proportion with proper decision-making procedures and mechanism and was reviewed and approved by the Independent Non-executive Directors. Minority shareholders can fully express opinions and suggestions to protect their legitimate interests.

Upon the approval of the annual general meeting for 2019 held on June 30, 2020, the cash dividends for 2019 would be distributed by the Company to all shareholders at RMB1.026 (tax inclusive) per 10 shares, representing total cash dividends of approximately RMB3.916 billion. On August 14, 2020, the Company distributed cash dividends of RMB1.026 per 10 Shares (tax inclusive) to all holders of ordinary shares whose names appear on the register of members on July 12, 2020. No interim dividend will be declared for 2020 by the Company and no capital reserves will be converted to the share capital of the Company.

7. Significant Events

7.6 Use of Proceeds

All of the proceeds received by the Group in the past issues have been used in accordance with the purposes disclosed in the relevant documents such as their respective prospectuses, which was to replenish the capital of the Group for supporting its business development.

7.7 Material Litigation and Arbitration

During the Reporting Period, the Company was not involved in any litigation and arbitration which may materially and adversely affect its business, financial condition and operating results.

7.8 Major Acquisition and Disposal of Assets and Merger of Enterprises

As approved at the 2018 annual general meeting of the Company and by the CBIRC, the Company had transferred all of its 50.995% equity interests in Happy Life. For details of such transfer, please refer to the Announcement on the Inside Information and the Supplementary Notice of the Annual General Meeting for 2018 dated June 11, 2019, the Announcement on Poll Results of the Annual General Meeting for 2018 dated June 25, 2019, the voluntary announcement dated November 19, 2019, the Announcement on the Discloseable Transaction dated December 13, 2019 and the Announcement on Completion of the Transfer of Equity Interests in Happy Life dated July 17, 2020 of the Company.

Except for the above, during the Reporting Period, the Company did not undertake any material acquisition, disposal of assets or merger of enterprises.

7.9 Implementation of Share Incentive Plan

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

7.10 Material Contracts and their Implementation

Material Custodies, Contracting and Leasing

During the Reporting Period, the Company did not enter into any material contract relating to the custody, contracting and leasing of assets of other companies or custody, contracting and leasing of assets of the Company by other companies.

Material Guarantees

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

7.11 Penalties Imposed on the Company and Directors, Supervisors and Senior Management of the Company

During the Reporting Period, none of the Company, its Directors, Supervisors or senior management was subject to any investigation or administrative punishment by securities regulatory authorities, public censure by any stock exchange, as well as punishment by other regulatory authorities with material impact on the Company's operation, or prosecuted for criminal liabilities by judicial authorities.

7.12 Purchase, Sale and Redemption of Listed Securities

During the Reporting Period, neither the Company nor its subsidiaries has purchased, sold or redeemed any listed securities of the Company or its subsidiaries.

7.13 Securities Transactions by Directors, Supervisors and Senior Management

The Company has adopted the code of conduct regarding the securities transactions by Directors, Supervisors and senior management on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Hong Kong Listing Rules. After making enquiries to all Directors and Supervisors by the Company, all Directors and Supervisors confirmed that they have complied with the required standard set out in the code of conduct during the Reporting Period.

7.14 Directors', Supervisors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at June 30, 2020, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Hong Kong SFO) as recorded in the register pursuant to Section 352 of the Hong Kong SFO or as otherwise notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Hong Kong Listing Rules.

7. Significant Events

7.15 Review of Interim Report

The interim condensed consolidated financial statements for 2020 prepared by the Company according to IFRS have been reviewed by Ernst & Young in accordance with International Standards on Review Engagements.

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

7.16 Statement for Changes of Auditors in the Preceding Three Years

The annual general meeting for 2019 of the Company held on June 30, 2020 approved the re-appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the domestic and international auditors for 2020, respectively, which are responsible for the audit of annual financial statements, review of interim financial statements, audit of internal control and other professional services for the Company for 2020. The Company did not change its auditors in the preceding three years.

8. Review Report and Interim Condensed Consolidated Financial Statements

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Report on Review of Interim Condensed Consolidated Financial Statements



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Board of Directors of China Cinda Asset Management Co., Ltd.

(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements of China Cinda Asset Management Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the interim condensed consolidated statement of financial position as at June 30, 2020, the related interim condensed consolidated statement of profit or loss, statement of 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 interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial statements consists of making enquiries, 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 Interim Condensed Consolidated Financial Statements

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong

August 27, 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	For the six months ended June 30,	
		2020 (Unaudited)	2019 (Unaudited)
Continuing operations			
Income from distressed debt assets at amortized cost	1	9,105,570	8,437,539
Fair value changes on distressed debt assets	2	7,474,182	6,270,257
Fair value changes on other financial instruments	3	2,343,556	9,873,271
Investment income	4	317,483	109,962
Interest income	5	12,013,757	12,531,895
Revenue from sales of inventories	6	9,659,230	4,919,144
Commission and fee income	7	2,096,375	1,827,782
Net gains on disposal of subsidiaries, associates and joint ventures	8	1,197,216	87,351
Other income and other net gains or losses	9	1,612,494	1,406,929
Total		45,819,863	45,464,130
Interest expense	10	(19,922,104)	(22,885,203)
Employee benefits		(2,532,580)	(2,108,789)
Purchases and changes in inventories	6	(6,366,150)	(3,105,721)
Commission and fee expense		(296,774)	(331,293)
Taxes and surcharges		(245,732)	(277,436)
Depreciation and amortization expenses		(1,000,680)	(752,893)
Other expenses		(1,174,072)	(1,417,356)
Impairment losses on assets	11	(4,598,626)	(3,433,856)
Total		(36,136,718)	(34,312,547)

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	For the six months ended June 30,	
		2020 (Unaudited)	2019 (Unaudited)
Change in net assets attributable to other holders of consolidated structured entities		(20,075)	(169,912)
Profit before share of results of associates and joint ventures and tax		9,663,070	10,981,671
Share of results of associates and joint ventures		1,050,056	1,748,133
Profit before tax from continuing operations		10,713,126	12,729,804
Income tax expense	12	(3,636,171)	(3,865,500)
Profit for the period from continuing operations		7,076,955	8,864,304

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	For the six months ended June 30,	
		2020 (Unaudited)	2019 (Unaudited)
Discontinued operation			
Profit after tax for the period from a discontinued operation	55	268,669	681,575
Profit for the period		7,345,624	9,545,879
Profit attributable to:			
Equity holders of the Company		6,340,739	8,685,265
Non-controlling interests		1,004,885	860,614
		7,345,624	9,545,879
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)	13		
– Basic		0.17	0.23
– Diluted		0.17	0.23
Earnings per share attributable to equity holders of the Company from continuing operations (Expressed in RMB Yuan per share)	13		
– Basic		0.16	0.22
– Diluted		0.16	0.22

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Profit for the period	7,345,624	9,545,879
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on debt instruments at fair value through other comprehensive income		
Fair value changes arising during the period	(176,684)	224,611
Amounts reclassified to profit or loss upon disposal	(17,669)	(116,576)
Amounts of profit or loss upon impairment	23,627	34,596
	(170,726)	142,631
Exchange differences arising on translation of foreign operations	318,100	(153,833)
Share of other comprehensive income of associates and joint ventures	(13,608)	50,703
Subtotal	133,766	39,501

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on equity instruments designated as at fair value through other comprehensive income	(715,593)	527,536
Subtotal	(715,593)	527,536
Other comprehensive income for the period, net of income tax	(581,827)	567,037
Total comprehensive income for the period	6,763,797	10,112,916
Total comprehensive income attributable to:		
Equity holders of the Company	5,929,853	9,269,299
Non-controlling interests	833,944	843,617
	6,763,797	10,112,916

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Assets			
Cash and balances with central banks	15	17,495,525	19,002,051
Deposits with banks and financial institutions	16	75,596,815	70,837,593
Deposits with exchanges and others		2,592,059	1,323,359
Placements with banks and financial institutions	17	21,800,613	11,152,300
Financial assets at fair value through profit or loss	18	411,852,178	412,164,583
Financial assets held under resale agreements	19	21,408,381	13,212,454
Financial assets at fair value through other comprehensive income	20	120,610,856	136,802,965
Loans and advances to customers	21	349,918,133	337,859,064
Financial assets at amortized cost	22	235,538,694	227,645,067
Accounts receivable	23	2,259,539	2,402,725
Properties held for sale	24	55,989,396	59,587,157
Investment properties	25	9,303,321	5,861,059
Interests in associates and joint ventures		72,280,187	73,006,289
Property and equipment	28	17,807,300	17,611,309
Goodwill	29	24,007,090	23,548,562
Other intangible assets		4,148,907	4,201,855
Deferred tax assets	30	7,366,076	6,756,583
Assets held for sale	55	61,391,821	61,394,178
Other assets	31	20,450,582	28,860,854
Total assets		1,531,817,473	1,513,230,007

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Liabilities			
Borrowings from the central bank	32	993,944	1,010,860
Accounts payable to brokerage clients		16,785,166	14,320,344
Financial liabilities at fair value through profit or loss	33	4,703,013	5,065,256
Financial assets sold under repurchase agreements	34	14,912,162	19,495,590
Placements from banks and financial institutions	35	9,141,303	14,084,819
Borrowings	36	534,565,004	536,591,304
Due to customers	37	284,411,433	275,205,766
Deposits from banks and financial institutions	38	8,645,207	14,157,128
Accounts payable	39	3,809,197	5,050,797
Tax payable		3,724,303	4,331,779
Bonds issued	40	336,872,128	304,849,566
Contract liabilities	41	22,189,471	24,087,036
Deferred tax liabilities	30	2,545,297	2,299,671
Liabilities held for sale	55	55,743,496	57,924,139
Other liabilities	42	40,602,002	46,345,491
Total liabilities		1,339,643,126	1,324,819,546

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Financial Position

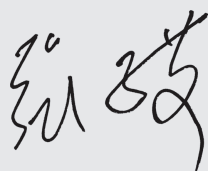
As at June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Equity			
Share capital	43	38,164,535	38,164,535
Other equity instruments	44	21,281,215	21,281,215
Capital reserve	45	20,526,999	20,239,333
Other comprehensive income	46	(446,574)	(35,688)
Surplus reserve		8,510,147	8,510,147
General reserve	47	15,630,389	15,961,421
Retained earnings		63,533,250	60,777,160
Equity attributable to equity holders of the Company		167,199,961	164,898,123
Non-controlling interests		24,974,386	23,512,338
Total equity		192,174,347	188,410,461
Total equity and liabilities		1,531,817,473	1,513,230,007

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements are authorized for issue by the Board of Directors and signed on its behalf by:



CHAIRMAN



PRESIDENT

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	(Unaudited)									
	Equity attributable to equity holders of the Company									
	Share capital (Note IV.43)	Other equity instruments (Note IV.44)	Capital reserve (Note IV.45)	Other comprehensive income (Note IV.46)	Surplus reserve	General reserve (Note IV.47)	Retained earnings	Subtotal	Non-controlling interests	Total
As at January 1, 2020	38,164,535	21,281,215	20,239,333	(35,688)	8,510,147	15,961,421	60,777,160	164,898,123	23,512,338	188,410,461
Profit for the period	-	-	-	-	-	-	6,340,739	6,340,739	1,004,885	7,345,624
Other comprehensive income for the period	-	-	-	(410,886)	-	-	-	(410,886)	(170,941)	(581,827)
Total comprehensive income for the period	-	-	-	(410,886)	-	-	6,340,739	5,929,853	833,944	6,763,797
Capital contribution from non-controlling interests of subsidiaries	-	-	43,069	-	-	-	-	43,069	1,290,431	1,333,500
Acquisition of additional interests in a subsidiary	-	-	117,339	-	-	-	-	117,339	(172,274)	(54,935)
Amounts reversed from the general reserve	-	-	-	-	-	(331,032)	331,032	-	-	-
Dividends recognized as distribution	-	-	-	-	-	-	(3,915,681)	(3,915,681)	-	(3,915,681)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(279,111)	(279,111)
Dividends paid to capital securities	-	-	-	-	-	-	-	-	(210,942)	(210,942)
Share of associates' equity changes other than comprehensive income and distribution	-	-	127,258	-	-	-	-	127,258	-	127,258
As at June 30, 2020	38,164,535	21,281,215	20,526,999	(446,574)	8,510,147	15,630,389	63,533,250	167,199,961	24,974,386	192,174,347

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

	(Unaudited)										
	Equity attributable to equity holders of the Company									Non- controlling interests	Total
	Share capital (Note IV.43)	Other equity instruments (Note IV.44)	Capital reserve (Note IV.45)	Other comprehensive income (Note IV.46)	Surplus reserve	General reserve (Note IV.47)	Retained earnings	Subtotal			
As at January 1, 2019	38,164,535	21,281,215	21,257,033	(1,152,132)	7,857,883	15,043,296	54,041,001	156,492,831	22,075,635		
Profit for the period	-	-	-	-	-	-	8,685,265	8,685,265	860,614	9,545,879	
Other comprehensive income for the period	-	-	-	584,034	-	-	-	584,034	(16,997)	567,037	
Total comprehensive income for the period	-	-	-	584,034	-	-	8,685,265	9,269,299	843,617	10,112,916	
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	20,000	20,000	
Appropriation to general reserve	-	-	-	-	-	739,869	(739,869)	-	-	-	
Dividends recognized as distribution	-	-	-	-	-	-	(3,625,631)	(3,625,631)	-	(3,625,631)	
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(344,507)	(344,507)	
Dividends paid to capital securities	-	-	-	-	-	-	-	-	(203,335)	(203,335)	
Share of associates' equity changes other than comprehensive income and distribution	-	-	(758,190)	-	-	-	-	(758,190)	-	(758,190)	
Others	-	-	(463)	-	-	-	-	(463)	463	-	
As at June 30, 2019	38,164,535	21,281,215	20,498,380	(568,098)	7,857,883	15,783,165	58,360,766	161,377,846	22,391,873	183,769,719	

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
OPERATING ACTIVITIES		
Profit before tax from continuing operations	10,713,126	12,729,804
Profit before tax from a discontinued operation	296,520	679,352
Adjustments for:		
Impairment losses on assets	4,599,434	3,450,116
Depreciation of property and equipment, investment properties and right-of-use assets	814,760	638,185
Amortization of intangible assets and other long-term assets	185,920	149,237
Share of results of associates and joint ventures	(1,063,003)	(1,754,211)
Net gains on disposal of property and equipment, investment properties and other intangible assets	(42,502)	(22,929)
Net gains on disposal of subsidiaries, associates and joint ventures	(1,197,216)	(87,351)
Fair value changes on financial assets	(3,628,271)	(14,648,962)
Investment income	(543,349)	(158,712)
Interest income	(4,412,016)	(2,037,227)
Borrowing costs	8,686,070	7,997,042
Change in reserves for insurance contracts	(3,350,477)	3,163,850

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Operating cash flows before movements in working capital	11,058,996	10,098,194
(Increase)/decrease in balances with central banks and deposits with banks and financial institutions	(1,400,763)	6,128,797
Decrease/(increase) in financial assets at fair value through profit or loss	12,456,338	(18,208,095)
Decrease/(increase) in placements with banks and financial institutions	726,157	(145,078)
Increase in financial assets held under resale agreements	(492,770)	(1,601,603)
(Increase)/decrease in financial assets at amortized cost	(8,621,387)	11,709,666
Increase in loans and advances to customers	(13,224,045)	(10,132,099)
Increase in accounts receivable	(29,229)	(567,245)
Decrease/(increase) in properties held for sale	3,523,695	(1,194,191)
Increase in due to customers and deposits from banks and financial institutions	3,693,746	11,348,228
Increase in accounts payable to brokerage clients	2,464,822	4,246,188
(Decrease)/increase in financial assets sold under repurchase agreements	(4,518,807)	2,118,197
Decrease in borrowings	(1,139,569)	(29,457,391)
Decrease in accounts payable	(1,234,045)	(1,143,004)
(Decrease)/increase in contract liabilities	(1,897,565)	3,299,386
Decrease/(increase) in other operating assets	7,272,761	(712,046)
Decrease in other operating liabilities	(14,154,418)	(14,065,932)
Cash outflow from operations	(5,516,083)	(28,278,028)
Income taxes paid	(3,695,438)	(4,847,357)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(9,211,521)	(33,125,385)

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
INVESTING ACTIVITIES		
Cash receipts from disposals and recovery of investment securities	113,006,245	146,533,247
Dividends received from investment securities	4,672,592	3,019,415
Dividends received from associates and joint ventures	357,710	456,143
Interest received from investment securities	1,985,129	1,788,684
Cash receipts from disposals of property and equipment, investment properties and other intangible assets	73,795	56,674
Net cash flows from disposals of subsidiaries	–	83,078
Net cash flows from disposals of associates and joint ventures	1,582,250	1,705,209
Cash payments to acquire investment securities	(114,598,104)	(141,046,483)
Net cash flows from consolidated structured entities	(741,405)	(1,429,667)
Cash payments for purchase of property and equipment, investment properties and other intangible assets	(4,036,817)	(792,434)
Cash payments for establishment and acquisition of interests in associates and joint ventures	(168,801)	(158,721)
NET CASH INFLOW FROM INVESTING ACTIVITIES	2,132,594	10,215,145

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
FINANCING ACTIVITIES		
Capital contribution from non-controlling interests of subsidiaries of the Company	1,333,500	20,000
Cash payment to acquire additional interests in subsidiaries	(54,935)	–
Cash receipts from borrowings raised	15,112,083	17,591,369
Cash receipts from bonds issued	83,027,690	50,066,197
Cash receipts from financial assets sold under repurchase agreements	–	1,251,240
Cash repayments on financial assets sold under repurchase agreements	–	(4,231,555)
Cash repayments of borrowings	(16,502,931)	(15,636,985)
Cash repayments of bonds	(50,783,199)	(39,370,494)
Interest expenses on borrowings and bonds	(9,009,071)	(10,714,795)
Dividends paid to non-controlling interests of subsidiaries	(489,373)	(546,163)
Cash payments for other financing activities	(559,434)	(288,544)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	22,074,330	(1,859,730)

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

	Notes IV	For the six months ended June 30,	
		2020 (Unaudited)	2019 (Unaudited)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14,995,403	(24,769,970)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		82,749,337	106,066,408
Effect of foreign exchange changes		1,607,962	290,387
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	48	99,352,702	81,586,825
Net cash flows from operating activities include:			
Interest received		8,104,148	10,932,315
Interest paid		11,398,344	15,230,833

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

I. GENERAL INFORMATION

China Cinda Asset Management Co., Ltd. (the “Company”) was transformed from China Cinda Asset Management Corporation (the “Former Cinda”), 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 April 19, 1999 as approved by the State Council of the PRC (the “State Council”). On June 29, 2010, China Cinda Asset Management Co., Ltd. was established after the completion of the financial restructuring of the Former Cinda as approved by the State Council. As at June 30, 2020, the MOF directly owned 58.00% of the share capital of the Company.

