中國華融
CHINA HUARONG

中國華融資產管理股份有限公司
China Huarong Asset Management Co., Ltd.
(A joint stock limited liability company incorporated in the People's Republic of China)
(Stock Code: 2799)

2020 ANNUAL RESULTS ANNOUNCEMENT OF CHINA HUARONG

The board of directors (the "**Board**") of China Huarong Asset Management Co., Ltd. (the "**Company**") announces the audited annual results of the Company and its subsidiaries for the year ended December 31, 2020. The Audit Committee of the Board has reviewed the audited annual results. This results announcement complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of annual results. The printed version of the Company's 2020 Annual Report will be delivered to the holders of the H Shares of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and of the Company at www.chamc.com.cn in September 2021.

Contents

1. Company Profile

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

The Company mainly engages in such businesses as distressed asset management, financial services, and asset management and investment business, with distressed asset management being its core business. Currently, China Huarong has 33 branches with geographic coverage across 30 provinces, autonomous regions and municipalities in mainland China as well as in Hong Kong and Macau. Its platform subsidiaries include Huarong Financial Leasing, Huarong Xiangjiang Bank, Huarong Trust, Huarong Rongde, Huarong Industrial and Huarong International, with a total of about 10,000 employees.

In 2020, China Huarong ranked 90th in the 2020 list of top 500 Chinese companies by Fortune, and was selected as the Top 300 Traders in the Interbank Market in Local Currency 2020 by the National Interbank Funding Center.

2. Definitions

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

Articles of Association or Articles	the Articles of Association of China Huarong Asset Management Co., Ltd. as amended from time to time
CBIRC	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
Company	China Huarong Asset Management Co., Ltd.
COVID-19	Corona Virus Disease 2019
Debt-to-Equity Swap(s) or DES	the practice of converting indebtedness owed by the obligors to equity
DES Assets	(1) the equity assets that converted from distressed indebtedness, which was acquired by the Company from medium and large state-owned enterprises prior to its restructuring, as a result of equity swaps of distressed debt assets according to national policy; (2) additional equities of the aforementioned enterprises that the Company subsequently acquired as part of asset packages it purchased; (3) additional investments by the Company in the aforementioned enterprises; (4) equities the Company received in satisfaction of debt the Company acquired through distressed asset management; (5) the small amount of equity the Company received as part of its share capital when it was established in 1999; and (6) the assets from the market-oriented DES business conducted by the Company
DES Companies	the companies and enterprises whose distressed debt held by the AMCs were swapped for equity
Domestic Share(s)	ordinary Share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
Group, our Group or China Huarong	China Huarong Asset Management Co., Ltd. and its subsidiaries
H Share(s)	ordinary Share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange

Hong Kong Stock Exchange or HKEX	The Stock Exchange of Hong Kong Limited
Huarong Financial Leasing	China Huarong Financial Leasing Co., Ltd.
Huarong International	China Huarong International Holdings Limited
Huarong Industrial	Huarong Industrial Investment & Management Co., Ltd. (renamed on January 17, 2020; formally known as Huarong Real Estate Co., Ltd.)
Huarong Rongde	Huarong Rongde Asset Management Co., Ltd.
Huarong Trust	Huarong International Trust Co., Ltd.
Huarong Xiangjiang Bank	Huarong Xiangjiang Bank Corporation Limited
Huarong Overseas Chinese	Huarong Overseas Chinese Asset Management Co., Ltd.
IFRSs	the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
Latest Practicable Date	August 28, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this results announcement prior to its publication
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
MOF	the Ministry of Finance of the PRC (中華人民共和國財政部)
Non-performing Loan(s) or NPL(s)	loan(s) classified as substandard, doubtful and loss under the five-category loan classification system (as applicable) adopted by financial institutions pursuant to applicable PRC guidelines
OFAC	the Office of Foreign Assets Control of the United States
PBOC	the People's Bank of China (中國人民銀行), the central bank of the PRC

PRC GAAP	generally accepted accounting principles in the PRC
Reporting Period	the year ended December 31, 2020
Securities and Futures Ordinance or SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
Share(s)	ordinary Share(s) in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares
State Council	the State Council of the PRC (中華人民共和國國務院)

3. Important Notice

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

On August 28, 2021, the eleventh meeting of the third session of the Board considered and approved the 2020 Annual Report and the 2020 Annual Results Announcement of the Company. There were eleven Directors eligible to attend the meeting, of whom eleven attended in person.

Ernst & Young Hua Ming LLP and Ernst & Young issued unqualified opinions on the consolidated statement of financial position of the Group as at December 31, 2020, and expressed a disclaimer of opinion on the consolidated statement of profit or loss, consolidated comprehensive income statement and consolidated cash flow statement of the Group for the year ended December 31, 2020, details of which are set out in "17. Audit Report and Financial Statement". The Company did not declare any cash dividend for the year ended December 31, 2020.

4. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Wang Zhanfeng
Authorized representatives	Wang Wenjie, Xu Yongli
Secretary to the Board	Xu Yongli
Joint Company secretaries	Xu Yongli, Ngai Wai Fung
Registered address	No. 8 Financial Street, Xicheng District, Beijing, China
Postal code of place of registration	100033
Website	www.chamc.com.cn
Principal place of business in Hong Kong	40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares annual report	www.hkexnews.hk
Place for maintaining annual reports for inspection	Board Office of the Company
Stock exchange on which H Shares are listed	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock Code	2799
H Share registrar and office address	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, China
Registration number of financial license	J0001H111000001

Social credit code	911100007109255774
Legal advisors as to PRC Law and office address	Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan, Central Road, Chaoyang District, Beijing, China
Legal advisors as to Hong Kong law and office address	Clifford Chance 27th Floor, Jardine House, One Connaught Place, Hong Kong, China
International accounting firm and office address	Ernst & Young 27/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Domestic accounting firm and office address	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower, Oriental Plaza, No. 1 East Changan Ave., Dongcheng District, Beijing, China

5. Financial Summary

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

	For the year ended December 31,				
	2020	2019	2018	2017	2016
	(in millions of RMB)				
Income from distressed debt assets	**34,121.4**	35,067.8	34,449.6	—	—
Fair value changes on distressed debt assets	**4,317.0**	9,963.7	8,657.9	—	—
Fair value changes on other financial assets and liabilities	**(12,520.0)**	11,727.2	(386.4)	—	—
Income from distressed debt assets classified as receivables	**—**	—	—	30,753.4	25,140.0
Fair value changes on financial assets and liabilities	**—**	—	—	12,770.8	9,634.4
Interest income	**37,589.1**	38,530.0	44,809.2	14,833.8	10,922.0
Finance lease income	**3,535.9**	5,911.6	6,784.4	6,181.2	5,522.1
Investment income, gains and losses	**—**	—	—	44,179.7	24,678.4
Gains from derecognition of financial assets measured at amortised cost	**866.4**	104.7	76.9	—	—
Gains/(losses) from derecognition of debt instruments at fair value through other comprehensive income (“**FVTOCI**”)	**154.8**	(9.8)	(79.2)	—	—
Commission and fee income	**2,114.6**	2,595.8	4,693.3	13,039.1	12,920.1
Net gains on disposals or deemed of disposals of subsidiaries, associates and joint ventures	**769.1**	1,441.2	228.0	917.6	2,027.7
Dividend income	**1,193.0**	1,819.0	2,392.2	—	—
Other income and other net gains or losses	**4,366.2**	5,505.3	5,627.2	5,395.0	4,363.0
Total income	**76,507.5**	112,656.5	107,253.1	128,070.6	95,207.7

	For the year ended December 31,				
	2020	2019	2018	2017	2016
	(in millions of RMB)				
Interest expenses	**(54,868.2)**	(60,256.7)	(64,098.1)	(50,691.1)	(31,416.8)
Commission and fee expenses	**(2,371.5)**	(2,207.7)	(2,079.9)	(1,296.2)	(1,035.9)
Operating expenses	**(12,900.0)**	(13,138.8)	(14,550.0)	(15,140.9)	(12,286.8)
Impairment losses under expected credit loss ("ECL") model	**(97,679.6)**	(24,966.2)	(17,297.8)	(16,550.5)	—
Impairment losses on other assets	**(10,075.8)**	(1,498.0)	(2,769.0)	(913.1)	—
Impairment losses on assets	**—**	—	—	—	(16,717.0)
Total expenses	**(177,895.1)**	(102,067.4)	(100,794.8)	(84,591.8)	(61,456.5)
Change in net assets attributable to other holders of consolidated structured entities	**(500.5)**	(631.3)	(1,928.2)	(7,823.7)	(3,376.3)
Share of results of associates and joint ventures	**(846.5)**	1,012.3	1,481.8	946.6	134.4
(Loss)/profit before tax	**(102,734.6)**	10,970.1	6,011.9	36,601.7	30,509.3
Income tax expense	**(3,539.7)**	(8,700.8)	(4,502.9)	(10,014.0)	(7,400.8)
(Loss)/profit for the year	**(106,274.3)**	2,269.3	1,509.0	26,587.7	23,108.5
(Loss)/Profit attributable to:					
Equity holders of the Company	**(102,903.0)**	1,424.4	1,575.5	21,992.6	19,613.5
Holders of perpetual capital instruments	**811.3**	869.4	976.8	1,140.5	455.8
Non-controlling interests	**(4,182.6)**	(24.5)	(1,043.3)	3,454.6	3,039.2

	2020	2019	2018	2017	2016
			As at December 31,		
			(in millions of RMB)		
Assets					
Cash and balances with central bank	**22,808.4**	30,774.7	29,909.1	33,207.1	27,259.8
Deposits with financial institutions	**123,875.0**	149,462.0	107,500.2	162,881.1	154,329.9
Placements with financial institutions	**5,740.8**	2,709.9	843.6	9,822.7	4,902.3
Financial assets held for trading	**—**	—	—	67,257.7	87,731.3
Financial assets designated as at fair value through profit or loss	**—**	—	—	230,045.3	95,167.3
Financial assets at fair value through profit or loss (“**FVTPL**”)	**359,440.0**	367,669.9	391,181.0	—	—
Financial assets held under resale agreements	**15,224.6**	22,525.9	20,126.9	41,238.1	36,347.7
Contract assets	**5,307.0**	—	114.7	—	—
Loans and advances to customers	**232,500.2**	211,265.1	190,654.0	158,221.9	118,406.0
Finance lease receivables	**39,796.7**	68,040.3	99,002.9	95,703.9	84,991.3
Debt instruments at FVTOCI	**83,106.8**	103,739.3	147,387.3	—	—
Equity instruments at FVTOCI	**4,493.9**	3,583.7	3,244.3	—	—
Inventories	**20,112.4**	19,147.4	19,243.0	16,640.8	16,418.9
Available-for-sale financial assets	**—**	—	—	195,520.7	140,292.6
Held-to-maturity investments	**—**	—	—	64,451.2	44,884.2
Financial assets classified as receivables	**—**	—	—	701,192.4	549,478.0
Debt instruments at amortised cost	**656,048.6**	642,086.0	612,133.1	—	—
Interests in associates and joint ventures	**14,358.0**	28,078.9	36,975.5	42,097.1	9,564.0
Investment properties	**4,001.0**	5,910.9	5,326.1	2,135.4	1,828.4
Property and equipment	**12,717.3**	12,325.0	10,684.5	8,645.2	7,145.8
Right-of-use assets	**2,447.2**	3,569.6	—	—	—
Deferred tax assets	**14,423.9**	12,193.8	15,018.7	13,400.2	9,301.2
Goodwill	**323.0**	18.1	263.4	342.1	206.9
Other assets	**24,742.2**	21,911.9	20,478.4	27,457.4	23,713.7
Total assets	**1,641,467.0**	1,705,012.4	1,710,086.7	1,870,260.3	1,411,969.3
Liabilities					
Borrowings from central bank	**23,182.8**	3,641.7	2,402.2	4,647.0	1,987.0
Deposits from financial institutions	**8,924.1**	10,276.7	7,307.6	10,158.4	6,962.5
Placements from financial institutions	**4,679.3**	2,253.6	300.2	2,101.6	4,278.5
Financial assets sold under repurchase agreements	**15,547.4**	15,665.4	24,410.0	60,317.0	56,390.6
Borrowings	**778,423.8**	761,506.4	760,995.5	773,057.3	511,308.6
Financial liabilities at FVTPL	**3,301.5**	3,223.9	4,728.3	2,547.4	—
Due to customers	**250,827.2**	226,814.7	209,116.5	202,349.9	172,405.9
Tax payable	**1,283.9**	2,887.4	3,731.9	6,025.8	4,680.6
Contract liabilities	**649.1**	575.1	954.4	—	—
Lease liabilities	**919.8**	1,983.3	—	—	—
Deferred tax liabilities	**408.8**	478.5	605.8	1,380.3	700.4
Bonds and notes issued	**336,971.8**	367,345.6	353,305.3	331,962.9	243,075.2
Other liabilities	**152,090.6**	144,883.6	173,624.0	293,077.8	260,099.0
Total liabilities	**1,577,210.1**	1,541,535.9	1,541,481.7	1,687,625.4	1,261,888.3

	As at December 31,				
	2020	2019	2018	2017	2016
	(in millions of RMB)				
Equity					
Share capital	**39,070.2**	39,070.2	39,070.2	39,070.2	39,070.2
Capital reserve	**17,241.5**	18,405.0	19,107.4	19,015.0	18,320.7
Surplus reserve	**8,564.2**	8,564.2	6,971.8	5,299.7	3,615.2
General reserve	**17,842.1**	16,681.3	15,872.8	12,882.9	10,304.4
Other reserves	**3,413.2**	1,806.9	987.8	(799.5)	3,071.8
(Accumulated losses)/retained earnings	**(67,976.5)**	36,731.2	38,630.2	52,706.3	40,860.7
Equity attributable to Shareholders of the Company	**18,154.7**	121,258.8	120,640.2	128,174.6	115,243.0
Perpetual capital instruments	**25,475.9**	18,430.6	20,258.5	23,185.4	15,030.3
Non-controlling interests	**20,626.3**	23,787.1	27,706.3	31,274.9	19,807.7
Total equity	**64,256.9**	163,476.5	168,605.0	182,634.9	150,081.0
Total equity and liabilities	**1,641,467.0**	1,705,012.4	1,710,086.7	1,870,260.3	1,411,969.3

	As at and for the year ended December 31,				
	2020	2019	2018	2017	2016
Financial Ratios					
ROAE(1)	**(147.6%)**	1.2%	1.3%	18.1%	18.4%
ROAA(2)	**(6.4%)**	0.1%	0.1%	1.6%	2.0%
Liabilities to total assets ratio(3)	**96.1%**	90.4%	90.1%	90.2%	89.4%
Basic (losses)/earnings per share (RMB)(4)	**(2.63)**	0.04	0.04	0.56	0.50
Diluted earnings per share (RMB)(5)	**N/A**	N/A	N/A	N/A	0.50

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

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

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

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

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

6. Chairman's Statement

The year 2020 has been a hard year for all. With the COVID-19 epidemic dealing a heavy blow to global economy and the whole society, the distressed asset industry has undergone profound changes and is facing severe challenges. Under the unprecedented business situation and market pressure, China Huarong resolutely implemented the decisions and arrangements of the Party Central Committee and the State Council, adhered to the general work guideline of making progress while maintaining stability, fulfilled the requirements of "ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations" and "ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments", further eliminated the pernicious influence, focused on the core business, accelerated business transformation and gave full play to the counter-cyclical financial rescue function under the correct leadership of the regulatory authorities and with the full support of shareholders, investors, customers and peers. Due to the aggressive operation and disorderly expansion of former Party Secretary and Chairman Lai Xiaomin, the Company has badly deviated from its main responsibilities and core business. In 2020, the Company comprehensively reviewed and assessed the risks of operating assets and recognized credit impairment losses and fair value change losses. This had a significant impact on the operating results and is a harsh lesson to be learned in the development history of the Company. What is gone is gone, but go for what to come. We will learn from the lesson and take it as valuable experience and the desire to move forward.

