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中國華融資產管理股份有限公司

China Huarong Asset Management Co., Ltd.

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

(Stock Code: 2799)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report (the “**Annual Report**”) of China Huarong Asset Management Co., Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 (the “**year of 2019**”). Unless otherwise defined herein, capitalised terms herein shall have the same meanings as those defined in the Annual Report. The purpose of this announcement is to provide further information.

Provision of expected credit losses on debt instruments at amortised cost

As disclosed in the Annual Report, the Group conducted impairment assessment of the debt instruments at amortised cost under the expected credit loss (“**ECL**”) model in accordance with the *IFRS 9 — Financial Instruments*. The ECLs were updated at each reporting date to reflect changes in credit risk since initial recognition. The Group calculated the ECLs in three stages according to the changes in credit risk of the financial instruments since initial recognition:

- ◆ Stage 1: A financial instrument without a significant increase in credit risk since initial recognition was included in Stage 1, and its impairment allowance was measured based on the upcoming 12-month ECLs of the financial instrument;
- ◆ Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but with no objective evidence of impairment was included in Stage 2, and its impairment allowance was measured based on lifetime ECLs of the financial instrument;
- ◆ Stage 3: A financial instrument with objective evidence of impairment at the end of the reporting period was included in Stage 3, and its impairment allowance was measured based on lifetime ECLs of the financial instrument.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. For accounting policies on the measurement and recognition of ECL, please refer to the information disclosed in note III.9.2 (v) of the consolidated financial statements in the Annual Report. As at 31 December 2019, the ratios of allowance for impairment for debt instruments at amortised cost in stage 1, 2 and 3 were 1.15%, 9.85% and 37.32%, respectively. For the changes in specific loss allowance and total amount of debt instruments at amortised cost, please refer to the information disclosed in note V.62.1(ix)(2) and (3) of the consolidated financial statements in the Annual Report.

The Group treated the past-due status of debtors as one of the key factors for the evaluation of credit risk changes, stage determination and impairment loss recognition of debt instruments. In particular: the Group considers that the credit risks of the relevant financial assets have increased significantly since initial recognition and therefore classifies them to Stage 2 when the contractual payments are more than 30 days but less than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. The Group considers that a default has occurred on the relevant financial assets and therefore classifies them to Stage 3 when the contractual payments are more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lenient default criterion is applicable.

As presented in note V.12 “Impairment losses under expected credit loss model” to the consolidated financial statements on page 237 of the Annual Report, in the year of 2019, the Group charged an aggregate of RMB17.039 billion of credit impairment losses under the ECL model for the debt instruments at amortised cost. The Company is a financial enterprise with financial asset management licenses and has subsidiaries with various financial licenses in banking, securities, trust, financial leasing and funds, etc.. Financial instruments measured at amortised cost are one of the most important assets of the Group, and therefore the recognition and measurement of credit impairment losses are daily operating activities of the Group. The credit impairment losses allocated to an individual debt instrument was not significant for the year 2019.

As presented in note V.30 “Debt instruments at amortised cost” to the consolidated financial statements on page 253 of the Annual Report, the carrying amount of debt instruments at amortised cost of the Group as at 31 December 2019 amounted to RMB642.086 billion, of which the distressed debt assets amounted to RMB300.135 billion and other debt assets amounted to RMB341.951 billion. The distressed debt operating business is the core business of the Group and an important source of revenue and profit. Other debt assets mainly included various trust

products, debt securities, entrusted loans and asset management plans invested by the Group, and some of other debt assets came from the non-core and non-advantageous businesses that the Group proactively reduced. Affected by the increasing downward pressure on the domestic and overseas economy in 2019, the Group was exposed to more project risks. Impairment allowances of debt instruments at amortised cost of the Group increased by 25.54% from RMB50.930 billion at the end of 2018 to RMB63.939 billion at the end of 2019. The major causes of the Group's provision of RMB17.039 billion credit impairment losses on debt instrument at amortised cost were:

- (i) In 2019, economic growth slowed down markedly across the globe. Major developed economies saw their economy soften and emerging-market economies diverged in economic performance; domestic supply-side structural reform continued to deepen; financial risk resolution was steadily advanced; and high growth momentum of macro leverage ratio was initially stifled. Due to the combined influence of domestic and overseas factors, the deterioration of the operating and financial conditions of some debtors has led to a decline in their ability to fulfill their debt obligations, which made adverse effect on the Group's credit impairment losses on debt instruments measured at amortised costs, mainly as follows: the overdue situation of debt instruments has increased significantly, leading to the reclassification of related debt instruments from Stage 1 or Stage 2 to Stage 3, which in turn increased credit impairment losses.
- (ii) In 2019, the Group continued to standardise its asset management and investment business, and therefore the asset management and investment business showed an overall downward trend. In particular, the new business of the overseas operating subsidiaries was almost suspended due to business rectification and other reasons, meanwhile, the overdue cases of debtors of debt instruments held by the overseas operating subsidiaries further increased due to the impacts of international politics and economic fluctuations, especially the China-US trade dispute and the social unrest in Hong Kong in the second half of 2019, leading to the reclassification of a significant amount of debt instruments from Stage 1 or Stage 2 to Stage 3, which in turn significantly increased the provisions for credit impairment losses made under the ECL model. Moreover, unfavourable changes in the overseas economic environment also affected the risk mitigation effect of guarantee measures provided by debtors for the relevant debt instruments, and further increased the provision pressure for credit impairment losses.

Other income and other net gains or losses

The table below sets forth the further breakdown of the “Others” item under note V.8 “Other income and other net gains or losses” to the consolidated financial statements on page 234 of the Annual Report:

	2019 <i>In millions of RMB</i>	2018 <i>In millions of RMB</i>
Revenue from construction services	567	496
Revenue from hotel operation	333	325
Penalty income	163	5
Futures and spots trading income	89	145
Gains on assets held for disposal	85	20
Others	577	360
Total	1,814	1,351

The information contained in this announcement does not affect any information contained in the Annual Report and all information in the Annual Report remains unchanged.

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

Beijing, the PRC
12 March 2021

As at the date of this announcement, the Board comprises Mr. WANG Zhanfeng and Mr. WANG Wenjie as executive directors; Ms. ZHAO Jiangping, Mr. ZHENG Jiangping, Mr. XU Nuo and Mr. ZHOU Langlang as non-executive directors; Mr. TSE Hau Yin, Mr. SHAO Jingchun, Mr. ZHU Ning and Ms. CHEN Yuanling as independent non-executive directors.