The Company has financial services certificate No. J0004H111000001 issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”), and business license No. 91110000710924945A issued by the State Administration of Industry and Commerce of the PRC. The registered office of the Company is located at No.1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC.

The Company was listed on the Stock Exchange of Hong Kong Limited on December 12, 2013.

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; receivership; foreign investment; securities and futures dealing; financial bond issuance; inter-bank borrowing and lending; commercial financing for other financial institutions; approved asset securitization business; financial institutions custody; closing and liquidation of business; consulting and advisory business on finance, investment, legal and risk management; asset and project evaluation; banking business; insurance; fund management; asset management; trust; financial leasing services; real estate and industrial investments and other businesses approved by the CBIRC or other regulatory bodies.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial statements of the Group do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended December 31, 2019.

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand, except when otherwise indicated.

2. Principal accounting policies

Except as described below, the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2019.

3. Standards and amendments effective in 2020

In the current interim period, the Group has applied the following new standards and amendments to IFRSs that are effective for the Group’s annual period beginning on January 1, 2020.

IFRS 3 Amendments	Definition of a Business
IAS 1 and IAS 8 Amendments	Definition of Material
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform
IFRS 16 Amendment	Covid-19-Related Rent Concessions

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

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

3. Standards and amendments effective in 2020 (continued)

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate (“RFR”), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease modification in IFRS 16 for rent relief granted due to the impact of COVID-19.

The adoption of the above standards and amendments did not have a significant impact on the amounts reported and disclosures set out in these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

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

4. Standards and amendments that are not yet effective in 2020

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

		Effective for annual periods beginning on or after
IFRS 3 Amendments	Reference to the Conceptual Framework	January 1, 2022
IAS 16 Amendments	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
IAS 37 Amendments	Onerous Contracts-Costs of Fulfilling a Contract	January 1, 2022
IAS 1 Amendments	Classification of Liabilities as Current or Non-current	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 Cycle (issued in May 2020)		January 1, 2022

The Group is considering the impact of these standards and amendments on the consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

III. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2019.

IV. EXPLANATORY NOTES

1. Income from distressed debt assets at amortized cost

The amounts mainly represent interest income and gains or losses from disposal of distressed debt assets at amortized cost, which were acquired from financial institutions and non-financial institutions (see Note IV.22 Financial assets at amortized cost).

For the six months ended June 30, 2020, the net gains or losses on the derecognition of distressed debt assets at amortized cost was nil (For the six months ended June 30, 2019, the net loss was RMB966 million).

2. Fair value changes on distressed debt assets

The amounts represent fair value changes on distressed debt assets at fair value through profit or loss during the period (see Note IV.18 Financial assets at fair value through profit or loss).

The fair value changes comprise both realized gains or losses from disposal of distressed debt assets at fair value through profit or loss and unrealized fair value changes on such assets. Any interest income arising from such assets is included in fair value changes.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

3. Fair value changes on other financial instruments

The amounts represent fair value changes on both financial assets at fair value through profit or loss (excluding distressed debt assets at fair value through profit or loss) and financial liabilities at fair value through profit or loss during the period (see Note IV.18 Financial assets at fair value through profit or loss and Note IV.33 Financial liabilities at fair value through profit or loss).

The fair value changes comprise realized gains and losses on disposal and unrealized fair value changes, from financial assets at fair value through profit or loss (excluding distressed debt assets at fair value through profit or loss), loans and advances to customers at fair value through profit or loss and financial liabilities at fair value through profit or loss. Any interest or dividend income arising from such instruments is included in fair value changes.

For the six months ended June 30, 2020 and 2019, the fair value changes on financial liabilities at fair value through profit or loss were insignificant.

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Financial instruments classified as at fair value through profit or loss	2,343,556	9,873,271
Total	2,343,556	9,873,271

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

4. Investment income

	For the six months ended June 30,	
	2020 Unaudited	2019 Unaudited
Net realized gains/(losses) on disposal of		
– Financial assets at fair value through other comprehensive income	312,720	111,510
– Loans and advances to customers at amortized cost	(5,161)	(33,522)
– Other debt assets (1)	3,544	29
Dividend income from		
– Financial assets at fair value through other comprehensive income	1,311	1,256
Others	5,069	30,689
Total	317,483	109,962

(1) For the six months ended June 30, 2020 and 2019, all the net gains recognized from derecognition of other debt assets are resulted from disposing of bonds.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

5. Interest income

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

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Loans and advances to customers		
– Corporate and personal loans and advances	6,819,665	6,820,028
– Finance lease receivables	1,192,485	1,354,037
– Loans to margin clients	264,677	235,532
Financial assets at fair value through other comprehensive income	1,477,743	1,544,553
Other debt investments at amortized cost	1,079,578	919,042
Deposits with banks and financial institutions	735,765	531,140
Placements with banks and financial institutions	205,278	487,362
Others	238,566	640,201
Total	12,013,757	12,531,895

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

6. Revenue from sales of inventories and purchases and changes in inventories

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Revenue from sales of inventories	9,659,230	4,919,144
Purchases and changes in inventories	(6,366,150)	(3,105,721)
Including:		
Revenue from sales of properties held for sale	9,564,783	4,905,360
Purchases and changes in properties held for sale	(6,275,377)	(3,092,257)
Gross profit from sales of properties held for sale	3,289,406	1,813,103
Revenue from other trading operations	94,447	13,784
Purchases and changes in inventories of other trading operations	(90,773)	(13,464)
Gross profit from other trading operations	3,674	320

Recognition time of revenue from sales of properties held for sale

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Recognized revenue at a point in time		
Sales of properties held for sale	9,564,783	4,905,360

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

6. Revenue from sales of inventories and purchases and changes in inventories (continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at June 30 are as follows:

	2020 (Unaudited)	2019 (Unaudited)
Amounts expected to be recognised as revenue:		
Within one year	12,978,398	25,716,033
After one year	5,635,796	4,217,073
Total	18,614,194	29,933,106

7. Commission and fee income

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Securities and futures brokerage	550,910	492,181
Banking business	461,448	425,980
Fund and asset management business	353,599	357,879
Agency business	322,216	305,192
Trustee services	167,860	128,460
Securities underwriting	122,705	37,667
Consultancy and financial advisory services	80,232	39,395
Others	37,405	41,028
Total	2,096,375	1,827,782

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

8. Net gains on disposal of subsidiaries, associates and joint ventures

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Net gains on disposal of subsidiaries	–	83,362
Net gains on disposal of associates and joint ventures	1,197,216	3,989
Total	1,197,216	87,351

9. Other income and other net gains or losses

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Net gains on exchange differences	700,740	218,173
Rental income	366,364	371,321
Revenue from property management business	144,243	142,598
Government grants and compensation	63,472	119,793
Revenue from hotel operation	61,726	236,896
Net gains on disposal of other assets	43,708	13,958
Net gains on disposal of investment properties	–	5,919
Others	232,241	298,271
Total	1,612,494	1,406,929

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

10. Interest expense

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Borrowings	(10,532,423)	(13,589,319)
Bonds issued	(6,500,564)	(6,277,169)
Due to customers	(2,465,082)	(2,371,649)
Placements from banks and other financial institutions	(100,437)	(88,918)
Financial assets sold under repurchase agreements	(97,503)	(87,297)
Deposits from banks and financial institutions	(64,379)	(312,560)
Accounts payable to brokerage clients	(24,733)	(21,781)
Lease liabilities	(17,424)	(20,093)
Others	(119,559)	(116,417)
Total	(19,922,104)	(22,885,203)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

11. Impairment losses on assets

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Financial assets at amortized cost		
– Distressed debt assets	(2,940,987)	51,852
– Other debt investments	(69,434)	(76,805)
Loans and advances to customers	(1,527,101)	(1,280,085)
Accounts receivable	130,418	(614,513)
Credit commitments	(84,837)	(19,306)
Financial assets held under resale agreements	(61,940)	788
Properties held for sales	(27,917)	–
Financial assets at fair value through other comprehensive income	(19,792)	(1,948)
Interests in associates and joint ventures	–	(1,423,000)
Property and equipment	–	(60,595)
Other assets	2,964	(10,244)
Total	(4,598,626)	(3,433,856)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

12. Income tax expense

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Current income tax:		
– PRC Enterprise Income Tax	(2,902,477)	(1,193,308)
– PRC Land Appreciation Tax	(740,556)	(426,767)
– Hong Kong Profits Tax	(219,732)	(260,506)
– Overseas taxation	(591)	(2,774)
Overprovision in prior years	121,022	44,654
Subtotal	(3,742,334)	(1,838,701)
Deferred income tax (Note IV.30)	106,163	(2,026,799)
Total	(3,636,171)	(3,865,500)

The statutory income tax rate applicable to PRC enterprises was 25% for the period (for the six months ended June 30, 2019: 25%).

Hong Kong Profits Tax was calculated at 16.5% (for the six months ended June 30, 2019: 16.5%) of the estimated assessable profit for the period.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

13. Earnings per share attributable to equity holders of the Company

The calculation of basic and diluted earnings per share is as follows:

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the parent:		
Continuing operations	6,340,739	8,685,265
Discontinued operation	6,189,011	8,340,281
	151,728	344,984
Number of shares:		
Weighted average number of shares in issue for the purpose of basic earnings per share (in thousand)	38,164,535	38,164,535
Weighted average number of shares in issue for the purpose of diluted earnings per share (in thousand)	38,164,535	38,164,535
Basic earnings per share (RMB Yuan)	0.17	0.23
Diluted earnings per share (RMB Yuan)	0.17	0.23
Basic earnings per share from continuing operations (RMB Yuan)	0.16	0.22
Diluted earnings per share from continuing operations (RMB Yuan)	0.16	0.22

There were no potential ordinary shares outstanding for the six months ended June 30, 2020 and June 30, 2019.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

14. Dividends

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Final dividends of 2019	3,915,681	–
Final dividends of 2018	–	3,625,631
Dividends recognized as distribution during the period	3,915,681	3,625,631

A cash dividend of approximately RMB3,915.68 million in total for the year of 2019 was approved, after the required appropriations for the general reserve on the net profit of the Company for the year of 2019 as determined under China Accounting Standards, at the annual general meeting for 2019 held on June 30, 2020.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

15. Cash and balances with central banks

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Cash	582,485	577,491
Mandatory reserve deposits with central banks (1)	8,274,351	8,932,048
Surplus reserve deposits with central banks	6,346,529	5,318,432
Other deposits with central banks	2,292,160	4,174,080
Total	17,495,525	19,002,051
Including:		
Restricted		
– Balances with central banks	8,366,109	8,964,522

- (1) In accordance with relevant regulations, Nanyang Commercial Bank, Limited, a subsidiary of the bank operations, is required to place mandatory reserve deposits with the People's Bank of China (the "PBOC") for customer deposits in both RMB and foreign currencies. As at June 30, 2020, the mandatory deposits were calculated at 9% of customer deposits denominated in RMB (December 31, 2019: 10.5%) and 5% of customer deposits denominated in foreign currencies (December 31, 2019: 5%). Mandatory reserve deposits are not available for use by the Group in its daily operations.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

16. Deposits with banks and financial institutions

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Deposits with banks		
– House accounts	57,367,203	55,937,328
– Cash held on behalf of clients	14,166,419	11,414,878
Clearing settlement funds		
– House accounts	911,763	559,594
– Clients	2,784,326	2,154,836
Deposits with other financial institutions		
– House accounts	368,064	688,204
Interest receivable	62,486	146,626
Subtotal	75,660,261	70,901,466
Less: Allowance for impairment losses	63,446	63,873
Total	75,596,815	70,837,593
Including: Restricted	26,409,550	21,566,732

Pledged bank deposits represent deposits that have been pledged to secure bank borrowings. As at June 30, 2020, the Group had no pledged bank deposits (December 31, 2019: RMB1,193.00 million).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

16. Deposits with banks and financial institutions (continued)

The Group's clearing settlement funds were interest-bearing at prevailing market interest rates and mainly deposited in the China Securities Depository and Clearing Corporation Limited. As at June 30, 2020, the Group's restricted clearing settlement funds amounted to RMB2,784.33 million (December 31, 2019: RMB2,154.84 million).

As at June 30, 2020, the Group's deposits with banks and financial institutions in Stage I, II and III amounted to RMB75,596.99 million, nil and RMB63.27 million, respectively (December 31, 2019: RMB70,838.20 million, nil and RMB63.27 million, respectively). The allowance for impairment losses amounted to RMB0.18 million, nil and RMB63.27 million, respectively (December 31, 2019: RMB0.6 million, nil and RMB63.27 million, respectively).

17. Placements with banks and financial institutions

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Banks	21,728,482	11,106,600
Other financial institutions	150,027	100,000
Interest receivable	9,242	32,862
Subtotal	21,887,751	11,239,462
Less: Allowance for impairment losses	87,138	87,162
Total	21,800,613	11,152,300

As at June 30, 2020, the Group's placements with banks and financial institutions in Stage I, II and III amounted to RMB21,802.04 million, nil and RMB85.71 million, respectively (December 31, 2019: RMB11,153.75 million, nil and RMB85.71 million, respectively). The allowance for impairment losses on placements with banks and financial institutions in Stage I, II and III amounted to RMB1.42 million, nil and RMB85.71 million, respectively (December 31, 2019: RMB1.45 million, nil and RMB85.71 million, respectively).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

18. Financial assets at fair value through profit or loss

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Financial assets classified as at fair value through profit or loss		
Listed investments:		
Equity investments	14,018,708	9,565,812
Debt securities		
– Government bonds	2,518,810	5,968,207
– Public sector and quasi-government bonds	93,752	1,044
– Corporate bonds	5,355,192	4,521,715
Funds	3,246,410	2,071,045
Corporate convertible bonds	71,205	55,579
	25,304,077	22,183,402
Unlisted investments:		
Distressed debt assets	192,593,410	197,621,332
Funds	90,525,772	89,143,751
Equity investments	50,509,784	55,791,190
Debt instruments	28,586,779	28,148,647
Trust products and asset management plans	19,544,867	15,459,780
Security investments	2,553,812	1,642,858
Wealth management products	1,521,099	1,475,898
Derivative financial assets (1)	656,187	619,316
Others	56,391	78,409
	386,548,101	389,981,181
Total	411,852,178	412,164,583

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

18. Financial assets at fair value through profit or loss (continued)

(1) Derivative financial instruments

	As at June 30, 2020 (Unaudited)			As at December 31, 2019 (Audited)		
	Contractual/ Notional amount	Fair value Assets	Liabilities	Contractual/ Notional amount	Fair value Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps	82,859,183	385,137	(234,512)	43,518,087	477,815	(404,521)
Currency options	3,424,079	31,265	(31,289)	693,389	6,080	(6,081)
Subtotal	86,283,262	416,402	(265,801)	44,211,476	483,895	(410,602)
Interest rate derivatives						
Interest rate swaps	138,618,208	185,711	(579,188)	116,508,057	27,365	(131,429)
Equity derivatives	2,676,280	3,883	-	488,509	26,288	-
Commodity derivatives and others	1,171,338	50,191	(9,741)	1,255,240	81,768	(826)
Total	228,749,088	656,187	(854,730)	162,463,282	619,316	(542,857)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

19. Financial assets held under resale agreements

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
By collateral type		
Bonds	20,601,494	11,886,129
Stocks	1,203,126	1,722,173
Interest receivable	15,019	14,837
Subtotal	21,819,639	13,623,139
Less: Allowance for impairment losses	411,258	410,685
Total	21,408,381	13,212,454

As at June 30, 2020, the Group's assets held under resale agreements in Stage I, II and III amounted to RMB20,849.59 million, RMB250.22 million and 719.83 million, respectively (As at December 31, 2019: RMB12,613.92 million, RMB344.55 million and 664.67 million, respectively). The allowance for impairment losses in Stage I, II and III amounted to RMB2.42 million, RMB17.58 million and RMB391.26 million, respectively (As at December 31, 2019: RMB1.18 million, RMB44.13 million and RMB365.38 million, respectively).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

20. Financial assets at fair value through other comprehensive income

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Debt investments at fair value through other comprehensive income		
Debt securities		
– Government bonds	41,927,816	54,394,469
– Public sector and quasi-government bonds	3,833,215	4,948,670
– Financial institution bonds	44,955,788	48,552,354
– Corporate bonds	24,589,671	23,483,657
Interest receivable	1,048,999	1,196,252
Subtotal	116,355,489	132,575,402
Equity investments designated as at fair value through other comprehensive income		
Equity instruments	4,255,367	4,227,563
Subtotal	4,255,367	4,227,563
Total	120,610,856	136,802,965

As at June 30, 2020, the Group's debt investments at fair value through other comprehensive income in Stage I, II and III amounted to RMB116,044.56 million, nil and RMB162.83 million, respectively (December 31, 2019: RMB132,013.38 million, nil and RMB160.44 million, respectively). The allowance for impairment losses amounted to RMB81.87 million, nil and RMB162.83 million, respectively (December 31, 2019: RMB60.19 million, nil and RMB160.44 million, respectively).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

20. Financial assets at fair value through other comprehensive income (continued)

As at June 30, 2020, the Group's equity investments at fair value through other comprehensive income amounted to RMB4,255.37 million (December 31, 2019: RMB4,227.56 million). The above equity investments were irrevocably designated as at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. For the six months ended June 30, 2020, the Group received dividends at the amount of RMB1.31 million (for the six months ended June 30, 2019: RMB1.26 million) from equity investments designated as at fair value through other comprehensive income.