Time has witnessed our efforts. In 2020, one step at a time, we forged ahead in spite of difficulties.

We focused on our core business and had the courage to take up our responsibilities as the national team and main force. Adhering to its positioning as a financial asset management company, the Company sped up transformation and development of the core business and recorded a continuous growth in revenue contributed by the core business of distressed assets. We proactively resolved financial risks and stepped up efforts on acquisition and disposal. The distressed assets packages acquired in the year exceeded RMB180 billion. In addition, we optimized the structure of acquisition-and-restructuring business, made great efforts in the restructuring of enterprises with substantial problems, and achieved new breakthroughs in key business areas. We closely followed the national strategy in carrying out market-based DES business and the financial rescue function was brought into full play.

We insisted on risk resolution and downsizing, continuously building up the foundation of stable and sustainable development. Determined to win the battle against hidden existing risks, we improved the risk resolution mechanism, accelerated the disposal of risk assets, and achieved satisfactory results in reducing risk exposures. We continued our efforts in risk resolution and downsizing, basically completed the adjustment of non-core and non-advantageous non-financial subsidiaries, completed the management integration of international business lines, and made smooth progress in optimizing the layout of licenses of financial subsidiaries.

We strengthened management and kept increasing the endogenous dynamic of development. We continued to boost the organic integration of Party leadership and corporate governance and improved the corporate governance related system. Based on the principle of compliance with industry regulation and respect for the status of legal persons, we continuously optimized the management of branches and subsidiaries and applied different policies and management approaches to different branches and subsidiaries. We continued to optimize internal management, improved planning, assessment and resource allocation mechanisms, improved the review of related party transactions and internal transactions, and strived to strengthen internal control compliance.

We insisted on practicing our mission as a central enterprise and made active efforts in fighting against the epidemic and poverty alleviation. We fully supported the national move to combat and prevent the epidemic as well as enterprises' resumption of production. 75 anti-epidemic restructuring projects were implemented throughout the year, and the first debt acquisition-and-restructuring of anti-epidemic project in the industry was successfully carried out. The Company helped the country clinch a complete victory in eradicating poverty and made every effort to assist Xuanhan County in Sichuan Province, which was specifically helped by the Company, in getting out of poverty, and 205,800 households who were registered to have lived in poverty in 211 poverty-stricken villages have been lifted out of poverty completely.

Time can answer all questions. Looking back, in the past three years, we have fully started the construction of New Huarong with high-quality development by responding to doubts with determination, hardworking to break ridicules, struggling and persisting. We were dedicated to gather strength and have made a series of structural and trend changes in the development of the core business and risk prevention to achieve the key turning point, rebirth and a new start of China Huarong. On behalf of China Huarong, I would like to hereby express our sincere gratitude to the strong leadership of relevant national departments and superior regulatory authorities, heartfelt thanks to shareholders, investors, customers and peers for their firm support, sincere thanks to all sectors of society for their long-term care, support and love for China Huarong. At the same time, I would also like to thank Ms. Li Xin, Mr. Liu Junmin, and other resigned members of the senior management for their contributions in 2020, as well as all employees and their family members for their selfless dedication.

Time can heal all wounds. Looking to the future, we will comprehensively assess the risks of existing assets and recognize impairment losses to further consolidate the value of assets and consolidate "safety", which will also lay the financial foundation for future risk disposal. We will introduce strategic investors to effectively replenish capital, optimize governance structure, concentrate superior resources, focus on the main responsibilities and the core businesses, and build an internationally renowned and domestic leading asset management company and financial service brand.

Strengthen and refine the core business and accelerate the transformation of the core business. We will grasp the period of macroeconomic recovery, the period of industry development opportunities, and the window period of company development, use the "investment + investment banking" approach to focus on problem companies and problem assets, and vigorously expand the restructuring of substantive problem companies. We will focus on mixed ownership reform of state-owned enterprises and industrial chain integration, and expand investment banking services related to corporate restructuring, such as M&A, bankruptcy reorganization, mezzanine investment, bridge financing, and staged shareholding. We will focus on strategic emerging industries, and increase investment in high-tech industries and strategic industries such as information technology, high-end equipment, and biomedicine through market-based debt-to-equity swaps business and comprehensive financial services.

Constantly prevent risks and revitalize existing assets. By subdividing assets, implementing policies precisely, and tapping potentials, we will speed up the disposal of existing risk assets and accelerate to eliminate inefficient and ineffective assets to achieve benefits from the existing assets. We will strengthen the construction of a comprehensive risk management system, strengthen risk appetite management, improve early warning of risks, strictly prevent new risks, and ensure liquidity safety.

Optimize internal management and improve the quality of development. Based on the Company's development strategy, establish and improve an incentive and restraint mechanism suitable for high-quality development, and give full play to the role of the "baton". We will further enhance the leading role of the headquarters, optimize classified management of branches, resource allocation, business authorization, and business review mechanisms, and accelerate the construction of information systems. We will gradually reduce non-core business and non-advantageous business assets as planned, consolidate the core advantages of the core business, and carry out the activities of "Internal Control and Compliance Management Construction Year" to strengthen the cultivation of compliance culture.

With a mission on our shoulders, we are well aware of the requirements of the country, the expectations of the market, and the trust of customers.

How time flies! We will cherish and take full use of time.

On the new journey of construction of New Huarong, we will take full use of time and go with courage to unswervingly strengthen and refine the core business, promote transformation and development, and fully complete the tasks of the "transformation year and breakthrough year" of China Huarong. We will take on new responsibilities and reshape a new image in serving the national strategy and the real economy to better give back to the country, shareholders and investors. We will write a new chapter worthy of history and time.

王占峰

Chairman: Wang Zhanfeng
August 28, 2021

7. President's Statement

Time flows downstream and we sail against the current. After the case of Lai Xiaomin, the risks caused by his aggressive operation and disorderly expansion during his tenure have posed an unprecedented major test to the business development of China Huarong. Over the past three years, with the support and assistance from various parties, we have returned to our core business, carried out downsizing and risk resolution, sought transformation for development and strengthened management, and experienced a series of structural and trend-oriented changes, with the Company's operation remaining stable on the whole. In 2020, we actively responded to the complex and severe external environment, proactively resisted various risk challenges, continued to implement the three-year strategic plan, focused on the main responsibilities and the core business, promoted downsizing and risk resolution, comprehensively assessed risks, increased efforts for impairment and strengthened internal management, with the distressed assets business as core business remaining stable and the foundation of operation and management further strengthened.

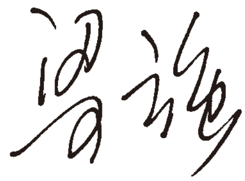
The development of the core business continued to be consolidated and substantial results were made in business transformation. The Company's core business witnessed constantly rising contribution, and its asset and business structure continued to be optimized. The newly acquired size of **disposal business** maintained the industry's leading position in market share. The disposal of existing assets accelerated and the disposal yield remained in a higher level. Regarding the **restructuring business**, the Company successfully implemented a number of innovative projects such as divestiture of the main and auxiliary businesses of state-owned enterprises, rescue of large-scale entities, urban renewal, and the acquisition of defaulted debts; the concentration of non-financial related real estate and the size of fixed-income real estate business meet the regulatory requirements; developed preferential policies for anti-epidemic business, help enterprises resume work and production, and make contributions to the prevention of and fight against the epidemic. The **equity business** structure was further optimized. More than 60% of the new market-oriented debt-to-equity swap projects invest in strategic emerging industries such as technological innovation and biomedicine, to support the transformation and upgrading of the real economy. The Company kept the accumulative business size at a comparatively good standard in the industry and accelerated the disposal of existing equity assets.

We deepened downsizing and risk resolution and the overall liquidity risk was under control. The Company established and improved the mechanism for resolving hidden existing risks, and actively implemented the strategy of "making benefits from existing risks". The exposure to hidden risks has been drastically reduced. The proportion of cash collection and ultimate disposals has increased significantly, with obvious effect of risk mitigation. We have proceeded in an orderly manner to clean up non-financial subsidiaries and super-level affiliated legal entities. Non-core business and disadvantageous assets continued to drop. We implemented unified liquidity management of the Group, and successfully issued overseas senior bonds of US$3 billion and RMB20 billion Huarong Huayuan asset-backed special plan. We optimized our financing methods, gradually formed a multi-level financing system, and rationalized the maturity of liabilities to effectively improve the debt structure.

We improved and optimized internal management and management level. We implemented the classified management of branches and optimized the way financial subsidiaries are managed. We promoted the development of a comprehensive risk management system in an orderly manner, strengthened risk appetite and quota management, improved business entry and review mechanisms, enhanced risk warnings and alerts, and regulated connected transactions. We kept improving our internal control management system, strengthened compliance building and made real rectifications upon regulatory opinions. We strengthened the planning and construction of information technology infrastructure, and built a data centre system covering “two centers in the same city” to enhance our technological security strength.

Under the multiple influences of historical factors, the impact of the epidemic and the complex and severe operating environment, we comprehensively reviewed and assessed the risks of our operating assets and recognized gains and losses on fair value changes and credit impairment losses, laying a solid foundation for the subsequent disposal of our risky assets and our healthy and sound development. The Company is now actively introducing strategic investors, and has made arrangements for capital replenishment planning, which has significantly enhanced our risk resistance capability and provided strong protection for our sustainable operation.

The journey is long and arduous but we will get through with determination and perseverance. We believe that if we persevere, there will be a promising future. Everything is developed amid advancement and tortuousness. All self-revolution and determined struggle are to achieve the high-quality development of New Huarong. In 2021, we have and will continue to closely focus on the various deployments of constructing the “transformation year and breakthrough year” of New Huarong, attaching importance to the transformation of the core business and preventing risks. We will strive to jointly create a bright future for New Huarong with the ambition to deepen reform, fearless courage, the morale of unity, and the resolution of overcoming difficulties.



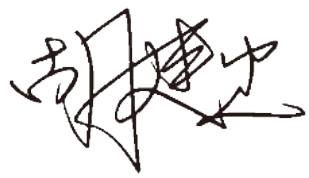
President: Liang Qiang
August 28, 2021

8. Statement of Chairman of the Board of Supervisors

2020 is a crucial year for the construction of New Huarong. In facing the ordeal of the epidemic during the year, the Board of Directors and senior management of the Company thoroughly implemented the national economic and financial policies with the care and guidance of relevant national authorities. Adhering to the underlying principle of making progress while maintaining stability, constantly promoting the return to the core business, the transformation and development has achieved obvious results, and the construction of New Huarong has made positive progress. The 2020 annual report is prepared in the principle of prudence. The annual report truly, accurately and completely reflects the actual situation of the Company. The Board of Directors and senior management worked hard to safeguard the legitimate rights and interests of the Company, shareholders, creditors and other stakeholders.

In 2020, the Board of Supervisors of the Company kept adhering to the concept of legal compliance and standardized operation and performed duties faithfully and diligently pursuant to the laws and regulations, regulatory provisions of the state and the Articles of Association. The Board of Supervisors incorporated the requirements for its performance of the laws and regulations, regulatory provisions and the Articles of Association into each work of supervision by making duty performance, finance, internal control and risk as main contents and by making on-site investigation, meetings attendance, discussions and interviews, and off-site supervision. By proposing opinions and suggestions, the Board of Supervisors continued to improve policies and strategies of operation and management, regulate business operations, and have higher quality and efficiency of management.

2021 has special importance to the construction of New Huarong. Taking the General Secretary Xi Jinping's important guidelines on financial work, i.e. "disciplining persons, overseeing money, and consolidating the system firewall", as the basic principles, and in accordance with duties required by laws, regulations, regulatory requirements and the Articles of Association, the Board of Supervisors will adhere to its original intention, play a role of supervision, constantly strengthen efforts of supervision, and constantly seek greater ability and quality of supervision. The Board of Supervisors will concentrate on supervising and inspecting the effort of implementation of the New Huarong strategic plan, transformation of core businesses, and steady and orderly business operation, and work in concert with the Board of Directors and senior management to promote the steady and orderly operation and high-quality development of the Company.



Chairman of the Board of Supervisors: Hu Jianzhong

August 28, 2021

9. Management Discussion and Analysis

9.1 Economic, Financial and Supervising Environment

In 2020, the COVID-19 epidemic had a huge impact on global economic and social development. The International Monetary Fund (IMF) predicted that the global economy would decline by 3.3% for 2020 on a year-on-year basis. In response to this unprecedented public health crisis, advanced economies have successively introduced incentive measures, resulting in rapid expansion of central bank balance sheets, soaring asset prices, and potential financial risks. Setbacks in the development of emerging economies, international trade frictions and regional geopolitical conflicts have further increased the uncertainty of global recovery.

Facing the severe ordeal brought by the COVID-19 epidemic and the complex domestic and international market environment, China stepped up its macro policy response and witnessed economic growth from negative to positive in the first three quarters, becoming the only major economy in the world with positive economic growth. The economy grew by 2.3% for the year 2020 on a year-on-year basis, but there were still difficulties in economic recovery because of uneven and unstable foundations. In terms of sectors, international trade recovered first, fixed asset investment has picked up, while the recovery momentum of related industries such as industrial production and service consumption still needs to be strengthened.

With the thorough implementation of decisions and arrangements of the Party Central Committee and the State Council, China's financial industry has closely followed the requirements of "ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations", and "ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments" to fully supported the recovery of economic and social development. The PBOC has flexibly grasped the intensity, rhythm and focus of monetary policy control and created a stable and suitable monetary and financial environment. The CBIRC refined and promoted various financial relief policies, thoroughly implemented the decisions and arrangements of the Party Central Committee and the State Council on preventing and mitigating financial risks to achieve a balance between economic recovery and risk prevention. With the guidance of the regulatory authorities, financial AMCs actively responded to the impact of the epidemic, focused on the core business of distressed assets, gave full play to the functions of financial assistance and countercyclical financial instruments to support the real economy to resume work and production.

Since 2020, in the face of the huge impact of the COVID-19 epidemic on China's economic and social development, financial regulatory policies constantly strengthened supervision while paying more attention to improving the quality and efficiency of financial services for the real economy. This provides an external policy environment and development opportunities for financial AMCs to carry out the core business of distressed assets in compliance with laws and regulations and brings new challenges to improving the quality and efficiency of the disposal of distressed assets. Firstly, emphasize the requirements for state-owned financial institutions to focus on their core businesses and simplify the hierarchy, strictly consolidate and penetrate management, regulate related transactions, and guide state-owned financial institutions to focus on the strategic development direction, highlight their core businesses, and return to their core business. Secondly, strengthen the regulatory requirements for the development of the core business of financial institutions, continue to promote the decision and deployment of the Party Central Committee and the State Council on preventing and mitigating financial risks, and further standardize and refine the regulatory requirements for the development of the core business by financial institutions. Thirdly, accelerate the establishment of a long-term management mechanism for real estate finance. While controlling the scale of interest-bearing liabilities in the real estate industry, strengthen prevention of potential systemic financial risks caused by excessive concentration of real estate loans; trend business opportunities are significantly reduced due to the impact of the COVID-19 epidemic on the commercial real estate market.