21. Loans and advances to customers

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
At amortized cost		
Corporate loans and advances		
– Loans and advances	238,865,323	229,007,729
– Discounted bills	1,361,735	2,036,542
Personal loans and advances		
– Mortgages	26,962,775	26,274,047
– Personal consumption loans	21,884,256	20,483,984
Loans to margin clients	8,126,715	7,070,164
Finance lease receivables	40,146,523	44,234,870
Subtotal	337,347,327	329,107,336
Interest accrued	2,180,378	2,014,792
Total loans and advances to customers at amortized cost	339,527,705	331,122,128

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

21. Loans and advances to customers (continued)

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
At fair value through profit or loss		
Corporate loans and advances	19,990,400	15,007,348
Total loans and advances to customers	359,518,105	346,129,476
Less: Allowance for impairment losses on loans and advances to customers at amortized cost	9,599,972	8,270,412
Net loans and advances to customers	349,918,133	337,859,064

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

21. Loans and advances to customers (continued)

Loans and advances at amortized cost are as follows:

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	Total
As at June 30, 2020				
Gross loans and advances	318,778,807	11,573,125	9,175,773	339,527,705
Less: Allowances for impairment losses	2,849,378	2,449,538	4,301,056	9,599,972
Net loans and advances to customers	315,929,429	9,123,587	4,874,717	329,927,733
As at December 31, 2019				
Gross loans and advances	313,233,263	10,607,636	7,281,229	331,122,128
Less: Allowances for impairment losses	2,681,287	2,211,544	3,377,581	8,270,412
Net loans and advances to customers	310,551,976	8,396,092	3,903,648	322,851,716

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

21. Loans and advances to customers (continued)

The movements of allowance for loans and advances to customers are as follows:

	For the six months ended June 30, 2020			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at January 1	2,681,287	2,211,544	3,377,581	8,270,412
Convert to Stage I	4,853	(4,853)	–	–
Convert to Stage II	(204,678)	204,678	–	–
Convert to Stage III	(2,157)	(602,658)	604,815	–
Impairment losses recognized	962,005	1,008,076	395,718	2,365,799
Impairment losses reversed	(601,638)	(455,077)	(74,581)	(1,131,296)
Stage conversion	(4,205)	81,221	215,582	292,598
Write-off and transfer out	–	–	(272,989)	(272,989)
Recovery of loans and advances written-off in previous years	–	–	34,986	34,986
Unwinding of discount on allowance	–	–	(2,676)	(2,676)
Exchange differences	13,911	6,607	22,620	43,138
As at June 30	2,849,378	2,449,538	4,301,056	9,599,972

The gross carrying amount of loans and advances to customers transferred from Stage III or Stage II to Stage I due to the modification of the contractual cash flows for the six months ended June 30, 2020 was not significant.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

21. Loans and advances to customers (continued)

	2019			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at January 1	3,668,159	959,304	3,034,137	7,661,600
Convert to Stage I	64,757	(3,763)	(60,994)	–
Convert to Stage II	(123,209)	128,486	(5,277)	–
Convert to Stage III	(318,097)	(77,220)	395,317	–
Impairment losses recognized	997,163	711,559	1,223,224	2,931,946
Impairment losses reversed	(1,578,466)	(174,417)	(499,505)	(2,252,388)
Stage conversion	(56,408)	658,114	802,779	1,404,485
Write-off and transfer out	–	–	(1,516,518)	(1,516,518)
Recovery of loans and advances				
written-off in previous years	–	–	5,401	5,401
Unwinding of discount on allowance	–	–	(9,189)	(9,189)
Exchange differences	27,388	9,481	8,206	45,075
As at December 31	2,681,287	2,211,544	3,377,581	8,270,412

The gross carrying amount of loans and advances to customers transferred from Stage III or Stage II to Stage I due to the modification of the contractual cash flows in the year of 2019 was not significant.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

21. Loans and advances to customers (continued)

Finance lease receivables are analyzed as follows:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Minimum finance lease receivables:		
Within 1 year (inclusive)	19,890,682	19,918,981
1 year to 2 years (inclusive)	11,123,393	12,742,276
2 years to 3 years (inclusive)	6,371,783	8,810,589
3 years to 4 years (inclusive)	2,374,796	2,904,380
4 years to 5 years (inclusive)	1,784,872	1,529,113
Over 5 years	3,414,784	3,262,264
Gross amount of finance lease receivables	44,960,310	49,167,603
Less: Unearned finance income	4,813,787	4,932,733
Subtotal	40,146,523	44,234,870

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

21. Loans and advances to customers (continued)

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Interest accrued	215,861	224,304
Net amount of finance lease receivables	40,362,384	44,459,174
Less: Allowance for impairment losses	3,237,162	2,769,653
Carrying amount of finance lease receivables	37,125,222	41,689,521
Present value of minimum lease receivables:		
Within 1 year (inclusive)	17,872,640	17,788,548
1 year to 2 years (inclusive)	10,095,381	11,588,460
2 years to 3 years (inclusive)	5,777,691	8,161,928
3 years to 4 years (inclusive)	2,070,619	2,605,562
4 years to 5 years (inclusive)	1,454,438	1,362,012
Over 5 years	3,091,615	2,952,664
Total	40,362,384	44,459,174
Including:		
Finance lease receivables pledged for borrowings	3,054,035	3,051,730

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

22. Financial assets at amortized cost

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Distressed debt assets		
– Acquired from financial institutions	6,927,848	10,080,485
– Acquired from non-financial institutions	192,984,017	184,439,371
Subtotal	199,911,865	194,519,856
Interest accrued	5,448,086	3,426,127
Gross of distressed debt assets	205,359,951	197,945,983
Less: Allowance for impairment losses	14,296,629	11,510,610
Net of distressed debt assets	191,063,322	186,435,373
Other debt investments		
– Trust products and asset management plans	18,319,876	17,348,906
– Securities investments	4,926,234	6,043,894
– Others	21,828,491	18,598,157
Subtotal	45,074,601	41,990,957
Interest accrued	911,784	660,311
Gross of other debt investments	45,986,385	42,651,268
Less: Allowance for impairment losses	1,511,013	1,441,574
Net of other debt investments	44,475,372	41,209,694
Total	235,538,694	227,645,067

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

22. Financial assets at amortized cost (continued)

Distressed debt assets are as follows:

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	Total
As at June 30, 2020				
Gross distressed debt assets	146,684,735	51,208,930	7,466,286	205,359,951
Less: Allowance for impairment losses	6,433,284	4,290,906	3,572,439	14,296,629
Net distressed debt assets	140,251,451	46,918,024	3,893,847	191,063,322

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	Total
As at December 31, 2019				
Gross distressed debt assets	164,890,144	27,156,262	5,899,577	197,945,983
Less: Allowance for impairment losses	5,767,608	2,403,302	3,339,700	11,510,610
Net distressed debt assets	159,122,536	24,752,960	2,559,877	186,435,373

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For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

22. Financial assets at amortized cost (continued)

The movements of allowance for distressed debt assets are as follows:

	For the six months ended June 30, 2020			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at January 1	5,767,608	2,403,302	3,339,700	11,510,610
Convert to Stage I	–	–	–	–
Convert to Stage II	(671,492)	671,492	–	–
Convert to Stage III	–	(280,976)	280,976	–
Impairment losses recognized	2,307,421	562,886	281,300	3,151,607
Impairment losses reversed	(970,253)	(124,819)	(372,943)	(1,468,015)
Stage conversion	–	1,059,021	198,374	1,257,395
Write-off and transfer out	–	–	(5,960)	(5,960)
Unwinding of discount on allowance	–	–	(149,008)	(149,008)
As at June 30	6,433,284	4,290,906	3,572,439	14,296,629

	2019			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at January 1	6,774,824	1,811,341	4,301,300	12,887,465
Convert to Stage I	831,292	(831,292)	–	–
Convert to Stage II	(322,471)	322,471	–	–
Convert to Stage III	(75,261)	–	75,261	–
Impairment losses recognized	2,959,532	844,937	219,502	4,023,971
Impairment losses reversed	(3,936,123)	(526,918)	(65,734)	(4,528,775)
Stage conversion	(343,423)	1,491,199	2,901,110	4,048,886
Write-off and transfer out	(120,762)	(708,436)	(4,091,409)	(4,920,607)
Unwinding of discount on allowance	–	–	(330)	(330)
As at December 31	5,767,608	2,403,302	3,339,700	11,510,610

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

23. Accounts receivable

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Accounts receivable relating to equity assets (1)	1,083,408	1,206,745
Commission and fee receivables	482,732	248,450
Accounts receivable from sales of properties	337,432	620,439
Accounts receivable relating to distressed debt assets	21,959	327,432
Others	480,722	277,171
Gross of accounts receivable	2,406,253	2,680,237
Less: Allowance for impairment losses	146,714	277,512
Net of accounts receivable	2,259,539	2,402,725

- (1) As at June 30, 2020, accounts receivable relating to disposal of debt-to-equity assets amounted to RMB396.56 million (As at December 31, 2019: RMB400.01 million). These receivables bear interest at nil to 7.99% per annum (As at December 31, 2019: Nil to 5.87%).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

23. Accounts receivable (continued)

The aging analysis of accounts receivable relating to distressed debt assets and debt-to-equity swap assets is as follows:

	As at June 30, 2020 (Unaudited)				As at December 31, 2019 (Audited)			
	Gross amount	%	Impairment	Carrying amount	Gross amount	%	Impairment	Carrying amount
Within 1 year (inclusive)	21,959	5	-	21,959	193,560	27	-	193,560
1 year to 2 years (inclusive)	-	-	-	-	-	-	-	-
2 years to 3 years (inclusive)	-	-	-	-	-	-	-	-
Over 3 years	400,008	95	(3,445)	396,563	533,880	73	(133,872)	400,008
Total	421,967	100	(3,445)	418,522	727,440	100	(133,872)	593,568

Movements of allowance for impairment losses for the six months ended June 30, 2020 and for the year ended December 31, 2019 are as follows:

	For the six months ended June 30, 2020 (Unaudited)	For the year ended December 31, 2019 (Audited)
At beginning of the period/year	277,512	1,060,332
Impairment losses recognized	19,794	112,146
Impairment losses reversed	(150,212)	(227,640)
Amounts written off and transferred out	(380)	(667,326)
At end of the period/year	146,714	277,512

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

24. Properties held for sale

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Properties under development	48,528,042	46,750,573
Completed properties	8,263,640	13,619,506
Others	15,618	37,426
Subtotal	56,807,300	60,407,505
Less: Allowance for impairment losses	817,904	820,348
Total	55,989,396	59,587,157
Including:		
Pledged for borrowings	25,355,727	16,819,551

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

25. Investment properties

For the six months ended June 30, 2020, the Group acquired investment properties with an aggregate amount of RMB3,683.34 million at cost (for the six months ended June 30, 2019: RMB343.72 million), and disposed of investment properties with an aggregate amount of RMB17.67 million at net book value (for the six months ended June 30, 2019: RMB26.04 million).

As at June 30, 2020, the net book value of investment properties which the Group pledged for borrowings amounted to RMB2,819.90 million (December 31, 2019: RMB2,850.45 million).

As at June 30, 2020, the value of investment properties for which the Group has not obtained certificates of land use rights or certificates of property ownership were nil (December 31, 2019: Nil).

26. Interests in consolidated structured entities

The Group had consolidated certain structured entities including private equity funds, trusts, asset management plans, mutual funds. The judgments used by the Group to determine whether control exists are the same as those that are applied to the consolidated financial statements for the year ended December 31, 2019.

The financial impact of each of the private equity funds, trusts, asset management plans, mutual funds on the Group's financial position as at June 30, 2020 and December 31, 2019, and results and cash flows for the six months ended June 30, 2020 and the year ended December 31, 2019, though consolidated, is not significant individually and therefore not disclosed separately.

Interests held by other holders are presented as change in net assets attributable to other holders of consolidated structured entities in the interim condensed consolidated statement of profit or loss and included in other liabilities in the interim condensed consolidated statement of financial position as set out in Note IV.42 Other liabilities.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

27. Interests in unconsolidated structured entities

Structured entities over which the Group had power by virtue of the Group serving as general partner, manager or trustee during the period include private equity funds, mutual funds, trusts, asset management plans, wealth management products and asset-backed securities. Except for the structured entities over which the Group has consolidated as detailed in Note IV.26 Interests in consolidated structured entities, in the opinion of the directors of the Company, the variable returns to which the Group is exposed over the structured entities that the Group has interests in are not significant nor the Group has the control over these entities. The Group therefore did not consolidate these structured entities.

28. Property and equipment

For the six months ended June 30, 2020, the Group acquired property and equipment with an aggregate amount of RMB324.88 million at cost (for the six months ended June 30, 2019: RMB402.69 million), and disposed of property and equipment with an aggregate amount of RMB13.60 million at net book value (for the six months ended June 30, 2019: RMB7.00 million).

As at June 30, 2020, the Group's construction in progress amounted to RMB29.25 million (December 31, 2019: RMB44.46 million).

As at June 30, 2020, the Group's property for which the Group has not obtained a certificate of property ownership amounted to RMB557.01 million (December 31, 2019: RMB583.44 million).

As at June 30, 2020, the net book value of property and equipment which the Group pledged for borrowings amounted to RMB1,903.07 million (December 31, 2019: RMB749.91 million).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

29. Goodwill

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Carrying amount		
At beginning of the period/year	24,683,406	24,169,379
Disposal of subsidiaries	–	(98,905)
Acquisition of subsidiaries	–	106,324
Exchange differences	458,528	506,608
At end of the period/year	25,141,934	24,683,406
Allowance for impairment losses		
At beginning of the period/year	(1,134,844)	(1,130,562)
Change for the period/year	–	(4,282)
At end of the period/year	(1,134,844)	(1,134,844)
Net book value		
At beginning of the period/year	23,548,562	23,038,817
At end of the period/year	24,007,090	23,548,562

The goodwill acquired through the business combination of NCB, which was accounted for as the majority portion of the Group's goodwill as of June 30, 2020, is allocated to the NCB cash-generating units for impairment testing. The recoverable amount of the NCB cash-generating units has been determined based on a value-in-use calculation method, using cash flow projections based on both financial forecasts covering a 5-year period ("projection period") approved by senior management and a forward speculated 5-year period ("transition period"). The stable growth rate used to extrapolate the cash flows of NCB cash-generating units beyond the 10-year period is fixed at 3%, which does not exceed the long-term average growth rate of the banking industry. The pre-tax discount rates applied to the goodwill impairment testing are 10.18% (Hong Kong) and 12.10% (Mainland China), respectively.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

29. Goodwill (continued)

Due to the downward macroeconomic pressure and the impact of COVID-19, the Group management implemented impairment test on the goodwill acquired through the business combination of NCB in the interim period, and the key assumptions used to calculate the present value of future cash flow on NCB cash-generating units may change. Management holds that any reasonable fluctuation of key assumptions will not lead to a lower recoverable amount of the NCB cash-generating units compared with the book value of the goodwill, thus no impairment losses need to be recognized.

For the goodwill impairment testing, the Group make the following assumptions on the key hypothesis in the process of cash flow projection: 1) Discount rate: pre-tax discount rate reflecting the specific risk of the relevant cash-generating units; 2) Cash flow's growth rate: based on both the past performance and the projection of market development. The information used by the Group in determining these key assumptions is consistent with external information.

30. Deferred taxation

For the purpose of presentation in the interim condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Deferred tax assets		
– Continuing operations	7,366,076	6,756,583
– Discontinued operation	1,251,297	1,279,149
Deferred tax liabilities		
– Continuing operations	(2,545,297)	(2,299,671)
– Discontinued operation	(48,320)	(68,710)
Deferred taxation	6,023,756	5,667,351

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

30. Deferred taxation (continued)

The movements of deferred tax assets and deferred tax liabilities are set out below:

	(Unaudited)										Total				
	Allowance for impairment losses	Withholding tax appreciation	land	Fair value adjustments in business combination	Staff costs accrued but not paid	Interest capitalized on properties held for sale	Tax losses	Provisions	FVTPL assets at joint ventures (i)	Changes in fair value of financial assets at FVOCI		Temporary differences related to impairment losses on financial assets at FVOCI	Changes in fair value and Unrealized loss due to income rights transfer	Discontinued operation	Others
As at January 1, 2020	6,702,675	388,147	(953,580)	(980,723)	1,134,472	644,986	474,584	96,785	264,196	(4,346,569)	(26,137)	762,684	1,210,439	295,412	5,667,351
Credit/(charge) to profit or loss	541,460	(199,173)	(20,096)	15,853	2,279	24,464	(122,594)	21,187	255,122	(342,933)	-	-	(27,851)	(70,406)	78,312
Charge to other comprehensive income/(expense)	-	-	207	-	-	-	-	-	-	4,452	249,930	-	20,389	-	274,978
Others	54,862	-	(16,099)	(12,226)	382	-	-	35	17,620	(42,420)	(759)	-	-	1,718	3,115
As at June 30, 2020	7,298,997	188,974	(989,567)	(977,096)	1,137,133	669,450	351,990	118,007	537,938	(4,727,490)	223,035	762,684	1,202,977	226,724	6,023,756

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

30. Deferred taxation (continued)

The movements of deferred tax assets and deferred tax liabilities are set out below (continued):

	(Audited)											Total		
	Allowance for impairment losses	Withholding for land appreciation tax	Fair value adjustments in business combination	Staff costs accrued but not paid	Interest capitalized on properties held for sale	Tax losses	Provisions	FVTPL assets at	Changes in fair value of financial associates and joint ventures (i)	Temporary differences related to the cost of associates and joint ventures (i)	Changes in fair value and impairment losses on financial assets at FOCI		Unrealized loss due to income rights transfer	Others
As at January 1, 2019	5,498,527	358,526	(970,847)	(982,569)	1,019,293	380,871	203,205	1,736,051	(4,267,615)	176,930	-	-	124,871	3,772,764
Credit/(charge) to profit or loss	1,200,581	29,621	35,331	31,075	112,477	139,540	(106,472)	(1,469,354)	(419,669)	(4)	762,684	1,227,175	172,125	1,864,575
Charge to other comprehensive income/(expense)	-	-	-	-	2,289	-	-	-	(42,764)	(248,530)	-	(22,822)	-	(311,827)
Acquisitions of subsidiaries	-	-	-	(15,417)	-	-	-	-	-	-	-	-	-	(15,417)
Discontinued operation	-	-	-	-	-	(51,974)	-	-	-	45,888	-	6,086	-	-
Others	3,567	-	(18,064)	(13,812)	413	6,147	52	(2,501)	383,459	(421)	-	-	(1,584)	357,256
As at December 31, 2019	6,702,675	388,147	(953,580)	(980,723)	1,134,472	474,584	96,785	264,196	(4,346,559)	(26,137)	762,684	1,210,439	235,412	5,667,351

(i) The temporary differences related to the costs of associates and joint ventures are temporary differences arising from the difference between the book value and the tax base for the associates and joint ventures not held for a long term by the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

31. Other assets

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Assets in satisfaction of debts	6,457,781	6,309,257
Other receivables	4,932,688	11,625,262
Prepaid taxes	2,289,348	2,207,861
Prepayments	2,196,972	4,127,253
Dividends receivable	1,573,296	1,545,985
Right-of-use assets	1,190,877	1,306,740
Interest receivable	381,962	484,201
Precious metals	290,188	225,035
Notes receivable	238,702	302,260
Assets with continuing involvement (Note IV.50)	207,168	237,392
Long-term prepaid expenses	201,325	192,749
Others	490,275	296,859
Total	20,450,582	28,860,854

32. Borrowings from the central bank

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Borrowings from the central bank	993,944	1,010,860

The borrowings from the central bank are the outstanding interest on the loans from The People's Bank of China for purchasing the non-performing assets of commercial banks and the rediscount of the central bank.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

33. Financial liabilities at fair value through profit or loss

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Short positions in exchange fund bills and notes	3,562,011	4,522,399
Derivative financial liabilities (Note IV.18.(1))	854,730	542,857
Structured products embedded with equity swaps	286,272	–
Total	4,703,013	5,065,256

34. Financial assets sold under repurchase agreements

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
By collateral type:		
Debt securities	14,400,442	18,978,707
Loans to margin clients	500,000	500,000
Subtotal	14,900,442	19,478,707
Interest payable	11,720	16,883
Total	14,912,162	19,495,590

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

35. Placements from banks and financial institutions

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Banks	7,281,927	13,820,783
Other financial institutions	1,832,127	244,167
Subtotal	9,114,054	14,064,950
Interest payable	27,249	19,869
Total	9,141,303	14,084,819

36. Borrowings

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Borrowings from banks and financial institutions		
Unsecured loans	499,453,272	503,932,122
Loans secured by properties	13,684,268	8,251,987
Other secured loans	17,955,064	21,401,193
Subtotal	531,092,604	533,585,302
Interest payable	3,472,400	3,006,002
Total	534,565,004	536,591,304

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

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IV. EXPLANATORY NOTES (continued)

36. Borrowings (continued)

Loans secured by properties were collateralized by properties held for sale, property and equipment and investment properties at an aggregate carrying amount of RMB30,079 million as at June 30, 2020 (December 31, 2019: RMB20,255 million). Other secured loans were finance lease receivables and interests in associates and joint ventures at an aggregate carrying amount of RMB4,746 million as at June 30, 2020 (December 31, 2019: RMB5,790 million). The variable rates of borrowings used by the Group were floating based on the benchmark interest rates of deposits or loans published by the People's Bank of China, Hong Kong Inter-bank Offered Rate ("HIBOR"), London Inter-bank Offered Rate ("LIBOR") or Loan Prime Rate ("LPR").

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

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Fixed-rate borrowings	2.00%-23.00%	2.64%-23.00%
Variable-rate borrowings	0.80%-6.65%	2.48%-7.83%

37. Due to customers

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Demand deposits		
Corporate	51,396,069	47,822,264
Personal	45,965,195	38,903,720
Time deposits		
Corporate	88,878,420	86,160,226
Personal	80,416,889	90,288,769
Guarantee deposits	16,308,939	10,363,607
Subtotal	282,965,512	273,538,586
Interest payable	1,445,921	1,667,180
Total	284,411,433	275,205,766

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

38. Deposits from banks and financial institutions

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Banks	1,073,078	1,403,302
Other financial institutions	7,387,210	12,625,758
Subtotal	8,460,288	14,029,060
Interest payable	184,919	128,068
Total	8,645,207	14,157,128

39. Accounts payable

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Accounts payable associated with real estate business (1)	3,188,419	4,539,013
Asset purchase payable	3,994	2,175
Others	616,784	509,609
Total	3,809,197	5,050,797

(1) Accounts payable associated with real estate business mainly comprise construction costs payable to contractors.

No aging analysis is disclosed, as in the opinion of the directors of the Company, the aging analysis of these items does not give additional value to the users of this report in view of the nature of these items.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

40. Bonds issued

Bonds Type	Notes	Face Value	Currency	Term	Bond Rate/ Expected Return Rate	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Financial Bonds		119,000,000	CNY	3-10 years	2.85%-5.50%	108,728,581	93,851,320
Asset-backed Securities		126,803,000	CNY	2 months-18 years	1.80%-7.00%	83,016,495	70,141,886
USD Guaranteed Senior Notes	(1)	13,045,000	USD	3-30 years	2.00%-5.625%	81,386,830	77,528,870
Corporate Bonds	(2)(3)(4)	30,175,000	CNY	3-8 years	3.18%-5.50%	26,489,503	24,867,566
Tier-II Capital Bonds	(5)	10,000,000	CNY	10 years	3.70%	10,008,476	10,189,368
Mid-term Notes	(6)	8,600,000	CNY	3-5 years	2.99%-5.80%	7,221,759	5,076,287
Subordinate Notes	(7)	700,000	USD	10 years	3.80%	4,945,303	4,871,598
Debt Financing Plans		3,281,000	CNY	6 months-3 years	5.50%-6.80%	3,364,160	2,988,500
Beneficiary Certificates		3,860,320	CNY	1 month-2 years	2.40%-6.27%	3,293,206	1,224,258
Subordinate Bonds	(8)	8,600,000	CNY	3 years	4.55%-5.12%	2,662,736	8,930,695
Debt Financing Instruments	(9)	2,000,000	CNY	3 years	5.68%-5.97%	2,066,969	2,003,946
Certificates of Deposit		3,780,000	CNY	3 months-1 year	1.50%-3.15%	1,535,853	2,218,890
Certificates of Deposit		178,000	USD	9 months-1 year	0.84%-1.32%	1,249,665	-
Asset-backed Notes		950,000	CNY	6 months-9 years	5.20%-5.50%	854,501	909,218
HKD Bonds	(10)	62,000	HKD	5-7 years	4.00%	48,091	47,164
Total						336,872,128	304,849,566

(1) China Cinda Financial Co., Ltd., a subsidiary of China Cinda (Hong Kong) Holdings Limited ("Cinda Hong Kong"), issued a total face value of USD3,045 million of Guaranteed Senior Notes (the "USD Notes") in Hong Kong in May 2014, December 2017 and February 2019, the notes have fixed coupon rates, payable semiannually. At any time prior to the date of maturity of the USD Notes, the issuer or Cinda Hong Kong may redeem the USD Notes, in whole or in part.

(2) The Company's subsidiary Cinda Investment Co., Ltd. ("Cinda Investment") issued corporate bonds with a face value of RMB3,000 million and RMB2,000 million in December 2015 and January 2016, respectively. The bonds have fixed coupon rates, payable annually, with the subsidiary's option to adjust the coupon rate and the investor's option to sell back at the end of the fifth year. Cinda Investment issued corporate bonds with a total face value of RMB11,375 million in August 2016, May 2019 and August 2019. The bonds have fixed coupon rates, payable annually, with the subsidiary's option to adjust the coupon rate and the investor's option to sell back at the end of the third year.

(3) Cinda Real Estate Co., Ltd. ("Cinda Real Estate"), a subsidiary of Cinda Investment, issued corporate bonds with a face value of RMB2,500 million and RMB500 million in March 2016, with fixed interest rates, and interest paid annually. The subsidiary shall be entitled to adjust the coupon rates, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the third year. Cinda Real Estate issued corporate bonds with a face value of RMB2,700 million and RMB700 million in May 2019 and July 2019, respectively. The bonds have fixed interest rate, payable annually, with the subsidiary's option to adjust the coupon rate and the investor's option to sell back at the end of the second year.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

40. Bonds issued (continued)

- (4) Well Kent International Enterprises (Shenzhen) Co., Ltd., a subsidiary of Cinda Hong Kong, issued a corporate bond with a face value of RMB600 million in April 2016. The bond has fixed coupon rates, payable annually. And the subsidiary shall be entitled to adjust the coupon rate, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the third year. The issuer and investors chose to adjust the coupon rate and part of the resale respectively in April 2019. Well Kent International Enterprises (Shenzhen) Co., Ltd. issued a corporate bond with a face value of RMB800 million in April 2016. The bond has fixed coupon rate, payable annually, with the subsidiary's option to adjust the coupon rate and the investor's option to sell back at the end of the second year.
- (5) The tier-II capital bonds issued by the Company have a fixed coupon rate, payable annually and conditionally redeemable on the last day of the fifth year. The Company has the right to early redeem the bond at par value in full subject to the approval of the China Banking and Insurance Regulatory Commission.
- (6) The Company's subsidiary Cinda Investment issued a medium-term note with a face value of RMB2,000 million in April 2020, with fixed interest rate, and interest paid annually. The subsidiary shall be entitled to adjust the coupon rates, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the third year.
- (7) The subordinate notes issued by Nanyang Commercial Bank, Limited, a subsidiary of Cinda Hong Kong, have fixed coupon rates, payable semiannually. The coupon rates will be reset at the end of the fifth year.
- (8) The subordinate bonds issued by Cinda Securities Co., Ltd. ("Cinda Securities"), a subsidiary of the Company, have fixed coupon rates, payable annually.
- (9) The debt financing instruments issued by Cinda Real Estate, a subsidiary of Cinda Investment, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rate, and the investors shall be entitled to sell back the relevant debt financing instruments to the subsidiary at the end of the second year.
- (10) Cinda International holding limited, a subsidiary of Cinda Securities, issued a total of 42 million Hong Kong dollar bonds in Hong Kong in 2014, with fixed interest rates, payable annually. The subsidiary and investor shall be entitled to extend the maturity date at the end of the fifth year. In July and September 2019, the investors extend the bond maturity date by 24 months through exercising the extension option. Cinda International holding limited issued Hong Kong dollar bonds with a face value of HKD10 million in December 2013 and March 2016 respectively, with fixed interest rates, payable annually. At the end of the third year and the end of the fourth year after the issuance of the bond, the issuer has the right to redeem the bond in full or in part in advance; at the same time, the issuer and investors have the option to defer at the end of the fifth year.

Notes to the Interim Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

41. Contract liabilities

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Sales proceeds received in advance (1)	20,565,883	22,994,982
Others	1,623,588	1,092,054
Total	22,189,471	24,087,036

(1) Sales proceeds received in advance

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
At beginning of the period	22,994,982	23,486,561
Deferred during the period	7,953,176	8,563,074
Recognized as revenue during the period	(10,382,275)	(5,160,904)
At end of the period	20,565,883	26,888,731

As at June 30, 2020, all contract liabilities of the Group were held by Cinda Real Estate, a subsidiary of the Company, and the contract liabilities are mainly sales proceeds received in advance by Cinda Real Estate.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

42. Other liabilities

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Other payables	14,930,312	14,487,437
Staff costs payable	5,776,250	6,548,895
Risk deposit	4,112,463	4,405,749
Dividends payable	3,917,338	977
Payables to interest holders of consolidated structured entities (Note IV.26)	3,116,934	3,862,357
Items in the process of clearance and settlement	1,428,494	9,387,282
Long-term payable	1,367,907	1,333,437
Lease liabilities	1,117,852	1,236,872
Provisions	997,327	921,133
Deferred income	897,374	1,091,432
Receipts in advance associated with disposal of distressed assets	796,696	1,340,962
Sundry taxes payable	627,041	975,741
Notes payable	479,000	–
Receipts in advance	360,870	359,030
Others	676,144	394,187
Total	40,602,002	46,345,491

Notes to the Interim Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

43. Share capital

	For the six months ended June 30, 2020 (Unaudited)	For the year ended December 31, 2019 (Audited)
Authorized, issued and fully paid:		
At beginning of the period/year	38,164,535	38,164,535
Issue of shares	–	–
At end of the period/year	38,164,535	38,164,535

A summary of the movements of the Company's issued shares (in thousands of shares) during the six months ended June 30, 2020 and the year ended December 31, 2019 is as follows:

	2020 (Unaudited)			As at June 30
	As at January 1	Issuance	Transfer	
Domestic shares				
– MOF	22,137,239	–	–	22,137,239
– NCSF	2,459,693	–	–	2,459,693
H shares	13,567,603	–	–	13,567,603
Total	38,164,535	–	–	38,164,535

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

43. Share capital (continued)

	As at January 1	2019 (Audited)		As at December 31
		Issuance	Transfer	
Domestic shares				
– MOF (1)	24,596,932	–	(2,459,693)	22,137,239
– NCSSF (1)	–	–	2,459,693	2,459,693
H shares	13,567,603	–	–	13,567,603
Total	38,164,535	–	–	38,164,535

- (1) The Ministry of Finance transferred 2,459,693,232 domestic Shares to the National Council for Social Security Fund (“NCSSF”) on December 27, 2019 in accordance with the Notice on fully Implementing the Work of Transferring Part of State-owned Assets to Enrich Social Security Funds (Cai Zi [2019] No. 49).

As at June 30, 2020 and December 31, 2019, there were no shares subject to the lock-up restriction of the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

44. Other equity instruments

For the period ended June 30, 2020, the movements of the Company's other equity instruments were as follows:

	2020 (Unaudited)							
	As at January 1,		Increase		Decrease		As at June 30,	
	Quantity (shares) (In '000)	Carrying amount (In '000)	Quantity (shares) (In '000)	Carrying amount (In '000)	Quantity (shares) (In '000)	Carrying amount (In '000)	Quantity (shares) (In '000)	Carrying amount (In '000)
Preference Shares								
– 2016 Offshore Preference Shares	160,000	21,281,215	-	-	-	-	160,000	21,281,215
Total	160,000	21,281,215	-	-	-	-	160,000	21,281,215

Pursuant to the approvals by the relevant domestic and overseas authorities, the Company issued the U.S. dollar settled Non-Cumulative Perpetual Offshore Preference Shares (the “Offshore Preference Shares”) on September 30, 2016.

45. Capital reserve

The balance of capital reserve mainly represents share premium arising from the Company's initial public offering of H shares and other previous shares issuances in current period and prior years.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

46. Other comprehensive income

Other comprehensive income attributable to equity holders of the Company is set out below:

	For the six months ended June 30, 2020 (Unaudited)	For the year ended December 31, 2019 (Audited)
At beginning of the period/year	(35,688)	(1,152,132)
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on debt instruments at fair value through other comprehensive income		
Fair value changes arising during the period	33,560	535,521
Amounts reclassified to profit or loss upon disposal	(124,622)	(184,083)
Amounts of profit or loss upon impairment	24,621	8,461
Income tax effect	17,965	(53,352)
	(48,476)	306,547
Exchange differences arising on translation of foreign operations	366,791	(10,643)
Share of other comprehensive income of associates and joint ventures	(18,060)	260,089
Income tax effect	4,452	(42,764)
	304,707	513,229
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of supplementary retirement benefits	–	(13,869)
Income tax effect	–	2,288
	–	(11,581)
Fair value changes on equity instruments designated as at fair value through other comprehensive income	(956,981)	819,925
Income tax effect	241,388	(205,129)
	(715,593)	603,215
Other comprehensive income for the period	(410,886)	1,116,444
At end of the period/year	(446,574)	(35,688)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

47. General reserve

Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (Caijin [2012] No. 20) issued by the MOF, the Company is required to maintain a general reserve at no less than 1.5% of its risk assets at the end of the reporting period, and the minimum requirement can be achieved over a period of no more than five years, starting from July 1, 2012.

Pursuant to regulatory requirements in the PRC, some domestic subsidiaries of the Company are required to transfer a 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 June 30, 2020 and 2019, the Group reversed RMB331.03 million from the general reserve and transferred RMB739.87 million to the general reserve pursuant to the regulatory requirements in the PRC.