9.2 Analysis of Financial Statements

9.2.1 Operating Results of the Group

The year 2020 is an eventful year for the Group's development. After three years of hard work, the Group has undergone a series of structural and trend-oriented changes in the return to core business, downsizing and risk resolution, and improvement in corporate governance and internal control of risks, with various businesses developed constantly and the operating income remained stable, and all employees have worked together to build New Huarong.

But at the same time, the risks caused by the aggressive operation during the tenure of former chairman Lai Xiaomin were highlighted. Lai Xiaomin decided on major matters of the Group in violation of regulations and intervened in specific projects unauthorizedly. Lai Xiaomin and other related violators seriously polluted the political ecology of the Group. Some units and persons have performed in the same manner, with aggressive risk appetite and aimless expansion, resulting in great risk accumulation. At the same time, prior to Lai's case, the disorderly expansion of assets and subsidiaries in violation of regulations pushed the Group off its main responsibilities and core business. At the end of 2017, the total consolidated assets of the Group at the end of the period amounted to RMB1,870,260 million, representing an increase of 211.4% as compared with the end of 2014. The number of non-financial subsidiaries reached 27, representing an increase of 18 as compared with the end of 2014. The expansion of overseas business was particularly prominent. The total international business assets increased from RMB60.451 billion at the end of 2015 to RMB274.764 billion at the end of 2017, representing an increase of 354.5%. From 2015 to 2017, the number of offshore direct administration institutions increased by 7.

On April 17, 2018, Lai Xiaomin was put under disciplinary review and regulatory investigation for alleged serious violation of discipline and laws. According to regulatory requirements, the new management of the Group stabilized operation, liquidity and workforce, and assisted the task force in recovering embezzled property and losses, and constantly promoted screening and disposal of the operational risks. During the year, for debt instruments at fair value through other comprehensive income and debt instruments at amortised cost, the Group made impairment provisions of RMB33,846 million, with an impairment ratio of 6.7% at the end of the year. The net profit attributable to equity holders of the Company decreased by 92.8% as compared with the previous year. Impacts to relevant risks started to emerge.

In 2019, the management further took firm measures in respect of organizational structure and management system to clear and integrate domestic and overseas non-financial subsidiaries and address the risk from disorderly expansion of institutions. The number of domestic and overseas non-financial subsidiaries under the direct management of the Group has been reduced from 27 to 23, and further reduced to 13 at the end of 2020. Overseas business has been integrated, in the meanwhile. Huarong Overseas Chinese, as an overseas asset management platform, was responsible for managing and vitalizing existing assets. During the year, the proportion of the Group's income from the distressed asset management segment increased to 62.0% (further increased to 78.9% in 2020). While maintaining stable operations, in 2019, the Group made impairment provisions of RMB31,163 million for debt instruments at fair value through other comprehensive income and debt instruments at amortised cost, with an impairment ratio of 8.5% at the end of the year.

In 2020, the Group continued to carry out existing risks disposal while maintaining operational stability, but the sudden outbreak of the COVID-19 epidemic accelerated deterioration of the quality of the Company's risk assets. Under the unprecedented operating situation and market pressure, the management, on the one hand, actively took countermeasures to stabilize operating income; on the other hand, for projects exposed to risks, it comprehensively reviewed and assessed the risk of the operating assets in light of the COVID-19 epidemic, the market and other influential factors, and loss from the fair value change and asset impairment loss recognized in the current period had a huge impact on the operating results.

Firstly, impairment test was conducted on the existing risk assets that has been centralizedly disposed. Based on the integration of overseas business in 2019, Huarong Overseas Chinese integrated some existing assets of branches and subsidiaries within the Group, and conducted centralized management. The Group completed the project registration and approval of the equity transfer of Huarong Overseas Chinese, and made an announcement on the potential disposal as at April 8, 2020. However, by the end of 2020, the transfer has not been implemented according to the plan. Huarong Overseas Chinese had conducted the comprehensive review and assessment of the centrally managed assets, made provisions for credit impairment loss and loss from fair value changes.

Secondly, a prudent assessment was conducted on the impairment loss of current asset risks. From 2015 to 2017, the fast-growing acquisition-and-restructuring projects and fixed income projects matured centrally in 2020, due to the historical reasons for the formation of risk assets and the effect of the current market environment, as well as the severe impact of COVID-19 epidemic and the "mine explosion" incidents in the market, the contract performance ability of customers was greatly affected and the relevant assets' quality was also exposed to greater pressure than that in the previous period. Upon the comprehensive review and assessment of risks, the Company had recognized credit impairment loss.

Thirdly, the risks of some subsidiaries offset the Group's operating results. The underlying assets in asset management plan of relevant financial service subsidiaries are exposed to risks in a quicker speed. Deterioration incurred on risk assets of some subsidiaries in asset management and investment segments. Upon the comprehensive review and assessment of risks, these subsidiaries had recognized credit impairment loss and loss from fair value changes.

In 2020, the operating income of the Group amounted to RMB101,732 million, representing a decrease of 7.5% compared with the same caliber income in 2019, and operating income remained basically stable under circumstance of overcoming the impact of the epidemic. Upon the comprehensive review and assessment of risks, recognized unrealized fair value changes of RMB-25,224 million, the total income of the Group amounted to RMB76,508 million, representing a decrease of 32.1% as compared with last year. In particular: (1) the distressed assets management business which is the Group's core business remained stable, and a total revenue of RMB60,370 million was recorded from the distressed asset management segment. Among which, the total income from distressed debt assets under the acquisition-and-restructuring model and the realized gain from distressed debt assets under the acquisition-and-disposal model amounted to RMB41,051 million, representing an increase of 1.8% as compared with last year; (2) the total revenue of the financial service subsidiaries remained steady, and the total revenue from the financial services segment was RMB33,288 million, basically the same as last year; (3) the asset management and investment segment reduced its non-core and non-advantageous businesses, and at the same time, prudently assessed the fair value of financial assets, the total revenue of the asset management and investment segment amounted to RMB-11,500 million. The total expenses amounted to RMB177,895 million, representing an increase of RMB75,828 million as compared with last year, mainly due to the total amount of recognized credit impairment loss and impairment loss on other assets of RMB107,755 million upon the comprehensive review and assessment of risks. To sum up, the Group achieved a net loss of RMB106,274 million, and a net loss attributable to equity holders of the Company of RMB102,903 million.

Due to historical and realistic reasons, the Group recorded a huge loss for large amounts of recognized impairment in 2020, which is the concentrated reflection of existing risks accumulation during the tenure of Lai Xiaomin, and a painful lesson to be learned forever for the development of the Company. We will learn from the lesson and take it as valuable experience and the motivation to move forward.

In 2020, the Group maintained stable operation on its core business and constantly optimized its business structure. The Company had additional acquisition cost in acquisition-and-disposal business of RMB53,757 million throughout the year, representing an increase of 36.5% as compared with the previous year; disposed distressed debt assets of RMB38,939 million, representing an increase of 26.0% as compared with the previous year; achieved disposal income of RMB7,240 million with the IRR of 13.7%, which was remained in a high level. The Company remained stable in regard of the scale of acquisition-and-restructuring business, with the gross amount of assets of RMB364,624 million at the end of the year; achieved revenue of RMB33,812 million throughout the year, representing an increase of 6.8% as compared with the previous year. Its annualized return on monthly average gross amount was 9.0%, representing an increase of 0.5 percentage point as compared with the previous year. The Company had total cumulative investment in market-oriented DES business of RMB34,189 million and achieved income of RMB1,860 million throughout the year.

In 2020, the Group conducted a comprehensive assessment of the risks of the existing assets and recognized impairment loss, which also provided financial foundation for the future disposal of risk assets. Meanwhile, with the solid support from various parties, the capital replenishment planning was implemented by the Group, the liquidity has remained stable all the time, which secured the foundation of continuous operation. We have the confidence and ability to start a new stage of high-quality development.

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets	**34,121.4**	35,067.8	(946.4)	(2.7%)
Fair value changes on distressed debt assets	**4,317.0**	9,963.7	(5,646.7)	(56.7%)
Fair value changes on other financial assets and liabilities	**(12,520.0)**	11,727.2	(24,247.2)	(206.8%)
Interest income	**37,589.1**	38,530.0	(940.9)	(2.4%)
Finance lease income	**3,535.9**	5,911.6	(2,375.7)	(40.2%)
Gains from derecognition of financial assets measured at amortised cost	**866.4**	104.7	761.7	727.5%
Gains/(losses) from derecognition of debt instruments at FVTOCI	**154.8**	(9.8)	164.6	1,679.6%
Commission and fee income	**2,114.6**	2,595.8	(481.2)	(18.5%)
Net gains on disposals or deemed of disposals of subsidiaries, associates and joint ventures	**769.1**	1,441.2	(672.1)	(46.6%)
Dividend income	**1,193.0**	1,819.0	(626.0)	(34.4%)
Other income and other net gains or losses	**4,366.2**	5,505.3	(1,139.1)	(20.7%)
Total income	**76,507.5**	112,656.5	(36,149.0)	(32.1%)
Interest expenses	**(54,868.2)**	(60,256.7)	5,388.5	(8.9%)
Commission and fee expenses	**(2,371.5)**	(2,207.7)	(163.8)	7.4%
Operating expenses	**(12,900.0)**	(13,138.8)	238.8	(1.8%)
Impairment losses under expected credit loss model	**(97,679.6)**	(24,966.2)	(72,713.4)	291.2%
Impairment losses on other assets	**(10,075.8)**	(1,498.0)	(8,577.8)	572.6%
Total expenses	**(177,895.1)**	(102,067.4)	(75,827.7)	74.3%
Change in net assets attributable to other holders of consolidated structured entities	**(500.5)**	(631.3)	130.8	20.7%
Share of results of associates and joint ventures	**(846.5)**	1,012.3	(1,858.8)	(183.6%)
(Loss)/profit before tax	**(102,734.6)**	10,970.1	(113,704.7)	(1,036.5%)
Income tax expense	**(3,539.7)**	(8,700.8)	5,161.1	(59.3%)
(Loss)/profit for the year	**(106,274.3)**	2,269.3	(108,543.6)	(4,783.1%)
(Loss)/profit attributable to:				
Equity holders of the Company	**(102,903.0)**	1,424.4	(104,327.4)	(7,324.3%)
Holders of perpetual capital instruments	**811.3**	869.4	(58.1)	(6.7%)
Non-controlling interests	**(4,182.6)**	(24.5)	(4,158.1)	(16,971.8%)

9.2.1.1 Total income

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets	**34,121.4**	35,067.8	(946.4)	(2.7%)
Fair value changes on distressed debt assets	**4,317.0**	9,963.7	(5,646.7)	(56.7%)
Fair value changes on other financial assets and liabilities	**(12,520.0)**	11,727.2	(24,247.2)	(206.8%)
Interest income	**37,589.1**	38,530.0	(940.9)	(2.4%)
Finance lease income	**3,535.9**	5,911.6	(2,375.7)	(40.2%)
Gains from derecognition of financial assets measured at amortised cost	**866.4**	104.7	761.7	727.5%
Gains/(losses) from derecognition of debt instruments at FVTOCI	**154.8**	(9.8)	164.6	1,679.6%
Commission and fee income	**2,114.6**	2,595.8	(481.2)	(18.5%)
Net gains on disposals or deemed of disposals of subsidiaries, associates and joint ventures	**769.1**	1,441.2	(672.1)	(46.6%)
Dividend income	**1,193.0**	1,819.0	(626.0)	(34.4%)
Other income and other net gains or losses	**4,366.2**	5,505.3	(1,139.1)	(20.7%)
Total income	**76,507.5**	112,656.5	(36,149.0)	(32.1%)

In 2020, the operating income of the Group amounted to RMB101,731.6 million, representing a decrease of 7.5% compared with the same caliber income in 2019, remained basically stable. Upon the comprehensive review and assessment of risks, recognized unrealized fair value changes of RMB-25,224.1 million, the total income of the Group amounted to RMB76,507.5 million, representing a decrease of 32.1% as compared to 2019.

9.2.1.1.1 Income from distressed debt assets

Income from distressed debt assets derives from the acquisition-and-restructuring business of the Group. In 2020, the Group actively promoted the transformation of the acquisition-and-restructuring business, and pushed forward the implementation of a number of restructuring projects for problematic enterprises, such as divestiture of principal and subsidiary of state-owned enterprises, relief of entity enterprises, and acquisition of defaulted debts. The Group's income from distressed debt assets decreased by 2.7% from RMB35,067.8 million in 2019 to RMB34,121.4 million in 2020.

9.2.1.1.2 Fair value changes on distressed debt assets

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets				
Fair value changes				
— realized	**8,245.0**	8,730.1	(485.1)	(5.6%)
— unrealized	**(3,928.0)**	1,233.6	(5,161.6)	(418.4%)
Total	**4,317.0**	9,963.7	(5,646.7)	(56.7%)

Fair value changes on distressed debt assets derive from the acquisition-and-disposal business of the Group, including the realized net income from disposal of acquisition-and-disposal distressed debt assets and the unrealized fair value changes on such assets. Any interest income generated from such assets is also included in the fair value changes. In 2020, the Group continued to allocate resources around its core business and increased the acquisition and disposal of acquisition-and-disposal distressed debt assets. On the one hand, the scale of assets increased somewhat, and balance of acquisition-and-disposal distressed debt assets was RMB189,056.7 million by the end of 2020, representing an increase of 9.2% compared with the end of 2019; on the other hand, the Group took multiple measures to accelerate the disposal of distressed assets by means of collection and disposal linkage, online promotion and asset securitization, etc. The realized fair value changes amounted to RMB8,245.0 million, representing a decrease of 5.6% compared with the previous year. Upon the comprehensive review and assessment of risks, the recognized unrealized fair value changes were RMB-3,928.0 million, representing a decrease of RMB5,161.6 million as compared to 2019.

9.2.1.1.3 Fair value changes on other financial assets and liabilities

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Fair value changes on other financial assets and liabilities				
— realized	**8,776.1**	10,283.0	(1,506.9)	(14.7%)
— unrealized	**(21,296.1)**	1,444.2	(22,740.3)	(1,574.6%)
Total	**(12,520.0)**	11,727.2	(24,247.2)	(206.8%)

Fair value changes on other financial assets and liabilities derive from the financial assets and financial liabilities at FVTPL, excluding the ones in relation to the acquisition-and-disposal business of the Group. The fair value changes comprise both realized gains or losses from disposal and settlement of other financial assets and liabilities and unrealized fair value changes on such assets and liabilities. Any interest income arising from such assets is also included in fair value changes.

In 2020, the loss from fair value changes on other financial assets and liabilities were RMB12,520.0 million, representing a decrease of RMB24,247.2 million as compared to 2019. Among them, the realized fair value changes amounted to RMB8,776.1 million, representing a decrease of RMB1,506.9 million as compared to 2019; and upon the comprehensive review and assessment of risks, the recognized unrealized fair value changes amounted to RMB-21,296.1 million, representing a decrease of RMB22,740.3 million as compared to 2019.