48. Cash and cash equivalents

For the purpose of the interim condensed consolidated statement of cash flows, cash and cash equivalents represent:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Cash	582,485	577,491
Balances with central banks	8,546,931	9,460,038
Deposits with banks and financial institutions	49,188,225	49,188,108
Placements with banks and financial institutions	21,061,426	9,686,980
Financial assets held under resale agreements	18,189,244	10,486,909
Assets held for sale (1)	1,784,391	3,349,811
Cash and cash equivalents	99,352,702	82,749,337

- (1) As at June 30, 2020, the cash and cash equivalents of assets held for sale were composed of cash amounting to RMB0.04 million (December 31, 2019: RMB0.03 million), deposits with banks and financial institutions amounting to RMB610.18 million (December 31, 2019: RMB317.23 million) and financial assets held under resale agreements amounting to RMB1,174.17 million (December 31, 2019: RMB3,032.55 million).

IV. EXPLANATORY NOTES (continued)

49. Contingent liabilities and commitments

(1) Legal proceedings

The Group is involved as a defendant in certain lawsuits arising from its normal business operations. As at June 30, 2020, the total claim amount of pending litigations for the Group was RMB3,703.05 million (December 31, 2019: RMB2,473.81 million), and provisions of RMB55.67 million (December 31, 2019: RMB54.93 million) for the Group were 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.

The total claim amount of pending litigations for the Group as at June 30, 2020 and December 31, 2019 included the lawsuit between Cinda Investment, which is a subsidiary of the Group, and Beijing Junefield Real Estate Development Co., Ltd. ("Junefield Real Estate"), which claim amount was approximately RMB1 billion. Upon receipt of the second trial judgment on the litigation made by the Supreme People's Court (the "Second Trial Judgment") in March 2017, Cinda Investment, Cinda Properties and Cinda Beijing Branch were of the view that there were mistakes in the fact-finding and laws application process in the Second Trial Judgment and therefore, they filed a formal retrial petition to the Supreme People's Court. As of the reporting date of the interim report, the retrial petition of the lawsuit was still in review. The Second Trial Judgment had specified that Cinda Investment should pay RMB1 billion as the liquidated damage to Junefield Real Estate and Junefield Real Estate should return the contract amount and resettlement fee of about RMB2.7 billion to Cinda Investment. Therefore, in August 2019, Cinda Investment agreed to offset RMB1 billion which should pay to Junefield Real Estate as liquidated damage and about RMB2.7 billion which Junefield Real Estate should return to Cinda Investment as the contract amount and resettlement fee pursuant to the ruling on enforcement from the Third Intermediate People's Court of Beijing. In December 2019, the Supreme People's Court issued the civil ruling that the case should be retried, and the execution of the original judgment should be suspended during the retrial. On April 17, 2020, the Supreme People's Court issued [2020] Supreme Faminzai No. 15 "Notice of Acceptance". On August 20, 2020, the Supreme People's Court opened a court session to begin the retrial. As of the date of this report, the lawsuit is still in the period of retrial. The Group currently assesses that the litigation will not have material adverse effect on its operating results and financial conditions, and will not affect the normal operation of the Group. For detailed information of the litigation, please refer to related announcements of the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Contingent liabilities and commitments (continued)

(2) Credit commitments

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Bank bill acceptance	23,899,937	15,145,363
Loan commitments (i)	15,994,122	16,427,261
Letters of guarantee issued	3,367,157	3,294,722
Undrawn credit card commitments	3,064,029	3,092,269
Letters of credit issued	636,660	593,359
Others	242,268	380,927
Total	47,204,173	38,933,901
Impairment of credit commitments	(175,658)	(91,407)

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

- (i) Loan commitments represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at June 30, 2020, the unconditionally revocable loan commitments of the Group amounted to RMB93,361.33 million (December 31, 2019: RMB93,668.23 million).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Contingent liabilities and commitments (continued)

(3) Capital commitments

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Contracted but not provided for – Commitments for the acquisition of property and equipment	57,707	69,122
Total	57,707	69,122

(4) Other commitments

As a result of the purchase commitments and guarantees provided by the Group, the Group has the ability to use its power over the structured entities to affect their returns and is exposed to significant variable returns and the structured entities. These structured entities have been consolidated into the Group's financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

50. Transfers of financial assets

(1) Repurchase agreements

The Group entered into sales agreements with certain counterparties on its financial assets, in which the Group was subject to simultaneous agreements with commitments to repurchase these financial assets at specified future dates and prices. As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these financial assets to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these financial assets during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these financial assets, and therefore, these financial assets have not been derecognized from the financial statements but are regarded as “collateral” for the secured lending from the counterparties. Normally, the counterparties could only claim from the collateral when there is an event of default on the secured lending.

	Carrying amount of pledged assets		Related liabilities	
	June 30 2020	December 31 2019	June 30 2020	December 31 2019
Financial assets at amortized cost	1,539,724	4,586,420	1,462,781	4,357,099
Financial assets at fair value through profit or loss	1,826,880	1,791,560	1,826,880	1,791,560
Financial assets at fair value through other comprehensive income	11,150,984	13,635,567	11,121,897	12,846,266
Loans to margin clients	500,604	500,665	500,604	500,665
Total	15,018,192	20,514,212	14,912,162	19,495,590

IV. EXPLANATORY NOTES (continued)

50. Transfers of financial assets (continued)

(2) Asset-backed securities

The Group enters into securitization transactions, by which it transfers financial assets at amortized cost to structured entities which issue asset-backed securities to investors. The Group assessed, among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets.

With respect to the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties is recorded as a financial liability. As at June 30, 2020, the Group's carrying amount of transferred assets that did not qualify for derecognition was RMB67,833.62 million (December 31, 2019: RMB53,952.19 million), and the carrying amount of their associated liabilities was RMB75,489.10 million (December 31, 2019: RMB64,493.89 million).

With respect to the securitization of financial assets that qualified for derecognition, the Group derecognized the transferred financial assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitization transactions was nil as at June 30, 2020 and December 31, 2019.

(3) Continuing involvement

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the financial assets transferred to third parties or to structured entities, and retained control of the financial assets, the transferred financial assets are recognized to the extent of the Group's continuing involvement. For the six months ended June 30, 2020, the Group has not recognized any transferred financial assets which were continuing involved by the Group (for the six months ended June 30, 2019, the carrying amount at the time of transfer of the original financial assets was RMB2,828.77 million). As at June 30, 2020, the carrying amount of continuing involvement assets recognized by the Group was RMB207.17 million (As at December 31, 2019: RMB237.39 million). As at June 30, 2020 and December 31, 2019, the carrying amount of continuing involvement liabilities was nil.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

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IV. EXPLANATORY NOTES (continued)

51. 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.

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 financial statements of the Group. Segment income, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Distressed asset management operations

The distressed asset management segment comprises the relevant business operated by the Company and certain of its subsidiaries, including (1) management and disposal of distressed debt assets acquired from financial institutions and non-financial enterprises; (2) operation, management and disposal of DES Assets; (3) restructuring, special opportunity business and other debt businesses and equity businesses related to distressed assets and distressed entities in the comprehensive operation method; and (4) custody businesses.

Financial services operations

The Group's financial services segment comprises the relevant business of the Group, including the provision of financial services in sectors such as banking, securities, futures, public offering fund, trust, lease and insurance businesses. These operations were mainly carried out by the subsidiaries of the Company.

There is no significant customer concentration of the Group's business. There is no customer contributing to more than 10% of the Group's revenue.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

51. Segment information (continued)

	(Unaudited)			Consolidated
	Distressed asset management	Financial services	Elimination	
For the six months ended June 30, 2020				
Income from distressed debt assets at amortized cost	9,105,570	-	-	9,105,570
Fair value changes on distressed debt assets	7,474,182	-	-	7,474,182
Fair value changes on other financial instruments	1,905,789	324,937	112,830	2,343,556
Investment income	(271,622)	589,117	(12)	317,483
Interest income	4,354,260	7,937,955	(278,458)	12,013,757
Revenue from sales of inventories	9,659,230	-	-	9,659,230
Commission and fee income	162,358	2,120,521	(186,504)	2,096,375
Net gains on disposal of subsidiaries, associates and joint ventures	1,197,216	-	-	1,197,216
Other income and other net gains or losses	1,584,475	61,728	(33,709)	1,612,494
Total	35,171,458	11,034,258	(385,853)	45,819,863
Interest expense	(16,158,220)	(4,123,408)	359,524	(19,922,104)
Employee benefits	(849,913)	(1,682,667)	-	(2,532,580)
Purchases and changes in inventories	(6,366,150)	-	-	(6,366,150)
Commission and fee expense	(58,954)	(244,817)	6,997	(296,774)
Taxes and surcharges	(203,035)	(42,697)	-	(245,732)
Depreciation and amortization expenses	(602,056)	(428,358)	29,734	(1,000,680)
Other expenses	(663,573)	(510,906)	407	(1,174,072)
Impairment losses on assets	(3,517,747)	(1,074,209)	(6,670)	(4,598,626)
Total	(28,419,648)	(8,107,062)	389,992	(36,136,718)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

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IV. EXPLANATORY NOTES (continued)

51. Segment information (continued)

	(Unaudited)			Consolidated
	Distressed asset management	Financial services	Elimination	
Change in net assets attributable to other holders of consolidated structured entities	(17,929)	(2,146)	–	(20,075)
Profit before share of results of associates and joint ventures and tax	6,733,881	2,925,050	4,139	9,663,070
Share of results of associates and joint ventures	1,045,738	4,318	–	1,050,056
Profit before tax from continuing operations	7,779,619	2,929,368	4,139	10,713,126
Income tax expense				(3,636,171)
Profit for the period from continuing operations				7,076,955
Profit after tax for the period from a discontinued operation				268,669
Capital expenditure	15,802	337,677	–	353,479
As at June 30, 2020				
Segment assets	969,126,897	524,702,086	(30,769,407)	1,463,059,576
Including: Interests in associates and joint ventures	71,875,813	404,374	–	72,280,187
Assets held for sale	–	61,391,821	–	61,391,821
Unallocated assets				7,366,076
Total assets				1,531,817,473
Segment liabilities	861,420,983	447,399,560	(28,891,752)	1,279,928,791
Liabilities held for sale	–	55,743,496	–	55,743,496
Unallocated liabilities				3,970,839
Total liabilities				1,339,643,126

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

51. Segment information (continued)

	Distressed asset management	(Unaudited)		Consolidated
		Financial services	Elimination	
For the six months ended June 30, 2019				
Income from distressed debt assets at amortized cost	8,437,539	–	–	8,437,539
Fair value changes on distressed debt assets	6,270,257	–	–	6,270,257
Fair value changes on other financial instruments	9,807,680	154,069	(88,478)	9,873,271
Investment income	(205,152)	315,114	–	109,962
Interest income	4,264,663	8,706,645	(439,413)	12,531,895
Revenue from sales of inventories	4,919,144	–	–	4,919,144
Commission and fee income	250,354	1,679,294	(101,866)	1,827,782
Net gains on disposal of subsidiaries, associates and joint ventures	87,351	–	–	87,351
Other income and other net gains or losses	1,312,053	114,642	(19,766)	1,406,929
Total	35,143,889	10,969,764	(649,523)	45,464,130
Interest expense	(18,605,895)	(4,804,822)	525,514	(22,885,203)
Employee benefits	(823,136)	(1,285,653)	–	(2,108,789)
Purchases and changes in inventories	(3,105,984)	–	263	(3,105,721)
Commission and fee expense	(147,119)	(200,862)	16,688	(331,293)
Taxes and surcharges	(236,811)	(40,625)	–	(277,436)
Depreciation and amortization expenses	(373,470)	(395,782)	16,359	(752,893)
Other expenses	(855,433)	(569,130)	7,207	(1,417,356)
Impairment losses on assets	(2,047,590)	(1,386,266)	–	(3,433,856)
Total	(26,195,438)	(8,683,140)	566,031	(34,312,547)

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IV. EXPLANATORY NOTES (continued)

51. Segment information (continued)

	Distressed asset management	(Unaudited)		Consolidated
		Financial services	Elimination	
Change in net assets attributable to other holders of consolidated structured entities	(169,508)	(404)	–	(169,912)
Profit before share of results of associates and joint ventures and tax	8,778,943	2,286,220	(83,492)	10,981,671
Share of results of associates and joint ventures	1,733,039	15,094	–	1,748,133
Profit before tax from continuing operations	10,511,982	2,301,314	(83,492)	12,729,804
Income tax expense				(3,865,500)
Profit for the year from continuing operations				8,864,304
Profit after tax for the year from a discontinued operation				681,575
Capital expenditure	212,282	579,437	–	791,719
As at December 31, 2019 (Audited)				
Segment assets	945,229,023	535,673,814	(35,823,591)	1,445,079,246
Including: Interests in associates and joint ventures	72,612,763	393,526	–	73,006,289
Assets held for sale	–	61,394,178	–	61,394,178
Unallocated assets				6,756,583
Total assets				1,513,230,007
Segment liabilities	832,929,548	461,547,993	(31,985,719)	1,262,491,822
Liabilities held for sale	–	57,924,139	–	57,924,139
Unallocated liabilities				4,403,585
Total liabilities				1,324,819,546

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

52. Related party transactions

(1) The MOF

As at June 30, 2020, the MOF directly owned 58.00% (December 31, 2019: 58.00%) of the share capital of the Company.

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 or regulated by the MOF are mainly financial institutions.

The Group had the following balances and entered into the following transactions with the MOF in its ordinary course of business.

The Group had the following balances with the MOF:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Financial assets at fair value through other comprehensive income	23,867,274	23,418,637
Financial assets at amortized cost	2,622,885	3,787,218
Financial assets at fair value through profit or loss	379,927	–
Accounts receivable	1,597	1,597

The Group entered into the following transactions with the MOF:

	For the six months ended June 30, 2020 (Unaudited)	2019 (Unaudited)
Interest income	375,132	366,541
Investment income	51,130	24,705

Transactions between the Group and the MOF are mainly investments of treasury bonds issued by the MOF and held by the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

52. Related party transactions (continued)

(2) Subsidiaries

The Company had the following balances with its subsidiaries:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Amounts due from subsidiaries	42,908,181	44,912,818
Financial assets at fair value through profit or loss	2,409,069	2,485,202
Lease liabilities	617,446	671,681
Right-of-use assets	605,852	663,344
Bonds issued	466,688	378,751
Financial assets at amortized cost	368,365	689,375
Placements with banks and financial institutions	150,000	–
Other payables	133,450	131,990
Property and equipment	15,963	16,254
Accounts payable	–	788

The Company had entered into the following transactions with its subsidiaries:

	For the six months ended June 30, 2020 (Unaudited)	2019 (Unaudited)
Interest income	575,409	698,854
Fair value changes on other financial instruments	119,499	39,112
Interest expense	99,105	71,131
Depreciation expenses of right-of-use assets	64,344	61,839
Impairment losses on assets	21,810	48,752
Rental income	11,243	16,539
Other expenses	9,270	5,530
Commission and fee expense	707	12,775
Depreciation and amortization expenses	291	1,827
Dividend income	–	20,221
Fair value changes on distressed debt assets	–	17,497

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For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

52. Related party transactions (continued)

(3) Associates and joint ventures

The Group had the following balances and entered into the following transactions with its associates and joint ventures, entities that it does not control but exercise significant influence or joint control. These transactions were carried out in the ordinary course of business.

The Group had the following balances with its associates and joint ventures:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Loans and advances to customers	8,986,870	9,720,108
Risk deposit	219,864	188,664
Other payables	71,982	261,448
Other receivables	36,895	49,810
Deferred income related to leasing business	16,679	21,839
Dividend receivable	10,084	21,940
Accounts receivable	2,480	2,480

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

	For the six months ended June 30, 2020 (Unaudited)	2019 (Unaudited)
Interest income	494,744	509,616
Dividend income	345,854	456,143
Commission and fee income	13,137	1,277
Impairment losses on assets	6,480	–
Other income and other net gains or losses	2,208	–
Other expenses	78	8,170

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

52. Related party transactions (continued)

(4) Government-related entities

Other than those disclosed above, the Group has also entered into transactions with government-related entities. These transactions are entered into under normal commercial terms and conditions.

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

(5) Annuity scheme

The Group had the following transactions with the annuity scheme set up by the Company:

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Contribution to the annuity scheme	88,823	56,991

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

52. Related party transactions (continued)

(6) Key management remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers. The aggregate compensation paid/payable to senior management for employment services is as follows:

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Emoluments of key management personnel	4,975	3,563

(7) During the period, other than those disclosed above, the Group and the Company did not conduct any other continuing connected transactions defined in accordance with IFRS.

53. Financial risk management

The types of risk to which the Group is exposed include credit risk, market risk and liquidity risk. Market risk includes interest rate risk, foreign exchange risk and price risk. The Group's primary objectives and policies of risk management, risk management framework is the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2019.

53.1 Credit risk

53.1.1 Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment of funds. The Group's major credit risks arise from distressed debt assets at amortized cost, loans and advances to customers and other debt or security investments held by the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.1 Credit risk management (continued)

The Group performed the assessment of expected credit losses with the reference to forward-looking information and used a number of models and assumptions in the measurement of expected credit losses. These models and assumptions related to the future macroeconomic situation and the credit status of the borrowers (for example, the possibility of default by the customers and the corresponding loss). The Group assessed the expected credit losses as at 30 June 2020 and comprehensively considered the impacts of current economic condition and COVID-19 pandemic to expected credit losses, including performing forward-looking forecasts to key macroeconomic indicators and assessment of scenarios weights.

As at 30 June 2020, the expected credit losses comprehensively reflected the Group's credit risk and the expectations for macroeconomic development of the management.