9.2.1.1.4 Interest income

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost other than distressed debt assets	**13,132.4**	16,816.8	(3,684.4)	(21.9%)
Debt instruments at FVTOCI other than distressed debt assets	**1,891.8**	2,523.3	(631.5)	(25.0%)
Loans and advances to customers				
Corporate loans and advances and discounted bills	**8,764.3**	7,352.3	1,412.0	19.2%
Personal loans and advances	**6,384.8**	6,396.4	(11.6)	(0.2%)
Loans to margin clients	**338.9**	872.4	(533.5)	(61.2%)
Receivables arising from sales and leaseback arrangements	**3,500.6**	1,269.3	2,231.3	175.8%
Deposits with financial institutions	**2,292.5**	1,638.1	654.4	39.9%
Financial assets held under resale agreements	**571.8**	1,007.0	(435.2)	(43.2%)
Placements with financial institutions	**388.4**	238.6	149.8	62.8%
Balances with central bank	**323.6**	415.8	(92.2)	(22.2%)
Total	**37,589.1**	38,530.0	(940.9)	(2.4%)

Interest income derives from the Group's debt instruments, which is measured at amortised cost and FVTOCI, excluding that from the acquisition-and-restructuring businesses of the Group. The Group's interest income decreased by 2.4% from RMB38,530.0 million in 2019 to RMB37,589.1 million in 2020, primarily due to: (i) the banking business of the Group developed steadily, and the income scale increased continuously. The interest income from loans and advances to customers increased by 5.9% from RMB14,621.1 million in 2019 to RMB15,488.0 million in 2020; (ii) the receivables arising from sales and leaseback arrangements from Huarong Financial Leasing maintained growth, increasing 175.8% from RMB1,269.3 million in 2019 to RMB3,500.6 million in 2020; (iii) the Group continued to reduce the non-core and non-advantageous business. The Group's interest income from both the debt instruments measured at amortised cost other than distressed debt assets and the debt instruments at FVTOCI other than distressed debt assets decreased by 22.3% from RMB19,340.1 million in 2019 to RMB15,024.2 million in 2020.

9.2.1.1.5 Finance lease income

The finance lease income of the Group mainly derives from Huarong Financial Leasing. The finance lease income decreased by 40.2% from RMB5,911.6 million in 2019 to RMB3,535.9 million in 2020, primarily because the Group adopted IFRS 16 on January 1, 2019, the income from sale and leaseback business which entered into before the implementation of this standard was accounted for this item, while according to IFRS 9, the sale and leaseback business entered into thereafter is recognized as financing arrangement and its income is included in interest income with an involved amount of RMB3,500.6 million (2019: RMB1,269.3 million). The finance lease income and interest income of receivables arising from sales and leaseback arrangements aggregated to RMB7,180.9 million and RMB7,036.5 million for 2019 and 2020 respectively, which remained stable.

9.2.1.1.6 Commission and fee income

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Securities and futures brokerage business	**897.2**	942.4	(45.2)	(4.8%)
Banking and consumer finance business	**624.9**	493.2	131.7	26.7%
Trust business	**338.3**	514.6	(176.3)	(34.3%)
Asset management business	**241.0**	612.4	(371.4)	(60.6%)
Fund management business	**13.2**	33.2	(20.0)	(60.2%)
Total	**2,114.6**	2,595.8	(481.2)	(18.5%)

Commission and fee income of the Group decreased by 18.5% from RMB2,595.8 million in 2019 to RMB2,114.6 million in 2020, mainly due to the decrease in commission and fee income from the asset management business and trust business of the Group.

9.2.1.1.7 Other income and other net gains or losses

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	**2,396.6**	2,394.8	1.8	0.1%
Income arising from operating leases	**1,081.1**	879.6	201.5	22.9%
Government grants	**172.9**	168.5	4.4	2.6%
Revenue from futures and spot trading	**103.8**	88.7	15.1	17.0%
Revenue from hotel operation	**76.2**	333.1	(256.9)	(77.1%)
Net gains on exchange differences	**15.9**	248.7	(232.8)	(93.6%)
Net gains on pending disposals of assets	**7.0**	84.8	(77.8)	(91.7%)
Penalty income	**2.2**	163.0	(160.8)	(98.7%)
Revenue from construction services	**—**	567.0	(567.0)	(100.0%)
Others	**510.5**	577.1	(66.6)	(11.5%)
Total	**4,366.2**	5,505.3	(1,139.1)	(20.7%)

Other income and other net gains or losses of the Group decreased by 20.7% from RMB5,505.3 million in 2019 to RMB4,366.2 million in 2020. On the one hand, the property development business achieved revenue of RMB2,396.6 million, basically the same as the previous year; on the other hand, the Group's revenue from construction services and hotel operation as well as net gains on exchange differences decreased during the year due to factors such as the reduction of non-core and non-advantageous business, the impact of the COVID-19 epidemic and fluctuations in the exchange rate market, respectively.

9.2.1.2 Total expenses

Total expenses of the Group increased by 74.3% from RMB102,067.4 million in 2019 to RMB177,895.1 million in 2020, mainly due to recognized credit impairment losses and impairment losses on other assets.

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	**(54,868.2)**	(60,256.7)	5,388.5	(8.9%)
Commission and fee expenses	**(2,371.5)**	(2,207.7)	(163.8)	7.4%
Operating expenses	**(12,900.0)**	(13,138.8)	238.8	(1.8%)
Impairment losses under expected credit loss model	**(97,679.6)**	(24,966.2)	(72,713.4)	291.2%
Impairment losses on other assets	**(10,075.8)**	(1,498.0)	(8,577.8)	572.6%
Total expenses	**(177,895.1)**	(102,067.4)	(75,827.7)	74.3%

9.2.1.2.1 Interest expenses

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	**(33,489.4)**	(39,199.4)	5,710.0	(14.6%)
Bonds and notes issued	**(13,959.4)**	(14,591.8)	632.4	(4.3%)
Due to customers	**(5,957.6)**	(5,001.5)	(956.1)	19.1%
Financial assets sold under repurchase agreements	**(458.7)**	(672.5)	213.8	(31.8%)
Borrowings from central bank	**(299.9)**	(52.2)	(247.7)	474.5%
Deposits from financial institutions	**(233.6)**	(257.3)	23.7	(9.2%)
Lease liabilities	**(64.5)**	(54.0)	(10.5)	19.4%
Placements from financial institutions	**(57.0)**	(57.9)	0.9	(1.6%)
Other liabilities	**(348.1)**	(370.1)	22.0	(5.9%)
Total	**(54,868.2)**	(60,256.7)	5,388.5	(8.9%)

The interest expenses of the Group decreased by 8.9% from RMB60,256.7 million in 2019 to RMB54,868.2 million in 2020. Among them, the interest expenses of borrowings decreased by 14.6% from RMB39,199.4 million in 2019 to RMB33,489.4 million in 2020 and the interest expenses of bonds and notes issued decreased by 4.3% from RMB14,591.8 million in 2019 to RMB13,959.4 million in 2020.

9.2.1.2.2 Operating expenses

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	**(4,728.9)**	(5,089.7)	360.8	(7.1%)
Turnover tax and surcharges	**(652.9)**	(641.3)	(11.6)	1.8%
Others	**(7,518.2)**	(7,407.8)	(110.4)	1.5%
Including:				
Cost of properties development and sales	**(1,509.0)**	(1,441.9)	(67.1)	4.7%
Depreciation of property and equipment	**(969.8)**	(965.9)	(3.9)	0.4%
Depreciation of right-of-use assets	**(703.4)**	(688.7)	(14.7)	2.1%
Amortisation	**(240.8)**	(346.7)	105.9	(30.5%)
Rental for short-term leases	**(240.2)**	(349.6)	109.4	(31.3%)
Depreciation of investment properties	**(179.7)**	(179.4)	(0.3)	0.2%
Management fee for leases	**(132.4)**	(160.9)	28.5	(17.7%)
Auditor's remuneration	**(34.6)**	(31.7)	(2.9)	9.1%
Total	**(12,900.0)**	(13,138.8)	238.8	(1.8%)

Operating expenses of the Group decreased by 1.8% from RMB13,138.8 million in 2019 to RMB12,900.0 million in 2020, mainly due to the decrease of employees' benefits.

9.2.1.2.3 Impairment losses under expected credit loss model

The table below sets forth the major components of credit impairment losses of the Group for the years indicated.

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost	**(74,471.5)**	(17,038.9)	(57,432.6)	337.1%
Financial assets held under resale agreements	**(4,927.1)**	(1,014.5)	(3,912.6)	385.7%
Debt instruments at FVTOCI	**(7,094.1)**	(1,748.5)	(5,345.6)	305.7%
Loans and advances to customers	**(4,362.2)**	(4,399.0)	36.8	(0.8%)
Finance lease receivables	**(689.2)**	(501.8)	(187.4)	37.3%
Credit enhancement and commitments	**(3,788.1)**	(56.8)	(3,731.3)	6,569.2%
Others	**(2,347.4)**	(206.7)	(2,140.7)	1,035.7%
Total	**(97,679.6)**	(24,966.2)	(72,713.4)	291.2%

In 2020, upon the comprehensive review and assessment of risks, the Group recognized credit impairment losses of RMB97,679.6 million, representing an increase of RMB72,713.4 million than 2019. Among them, (i) credit impairment losses of RMB4,362.2 million were charged on loans and advances to customers in 2020, basically the same as that in 2019; (ii) credit impairment losses of RMB689.2 million were charged on finance lease receivables in 2020, representing an increase of 37.3% compared with 2019; (iii) upon the comprehensive review and assessment of risks, credit impairment losses of RMB74,471.5 million, RMB7,094.1 million, RMB4,927.1 million, RMB3,788.1 million and RMB2,347.4 million were recognized on debt instruments at amortised cost, debt instruments at FVTOCI, financial assets held under resale agreements, credit enhancement and commitments, and other financial assets respectively.

9.2.1.2.4 Impairment losses on other assets

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interests in associates and joint ventures	**(5,781.8)**	(1,132.9)	(4,648.9)	410.4%
Inventories	**(1,585.7)**	—	(1,585.7)	—
Investment properties	**(1,377.9)**	—	(1,377.9)	—
Goodwill	**(546.9)**	(250.8)	(296.1)	118.1%
Foreclosed assets	**(357.7)**	(66.7)	(291.0)	436.3%
Right-of-use assets	**(252.9)**	—	(252.9)	—
Property and equipment	**(145.9)**	(45.2)	(100.7)	222.8%
Others	**(27.0)**	(2.4)	(24.6)	1,025.0%
Total	**(10,075.8)**	(1,498.0)	(8,577.8)	572.6%

Upon the comprehensive review and assessment of risks, impairment losses on interests in associates and joint ventures, inventories and investment properties recognized by the Group increased significantly in 2020. Impairment losses on other assets increased by 572.6% from RMB1,498.0 million in 2019 to RMB10,075.8 million in 2020.

9.2.1.3 Income tax expense

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Current income tax				
PRC enterprise income tax	**(5,313.6)**	(6,279.5)	965.9	(15.4%)
PRC land appreciation tax ("LAT")	**(107.5)**	—	(107.5)	—
Hong Kong and Macao profits tax	**(77.6)**	(350.1)	272.5	(77.8%)
(Under)/over-provision in prior years	**73.3**	(26.7)	100.0	(374.5%)
Deferred income tax	**1,885.7**	(2,044.5)	3,930.2	(192.2%)
Total	**(3,539.7)**	(8,700.8)	5,161.1	(59.3%)

The Group's income tax expense decreased by 59.3% from RMB8,700.8 million in 2019 to RMB3,539.7 million in 2020, on the one hand, because the parent company and some of its subsidiaries recorded losses, resulting in a decrease in taxable income for the year, the current income tax expense decreased by RMB1,230.9 million in aggregate; on the other hand, the Group reversed some deferred tax assets due to cancellation or merger of subsidiaries in 2019, while there was no impact for such events in 2020. Therefore, deferred income tax expense in 2020 decreased by RMB3,930.2 million compared with 2019.

9.2.1.4 Segment operating results

The Group reports financial results in three segments:

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

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

(3) asset management and investment segment: mainly includes trust business, private fund business, international business and other business.

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**60,369.8**	69,790.8	(9,421.0)	(13.5%)
Financial services segment	**33,288.2**	33,575.5	(287.3)	(0.9%)
Asset management and investment segment	**(11,500.0)**	14,311.5	(25,811.5)	(180.4%)
Inter-segment elimination	**(5,650.5)**	(5,021.3)	(629.2)	(12.5%)
Total	**76,507.5**	112,656.5	(36,149.0)	(32.1%)

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

	For the year ended December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**(20,383.8)**	19,590.8	(39,974.6)	(204.0%)
Financial services segment	**(2,439.2)**	5,742.5	(8,181.7)	(142.5%)
Asset management and investment segment	**(77,902.6)**	(13,487.2)	(64,415.4)	(477.6%)
Inter-segment elimination	**(2,009.0)**	(876.0)	(1,133.0)	(129.3%)
Total	**(102,734.6)**	10,970.1	(113,704.7)	(1,036.5%)

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**837,605.2**	852,849.8	(15,244.6)	(1.8%)
Financial services segment	**611,064.5**	573,775.8	37,288.7	6.5%
Asset management and investment segment	**276,060.8**	347,989.1	(71,928.3)	(20.7%)
Inter-segment elimination	**(97,687.3)**	(81,796.1)	(15,891.2)	(19.4%)
Total	**1,627,043.2**	1,692,818.6	(65,775.4)	(3.9%)

The total income of the distressed asset management business, which is the core business of the Group, remained stable. However, affected by the recognition of asset impairment loss, the segment operating results recorded a loss. The total income from the Group's distressed asset management segment decreased by 13.5% from RMB69,790.8 million in 2019 to RMB60,369.8 million in 2020; profit before tax decreased by 204.0% from RMB19,590.8 million in 2019 to RMB-20,383.8 million in 2020; total assets decreased by 1.8% from RMB852,849.8 million as at December 31, 2019 to RMB837,605.2 million as at December 31, 2020.

The financial performances of the financial services business were divergent. The banking and financial leasing businesses were basically stable, while other financial businesses suffered losses, dragging down the operating results of the financial services business segment to a loss. The total income from the Group's financial services segment decreased by 0.9% from RMB33,575.5 million in 2019 to RMB33,288.2 million in 2020; profit before tax decreased by 142.5% from RMB5,742.5 million in 2019 to RMB-2,439.2 million in 2020; and the total assets increased by 6.5% from RMB573,775.8 million as at December 31, 2019 to RMB611,064.5 million as at December 31, 2020.

The Group continued to reduce asset management and investment business, thus the loss increased. The total income from asset management and investment segment of the Group decreased by 180.4% from RMB14,311.5 million in 2019 to RMB-11,500.0 million in 2020; the loss before tax increased by 477.6% from RMB13,487.2 million in 2019 to RMB77,902.6 million in 2020; and the total assets decreased by 20.7% from RMB347,989.1 million as at December 31, 2019 to RMB276,060.8 million as at December 31, 2020.

9.2.2 Financial Positions of the Group

As at December 31, 2019 and December 31, 2020, the total assets of the Group amounted to RMB1,705,012.4 million and RMB1,641,467.0 million, respectively, representing a decrease of 3.7%; total liabilities amounted to RMB1,541,535.9 million and RMB1,577,210.1 million, respectively, representing an increase of 2.3%; total equity amounted to RMB163,476.5 million and RMB64,256.9 million, respectively, representing a decrease of 60.7%.

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

	As at December 31,			
				Change in
	2020	2019	Change	percentage
	(in millions of RMB, except for percentages)			
Cash and balances with central bank	**22,808.4**	30,774.7	(7,966.3)	(25.9%)
Deposits with financial institutions	**123,875.0**	149,462.0	(25,587.0)	(17.1%)
Placements with financial institutions	**5,740.8**	2,709.9	3,030.9	111.8%
Financial assets at FVTPL	**359,440.0**	367,669.9	(8,229.9)	(2.2%)
Financial assets held under resale agreements	**15,224.6**	22,525.9	(7,301.3)	(32.4%)
Contract assets	**5,307.0**	—	5,307.0	
Loans and advances to customers	**232,500.2**	211,265.1	21,235.1	10.1%
Finance lease receivables	**39,796.7**	68,040.3	(28,243.6)	(41.5%)
Debt instruments at FVTOCI	**83,106.8**	103,739.3	(20,632.5)	(19.9%)
Equity instruments at FVTOCI	**4,493.9**	3,583.7	910.2	25.4%
Inventory	**20,112.4**	19,147.4	965.0	5.0%
Debt instruments at amortised cost	**656,048.6**	642,086.0	13,962.6	2.2%
Interests in associates and joint ventures	**14,358.0**	28,078.9	(13,720.9)	(48.9%)
Investment properties	**4,001.0**	5,910.9	(1,909.9)	(32.3%)
Property and equipment	**12,717.3**	12,325.0	392.3	3.2%
Right-of-use assets	**2,447.2**	3,569.6	(1,122.4)	(31.4%)
Deferred tax assets	**14,423.9**	12,193.8	2,230.1	18.3%
Goodwill	**323.0**	18.1	304.9	1,684.5%
Other assets	**24,742.2**	21,911.9	2,830.3	12.9%
Total assets	**1,641,467.0**	1,705,012.4	(63,545.4)	(3.7%)
Borrowings from the central bank	**23,182.8**	3,641.7	19,541.1	536.6%
Deposits from financial institutions	**8,924.1**	10,276.7	(1,352.6)	(13.2%)
Placements from financial institutions	**4,679.3**	2,253.6	2,425.7	107.6%
Financial assets sold under repurchase agreements	**15,547.4**	15,665.4	(118.0)	(0.8%)
Borrowings	**778,423.8**	761,506.4	16,917.4	2.2%
Financial liabilities at FVTPL	**3,301.5**	3,223.9	77.6	2.4%
Due to customers	**250,827.2**	226,814.7	24,012.5	10.6%
Tax payable	**1,283.9**	2,887.4	(1,603.5)	(55.5%)
Contract liabilities	**649.1**	575.1	74.0	12.9%
Lease liabilities	**919.8**	1,983.3	(1,063.5)	(53.6%)

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Deferred tax liabilities	**408.8**	478.5	(69.7)	(14.6%)
Bonds and notes issued	**336,971.8**	367,345.6	(30,373.8)	(8.3%)
Other liabilities	**152,090.6**	144,883.6	7,207.0	5.0%
Total liabilities	**1,577,210.1**	1,541,535.9	35,674.2	2.3%
Share capital	**39,070.2**	39,070.2	—	0.0%
Capital reserve	**17,241.5**	18,405.0	(1,163.5)	(6.3%)
Surplus reserve	**8,564.2**	8,564.2	—	0.0%
General risk reserve	**17,842.1**	16,681.3	1,160.8	7.0%
Other reserves	**3,413.2**	1,806.9	1,606.3	88.9%
(Accumulated losses)/retained earnings	**(67,976.5)**	36,731.2	(104,707.7)	(285.1%)
Equity attributable to equity holders of the Company	**18,154.7**	121,258.8	(103,104.1)	(85.0%)
Perpetual capital instruments	**25,475.9**	18,430.6	7,045.3	38.2%
Non-controlling interests	**20,626.3**	23,787.1	(3,160.8)	(13.3%)
Total equity	**64,256.9**	163,476.5	(99,219.6)	(60.7%)
Total equity and liabilities	**1,641,467.0**	1,705,012.4	(63,545.4)	(3.7%)

9.2.2.1 Assets

As at December 31, 2019 and December 31, 2020, the total assets of the Group amounted to RMB1,705,012.4 million and RMB1,641,467.0 million, respectively. As at December 31, 2020, the Group's major assets consist of: (i) deposits with financial institutions; (ii) financial assets at FVTPL; (iii) loans and advances to customers; (iv) finance lease receivables; (v) debt instruments at FVTOCI; and (vi) debt instruments at amortised cost.

9.2.2.1.1 Deposits with financial institutions

As at December 31, 2019 and December 31, 2020, the Group's deposits with financial institutions amounted to RMB149,462.0 million and RMB123,875.0 million, respectively, representing a decrease of 17.1%.

9.2.2.1.2 Financial assets at FVTPL

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

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentage)			
Distressed debt assets	**189,056.7**	173,071.7	15,985.0	9.2%
Equity instruments				
— Listed	**41,392.7**	26,892.5	14,500.2	53.9%
— Unlisted	**22,128.1**	33,553.0	(11,424.9)	(34.1%)
Funds	**38,657.0**	48,251.6	(9,594.6)	(19.9%)
Debt securities				
— Corporate bonds	**12,665.9**	8,114.7	4,551.2	56.1%
— Financial institution bonds	**948.5**	586.9	361.6	61.6%
— Government bonds	**586.8**	1,760.1	(1,173.3)	(66.7%)
— Public sector and quasi-government bonds	**90.3**	1,966.1	(1,875.8)	(95.4%)
Trust products	**11,733.7**	27,920.8	(16,187.1)	(58.0%)
Asset management plans	**10,216.3**	6,790.9	3,425.4	50.4%
Wealth management products	**10,023.6**	14,690.4	(4,666.8)	(31.8%)
Derivatives and structured products	**6,545.9**	8,466.9	(1,921.0)	(22.7%)
Negotiable certificates of deposit	**4,333.9**	2,131.9	2,202.0	103.3%
Convertible bonds	**3,236.2**	9,686.6	(6,450.4)	(66.6%)
Entrusted loans	**2,381.4**	597.1	1,784.3	298.8%
Asset-backed securities	**299.6**	39.2	260.4	664.3%
Other debt assets	**5,143.4**	3,149.5	1,993.9	63.3%
Total	**359,440.0**	367,669.9	(8,229.9)	(2.2%)

As at December 31, 2019 and December 31, 2020, the financial assets at FVTPL of the Group amounted to RMB367,669.9 million and RMB359,440.0 million, respectively, representing a decrease of 2.2%.

Distressed debt assets at FVTPL are the distressed debt assets in the Group's acquisition-and-disposal business. In 2020, the Group strengthened the acquisition of acquisition-and-disposal distressed debt assets, resulting in a steady growth in the asset scale. As at December 31, 2019 and December 31, 2020, the acquisition-and-disposal distressed debt assets amounted to RMB173,071.7 million and RMB189,056.7 million, respectively, representing an increase of 9.2%. Upon the comprehensive review and assessment of risks and the recognition of loss of fair value changes, the asset balances of trust products, funds, convertible bond investment and wealth management products are decreased.

9.2.2.1.3 Loans and advances to customers

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers at amortised cost				
Corporate loans and advances	**124,036.8**	116,712.7	7,324.1	6.3%
Personal loans and advances				
— Personal consumption loans	**35,059.3**	31,028.2	4,031.1	13.0%
— Mortgages	**31,664.9**	24,430.0	7,234.9	29.6%
— Loans for business operations	**28,671.0**	18,504.2	10,166.8	54.9%
— Others	**2,480.7**	2,546.3	(65.6)	(2.6%)
Subtotal	**97,875.9**	76,508.7	21,367.2	27.9%
Loans to margin clients	**4,091.2**	6,142.8	(2,051.6)	(33.4%)
Gross amount of loans and advances to customers at amortised cost	**226,003.9**	199,364.2	26,639.7	13.4%
Less: Allowance for ECL				
— 12-month ECL	**(2,012.9)**	(1,941.3)	(71.6)	3.7%
— Lifetime ECL	**(5,653.2)**	(4,912.5)	(740.7)	15.1%
Subtotal	**(7,666.1)**	(6,853.8)	(812.3)	11.9%
Net amount of loans and advances to customers at amortised cost	**218,337.8**	192,510.4	25,827.4	13.4%
Loans and advances to customers at FVTOCI				
— Discounted bills	**14,162.4**	18,754.7	(4,592.3)	(24.5%)
Net amount of loans and advances to customers	**232,500.2**	211,265.1	21,235.1	10.1%

Loans and advances to customers mainly derive from Huarong Xiangjiang Bank. As at December 31, 2019 and December 31, 2020, the loans and advances to customers of the Group amounted to RMB211,265.1 million and RMB232,500.2 million, respectively, representing an increase of 10.1%.

As at December 31, 2019 and December 31, 2020, based on the ECL model, the Group's balances of impairment allowance made for loans and advances to customers at amortised cost amounted to RMB6,853.8 million and RMB7,666.1 million, respectively, representing an increase of 11.9%.

9.2.2.1.4 Finance lease receivables

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	**21,520.6**	22,314.9	(794.3)	(3.6%)
1 year to 2 years (inclusive)	**12,370.9**	25,337.4	(12,966.5)	(51.2%)
2 years to 3 years (inclusive)	**7,212.9**	14,675.9	(7,463.0)	(50.9%)
3 years to 4 years (inclusive)	**2,575.9**	7,646.3	(5,070.4)	(66.3%)
4 years to 5 years (inclusive)	**1,682.3**	3,114.3	(1,432.0)	(46.0%)
Over 5 years	**2,803.5**	6,810.2	(4,006.7)	(58.8%)
Gross amount of finance lease receivables	**48,166.1**	79,899.0	(31,732.9)	(39.7%)
Less: Unearned finance income	**(5,469.7)**	(9,051.8)	3,582.1	(39.6%)
Net amount of finance lease receivables	**42,696.4**	70,847.2	(28,150.8)	(39.7%)
Less: Allowance for ECL				
— 12-month ECL	**(296.6)**	(490.5)	193.9	(39.5%)
— Lifetime ECL	**(2,603.1)**	(2,316.4)	(286.7)	12.4%
Subtotal	**(2,899.7)**	(2,806.9)	(92.8)	3.3%
Carrying amount of finance lease receivables	**39,796.7**	68,040.3	(28,243.6)	(41.5%)
Present value of minimum finance lease receivables:				
Within 1 year (inclusive)	**19,076.3**	19,791.9	(715.6)	(3.6%)
1 year to 2 years (inclusive)	**10,983.5**	22,461.4	(11,477.9)	(51.1%)
2 years to 3 years (inclusive)	**6,386.8**	13,023.5	(6,636.7)	(51.0%)
3 years to 4 years (inclusive)	**2,279.5**	6,776.4	(4,496.9)	(66.4%)
4 years to 5 years (inclusive)	**1,489.0**	2,759.5	(1,270.5)	(46.0%)
Over 5 years	**2,481.3**	6,034.5	(3,553.2)	(58.9%)
Total	**42,696.4**	70,847.2	(28,150.8)	(39.7%)

Finance lease receivables mainly derive from Huarong Financial Leasing. As at December 31, 2019 and December 31, 2020, the Group's net amount of finance lease receivables amounted to RMB70,847.2 million and RMB42,696.4 million, respectively, representing a decrease of 39.7%. The decrease was mainly due to the application of IFRS 16 by the Group on January 1, 2019. The sale and leaseback business entered into before the implementation of this standard was accounted for in this item, while according to IFRS 9, the sale and leaseback business entered into thereafter is recognized as financing arrangement and included in debt instruments at amortised cost with an involved amount of RMB70,362.6 million (December 31, 2019: RMB41,567.6 million). As at December 31, 2019 and December 31, 2020, financial lease receivables and receivables arising from sales and leaseback arrangements in debt instruments at amortised cost aggregated to RMB112,414.8 million and RMB113,059.0 million, respectively, which maintained stable growth.

As at December 31, 2019 and December 31, 2020, the Group's balances of impairment allowance made for finance lease receivables based on the ECL model were RMB2,806.9 million and RMB2,899.7 million, respectively, representing an increase of 3.3%.

9.2.2.1.5 Debt instruments at FVTOCI

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

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets	**36,654.3**	64,573.2	(27,918.9)	(43.2%)
Debt securities				
— Corporate bonds	**23,285.8**	20,923.9	2,361.9	11.3%
— Government bonds	**6,783.0**	455.0	6,328.0	1,390.8%
— Financial institution bonds	**5,434.2**	890.3	4,543.9	510.4%
— Public sector and quasi-government bonds	**2,084.9**	5,047.1	(2,962.2)	(58.7%)
Asset management plans	**3,022.4**	3,874.3	(851.9)	(22.0%)
Entrusted loans	**2,758.4**	4,283.0	(1,524.6)	(35.6%)
Debt instruments	**2,213.5**	1,878.9	334.6	17.8%
Asset-backed securities	**592.8**	555.1	37.7	6.8%
Trust products	**277.5**	1,258.5	(981.0)	(77.9%)
Total	**83,106.8**	103,739.3	(20,632.5)	(19.9%)

As at December 31, 2019 and December 31, 2020, the Group's debt instruments at FVTOCI were RMB103,739.3 million and RMB83,106.8 million, respectively, representing a decrease of 19.9%.

The distressed debt assets at FVTOCI were acquisition-and-restructuring distressed debt assets of the Group. As at December 31, 2019 and December 31, 2020, the distressed debt assets at FVTOCI amounted to RMB64,573.2 million and RMB36,654.3 million, respectively, representing a decrease of 43.2%.

Other debt instruments at FVTOCI included various bonds, asset management plans, entrusted loans and debt instruments invested by the Group. As at December 31, 2019 and December 31, 2020, the Group's other debt instruments at FVTOCI amounted to RMB39,166.1 million and RMB46,452.5 million, respectively, representing an increase of 18.6%.

Debt instruments at FVTOCI are measured at fair value in the financial statements, and the allowance for impairment thereof is recognised in other comprehensive income ("OCI") and accumulated under the heading of investment revaluation reserve, while the allowance for impairment is recognised in profit or loss with corresponding adjustments to OCI without reducing the carrying amounts of these debt instruments. As at December 31, 2019 and December 31, 2020, the allowance for impairment for debt instruments at FVTOCI presented under the investment revaluation reserve amounted to RMB4,761.2 million and RMB11,220.1 million, respectively, representing an increase of 135.7%.

9.2.2.1.6 Debt instruments at amortised cost

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

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets				
Loans acquired from financial institutions	**30,726.5**	27,334.5	3,392.0	12.4%
Other debt assets acquired from non-financial institutions	**326,469.8**	293,838.6	32,631.2	11.1%
Subtotal	**357,196.3**	321,173.1	36,023.2	11.2%
Less: Allowance for ECL				
— 12-month ECL	**(3,543.7)**	(1,394.1)	(2,149.6)	154.2%
— Lifetime ECL	**(37,353.0)**	(19,644.0)	(17,709.0)	90.1%
Subtotal	**(40,896.7)**	(21,038.1)	(19,858.6)	94.4%
Carrying amount of distressed debt assets	**316,299.6**	300,135.0	16,164.6	5.4%
Other debt assets				
Debt instruments	**110,856.8**	73,720.0	37,136.8	50.4%
Debt securities	**96,867.6**	83,037.9	13,829.7	16.7%
Trust products	**74,562.6**	102,574.8	(28,012.2)	(27.3%)
Receivables arising from sales and leaseback arrangements	**70,362.6**	41,567.6	28,795.0	69.3%
Entrusted loans	**66,186.5**	73,898.8	(7,712.3)	(10.4%)
Asset management plans	**8,331.8**	9,199.2	(867.4)	(9.4%)
Asset-backed securities	**2,782.1**	—	2,782.1	—
Others	**1,936.2**	854.0	1,082.2	126.7%
Subtotal	**431,886.2**	384,852.3	47,033.9	12.2%

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Less: Allowance for ECL				
— 12-month ECL	**(1,343.5)**	(4,307.8)	2,964.3	(68.8%)
— Lifetime ECL	**(90,793.7)**	(38,593.5)	(52,200.2)	135.3%
Subtotal	**(92,137.2)**	(42,901.3)	(49,235.9)	114.8%
Carrying amount of other debt assets	**339,749.0**	341,951.0	(2,202.0)	(0.6%)
Total	**656,048.6**	642,086.0	13,962.6	2.2%

As at December 31, 2019 and December 31, 2020, the Group's debt instruments at amortised cost were RMB642,086.0 million and RMB656,048.6 million, respectively, representing an increase of 2.2%.