53.1.2 Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period mainly arises from distressed debt assets acquired from financial institutions and non-financial institutions, loans and advances to customers and treasury operations.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.2 Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (continued)

The maximum exposure to credit risk at the end of each reporting period is as follows:

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
On-balance sheet		
Balances with central banks	16,913,040	18,424,560
Deposits with banks and financial institutions	75,596,815	70,837,593
Deposits with exchanges and others	2,592,059	1,323,359
Placements with banks and financial institutions	21,800,613	11,152,300
Financial assets at fair value through profit or loss	121,184,857	110,527,227
Financial assets held under resale agreements	21,408,381	13,212,454
Financial assets at fair value through other comprehensive income	116,355,489	132,575,402
Financial assets at amortized cost	235,538,694	227,645,067
Loans and advances to customers	349,918,133	337,859,064
Accounts receivable	2,259,539	2,402,725
Other assets	8,310,092	14,872,719
Subtotal	971,877,712	940,832,470
Off-balance sheet		
Bank bill acceptance	23,899,937	15,145,363
Loan commitments	15,994,122	16,427,261
Letters of guarantee issued and other credit commitments	7,310,114	7,361,277
Subtotal	47,204,173	38,933,901
Total	1,019,081,885	979,766,371

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.2 Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (continued)

Among the distressed debt assets at fair value through profit or loss, the distressed assets contain certain elements of credit risk. The risks that such assets are exposed to are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2019. The carrying amount of distressed debt assets at fair value through profit or loss for the Group as at June 30, 2020 amounted to RMB192,593.41 million (December 31, 2019: RMB197,621.33 million).

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is by obtaining guarantee deposits, collateral and/or guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters. The main types of collateral obtained are land and properties or other assets of the borrowers. The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.3 Risk concentration of distressed debt assets and loans and advances to customers at amortized cost

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Distressed debt assets	205,462,538	198,124,431
Loans and advances to customers	339,527,705	331,122,128
Subtotal	544,990,243	529,246,559
Allowance for impairment losses		
Distressed debt assets	(14,296,629)	(11,510,610)
Loans and advances to customers	(9,599,972)	(8,270,412)
Subtotal	(23,896,601)	(19,781,022)
Net carrying amounts		
Distressed debt assets	191,165,909	186,613,821
Loans and advances to customers	329,927,733	322,851,716
Total	521,093,642	509,465,537

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.3 Risk concentration of distressed debt assets and loans and advances to customers at amortized cost (continued)

By geographical area

Area	As at June 30, 2020 (Unaudited)		As at December 31, 2019 (Audited)	
	Gross amount	%	Gross amount	%
Overseas	178,490,875	32.7	181,852,321	34.3
Bohai Rim	75,033,892	13.8	65,191,623	12.3
Central Region	74,757,400	13.7	78,112,858	14.8
Yangtze River Delta	74,742,483	13.7	71,233,443	13.5
Pearl River Delta	68,949,513	12.7	63,336,690	12.0
Western Region	65,611,903	12.0	62,523,186	11.8
Northeastern Region	7,404,177	1.4	6,996,438	1.3
Total	544,990,243	100.0	529,246,559	100.0

Notes:

Overseas: Including Hong Kong and other overseas regions.

Bohai Rim: Including Beijing, Tianjin, Hebei and Shandong.

Central Region: Including Shanxi, Henan, Hunan, Hubei, Anhui, Jiangxi and Hainan.

Yangtze River Delta: Including Shanghai, Jiangsu and Zhejiang.

Pearl River Delta: Including Guangdong, Shenzhen and Fujian.

Western Region: Including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Guangxi, Gansu, Qinghai, Xinjiang, Ningxia and Inner Mongolia.

Northeastern Region: Including Liaoning, Jilin and Heilongjiang.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.3 Risk concentration of distressed debt assets and loans and advances to customers at amortized cost (continued)

By industry

Industry	As at June 30, 2020 (Unaudited)		As at December 31, 2019 (Audited)	
	Gross amount	%	Gross amount	%
Corporate business				
Real estate	201,365,284	36.8	200,997,143	38.0
Manufacturing	63,637,954	11.7	72,867,907	13.8
Leasing and commercial services	57,621,315	10.6	52,368,521	9.9
Production and supply of power, heat, gas and water	24,336,951	4.5	15,940,369	3.0
Finance	23,311,434	4.3	24,073,846	4.5
Mining	17,656,474	3.2	15,143,210	2.9
Construction	16,744,837	3.1	14,849,816	2.8
Transportation, logistics and postal services	16,249,515	3.0	17,707,176	3.3
Others	66,634,147	12.2	61,013,509	11.5
Subtotal	487,557,911	89.4	474,961,497	89.7
Personal business				
Mortgage	27,008,011	5.0	26,318,715	5.0
Personal consumption loans	21,911,630	4.0	20,507,932	3.9
Subtotal	48,919,641	9.0	46,826,647	8.9
Loans to margin clients	8,512,691	1.6	7,458,415	1.4
Total	544,990,243	100.0	529,246,559	100.0

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.3 Risk concentration of distressed debt assets and loans and advances to customers at amortized cost (continued)

By security type

	As at June 30, 2020 (Unaudited)		As at December 31, 2019 (Audited)	
	Gross amount	%	Gross amount	%
Unsecured	122,366,020	22.5	118,900,076	22.5
Guaranteed	58,857,656	10.8	69,657,240	13.2
Mortgaged	211,447,592	38.8	239,447,311	45.2
Pledged	152,318,975	27.9	101,241,932	19.1
Total	544,990,243	100.0	529,246,559	100.0

53.1.4 Past due distressed debt assets and loans and advances to customers at amortized cost

	Gross amount as at June 30, 2020 (Unaudited)				
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total
Distressed debt assets	1,379,057	5,358,743	3,332,824	535,814	10,606,438
Loans and advances to customers	2,690,517	6,931,585	2,270,669	1,606,029	13,498,800
Total	4,069,574	12,290,328	5,603,493	2,141,843	24,105,238

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For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.4 Past due distressed debt assets and loans and advances to customers at amortized cost (continued)

	Gross amount as at December 31, 2019 (Audited)				Total
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	
Distressed debt assets	8,392,430	4,139,551	13,779	541,852	13,087,612
Loans and advances to customers	4,728,498	966,062	1,490,807	1,381,315	8,566,682
Total	13,120,928	5,105,613	1,504,586	1,923,167	21,654,294

53.1.5 Credit quality of distressed assets and loans and advances to customers at amortized cost

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Neither past due nor impaired	520,013,547	507,296,036
Past due but not impaired (1)	8,334,637	8,769,717
Impaired (2)	16,642,059	13,180,806
Subtotal	544,990,243	529,246,559
Allowance for impairment losses	(23,896,601)	(19,781,022)
Net carrying amount	521,093,642	509,465,537

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For the six months ended June 30, 2020

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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.5 Credit quality of distressed assets and loans and advances to customers at amortized cost (continued)

(1) Past due but not impaired

	Gross amount as at June 30, 2020 (Unaudited)					Total
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years		
Distressed debt assets	1,379,057	2,177,337	–	–		3,556,394
Loans and advances to customers	2,608,243	2,170,000	–	–		4,778,243
Total	3,987,300	4,347,337	–	–		8,334,637

	Gross amount as at December 31, 2019 (audited)					Total
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years		
Distressed debt assets	6,688,035	500,000	–	–		7,188,035
Loans and advances to customers	1,581,682	–	–	–		1,581,682
Total	8,269,717	500,000	–	–		8,769,717

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For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.5 Credit quality of distressed assets and loans and advances to customers at amortized cost (continued)

(2) Impaired

	As at June 30, 2020 (Unaudited)		
	Gross amount	Allowance for impairment losses	Net carrying amount
Distressed debt assets	7,466,286	(3,572,439)	3,893,847
Loans and advances to customers	9,175,773	(4,301,056)	4,874,717
Total	16,642,059	(7,873,495)	8,768,564

	As at December 31, 2019 (Audited)		
	Gross amount	Allowance for impairment losses	Net carrying amount
Distressed debt assets	5,899,577	(3,339,700)	2,559,877
Loans and advances to customers	7,281,229	(3,377,581)	3,903,648
Total	13,180,806	(6,717,281)	6,463,525

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.5 Credit quality of distressed assets and loans and advances to customers at amortized cost (continued)

(2) Impaired (continued)

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Distressed debt assets		
Impaired	7,466,286	5,899,577
– Portion covered	7,440,759	5,876,865
– Portion not covered	25,527	22,712
Impaired as % of total distressed debt assets	3.6	3.0
Fair value of collateral	7,391,648	5,887,278
Loans and advances to customers		
Impaired	9,175,773	7,281,229
– Portion covered	7,224,576	5,598,368
– Portion not covered	1,951,197	1,682,861
Impaired as % of total loans and advances to customers	2.7	2.2
Fair value of collateral	7,238,917	6,451,349

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For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.5 Credit quality of distressed assets and loans and advances to customers at amortized cost (continued)

(2) Impaired (continued)

Impaired distressed debt assets and loans and advances to customers by geographical area are analyzed as follows:

Area	As at June 30, 2020 (Unaudited)		As at December 31, 2019 (Audited)	
	Gross amount	%	Gross amount	%
Distressed debt assets				
Pearl River Delta	4,540,771	60.8	3,332,824	56.5
Yangtze River Delta	1,285,313	17.2	1,285,313	21.8
Western Region	707,438	9.5	331,977	5.6
Bohai Rim	493,890	6.6	507,669	8.6
Northeastern Region	435,231	5.8	438,151	7.4
Central Region	3,643	0.1	3,643	0.1
Total	7,466,286	100.0	5,899,577	100.0
Loans and advances to customers				
Pearl River Delta	2,883,627	31.4	2,833,018	38.8
Overseas	1,684,622	18.4	1,191,407	16.4
Yangtze River Delta	1,571,988	17.1	230,391	3.2
Bohai Rim	1,129,691	12.3	1,133,474	15.6
Western Region	990,727	10.8	852,597	11.7
Northeastern Region	593,697	6.5	592,276	8.1
Central Region	321,421	3.5	448,066	6.2
Total	9,175,773	100.0	7,281,229	100.0

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For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.6 Credit quality of investment products

The tables below set forth the credit quality of investment products, including mixed fund investments, debt investments and trust products.

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Neither past due nor impaired (1)	261,547,448	267,230,444
Past due but not impaired (2)	15,618,803	11,969,437
Impaired (3)	6,360,480	6,554,016
Subtotal	283,526,731	285,753,897
Allowance for impairment losses	(1,511,013)	(1,441,574)
Net carrying amounts	282,015,718	284,312,323

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For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.6 Credit quality of investment products (continued)

(1) Neither past due nor impaired

	As at June 30, 2020 (Unaudited)				As at December 31, 2019 (Audited)			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Government bonds	2,518,810	2,622,885	42,286,105	47,427,800	5,968,207	3,786,207	54,737,515	64,491,929
Public sector and quasi-government bonds	93,752	-	3,898,458	3,992,210	1,044	-	5,055,750	5,056,794
Financial institution bonds	520,186	1,808,581	45,291,248	47,620,015	501,428	1,776,449	48,995,192	51,273,069
Corporate bonds	6,908,524	603,375	24,879,678	32,391,577	5,086,983	579,971	23,786,945	29,453,899
Trust products and rights to trust assets	17,173,508	14,022,457	-	31,195,965	11,711,825	12,994,353	-	24,706,178
Wealth management products	1,521,099	-	-	1,521,099	1,475,898	-	-	1,475,898
Asset management plans	1,416,782	608,909	-	2,025,691	1,682,059	608,811	-	2,290,870
Asset-backed securities	444,212	-	-	444,212	564,133	-	-	564,133
Derivative financial assets	652,304	-	-	652,304	593,028	-	-	593,028
Embedded derivatives debts	511,296	-	-	511,296	744,665	-	-	744,665
Debt investments	18,744,376	22,196,086	-	40,940,462	17,607,515	18,781,385	-	36,388,900
Mixed fund investments	50,210,678	-	-	50,210,678	46,917,208	-	-	46,917,208
Interbank negotiate certificate of deposit	97,984	-	-	97,984	59,162	-	-	59,162
Others	2,516,155	-	-	2,516,155	3,214,711	-	-	3,214,711
Subtotal	103,329,666	41,862,293	116,355,489	261,547,448	96,127,866	38,527,176	132,575,402	267,230,444
Allowance for impairment losses	-	(516,366)	-	(516,366)	-	(491,353)	-	(491,353)
Total	103,329,666	41,345,927	116,355,489	261,031,082	96,127,866	38,035,823	132,575,402	266,739,091

As at June 30, 2020, the gross amount of neither past due nor impaired investment products at fair value through other comprehensive income was RMB116,355.49 million, and the allowance of RMB81.87 million was recognized in other comprehensive income.

As at December 31, 2019, the gross amount of neither past due nor impaired investment products at fair value through other comprehensive income was RMB132,575.40 million, and the allowance of RMB60.19 million was recognized in other comprehensive income.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.1 Credit risk (continued)

53.1.6 Credit quality of investment products (continued)

(2) Past due but not impaired

As at June 30, 2020, investment products of the Group were financial assets at fair value through profit or loss. The gross amount of investment products was RMB15,618.80 million.

As at December 31, 2019, investment products of the Group were financial assets at fair value through profit or loss. The gross amount of investment products was RMB11,969.44 million.

(3) Impaired

As at June 30, 2020, the gross amount of the impaired investment products at fair value through profit or loss was RMB2,236.39 million, and the fair value loss of RMB1,526.16 million was recognized. The impairment of the impaired investment products at fair value through other comprehensive income has been fully accrued, and the allowance of RMB162.83 million was recognized in other comprehensive income. The gross amount of the impaired other debt instruments at amortized cost was RMB4,124.09 million, and the allowance of RMB994.65 million was recognized.

As at December 31, 2019, the gross amount of the impaired investment products at fair value through profit or loss was RMB2,429.92 million, and the fair value loss of RMB1,329.85 million was recognized. The impairment of the impaired investment products at fair value through other comprehensive income has been fully accrued, and the allowance of RMB160.44 million was recognized in other comprehensive income. The gross amount of the impaired other debt instruments at amortized cost was RMB4,124.09 million, and the allowance of RMB950.22 million was recognized.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.2 Market risk

Interest rate risk

At the end of the reporting period, the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing date and maturity date are as follows:

	As at June 30, 2020 (Unaudited)						Non-interest-bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years			
Cash and balances with central banks	14,715,044	-	-	-	-	2,780,481	17,495,525	
Deposits with banks and financial institutions	65,675,549	5,630,691	3,003,580	433,565	-	853,430	75,596,815	
Placements with banks and financial institutions	20,608,367	457,561	734,685	-	-	-	21,800,613	
Deposits with exchanges and others	2,592,059	-	-	-	-	-	2,592,059	
Financial assets at fair value through profit or loss	3,231,758	1,599,688	15,879,720	75,709,875	885,276	314,545,861	411,852,178	
Financial assets at fair value through other comprehensive income	7,001,560	14,622,321	28,348,460	62,919,897	2,414,252	5,304,366	120,610,856	
Loans and advances to customers	166,682,150	56,290,831	78,245,907	46,898,854	1,182,444	617,947	349,918,133	
Financial assets at amortized cost	19,984,271	15,186,419	81,948,926	118,408,374	10,704	-	235,538,694	
Accounts receivable	-	-	396,555	-	-	1,862,984	2,259,539	
Financial assets held under resale agreements	20,352,731	10,000	454,311	24,903	-	566,436	21,408,381	
Assets held for sale	3,773,236	1,494,461	6,318,675	15,626,149	11,185,444	21,340,421	59,738,386	
Other financial assets	111,808	50,510	67,213	16,000	-	8,064,561	8,310,092	
Total financial assets	324,728,533	95,342,482	215,398,032	320,037,617	15,678,120	355,936,487	1,327,121,271	

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For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.2 Market risk (continued)

Interest rate risk (continued)

	As at June 30, 2020						Total
	(Unaudited)						
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest- bearing	
Borrowings from central bank	(7,800)	-	-	-	-	(986,144)	(993,944)
Accounts payable to brokerage clients	(12,591,828)	-	-	-	-	(4,193,338)	(16,785,166)
Due to customers	(130,737,252)	(67,237,770)	(78,296,182)	(4,405,577)	(500,567)	(3,234,085)	(284,411,433)
Deposits from banks and financial institutions	(1,061,193)	(239,025)	(455,070)	(6,205,000)	(500,000)	(184,919)	(8,645,207)
Placements from banks and financial institutions	(4,480,922)	(4,476,240)	(73,075)	-	-	(111,066)	(9,141,303)
Financial liabilities at fair value through profit or loss	(26,489)	(2,474,027)	(1,061,495)	-	(13,099)	(1,127,903)	(4,703,013)
Financial assets sold under repurchase agreements	(7,700,665)	(4,376,733)	(996,165)	-	-	(1,838,599)	(14,912,162)
Borrowings	(53,080,911)	(90,784,774)	(298,032,804)	(69,257,595)	(19,936,520)	(3,472,400)	(534,565,004)
Bonds issued	(3,473,570)	(13,922,066)	(60,616,182)	(136,363,363)	(118,092,658)	(4,404,289)	(336,872,128)
Accounts payable	-	-	-	-	-	(3,809,197)	(3,809,197)
Liabilities held for sale	-	-	-	(2,992,090)	(2,993,732)	(2,193,585)	(8,179,407)
Other financial liabilities	(1,592,748)	(80,844)	(513,595)	(622,849)	(51,256)	(27,304,122)	(30,165,414)
Total financial liabilities	(214,753,378)	(183,591,479)	(440,044,568)	(219,846,474)	(142,087,832)	(52,859,647)	(1,253,183,378)
Interest rate gap	109,975,155	(88,248,997)	(224,646,536)	100,191,143	(126,409,712)	303,076,840	73,937,893