In 2020, upon the comprehensive review and assessment of risks, the allowances recognized for impairment for debt instruments at amortised cost were increased. As at December 31, 2019 and December 31, 2020, the balance of allowances for impairment for debt instruments at amortised cost was RMB63,939.4 million and RMB133,033.9 million, respectively. In particular, the allowances for impairment for distressed debt assets at amortised cost were RMB21,038.1 million and RMB40,896.7 million, respectively; the allowances for impairment for other debt assets at amortised cost were RMB42,901.3 million and RMB92,137.2 million, respectively.

The Group's debt instruments at amortised cost and debt instruments at FVTOCI include the acquisition-and-restructuring distressed debt assets and other debt assets. Among which, as at December 31, 2019 and December 31, 2020, the total carrying amount of the Group's distressed debt assets at amortised cost and distressed debt assets at FVTOCI were RMB385,746.3 million and RMB393,850.6 million, respectively, representing an increase of 2.1%. The carrying amount of other debt assets at amortised cost and other debt assets at FVTOCI of the Group's non-financial subsidiaries were RMB240,222.1 million and RMB234,259.5 million in aggregate, respectively, representing a decrease of 2.5%.

9.2.2.2 Liabilities

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

9.2.2.2.1 Borrowings

As at December 31, 2019 and December 31, 2020, the balance of borrowings of the Group amounted to RMB761,506.4 million and RMB778,423.8 million, respectively, representing an increase of 2.2%.

9.2.2.2.2 Due to customers

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

	As at December 31,			
	2020	2019	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate customers	**76,769.4**	66,837.5	9,931.9	14.9%
Individual customers	**23,510.5**	19,233.3	4,277.2	22.2%
Time deposits				
Corporate customers	**68,018.8**	70,490.1	(2,471.3)	(3.5%)
Individual customers	**64,490.7**	50,515.8	13,974.9	27.7%
Pledged deposits	**7,408.9**	7,803.3	(394.4)	(5.1%)
Others	**10,628.9**	11,934.7	(1,305.8)	(10.9%)
Total	**250,827.2**	226,814.7	24,012.5	10.6%

Due to customers mainly derives from Huarong Xiangjiang Bank. As at December 31, 2019 and December 31, 2020, the balance of due to customers of the Group amounted to RMB226,814.7 million and RMB250,827.2 million, respectively, representing an increase of 10.6%.

9.2.2.2.3 Bonds and notes issued

As at December 31, 2019 and December 31, 2020, the balance of the Group's bonds and notes issued amounted to RMB367,345.6 million and RMB336,971.8 million, respectively, representing a decrease of 8.3%.

9.2.3 Contingent Liabilities

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

As at December 31, 2020, total claim amount of pending litigations was RMB610 million (December 31, 2019: RMB1,944 million) for the Group (as defendant). The Group did not make provision for estimated liabilities (December 31, 2019: RMB110 million) based on court judgments and lawyer's opinions. The Board of the Company believes that the final result of these legal proceedings will not have a material impact on the financial position or operations of the Group.

9.2.4 Difference between Financial Statements Prepared under the PRC GAAP and IFRSs

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

9.3 Business Overview

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

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

	For the year ended December 31,			
	2020		2019	
	(in millions of RMB, except for percentages)			
	Amount	**Percentage**	Amount	Percentage
Total income				
Distressed asset management segment	**60,369.8**	**78.9%**	69,790.8	62.0%
Financial services segment	**33,288.2**	**43.5%**	33,575.5	29.8%
Asset management and investment segment	**(11,500.0)**	**(15.0%)**	14,311.5	12.7%
Inter-segment elimination	**(5,650.5)**	**(7.4%)**	(5,021.3)	(4.5%)
Total	**76,507.5**	**100.0%**	112,656.5	100.0%
(Loss)/profit before tax				
Distressed asset management segment	**(20,383.8)**	**19.8%**	19,590.8	178.6%
Financial services segment	**(2,439.2)**	**2.4%**	5,742.5	52.3%
Asset management and investment segment	**(77,902.6)**	**75.8%**	(13,487.2)	(122.9%)
Inter-segment elimination	**(2,009.0)**	**2.0%**	(876.0)	(8.0%)
Total	**(102,734.6)**	**100.0%**	10,970.1	100.0%

In 2020, total income from the Group's distressed asset management segment, financial services segment and asset management and investment segment was RMB60,369.8 million, RMB33,288.2 million and RMB-11,500.0 million, respectively. Loss before tax was RMB20,383.8 million, RMB2,439.2 million and RMB77,902.6 million, respectively.

9.3.1 Distressed Asset Management

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

Distressed asset management business is the core business of the Group and the primary source of income and profit of the Group. In 2020, in the face of the impact of the COVID-19 and the severe and complicated internal and external situation, the Group further returned to its main responsibility and core business, made continuous efforts in risk reduction and downsizing, accelerated business transformation, constantly enhanced internal management, and the fundamentals of its core business of distressed assets remained stable.

In 2019 and 2020, total income from the distressed asset management segment was RMB69,790.8 million and RMB60,369.8 million, accounting for 62.0% and 78.9% of the Group's total income, respectively, and its profit before tax was RMB19,590.8 million and RMB-20,383.8 million, accounting for 178.6% and 19.8% of the profit/loss before tax of the Group, respectively. The loss in the distressed asset management segment in 2020 was mainly due to the recognition of unrealized fair value changes and credit impairment loss upon the comprehensive review and assessment of risks.

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB)	
Distressed debt asset management business of the Company		
Gross amount of distressed debt assets[1]	**551,409.6**	551,813.7
Less: Allowance for impairment losses for distressed debt assets[2]	**33,016.1**	24,634.0
Net carrying amount of distressed debt assets	**524,657.8**	531,546.7
Acquisition cost of newly added distressed debt assets	**196,177.3**	191,140.7
Total income from distressed debt assets		
Operating income from distressed debt assets[3]	**40,604.2**	41,424.7
Financial advisory income from acquisition-and-restructuring business	**10.7**	126.4
Total	**40,614.9**	41,551.1
Policy-based DES business through commercial buyout of the Company		
Carrying amount of DES Assets	**14,628.6**	15,294.6
Dividend income from DES Assets	**110.7**	180.4
Acquisition cost of DES Assets disposed	**3,294.3**	2,952.1
Net gains from the disposal of DES Assets	**879.5**	1,839.8
Market-oriented DES business[4]		
Total cumulative investment in market-oriented DES business	**34,188.5**	22,119.2
Income from market-oriented DES business[5]	**1,859.7**	2,189.5
Distressed debt asset management business conducted by our subsidiaries		
Income from distressed debt assets	**241.0**	1,200.4

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB)	
Distressed asset-based special situations investments business conducted by our subsidiaries(6)		
Income from Huarong Rongde	**1,866.4**	2,178.1
Distressed asset-based property development business conducted by our subsidiaries		
Income from property sales and primary land development of Huarong Industrial	**2,317.5**	2,394.8

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

(2) Allowance for impairment losses for distressed debt assets equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortised costs and at FVTOCI, as shown in the consolidated financial statements, of which, the allowance for impairment losses for distressed debt assets is presented under the debt instruments at FVTOCI as a part of the investment revaluation reserve, which has no effect on the net carrying amount of distressed debt assets.

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

(4) Market-oriented debt-to-equity swap is primarily conducted by the Company and Huarong Ruitong Equity Investment Management Co., Ltd. (華融瑞通股權投資管理有限公司) ("Huarong Ruitong") and other subsidiaries.

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

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

9.3.1.1 Distressed debt asset management business of the Company

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

9.3.1.1.1 Sources for acquisition of distressed debt assets

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

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

	As at or for the year ended December 31,			
	2020		2019	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	**60,687.2**	**30.9%**	50,232.4	26.3%
NFE Distressed Assets	**135,490.1**	**69.1%**	140,908.3	73.7%
Total	**196,177.3**	**100.0%**	191,140.7	100.0%
Gross amount of distressed debt assets at the end of the period[(1)]				
FI Distressed Assets	**194,181.0**	**35.2%**	172,923.5	31.3%
NFE Distressed Assets	**357,228.6**	**64.8%**	378,890.2	68.7%
Total	**551,409.6**	**100.0%**	551,813.7	100.0%
Operating income from distressed debt assets for the period[(2)]				
FI Distressed Assets	**8,989.9**	**22.1%**	10,163.4	24.5%
NFE Distressed Assets	**31,614.3**	**77.9%**	31,261.3	75.5%
Total	**40,604.2**	**100.0%**	41,424.7	100.0%

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

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

9.3.1.1.1.1 FI Distressed Assets

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

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

	For the year ended December 31,			
	2020		2019	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Banking				
Large commercial banks	**15,183.3**	**25.0%**	11,542.6	23.0%
Joint stock commercial banks	**20,561.4**	**33.9%**	16,191.4	32.2%
City and rural commercial banks	**2,246.9**	**3.7%**	467.0	0.9%
Other banks	**6,746.3**	**11.1%**	3,488.6	6.9%
Subtotal	**44,737.9**	**73.7%**	31,689.6	63.0%
Non-banking financial institutions	**15,949.3**	**26.3%**	18,542.8	37.0%
Total	**60,687.2**	**100.0%**	50,232.4	100.0%

9.3.1.1.1.2 NFE Distressed Assets

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

9.3.1.1.2 Business models of distressed debt asset

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

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

	As at or for the year ended December 31,			
	2020		2019	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	**53,757.1**	**27.4%**	39,381.7	20.6%
Acquisition-and-restructuring	**142,420.2**	**72.6%**	151,759.0	79.4%
Total	**196,177.3**	**100.0%**	191,140.7	100.0%
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal(1)	**186,785.5**	**33.9%**	172,403.3	31.2%
Acquisition-and-restructuring(2)	**364,624.1**	**66.1%**	379,410.4	68.8%
Total	**551,409.6**	**100.0%**	551,813.7	100.0%
Income from distressed debt assets for the period				
Acquisition-and-disposal(3)	**6,803.4**	**16.8%**	9,889.8	23.8%
Acquisition-and-restructuring(4)	**33,811.5**	**83.2%**	31,661.3	76.2%
Total	**40,614.9**	**100.0%**	41,551.1	100.0%

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

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

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

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

9.3.1.1.2.1 Acquisition-and-disposal model

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

The gross amount of distressed debt assets from the Company's acquisition-and-disposal model increased by 8.3% from RMB172,403.3 million in December 31, 2019 to RMB186,785.5 million in December 31, 2020. The net gains or losses from acquisition-and-disposal model decreased by 31.2% from RMB9,889.8 million in 2019 to RMB6,803.4 million in 2020, and it was because that the realized revenue decreased by 16.3% due to the limitation to the disposal activities influenced by the COVID-19 epidemic, and the loss from unrealized fair value changes was recognized upon the comprehensive review and assessment of risks.

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB, except for percentages)	
Gross amount of distressed debt assets at the beginning of the period	**172,403.3**	162,691.0
Acquisition cost of newly added distressed debt assets	**53,757.1**	39,381.7
Gross amount of distressed debt assets disposed	**38,938.5**	30,908.4
Gross amount of distressed debt assets at the end of the period(1)	**186,785.5**	172,403.3
Net gains or losses from distressed debt assets(2)		
Realized gain	**7,239.8**	8,650.8
Unrealized fair value changes	**(436.4)**	1,239.0
Total	**6,803.4**	9,889.8
IRR on completed projects(3)	**13.7%**	14.9%

(1) Gross amount of distressed debt assets as at the end of the period is the gross amount of the Company's distressed debt assets presented under financial assets at FVTPL, as shown in the consolidated statements.
(2) Net gain or loss from distressed debt assets is the Company's fair value changes on distressed debt assets, as shown in the consolidated financial statements.
(3) IRR on completed projects is the discount rate that makes the net present value of all cash inflows and outflows from all the acquisition-and-disposal projects completed in the current period from the time of acquisition to the time of disposal equal to zero.

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

	As at December 31, 2020		As at December 31, 2019	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**46,017.2**	**24.7%**	50,609.8	29.4%
Pearl River Delta[2]	**26,991.9**	**14.5%**	23,454.2	13.6%
Bohai Rim Region[3]	**29,766.6**	**15.9%**	26,003.7	15.1%
Central Region[4]	**23,408.0**	**12.5%**	22,175.8	12.9%
Western Region[5]	**46,587.5**	**24.9%**	42,667.7	24.7%
Northeastern Region[6]	**14,014.3**	**7.5%**	7,492.1	4.3%
Total	**186,785.5**	**100.0%**	172,403.3	100.0%

(1) Yangtze River Delta is comprised of Shanghai, Jiangsu and Zhejiang.
(2) Pearl River Delta is comprised of Guangdong and Fujian.
(3) Bohai Rim Region is comprised of Beijing, Tianjin, Hebei and Shandong.
(4) Central Region is comprised of Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan.
(5) Western Region is comprised of Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Inner Mongolia.
(6) Northeastern Region is comprised of Liaoning, Heilongjiang and Jilin.

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

9.3.1.1.2.2 Acquisition-and-restructuring model

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

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB, except for percentages)	
Number of new projects (quantity)	**476**	546
Number of existing projects as of the end of the period (quantity)	**1,553**	1,595
Gross amount of distressed debt assets(1)	**364,624.1**	379,410.4
Allowance for impairment losses(2)	**(33,016.1)**	(24,634.0)
Net carrying amount of distressed debt assets(3)	**337,872.3**	359,143.4
Acquisition cost of newly added distressed debt assets	**142,420.2**	151,759.0
Income from distressed debt assets		
Operating income from distressed debt assets(4)	**33,800.8**	31,534.9
Financial advisory income	**10.7**	126.4
Total	**33,811.5**	31,661.3
Annualized return on monthly average gross amount of distressed debt assets (excluding financial advisory income)(5)	**9.0%**	8.5%
Allowance to distressed debt assets ratio(6)	**9.1%**	6.5%
Gross amount of stage 3 distressed debt assets(7)	**43,616.5**	50,334.6
Allowance for impairment losses for stage 3 distressed debt assets(8)	**(24,233.0)**	(19,980.0)
Distressed debt assets collateral ratio(9)	**45.5%**	38.2%

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

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

(3) Net carrying amount of distressed debt assets equals the gross amount of the Company's net amount of distressed debt assets presented under debt instruments at amortised costs and balance of distressed debt assets presented under debt instruments at FVTOCI.
(4) The operating income from distressed debt assets equals the Company's income from distressed debt assets, as shown in the consolidated financial statements.
(5) Annualized return on monthly average gross amount of distressed debt assets equals the operating income from distressed assets divided by the average gross amount of distressed assets at the end of each month of that year.
(6) Allowance to distressed debt assets ratio equals the allowance for impairment losses divided by the gross amount of distressed debt assets.
(7) Gross amount of stage 3 distressed debt assets is the balance of distressed debt assets which are classified as stage 3 based on the stage division model.
(8) Allowance for impairment losses for stage 3 distressed debt assets is the allowance for impairment losses for distressed debt assets which are classified as stage 3.
(9) Distressed debt assets collateral ratio equals the percentage of the total amount of collateralized distressed debt assets to the total appraised value of the collateral securing these assets.

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

	As at December 31, 2020		As at December 31, 2019	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**62,005.5**	**17.0%**	70,393.2	18.6%
Pearl River Delta[2]	**57,926.1**	**15.9%**	55,697.5	14.7%
Bohai Rim Region[3]	**55,603.0**	**15.2%**	56,151.9	14.8%
Central Region[4]	**76,868.9**	**21.1%**	79,991.2	21.1%
Western Region[5]	**95,409.1**	**26.2%**	102,196.9	26.9%
Northeastern Region[6]	**16,811.5**	**4.6%**	14,979.7	3.9%
Total	**364,624.1**	**100.0%**	379,410.4	100.0%

(1) Yangtze River Delta is comprised of Shanghai, Jiangsu and Zhejiang.
(2) Pearl River Delta is comprised of Guangdong and Fujian.
(3) Bohai Rim Region is comprised of Beijing, Tianjin, Hebei and Shandong.
(4) Central Region is comprised of Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan.
(5) Western Region is comprised of Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Inner Mongolia.
(6) Northeastern Region is comprised of Liaoning, Heilongjiang and Jilin.

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

	As at December 31, 2020		As at December 31, 2019	
	Total	**Percentage**	Total	Percentage
	(in millions of RMB, except for percentages)			
Real estate	**188,354.7**	**51.7%**	194,575.9	51.3%
Manufacturing	**32,298.3**	**8.9%**	41,566.2	11.0%
Leasing and commercial services	**31,726.2**	**8.7%**	30,879.7	8.1%
Construction	**29,100.3**	**8.0%**	29,306.5	7.7%
Water, environment and public utilities management	**25,622.7**	**7.0%**	21,309.3	5.6%
Mining	**6,119.2**	**1.7%**	3,964.5	1.0%
Transportation, logistics and postal services	**1,622.1**	**0.4%**	4,335.6	1.3%
Others	**49,780.6**	**13.6%**	53,472.7	14.0%
Total	**364,624.1**	**100.0%**	379,410.4	100.0%

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

The Company obtains DES Assets through debt-to-equity swaps, receipt of equities in satisfaction of debts and follow-on investments. The Company enhances the value of DES Assets by improving the business operations of the DES Companies. The Company exits from such investments primarily through asset swaps, merger and acquisition, restructuring and listing of DES Companies and realizes the appreciation of DES Assets. The Company's DES Assets are classified as shares of unlisted DES Companies (Unlisted DES Assets) and shares of listed DES Companies (Listed DES Assets). As at December 31, 2020, the Company held Unlisted DES Assets in 108 DES Companies, with carrying amount of RMB9,630.9 million; and Listed DES Assets in 14 DES Companies, with carrying amount of RMB4,997.7 million.

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

	As at December 31, 2020	As at December 31, 2019
	(in millions of RMB, except for number of companies)	
Composition of existing DES Assets portfolio		
Number of DES companies	**122**	151
Unlisted	**108**	127
Listed	**14**	24
Carrying amount	**14,628.6**	15,294.6
Unlisted	**9,630.9**	9,609.5
Listed	**4,997.7**	5,685.1

In 2019 and 2020, the Company's net gains on policy-based DES Assets disposed were RMB1,839.8 million and RMB879.5 million, respectively.

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB, except for number of companies)	
Number of DES Companies disposed	**29**	23
Acquisition cost of DES Assets disposed	**3,294.3**	2,952.1
Net gains on DES Assets disposed	**879.5**	1,839.8
Exit multiple of DES Assets disposed(1)	**1.3 times**	1.6 times
Dividend income from DES Companies	**110.7**	180.4

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

9.3.1.3 Market-oriented DES business

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

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

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

(3) The model of "offsetting debts with equity": An enterprise helps real enterprises reduce debts and ease liquidity problems through debt restructuring, i.e. offsetting debts with high-quality equities including equity of listed companies.

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

	As at December 31, 2020	As at December 31, 2019
	(in millions of RMB)	
Issuing shares for repaying debts	**15,928.9**	9,992.0
Changing debt collection to equity	**11,800.0**	11,800.0
Offsetting debts with equity	**6,459.6**	327.2
Total	**34,188.5**	22,119.2

Market-oriented DES business supported by the national policy is one of the core businesses of the Group. In 2020, as the capital market recovered continuously, the Group actively seized the market opportunities, continuously optimized business layout in accordance with national industry orientation, and strengthened the development and reserve of strategic emerging industries and technological innovation enterprises such as information technology, high-end equipment, new material, new energy, energy saving and environmental protection as well as biological medicine. In 2019 and 2020, an income of RMB2,189.5 million and RMB1,859.7 million was recorded from the market-oriented DES business of the Group, respectively.

9.3.1.4 Distressed debt asset management business conducted by our subsidiaries

The Group conducts distressed debt asset management business through Huarong Huitong Asset Management Co., Ltd. ("Huarong Huitong") and its subsidiaries. In 2019 and 2020, Huarong Huitong recorded an operating income of RMB1,200.4 million and RMB241.0 million from distressed debt assets, respectively.

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

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

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB)	
Total assets	**24,356.5**	25,199.4
Total income	**1,866.4**	2,178.1
Net profit	**411.2**	502.3

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

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

The Group conducts distressed asset-based property development business through Huarong Industrial. In 2019 and 2020, revenue from property development business of Huarong Industrial amounted to RMB2,394.8 million and RMB2,317.5 million, respectively.

9.3.2 Financial Services

The financial services segment of the Group comprises Huarong Financial Leasing, Huarong Xiangjiang Bank and other subsidiaries. There was differentiation in the financial performance of relevant subsidiaries of the financial services segment. On the one hand, Huarong Xiangjiang Bank and Huarong Financial Leasing strengthened the service of real economy, made great efforts to expand business and customers, and maintained the continuity, steady and sustainability of business operation. On the other hand, under the strong supervision and strict regulation, the underlying assets of relevant subsidiaries were exposed to risks and losses. In 2019 and 2020, total income from the financial services segment was RMB33,575.5 million and RMB33,288.2 million, respectively, maintaining steady on the whole.

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB)	
Financial leasing business		
Total income	**8,253.0**	8,340.5
Profit before tax	**2,046.5**	2,279.6
Total assets	**138,280.4**	138,254.1
Total equity	**16,648.2**	16,178.6
Banking		
Total income	**21,146.3**	19,285.0
Profit before tax	**3,671.5**	3,771.7
Total assets	**405,975.6**	366,776.8
Total equity	**31,002.3**	23,981.0

9.3.2.1 Financial leasing business

The Group operates its financial leasing business through Huarong Financial Leasing. As at December 31, 2019 and December 31, 2020, the total assets of Huarong Financial Leasing amounted to RMB138,254.1 million and RMB138,280.4 million, respectively; in 2019 and 2020, the profit before tax of Huarong Financial Leasing was RMB2,279.6 million and RMB2,046.5 million, respectively. Both the operating results and management level of Huarong Financial Leasing have maintained the leading position in the industry.

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

	As at or for the year ended December 31,	
	2020	2019
Profitability indicators		
ROAA[(1)]	**1.1%**	1.3%
ROAE[(2)]	**9.5%**	11.3%
Asset quality indicators		
Distressed asset ratio[(3)]	**1.53%**	1.47%
Provision coverage ratio[(4)]	**185.4%**	161.0%
Capital adequacy indicators		
Core capital adequacy ratio[(5)]	**12.0%**	12.3%
Capital adequacy ratio[(5)]	**13.0%**	13.0%

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

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

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

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

(5) Disclosed by the means reported to CBIRC.

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

	As at December 31, 2020		As at December 31, 2019	
	Amount	**Percentage**	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	**16,584.5**	**14.8%**	20,002.7	18.2%
Water, environment and public utilities management	**48,247.7**	**43.1%**	40,818.0	37.1%
Transportation, logistics and postal services	**11,505.2**	**10.3%**	12,511.7	11.3%
Construction	**5,742.1**	**5.1%**	6,828.6	6.2%
Mining	**1,967.5**	**1.8%**	3,160.8	2.9%
Leasing and commercial services	**7,296.7**	**6.5%**	4,643.8	4.2%
Others	**20,552.9**	**18.4%**	22,135.1	20.1%
Total	**111,896.6**	**100.0%**	110,100.7	100.0%

9.3.2.2 Banking services business

The Group conducts its banking services business through Huarong Xiangjiang Bank. As at December 31, 2019 and December 31, 2020, total assets of Huarong Xiangjiang Bank were RMB366,776.8 million and RMB405,975.6 million, respectively, with an increase of 10.7%. In 2019 and 2020, profit before tax of Huarong Xiangjiang Bank was RMB3,771.7 million and RMB3,671.5 million, respectively, with a decrease of 2.7%.

As at December 31, 2020, the non-performing loan ratio and provision coverage ratio of Huarong Xiangjiang Bank were 1.84% and 158.3%, respectively. Its core tier-1 capital adequacy ratio was 8.6% and its capital adequacy ratio was 13.1%, and all major businesses indicators of Huarong Xiangjiang Bank either satisfied or outperformed regulatory requirements.

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

	As at or for the year ended December 31,	
	2020	2019
Profitability indicators		
ROAA(1)	**0.7%**	0.9%
ROAE(2)	**10.4%**	13.2%
Asset quality indicators		
Non-performing loan ratio(3)	**1.84%**	1.57%
Provision coverage ratio(4)	**158.3%**	162.7%
Allowance to total loans(5)	**2.9%**	2.6%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio(6)	**8.6%**	9.6%
Capital adequacy ratio(6)	**13.1%**	12.6%

(1) ROAA equals the net profit for the year divided by the average of total assets as of the beginning and the end of the period.
(2) ROAE equals the net profit attributable to shareholders for the year as a percentage of the average balance of shareholder's equity as of the beginning and the end of the period.
(3) Non-performing loan ratio equals the balance of non-performing loans divided by total loans and advances to customers.
(4) Provision coverage ratio equals the balance of allowance for impairment losses divided by the balance of non-performing loans.
(5) Allowance to total loans equals the balance of allowance for impairment losses divided by total loans and advances to customers.
(6) Core tier-1 capital adequacy ratio and capital adequacy ratio are calculated according to CBIRC regulations.

9.3.3 Asset Management and Investment

The total income from asset management and investment segment decreased by RMB25,811.5 million from RMB14,311.5 million in 2019 to RMB-11,500.0 million in 2020, mainly because the Company recognized loss from fair value changes on other financial assets and liabilities upon the comprehensive review and assessment of risks.

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

	As at or for the year ended December 31,	
	2020	2019
	(in millions of RMB)	
Trust business		
Outstanding trust AUM	**120,870.9**	134,458.7
Total trust income	**(2,288.0)**	1,417.9
Including: trust commission and fee income	**377.7**	514.9
International business		
Total assets	**164,858.1**	194,421.0
Total income	**6,430.7**	8,742.4

9.3.3.1 Trust business

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

As at December 31, 2019 and December 31, 2020, the outstanding trust AUM was RMB134,458.7 million and RMB120,870.9 million, respectively.

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

	As at December 31	
	2020	2019
	(in millions of RMB)	
Industry and commerce	**43,235.8**	36,405.3
Financial institutions	**16,420.5**	25,852.9
Securities investment	**10,442.1**	16,525.7
Infrastructure	**19,068.4**	24,073.6
Real estate	**24,931.0**	27,963.0
Others	**6,773.1**	3,638.2
Total	**120,870.9**	134,458.7

9.3.3.2 International business

The Group conducts its international business mainly through Huarong International and other overseas subsidiaries. As at December 31, 2019 and December 31, 2020, the total assets of Huarong International were RMB194,421.0 million and RMB164,858.1 million, respectively. The total income for 2019 and 2020 of Huarong International was RMB8,742.4 million and RMB6,430.7 million, respectively.

9.3.4 The impact of COVID-19 epidemic and the Group's related counter measures

In 2020, the COVID-19 epidemic has a significant negative impact on global economy and the stable development of finance. Affected by the early epidemic and the pressure of economic downturns, the supply of distressed assets in China's economic and financial fields has increased, which has brought new opportunities for the business operations of financial asset management companies. In response to the impact of the COVID-19 epidemic, the Group resolutely executed the national decisions and plans on epidemic prevention and control, balanced the epidemic prevention and control and our business operation, and provided services in "ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations" and "ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments". The Group proactively adopted measures to resolve financial risks and strongly support the real economy. While making its own contribution to the recovery and development of economic society, the Group maintained the stable business development, steadily improved the core business development capability, to gradually present the results of high-quality transformation and development.

Firstly, we implemented the requirements for epidemic prevention and control to ensure the stable performance of the business operations. The Company coordinated and formulated work plans of epidemic prevention, and established a normalized mechanism on epidemic prevention and control. We distributed protective equipment, strengthened daily epidemic prevention and control in business premises to ensure the health of employees to the greatest extent. According to the dynamic changes of the epidemic situation, we established a matching operation and management mode to ensure the internal management and business operations of the Company developed orderly. The corporate credit risk and liquidity risk management of the Company has been strengthened, and the bottom line of liquidity risk has been held. During the epidemic period, the Company maintained a stable operation of various businesses and funds, with all liquidity risk indicators in good condition, and liquidity risks in control.

Secondly, we introduced support policies for epidemic prevention and control to empower the enterprises to resume of work and production. The Company actively performed its responsibilities as a central financial enterprise. Centering on "ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations" and "ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments", we introduced support policies for epidemic prevention and control, and set up special support lines for the fight against the epidemic. We released a list of key protection companies for epidemic prevention and control, involving 7,959 companies in 15 provinces. Through debt restructuring, liquidity assistance, and restructuring of troubled companies, we supported the resumption of work and production in industries such as medicine and medical care, material transportation, and people's livelihood materials. A total of 75 anti-epidemic restructuring projects were implemented throughout the year, with an amount of approximately RMB6 billion, and we were the first company to carry out the debt acquisition and restructuring for the anti-epidemic project.

Thirdly, we boosted efforts in acquisition and disposals to resolve the risks in the financial system. The Company focused on the main responsibilities for the core business, constantly strengthened efforts of acquisition of distressed assets and empowered financial institutions to relieve the pressure of the distressed assets. The Group's scale of distressed asset package acquired is over RMB180 billion for the year, accounting for more than 40% of the open market, effectively playing the role of national team and main force in the distressed assets industry. We were creative to launch a series of online asset promotion of "Brave the Wind and the Waves (乘風破浪)" to broaden our marketing channel and improve the disposal efficiency, better preforming the function of disposal risk dissolving as an asset management company. We implemented the acquisition and restructuring program of defaulted bonds, which effectively avoided the material risk events in the bond market.

Fourthly, we supported the development of real economy by helping solve difficulties of companies. The Company actively participated in projects such as divestiture of principal and subsidiary of state-owned enterprises, debt restructuring of large private enterprises, and relief of listed companies and major shareholders, and completed several relief projects for listed companies through investment banking tools and investment methods, thus improving the quality and efficiency of serving the real economy. In particular, our subsidiaries with financial licenses provided loans and financing support for small and medium-size enterprises as per their business scope. Measures such as special credit lines and deferred repayments have been adopted to help entity enterprises affected by the epidemic alleviate their operating pressure and resume work and production and boost the recovery and development of economic society.