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.2 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2019 (Audited)						Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest- bearing	
Cash and balances with central banks	14,285,356	–	–	–	–	4,716,695	19,002,051
Deposits with banks and financial institutions	59,750,485	7,040,042	2,845,194	170,983	–	1,030,889	70,837,593
Placements with banks and financial institutions	9,196,767	1,177,215	778,318	–	–	–	11,152,300
Deposits with exchanges and others	1,323,359	–	–	–	–	–	1,323,359
Financial assets at fair value through profit or loss	5,735,157	1,962,001	8,573,894	68,119,351	931,961	326,842,219	412,164,583
Financial assets at fair value through other comprehensive income	9,018,158	14,835,453	43,842,887	61,297,584	2,385,068	5,423,815	136,802,965
Loans and advances to customers	205,062,207	43,968,089	47,327,661	39,506,994	1,360,271	633,842	337,859,064
Financial assets at amortized cost	24,921,303	12,744,713	73,068,357	116,910,694	–	–	227,645,067
Accounts receivable	–	–	–	400,000	–	2,002,725	2,402,725
Financial assets held under resale agreements	11,870,687	–	129,050	461,994	–	750,723	13,212,454
Assets held for sale	5,774,791	2,035,931	5,142,616	17,036,291	10,881,121	18,084,650	58,955,400
Other financial assets	41,628	49,617	231,904	292,221	–	14,482,385	15,097,755
Total financial assets	346,979,898	83,813,061	181,939,881	304,196,112	15,558,421	373,967,943	1,306,455,316

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.2 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2019 (Audited)					Non-interest- bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Borrowings from central bank	-	-	(24,761)	-	-	(986,099)	(1,010,860)
Accounts payable to brokerage clients	(11,231,975)	-	-	-	-	(3,088,369)	(14,320,344)
Due to customers	(127,974,752)	(53,385,563)	(78,323,140)	(7,389,881)	(309,498)	(7,822,932)	(275,205,766)
Deposits from banks and financial institutions	(1,480,862)	(6,429,392)	(3,032,490)	(3,081,540)	(4,776)	(128,068)	(14,157,128)
Placements from banks and financial institutions	(7,292,129)	(3,759,010)	(3,013,811)	-	-	(19,869)	(14,084,819)
Financial liabilities at fair value through profit or loss	(3,394,627)	(818,294)	(309,478)	-	-	(542,857)	(5,065,256)
Financial assets sold under repurchase agreements	(9,212,051)	(1,125,131)	(6,849,966)	(500,000)	-	(1,808,442)	(19,495,590)
Borrowings	(14,978,533)	(76,909,729)	(320,986,602)	(99,623,212)	(21,087,227)	(3,006,001)	(536,591,304)
Bonds issued	(99,293)	(10,569,779)	(69,764,775)	(112,101,319)	(106,929,018)	(5,385,382)	(304,849,566)
Accounts payable	-	-	-	-	-	(5,050,797)	(5,050,797)
Liabilities held for sale	-	(1,078)	(3,235)	(5,717,873)	(7,946,077)	(1,880,074)	(15,548,337)
Other financial liabilities	(21,834)	(28,704)	(170,274)	(456,570)	(99,550)	(34,512,061)	(35,288,993)
Total financial liabilities	(175,686,056)	(153,026,680)	(482,478,532)	(228,870,395)	(136,376,146)	(64,230,951)	(1,240,668,760)
Interest rate gap	171,293,842	(69,213,619)	(300,538,651)	75,325,717	(120,817,725)	309,736,992	65,786,556

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.2 Market risk (continued)

Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and operating performance. The Group conducts the majority of its businesses in RMB, with certain foreign currency transactions in United States dollars (“USD”), Hong Kong dollars (“HKD”) and other currencies.

The table below indicates the potential effect on profit before tax of a 5% appreciation or depreciation of the all currencies the spot and forward exchange rates against RMB.

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
5% appreciation	(242,258)	683,638
5% depreciation	242,258	(683,638)

Price risk

Price risk is the risk that the fair values of equity investments fluctuate as a result of changes in the levels of equity indices and the value of relative securities. The risk is reflected as the variation of the Group’s profit or loss and net assets arising from fair value changes of financial assets measured at fair value changes, and also the variation of the Group’s other comprehensive income and net assets arising from the fair value changes of financial assets measured at other comprehensive income.

The following tables illustrate the potential impact of an increase or decrease of 1 percent in price of equity investments classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income on profit before tax and equity.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.2 Market risk (continued)

Price risk (continued)

Group

	As at June 30 2020		As at December 31 2019	
	Profit before tax	Equity	Profit before tax	Equity
+ 1 percent	980,739	42,554	1,040,160	42,276
- 1 percent	(980,739)	(42,554)	(1,040,160)	(42,276)

53.3 Liquidity risk

Analysis of the remaining maturity of the financial assets and financial liabilities

	As at June 30, 2020 (Unaudited)							Total
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	14,712,638	2,782,887	-	-	-	-	-	17,495,525
Deposits with banks and financial institutions	287	61,079,342	5,174,529	5,630,691	3,278,401	433,565	-	75,596,815
Placements with banks and financial institutions	-	-	20,608,367	457,561	734,685	-	-	21,800,613
Deposits with exchanges and others	2,592,059	-	-	-	-	-	-	2,592,059
Financial assets at fair value through profit or loss	299,163,997	6,208,179	1,904,478	1,667,425	20,343,444	81,679,355	885,300	411,852,178
Loans and advances to customers	7,595,044	22,590,355	9,173,068	18,991,345	85,994,990	155,547,943	50,025,388	349,918,133
Accounts receivable	1,002,311	704,527	93,534	27,177	430,109	1,881	-	2,259,539
Financial assets held under resale agreements	561,210	-	20,357,113	10,000	455,096	24,962	-	21,408,381
Financial assets at fair value through other comprehensive income	4,255,367	-	7,058,454	14,732,851	28,531,035	63,587,881	2,445,268	120,610,856
Financial assets at amortized cost	10,191,219	2,189,110	7,603,942	15,186,419	81,948,926	118,408,374	10,704	235,538,694
Assets held for sale	22,448,292	155,512	2,193,934	1,498,685	6,335,751	15,764,655	11,341,557	59,738,386
Other financial assets	3,595,946	3,172,151	553,948	63,096	468,435	248,746	207,770	8,310,092
Total financial assets	366,118,370	98,882,063	74,721,367	58,265,250	228,520,872	435,697,362	64,915,987	1,327,121,271

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.3 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and financial liabilities (continued)

	As at June 30, 2020 (Unaudited)							Total
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Borrowings from central bank	(986,058)	-	(7,886)	-	-	-	-	(993,944)
Accounts payable to brokerage clients	-	(4,193,338)	(12,591,828)	-	-	-	-	(16,785,166)
Due to customers	-	(100,362,548)	(33,608,789)	(67,237,770)	(78,295,882)	(4,405,877)	(500,567)	(284,411,433)
Deposits from banks and financial institutions	-	(519,704)	(535,669)	(240,013)	(457,652)	(6,391,602)	(500,567)	(8,645,207)
Placements from banks and financial institutions	-	(88,165)	(4,500,679)	(4,478,956)	(73,503)	-	-	(9,141,303)
Financial liabilities at fair value through profit or loss	-	(376,806)	(59,611)	(2,505,140)	(1,171,266)	(558,721)	(31,469)	(4,703,013)
Financial assets sold under repurchase agreements	-	(1,826,880)	(7,708,347)	(4,379,899)	(997,036)	-	-	(14,912,162)
Borrowings	(469,400)	(1,001,410)	(53,376,472)	(91,582,985)	(298,388,097)	(69,694,633)	(20,052,007)	(534,565,004)
Bonds issued	-	-	(3,591,795)	(14,173,210)	(60,859,598)	(138,245,672)	(120,001,853)	(336,872,128)
Accounts payable	(118,986)	(3,295,342)	(45,912)	(173,163)	(175,794)	-	-	(3,809,197)
Liabilities held for sale	(2,039,418)	-	-	-	(154,167)	(2,992,090)	(2,993,732)	(8,179,407)
Other financial liabilities	(1,496,191)	(21,668,955)	(850,213)	(398,258)	(2,160,286)	(3,074,268)	(517,243)	(30,165,414)
Total financial liabilities	(5,110,053)	(133,333,148)	(116,877,201)	(185,169,394)	(442,733,281)	(225,362,863)	(144,597,438)	(1,253,183,378)
Net position	361,008,317	(34,451,085)	(42,155,834)	(126,904,144)	(214,212,409)	210,334,499	(79,681,451)	73,937,893

Notes to the Interim Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.3 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and financial liabilities (continued)

	As at December 31, 2019							Total
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	14,282,968	4,719,083	–	–	–	–	–	19,002,051
Deposits with banks and financial institutions	225,157	52,819,805	7,734,218	7,042,236	2,845,194	170,983	–	70,837,593
Placements with banks and financial institutions	–	–	9,196,767	1,177,215	778,318	–	–	11,152,300
Deposits with exchanges and others	1,323,359	–	–	–	–	–	–	1,323,359
Financial assets at fair value through profit or loss	308,932,315	6,718,282	2,740,196	3,446,859	11,633,424	77,756,863	936,644	412,164,583
Loans and advances to customers	2,789,490	21,037,238	12,279,822	23,689,184	73,428,974	155,886,832	48,747,524	337,859,064
Accounts receivable	1,253,545	553,021	30,112	150,401	14,705	400,941	–	2,402,725
Financial assets held under resale agreements	738,682	–	11,877,389	–	129,667	466,716	–	13,212,454
Financial assets at fair value through other comprehensive income	4,227,563	–	9,047,658	14,943,583	44,107,086	62,056,815	2,420,260	136,802,965
Financial assets at amortized cost	12,304,831	2,312,590	10,303,881	12,744,714	73,068,357	116,910,694	–	227,645,067
Assets held for sale	18,208,998	260,051	4,914,502	2,037,270	5,008,764	17,435,691	11,090,124	58,955,400
Other financial assets	5,455,473	1,905,655	3,194,443	3,847,532	360,071	95,993	238,588	15,097,755
Total financial assets	369,742,381	90,325,725	71,318,988	69,078,994	211,374,560	431,181,528	63,433,140	1,306,455,316

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.3 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and financial liabilities (continued)

	As at December 31, 2019 (Audited)							Total
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Borrowings from central bank	(986,058)	-	-	-	(24,802)	-	-	(1,010,860)
Accounts payable to brokerage clients	-	(3,086,905)	(11,233,439)	-	-	-	-	(14,320,344)
Due to customers	-	(93,941,836)	(41,405,382)	(53,517,292)	(78,641,877)	(7,389,881)	(309,498)	(275,205,766)
Deposits from banks and financial institutions	-	(978,458)	(502,550)	(6,429,782)	(3,090,727)	(3,150,835)	(4,776)	(14,157,128)
Placements from banks and financial institutions	-	-	(7,301,734)	(3,769,192)	(3,013,893)	-	-	(14,084,819)
Financial liabilities at fair value through profit or loss	(16,941)	(77,572)	(3,445,263)	(972,209)	(399,194)	(154,077)	-	(5,065,256)
Financial assets sold under repurchase agreements	-	(1,791,560)	(9,216,325)	(1,125,608)	(6,861,432)	(500,665)	-	(19,495,590)
Borrowings	-	-	(15,192,423)	(77,424,457)	(322,986,601)	(99,781,056)	(21,206,767)	(536,591,304)
Bonds issued	-	-	(102,137)	(10,879,118)	(70,407,570)	(113,752,923)	(109,707,818)	(304,849,566)
Accounts payable	(34,011)	(4,749,307)	(120,925)	(121,335)	(25,219)	-	-	(5,050,797)
Liabilities held for sale	(1,799,310)	-	-	(1,078)	(3,235)	(5,733,039)	(8,011,675)	(15,548,337)
Other financial liabilities	(3,772,588)	(12,930,919)	(9,643,807)	(189,011)	(4,997,731)	(3,142,732)	(612,205)	(35,288,993)
Total financial liabilities	(6,608,908)	(117,556,557)	(98,163,985)	(154,429,082)	(490,452,281)	(233,605,208)	(139,852,739)	(1,240,668,760)
Net position	363,133,473	(27,230,832)	(26,844,997)	(85,350,088)	(279,077,721)	197,576,320	(76,419,599)	65,786,556

Notes to the Interim Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.4 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 a decline in the asset value. Risk of distressed assets can also arise from operational failures due to unauthorized or inappropriate purchase, disposal or management activities, which result in the recoverable amount of the distressed assets lower than their carrying amounts.

Such distressed assets include acquisition-operation distressed assets, restructured distressed assets and equity instruments obtained through debt-to-equity swap.

The types of risk, their risk management procedures, fair value measurement techniques and impairment assessment are similar to those described in the consolidated financial statements for the year ended December 31, 2019.

53.5 Insurance risk

Insurance risk refers to the uncertainty of claim amounts and timing arising from the unpredictable occurrence of the insured events. The major insurance risk to which the Group is exposed arises from the insurance payment exceeding the associated insurance or investment contract liabilities which the Group recognizes. The uncertainty mainly arises from the claim ratio, significance of claim, actual payment and the progress of long-term claims. Insurance risk management is one of the risk management objectives of the Group. Solvency is the primary indicator for the Group's insurance operation. The Group manages to provide sufficient insurance or investment contract liabilities to meet the obligation for insurance payment.

The types of risk and their risk management measures are the same as those described in the consolidated financial statements for the year ended December 31, 2019.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.5 Insurance risk (continued)

The table below summarizes the Group's gross written premiums by major types of insurance contracts:

	For the six months ended June 30,			
	2020 (Unaudited)		2019 (Unaudited)	
	Amount	%	Amount	%
Life insurance	6,609,244	100.0	5,633,037	100.0
Total	6,609,244	100.0	5,633,037	100.0

53.6 Capital management

The Group's objectives on capital management are as follows:

- Ensure compliance with regulatory requirements;
- Optimize capital allocation among the group entities;
- Improve efficiency of capital employment;
- Safeguard the Group's ability to continue as a going concern to support the Group's development.

In accordance with the requirements of Consolidated Supervision Guidelines on Financial Asset Management Companies (Provisional) (Yinjianfa [2011] No. 20), issued by the CBIRC in 2011, the Group manages its capital based on the required minimum capital. Compliance with the requirement of minimum capital is the primary goal of capital management of the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

53. Financial risk management (continued)

53.6 Capital management (continued)

Minimum capital of the Group is the total of minimum capital of the Company and its subsidiaries after taking into account the percentage of shareholdings, after making deduction as required by relevant rules and regulations. The Group is required to meet this minimum capital requirement stipulated by the CBIRC.

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Yinjianbanfa [2016] No. 38), issued by the CBIRC in 2016, the Company is required to maintain a minimum core Tier I, common Tier I and Tier II Capital Adequacy Ratio ("CAR") at 9%, 10% and 12.5% respectively. CAR is calculated by dividing the corresponding qualified capital of the Company by its risk-weighted assets. As at June 30, 2020 and December 31, 2019, the Company complied with the regulatory requirements on the minimum CAR.

54. Fair values of financial instruments

Assets and liabilities measured at fair value are classified into the following three levels based on the degree of fair value observability:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation techniques using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including bond prices, equity and stock prices, interest rates, foreign exchange rates; and

Level 3: The management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value, market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a 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 an impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.1 Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors of the Company considered that the carrying amounts of financial assets and financial liabilities in the interim condensed consolidated financial statements approximate to their fair values.

	As at June 30, 2020 (Unaudited)	
	Carrying amount	Fair value
Financial assets		
Financial assets at amortized cost		
– Distressed debt assets	191,063,322	186,116,194
– Other debt investments	44,475,372	44,440,996
Accounts receivable	2,259,539	2,244,341
Total	237,798,233	232,801,531
Financial liabilities		
Borrowings	(534,565,004)	(534,237,019)
Bonds issued	(336,872,128)	(340,261,131)
Total	(871,437,132)	(874,498,150)

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.1 Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis (continued)

	As at December 31, 2019 (Audited)	
	Carrying amount	Fair value
Financial assets		
Financial assets at amortized cost		
– Distressed debt assets	186,435,373	181,988,931
– Other debt investments	41,209,694	41,185,327
Accounts receivable	2,402,725	2,368,981
Total	230,047,792	225,543,239
Financial liabilities		
Borrowings	(536,591,304)	(536,982,325)
Bonds issued	(304,849,566)	(310,212,174)
Total	(841,440,870)	(847,194,499)

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.1 Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis (continued)

	As at June 30, 2020			
	(Unaudited) Level 1	(Unaudited) Level 2	(Unaudited) Level 3	(Unaudited) Total
Financial assets				
Financial assets at amortized cost				
– Distressed debt assets	–	–	186,116,194	186,116,194
– Other debt investments	1,995,415	389,775	42,055,806	44,440,996
Accounts receivable	–	–	2,244,341	2,244,341
Total	1,995,415	389,775	230,416,341	232,801,531
Financial liabilities				
Borrowings	–	–	(534,237,019)	(534,237,019)
Bonds issued	–	(240,875,095)	(99,386,036)	(340,261,131)
Total	–	(240,875,095)	(633,623,055)	(874,498,150)

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.1 Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis (continued)

	As at December 31, 2019			
	(Audited)	(Audited)	(Audited)	(Audited)
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at amortized cost				
– Distressed debt assets	–	–	181,988,931	181,988,931
– Other debt investments	2,791,417	545,262	37,848,648	41,185,327
Accounts receivable	–	–	2,368,981	2,368,981
Total	2,791,417	545,262	222,206,560	225,543,239
Financial liabilities				
Borrowings	–	–	(536,982,325)	(536,982,325)
Bonds issued	–	(216,832,097)	(93,380,077)	(310,212,174)
Total	–	(216,832,097)	(630,362,402)	(847,194,499)

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

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For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined, including their fair value hierarchy, valuation technique(s) and key input(s) used.

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
1) Financial assets classified as at fair value through profit or loss	411,852,178	412,164,583				
Debt securities	10,050,575	11,566,108				
– Traded in stock exchanges	4,792,285	3,208,331	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Traded in inter-bank markets	1,842,173	1,871,434	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
– Traded over the counter	2,138,883	5,968,207				
– Traded in inactive markets	1,277,234	518,136	Level 3	<ul style="list-style-type: none"> • Discounted cash flows for the debt component and binomial option pricing model for the option component. • Future cash flows are estimated based on contractual amounts and coupon rates discounted at a rate that reflects the credit risk of the counterparty. 	<ul style="list-style-type: none"> • Discount rates that correspond to the expected risk level. • Risk-free rates that are specific to the market. • Volatility rates that are in line with those of similar products. 	<ul style="list-style-type: none"> • The lower the discount rates, the higher the fair value. • The lower the risk-free rate, the higher the fair value. • The higher the volatility rate, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Equity investments listed or traded on exchanges	14,018,708	9,565,812				
Unrestricted listed equity investments	9,983,598	6,962,603				
– Manufacturing	3,997,560	2,734,171	Level 1	• Quoted bid prices in an active market.	N/A	N/A
	1,195,357	–	Level 3	• Comparable listed company method, comparable transaction cases, etc.	• Market multiplier.	• The higher the market multiplier, the higher the fair value.
					• Discount for lack of marketability (DLOM).	• The lower the DLOM, the higher the fair value.
– Financial services	1,103,262	1,056,873	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Leasing and commercial services	201,482	111,172	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Mining	966,942	566,009	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Transportation, warehousing and postal services	464,598	523,789	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Information transmission, software and information technology services	38,683	37,521	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Culture, sports and entertainment	456,125	491,174	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Health and social security industry	277,720	351,561	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Real estate	289,789	255,868	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Others	992,080	834,465	Level 1	• Quoted bid prices in an active market.	N/A	N/A

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Restricted listed equity investments	4,035,110	2,603,209	Level 3	• Option Pricing Model.	• Stock volatility.	• The lower the stock volatility, the higher the fair value.
– Manufacturing	1,807,585	56,387				
– Culture, sports and entertainment	17,317	12,090				
– Mining	1,070,990	1,922,423				
– Others	1,139,218	612,309				
Equity investments in unlisted companies	50,509,784	55,791,190				
	46,913,334	52,281,069	Level 3	• Comparable listed company method, comparable transaction cases, etc.	• Market multiplier.	• The higher the market multiplier, the higher the fair value.
	3,596,450	3,510,121	Level 3	• Income approach.	• Discount for lack of marketability (DLOM). • Expected future cash flow. • Discount rates that correspond to the expected risk level.	• The lower the DLOM, the higher the fair value. • The higher the future cash flow, the higher the fair value. • The lower the discount rate, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Mutual funds	93,772,182	91,214,796				
– Mutual funds with open or active quotations	5,241,723	4,709,575	Level 1	• Quoted bid prices in an active market.	N/A	N/A
	8,621,888	8,367,469	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
– Investing in debt instruments	63,695,096	62,133,128	Level 3	• Discounted cash flow with future cash flow that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rates, the higher the fair value.
– Investing in unrestricted listed equity	570,556	–	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Investing in restricted listed equity	–	531,089	Level 3	• Option Pricing Model.	• Stock volatility.	• The lower the stock volatility, the higher the fair value.
– Investing in other equity instruments	15,642,919	15,473,535	Level 3	• Comparable listed company method, comparable transaction cases, etc.	• Market multiplier. • Discount for lack of marketability (DLOM).	• The higher the market multiplier, the higher the fair value. • The lower the DLOM, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Debt instruments	28,586,779	28,148,647				
– Other debt instruments	27,844,176	27,403,982	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected recoverable amounts. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the recoverable amounts, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rates, the higher the fair value.
– Embedded derivative debts	742,603	744,665	Level 3	<ul style="list-style-type: none"> Discounted cash flows for the debt component and binomial option pricing model for the option component. 	<ul style="list-style-type: none"> Expected future cash flows. Discount rates that correspond to the expected risk level. Stock price volatility. 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value. The lower the discount rate, the higher the fair value. The higher the stock price volatility, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Derivative financial assets	656,187	619,316				
	416,401	483,894	Level 1	• Quoted bid prices in an active market.	N/A	N/A
	239,786	135,422	Level 2	• Valuation techniques based on market data including interest rate and foreign exchange rate.	N/A	N/A
Interbank negotiate certificate of deposit	97,984	59,162	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
Distressed debt assets	192,593,410	197,621,332	Level 3	• Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	<ul style="list-style-type: none"> • Expected recoverable amounts. • Expected recovery date. • Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> • The higher the recoverable amounts, the higher the fair value. • The earlier the recovery date, the higher the fair value. • The lower the discount rates, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Wealth management products	1,521,099	1,475,898	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected future cash flows. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.
Assets management plans	1,499,766	2,371,544				
– Investing in the portfolio with open or active quotations	395,747	597,354	Level 2	<ul style="list-style-type: none"> Quoted market prices from dealers or independent pricing service vendors. 	N/A	N/A
– Investing in debt instruments	495,803	495,159	Level 3	<ul style="list-style-type: none"> Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
- Investing in equity instruments	608,216	1,279,031	Level 3	<ul style="list-style-type: none"> Comparable listed company method, comparable transaction cases, etc. 	<ul style="list-style-type: none"> Market multiplier. Discount for lack of marketability (DLOM). 	<ul style="list-style-type: none"> The higher the market multiplier, the higher the fair value. The lower the DLOM, the higher the fair value.
Asset-backed securities	444,212	564,133	Level 3	<ul style="list-style-type: none"> Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.
Trust products and rights to trust assets	18,045,101	13,088,236				
- Investing in the portfolio with open or active market quotations	105,704	104,716	Level 2	<ul style="list-style-type: none"> Quoted market prices from dealers or independent pricing service vendors. 	N/A	N/A

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
- Investing in debt instruments	14,804,641	11,862,077	Level 3	<ul style="list-style-type: none"> Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.
- Investing in equity instruments	3,134,756	1,121,443	Level 3	<ul style="list-style-type: none"> Comparable listed company method, comparable transaction cases, etc. 	<ul style="list-style-type: none"> Market multiplier. Discount for lack of marketability (DLOM). 	<ul style="list-style-type: none"> The higher the market multiplier, the higher the fair value. The lower the DLOM, the higher the fair value.
Others	56,391	78,409				
- Investing in the portfolio with open or active market quotations	8,391	8,229	Level 2	<ul style="list-style-type: none"> Quoted market prices from dealers or independent pricing service vendors. 	N/A	N/A

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
- Investing in debt instruments	48,000	70,180	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected future cash flows. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.
2) Loans and advances to customers at fair value through profit or loss						
- Loans and advances	19,990,400	15,007,348	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. 	<ul style="list-style-type: none"> Expected recoverable amounts. Expected recovery date. Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> The higher the recoverable amounts, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rates, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
3) Financial assets at fair value through other comprehensive income	120,610,856	136,802,965				
Debt investments at fair value through other comprehensive income	116,355,489	132,575,402				
Debt securities	116,355,489	132,575,402				
– Traded on stock exchanges	20,954,137	18,278,609	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Traded in inter-bank markets	28,904,365	32,854,503	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
– Traded over the counter	66,496,987	81,442,290				
Equity instruments designated as at fair value through other comprehensive income	4,255,367	4,227,563				
Restricted listed equity investments	3,234,094	4,199,647				
– Manufacturing	3,234,094	4,199,647	Level 3	• Option pricing model.	• Stock volatility.	• The lower the stock volatility, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)				
Unlisted equity instruments	1,021,273	27,916				
– Financial service	1,021,273	27,916	Level 3	• Income approach.	<ul style="list-style-type: none"> • Expected future cash flow. • Discount rates that correspond to the expected risk level. 	<ul style="list-style-type: none"> • The higher the future cash flow, the higher the fair value. • The lower the discount rate, the higher the fair value.
4) Financial liabilities at fair value through profit or loss	(4,703,013)	(5,065,256)				
– Short positions in exchange fund bills and notes	(3,562,011)	(4,522,399)	Level 2	• Calculated based on the quoted prices of similar assets traded in an active market.	N/A	N/A
– OTC derivative financial liabilities	(854,730)	(542,857)	Level 2	• Calculated based on the quoted prices of similar assets traded in an active market.	N/A	N/A
– Structured products embedded with equity swaps	(286,272)	–	Level 3	• Option pricing model.	• Stock volatility.	• The lower the stock volatility, the higher the fair value.

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

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

	As at June 30, 2020 (Unaudited)			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	19,809,206	13,450,556	378,592,416	411,852,178
Loans and advances to customers	–	–	19,990,400	19,990,400
Financial assets at fair value through other comprehensive income	20,954,137	95,401,352	4,255,367	120,610,856
Total assets	40,763,343	108,851,908	402,838,183	552,453,434
Financial liabilities at fair value through profit or loss	–	(4,416,741)	(286,272)	(4,703,013)
Total liabilities	–	(4,416,741)	(286,272)	(4,703,013)

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

	As at December 31, 2019			Total
	Level 1	Level 2	Level 3	
(Audited)				
Financial assets at fair value				
through profit or loss	15,364,403	17,111,993	379,688,187	412,164,583
Loans and advances to customers	–	–	15,007,348	15,007,348
Financial assets at fair value through				
other comprehensive income	18,278,609	114,296,793	4,227,563	136,802,965
Total assets	33,643,012	131,408,786	398,923,098	563,974,896
Financial liabilities at fair value				
through profit or loss	–	(5,065,256)	–	(5,065,256)
Total liabilities	–	(5,065,256)	–	(5,065,256)

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IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.2 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

There were no transfers between Level 1 and Level 2 for the financial assets and the financial liabilities measured at fair value during the period/year.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the future cash flows and discount rates that reflects the credit risk of counterparties.

54.3 Reconciliation of Level 3 fair value measurements

	(Unaudited)		
	Financial assets at FVTPL	Financial assets at FVOCI	Financial liabilities at FVTPL
As at January 1, 2020	379,688,187	4,227,563	–
Recognized in profit or loss	1,421,458	–	1,011
Recognized in other comprehensive income	–	(956,370)	–
Purchases	22,362,986	984,174	(287,283)
Settlements/disposals at cost	(23,355,926)	–	–
Transfer out from Level 3	(1,524,289)	–	–
As at June 30, 2020	378,592,416	4,255,367	(286,272)
Unrealized gains or losses for the period included in profit or loss for assets/ liabilities held as at June 30, 2020	(1,690,039)	–	1,011

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

54. Fair values of financial instruments (continued)

54.3 Reconciliation of Level 3 fair value measurements (continued)

	(Audited)		
	Financial assets at FVTPL	Financial assets at FVOCI	Financial liabilities at FVTPL
As at January 1, 2019	391,312,050	3,407,026	–
Recognized in profit or loss	5,894,746	–	–
Recognized in other comprehensive income	–	820,537	–
Purchases	103,129,638	–	–
Settlements/disposals at cost	(120,111,571)	–	–
Transfer out from Level 3	(536,676)	–	–
As at December 31, 2019	379,688,187	4,227,563	–
Unrealized gains or losses for the year included in profit or loss for assets/liabilities held at the end of the year	3,013,414	–	–

Certain restricted equity instruments became tradable during the first half of year 2020, and quoted prices in active markets were available for these securities. Therefore, these securities were transferred from Level 3 to Level 1 of the fair value hierarchy at the end of the reporting period.

Total gains or losses for the six months ended June 30, 2020 and the year ended December 31, 2019 included in the statement of profit or loss as well as total gains or losses included in the statement of profit or loss relating to financial instruments held as at June 30, 2020 and December 31, 2019 are presented in “fair value changes on distressed debt assets”, “fair value changes on other financial assets”, “impairment losses on assets” depending on the nature or category of the related financial instruments.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

55. Discontinued operation

On November 19, 2019, the Group publicly announced the decision of its Board of Directors to sell Happy Life, a wholly owned subsidiary, which represented the Group's insurance businesses. The Group decided to discontinue insurance businesses and focus on distressed asset management businesses. In 2019, the Company had signed a legally binding agreement and classified Happy Life as held for sale. With Happy Life being classified as held for sale, the insurance businesses are no longer presented in the Group's segment note. Happy life constitutes a discontinued operation. As at June 30, 2020, the disposal procedure has not been completed.

55.1 Profit from the discontinued operation

	Period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Fair value changes on other financial instruments	1,023,234	1,773,970
Investment income	226,146	15,257
Net insurance premiums earned (1)	6,542,715	5,571,745
Interest income	502,407	437,646
Commission and fee income	29,519	18,866
Other income and other net gains or losses	(6,495)	(13,126)
Total	8,317,526	7,804,358
Interest expense	(142,282)	(175,582)
Insurance costs (2)	(6,847,594)	(5,800,585)
Commission and fee expense	(619,347)	(668,670)
Employee benefits	(319,108)	(315,469)
Taxes and surcharges	(3,481)	(3,221)
Depreciation and amortization expenses	–	(34,529)
Other expenses	(101,380)	(119,591)
Impairment losses on assets	(808)	(16,260)
Total	(8,034,000)	(7,133,907)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

55. Discontinued operation (continued)

55.1 Profit from the discontinued operation (continued)

	Period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Change in net assets attributable to other holders of consolidated structured entities	47	2,823
Profit before share of results of associates and joint ventures and tax	283,573	673,274
Share of results of associates and joint ventures	12,947	6,078
Profit before tax from the discontinued operation	296,520	679,352
Income tax (expense)/credit from the discontinued operation	(27,851)	2,223
Profit for the period from the discontinued operation	268,669	681,575
Earnings per share attributable to equity holders of the Company from the discontinued operation (Expressed in RMB Yuan per share)		
– Basic	0.01	0.01
– Diluted	0.01	0.01

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
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IV. EXPLANATORY NOTES (continued)

55. Discontinued operation (continued)

55.1 Profit from the discontinued operation (continued)

(1) Net insurance premiums earned

	Period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Gross written premiums	6,609,244	5,633,037
Less: Premiums ceded to reinsurers	17,654	14,912
Change of unearned premium reserves	48,875	46,380
Total	6,542,715	5,571,745

Details of the Group's gross written premiums analyzed by type of insurance are set out below:

	Period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Life insurance	6,609,244	5,633,037
Total	6,609,244	5,633,037

(2) Insurance costs

	Period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Reverses/(Reserves) for insurance contracts	3,399,352	(3,117,470)
Interest credited and policyholder dividends	(326,067)	(387,629)
Refund of reinsurance premiums	11,709	5,184
Other insurance expenses	(9,932,588)	(2,300,670)
Total	(6,847,594)	(5,800,585)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

55. Discontinued operation (continued)

55.2 Net cash flows from the discontinued operation

	Period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Operating	(3,685,745)	(3,297,497)
Investing	3,547,961	6,524,035
Financing	(6,200)	(3,019,525)
Net cash (outflow)/inflow	(143,984)	207,013

55.3 Assets and liabilities held for sale

	As at June 30 2020 (Unaudited)	As at December 31 2019 (Audited)
Assets		
Cash and balances with central banks	43	27
Deposits with banks and financial institutions	622,537	626,574
Deposits with exchanges and others	21,681	11,466
Financial assets at fair value through profit or loss	34,555,911	31,499,440
Financial assets held under resale agreements	1,174,748	3,034,522
Financial assets at amortized cost	6,651,337	6,595,976
Financial assets at fair value through other comprehensive income	13,415,735	14,432,893
Accounts receivable	337,022	157,527
Investment properties	–	2,555
Interests in associates and joint ventures	811,499	798,552
Property and equipment	225,880	223,323
Other intangible assets	44,192	42,624
Deferred tax assets (1)	1,251,297	1,279,149
Other assets	2,279,939	2,689,550
Total	61,391,821	61,394,178

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(Amounts in thousands of RMB, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

55. Discontinued operation (continued)

55.3 Assets and liabilities held for sale (continued)

	As at June 30 2020 (Unaudited)	As at December 31 2019 (Audited)
Liabilities		
Accounts payable	37,575	30,020
Investment contract liabilities for policyholders	8,442,736	7,668,791
Insurance contract liabilities	38,864,239	42,018,628
Bonds issued	6,153,617	6,015,639
Deferred tax liabilities	48,320	68,710
Other liabilities	2,197,009	2,122,351
Total	55,743,496	57,924,139

(1) In 2019, Happy Life was classified as held for sale, and the Group recognized deferred tax assets of approximately RMB1.2 billion from deductible temporary difference resulted from cumulative losses of Happy Life. As at June 30, 2020, the deferred tax assets of the Group resulted from cumulative losses of Happy Life was RMB1.2 billion.

55.4 Other comprehensive income for the discontinued operation

	For the six months ended June 30, 2020 (Unaudited)	2019 (Unaudited)
Other comprehensive income	(127,882)	(22,247)

56. Comparative amounts

56.1 The comparative interim condensed consolidated statement of profit or loss has been re-presented as if the operation discontinued had been discontinued at the beginning of the comparative period.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

(Amounts in thousands of RMB, unless otherwise stated)

V. EVENTS AFTER THE REPORTING PERIOD

The meeting of the Board of Directors approved the resolution on the dividend allocation of Offshore Preference Shares on August 27, 2020, allowing the Company to distribute dividends of Offshore Preference Shares on September 30, 2020, at the rate of 4.45% per annum (after tax). The aggregate dividend distribution amounted to USD142.4 million (after tax).

In July 2020, the Company received the “CBIRC’s Approval in respect of the Change of Shareholder of Happy Life Insurance Co., Ltd.” (Yin Bao Jian Fu [2020] No. 442), which approved the transfer of 50.995% of the equity interests held in Happy Life by the Company to Champion Property & Casualty Insurance Co., Ltd. and Dongguan Communications Investment Group Co., Ltd. and that the amendment procedures to be performed according to the relevant provisions. From the date of approval by the CBIRC in respect of relevant matters of the transfer, the Company will cease to have any equity interests in Happy Life.

VI. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been approved by the Board of Directors of the Company on August 27, 2020.



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