9.3.5 Business synergy

Focusing on the strategic deployment of "returning to the core business and focusing on the core business", the Group has established a sound coordinated development mechanism, promoted coordinated informatization construction, strengthened coordination in product, customer, information, and risk management and control, and continuously deepened the synergy in the core business of distressed assets such as the acquisition and disposal of distressed assets, restructuring businesses, and market-based debt-to-equity swaps to maximize the interests of the Group.

In 2020, the Group actively promoted business cooperation between the headquarters and its branches and subsidiaries. The scale of projects implemented by each operation unit through (1) branches and subsidiaries; (2) branches and branches; (3) branches and the business department of the headquarters; (4) subsidiaries and subsidiaries; and (5) subsidiaries and the business department of the headquarters and other synergetic and cooperative relationship amounted to RMB99,978.33 million, and the revenue from all synergistic projects amounted to RMB10,218.92 million.

9.3.6 Major investment and acquisition

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

9.3.7 Development of information technology

9.3.7.1 Information technology governance

During the Reporting Period, the Group gave full play to the role of information technology in "service, guarantee, driving, and empowerment", utilized science and technology to ensure continuity of the Company's management and operation during the epidemic, and to support enterprises' resumption of work and production. The Group built and put into operation intra-city data-level backup centers, thus establishing a system of "two centers in the same city". The Group completed the construction of and put into operation a data governance platform, which won the "Data Quality Excellent Practice Award" in the selection of 2nd China "Data Quality Management" Benchmarking Award in 2020, laying a solid foundation for the standardization of the Company's data governance. With the introduction of DevOps (開發技術模式), the Group made a breakthrough in building a step-by-step, loosely-coupled, agile and innovative information technology structure system, gaining a leading position in the industry.

9.3.7.2 Information system establishment

During the Reporting Period, the Group successfully completed the promotion of integrated business system in the Group, comprehensively meeting the management target of "group-level information system with full coverage of all units" of the Company; focusing on addressing the pain points of business management and serving business synergy of the Group, improved relevant functions of the acquisition-and-disposal business, added functions of asset promotion to the outside, and built a customer marketing management platform to fully expand customer marketing channels by leveraging technological methods and adapt to the needs of Group's return to the core business; and pushed forward the informatization construction of coordinated business to enhance the Group's business collaboration capability. The Group promoted the continuous improvement of the comprehensive risk management system and the construction of a statistical information platform of the Group, enhanced the automation level of the parent company's regulation in preparation of statements, and reduced the compliance risk of corporate regulatory reporting; completed the construction of the market risk management system to improve its regular monitoring and early-warning abilities against risks in the stock market of the Group; and optimized and upgraded its anti-money laundering system and risk management system. The Group completed the construction of a new expense reimbursement system, optimized the customer financial statement management module, and promoted the continuous upgrading of the financial system. The Group explored the model of "big data + core business", completed the construction of an auxiliary valuation system for distressed assets and applied for national patents to empower business development and innovation.

9.3.8 Human resources management

In 2020, the Group focused on building a high-quality professional talent team, providing a solid talent guarantee for the high-quality development of a New Huarong. Following a correct guideline in selecting and appointing personnel and rectifying bad practices in this regard, the Group optimized the structure of the workforce; continuously improved the personnel mechanism; continuously improved the positive incentive and restraint mechanism featuring openness, transparency, science and rationality; actively built a learning organization, strengthened the training on the knowledge and abilities of employees in light of business development, and improved the duty performance capability and professional quality of cadres and employees. Caring for cadres and employees, the Group made active responses to their concerns, protected their immediate interests, and continuously improved their cohesion and capacity.

9.3.8.1 Employees

As of December 31, 2020, the Group had a total of 10,668 employees. Among them, 2,669 people worked for the Company, and 7,999 people worked for subsidiaries at all levels.

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

The table below sets forth a breakdown of the Group's employees by age, as of December 31, 2020:

	Number	Percentage (%)
Aged 35 and below	5,148	48.26%
Aged 36–45	2,818	26.41%
Aged 46–55	2,163	20.28%
Aged 56 and above	539	5.05%
Total	**10,668**	**100%**

The table below sets forth a breakdown of the Group's employees by education level, as of December 31, 2020:

	Number	Percentage (%)
Doctoral degree or doctoral candidate and above	170	1.59%
Master degree or master candidate	3,462	32.45%
Bachelor degree or undergraduate	6,102	57.20%
Junior college and below	934	8.76%
Total	**10,668**	**100%**

9.3.8.2 Remuneration policy

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

9.3.8.3 Education and training

In 2020, the Group innovated the ways and expanded the channels of training, aiming to make it more systematic, targeted and efficacious to provide strong talent support and intellectual guarantee for its sustained and healthy development. Firstly, focusing on central corporate tasks, the Group coordinated the management of system-wide education and training, and worked out and implemented the annual training work plan, with an emphasis on promoting the science and effectiveness of training. Secondly, the Group innovated the ways and methods of training and carried out training based on levels, majors and lines to improve the performance ability and professional quality of cadres and employees. Thirdly, the Group officially launched the corporate online learning platform "Huarong Cloud Class", effectively utilizing internal and external learning resources.

9.4 Risk Management

In 2020, adhering to the general tone of making progress while remaining stable, the Group actively responded to economic and social impact and market risks caused by the COVID-19 epidemic. Focusing on strengthening incremental risk control and stock risk disposal, the Group laid a solid foundation to develop a comprehensive risk management system and strived for improving risk management tools and means.

9.4.1 Comprehensive risk management system

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

In 2020, the Group put the enhancement of risk management in an important position of its work, promoted the construction of a comprehensive risk management system in a methodical way, actively responded to the impact of the epidemic, adjusted its risk management and control policies in a timely manner, and strengthened risk measurement, monitoring and control. The Group strengthened risk appetite management, and enhanced the transmission and implementation, monitoring and reporting of the appetite; the Group improved the business access standards, optimized the management mechanism of business authorization, customer and industry concentration, and strengthened the early warning and notice of risks; the Group strengthened the monitoring and early warning of risks, strictly managed and controlled new risks and exerted greater efforts to the settlement, collection and resolution of potential risk assets. Meanwhile, the Group continued to optimize the impairment and internal rating models, and actively promoted the construction and functional improvement of systems for risk early warning, customer limit, related party transactions, operational risks and credit.

9.4.2 Structure of risk management

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

In 2020, the Group continued to improve the structure of risk management, and strengthened vertical management of risk lines of the branches and subsidiaries. The Group defined management responsibility by improving the mechanism for verifying the professional qualifications and assessing and evaluating the performance of risk directors and heads of risk departments in business lines to improve their independence and specialization in performing duties, and carried out meetings and professional training for the Group's risk management lines and improved the professional quality of risk management personnel.

9.4.3 Credit risk management

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

According to regulatory requirements and actual development, the Group continuously promoted the construction of credit risk management system, continuously improved its credit risk management system, mechanisms and tools; the Group enhanced the quality in identifying, monitoring, measuring, analyzing and reporting credit risks via post-evaluation efforts. Meanwhile, the Group improved the management function through promoting the development of credit risk management information system to enhance management efficiency.

Affected by various factors such as the risk accumulation caused by the aggressive operation and disorderly expansion during the tenure of Lai Xiaomin, the COVID-19 epidemic and the market environment, the Company's operating risks have been gradually exposed. In 2020, the Group comprehensively reviewed and evaluated risks, recognized a large amount of credit impairment losses to mitigate risks, and also actively responded to the impact of the epidemic and strengthened risk identification, monitoring, measurement, analysis and reporting. The Group further improved the business access standards, business management system and approval process, and strictly controlled the quality of projects. According to the principles of "unified management, full coverage, classified authorization, limited moderation, dynamic adjustment and power-responsibility consistency", the Group improved the management mechanism for the business authorization of all operation units; fortified risks monitoring and control of cooperation scale with major customers, and strengthened concentration risk control in the real estate sector. The Group carried out credit risk early warning and monitoring, continuously optimized the internal rating models, improved the post-project management and asset risk classification system based on the Company's actual condition. In strict accordance with the requirements of the IFRS 9 and based on the actual status of project risk, the Group continuously optimized impairment measurement models and made reasonable provision for impairment.

In 2020, to accelerate the disposal and resolution of risk hidden assets, the Company improved risk dissolution system and mechanism, formulated risk dissolution work plans, and launched a number of risk dissolution policies so as to advance disposal and resolution of risk asset. The Group achieved positive results in risk mitigation with the joint efforts of the whole Group.

The Group will continue to strengthen credit risk management with a focus on existing risk reduction and incremental risk control. In terms of existing risk reduction, firstly, the Company will continuously strengthen the top-level design of risk resolution, enhance the construction of risk resolution mechanism, actively carry out the disposal and resolution work for assets with hidden risks, implement classification management and precise measures, and constantly enrich and improve risk resolution measures; secondly, the Company will increase efforts for the coordination of risk disposal work, make every effort to promote the risk resolution work of key and difficult projects specifically and comprehensively, and effectively accelerate the risk disposal and resolution. In terms of incremental risk control, firstly, the Company will continue to refine project access criteria and authorization management, improve the quota and concentration control mechanism, optimize risk systems and other management tools, and improve risk control quality and efficiency; secondly, the Company will strengthen risk warning and risk prompting, enhance customer risk identification, and improve early risk prevention capabilities; thirdly, the Company will continuously strengthen risk monitoring and analysis, intensify monitoring, reporting, assessment and evaluation of key projects, and fulfil project risk control responsibilities.

9.4.4 Market risk management

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

In 2020, the Group further enhanced the construction of market risk management system, improved the market risk management mechanism, optimized the system functions of market risk, continuously strengthened routine monitoring of market risk and public opinion monitoring, and conducted market risk stress tests. Through identification, measurement, monitoring, control and reporting, the Group gradually improved the level of market risk management.

With regard to stock risk, considering the macroeconomic situation, market capital, financial regulatory policies, industrial development trends, corporate profitability and other factors, the Group conducted comprehensive analysis and judgement of factors such as the capital market and the development trends of listed companies, and exerted management on listed companies' stocks. The Group strictly complied with the regulatory requirements for disposal operations and public information disclosure to achieve its overall business and investment strategy and objectives of the Group. Meanwhile, through various means including real-time market value monitoring, regular stress tests, and improvement of emergent risk disposal mechanism, the Group effectively managed and controlled risks to promote value preservation and appreciation of state-owned assets.

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

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

9.4.5 Liquidity risk management

Liquidity risk refers to the risks associated with the failure to obtain sufficient funds promptly or at reasonable cost to repay mature debts or other payment obligations or support the asset growth or other business development. The Group's liquidity risks arise primarily from the delay in payment by its debtors, mismatch of asset and liability structure, difficulty in asset monetization, operational loss, lack of liquidity reserves and financing capacity that is unable to meet the needs of business development.

In 2020, the Group grasped the monetary policy and regulatory policy guidance, closely monitored market liquidity conditions, strictly carried out risk monitoring and control, and maintained stable capital relationship with financial institutions. The overall liquidity was sufficient, matured domestic and overseas bonds were timely redeemed, and liquidity risks were controllable. The methods for monitoring and controlling liquidity risks of the Group mainly include indicator monitoring, alert management, stress tests and contingency plans. The Group set up and monitored liquidity risk monitoring indicators according to regulatory requirements and its actual situation to dynamically monitor, analyze and control liquidity risks; strictly implemented the liquidity risk limit management policy; conducted regular stress tests for liquidity risks, established sound hypothetical scenarios and test models, established and improved liquidity risk contingency plans, and continuously optimized early-warning management and risk mitigation mechanisms for liquidity risks.

The Group actively implemented the requirements of the regulatory authorities for liquidity management. The Group adopted a centralized liquidity management system, enhanced the initiative and forward-looking nature of liquidity management to maintain the mismatch of assets and liabilities at an acceptable liquidity risk level. Target leverage ratio was determined in accordance with regulatory requirements to effectively control the degree of leverage and to guarantee its long-term liquidation. The Group established the working capital planning system, made full use of the fund transfer pricing system to speed up the turnover of funds and enhance efficiency in the use of funds; constantly expanded financing channels, established the multi-term and multi-variety market-based financing methods predominated by inter-bank loans, issuance of bonds and other types of financing, complemented with interbank advances and pledge-style repo, and reasonably arranged the debt term to effectively improve the debt structure.

9.4.6 Operational risk management

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

In 2020, the Group further improved corporate operational risk management system, strengthened operational risk appetite and limit management, continuously monitored and analyzed the implementation of relevant indicators, and took operational risk-prone links as the focus of inspection, to strengthen supervision and rectification. By conducting operational risk stress tests, the Group conducted a scientific assessment on its ability to withstand operational risks. At the same time, the operational risk management training was enhanced to improve the employees' awareness and management abilities related to operational risks.

The Group attached great importance to the building of a comprehensive legal risk prevention and control system covering all processes, all systems and all directions, continuously improved the legal work system, kept optimizing the legal review process, continuously strengthened contract management, intensified legal risk prevention and control, promoted the innovation of case management mechanism, and comprehensively prevented and controlled legal risks in business management activities.

The Group continued to improve the prevention mechanism of information technology risks, strengthened the planning and construction of information technology infrastructure, and built the data center system of "Two Centers in the Same City" to enhance the hard power to provide scientific and technological support. The information technology system was cleared and revised to meet the needs of technological management within the entire group. The Group effectively assessed and monitored scientific and technological risks, strengthened outsourcing risk management, and carried out national information security protection level rating and network security inspection for information systems.

9.4.7 Reputational Risk Management

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

In 2020, the Group further strengthened reputational risk management and improved its reputational risk system, organized training on reputational risk management, and improved the Group's capability to manage reputational risks and respond to public opinions. In the principle of proactive, prudent, full-process and full-coverage management, the Group strengthened the identification, monitoring and pre-judgment of reputation risk events or hidden reputation risks, and proactively took measures to prevent, control and resolve potential reputation risks. In 2020, the Group did not have any significant reputation risk event.

9.4.8 Internal Control

In 2020, pursuing the objectives of efficient operations, reliable reports and compliant operations, the Group continued to improve its internal control management system, carried out self-assessment on internal control, completed the goal of system construction for a New Huarong, and strengthened training promotion and the mechanism for problem rectification and supervision. The Board, Board of Supervisors, senior management, headquarters, branches, subsidiaries and other institutions of different levels of the Company, as well as the three lines of defense of internal control, consisting of operation management department, internal control management department and internal audit department, performed their own functions, to facilitate the achievement of the Company's internal control goals.

The case of Lai Xiaomin involved the Company in an event of risk internal control. The Company has been making rectifications and pursuing accountability for operational irregularities. In addition to Lai Xiaomin who received judicial punishment, Wang XX, Bai XX, Guo XX, Zhao XX, Qin X, Yang XX, Ran XX, Zhang XX, etc. were, in succession, investigated and detained by the Commission for Discipline Inspection and the National Supervisory Commission during the period from April 2018 to July 2019. As of 2020, the Group has held accountable a total of 858 persons-in-charge (for 1,232 times) for the relevant risk related projects, including 134 persons-in-charge (for 211 times) at or above the rank of assistant general manager. Seven hundred and sixty eight economic penalties were imposed with a penal sum of RMB41,036,600; and RMB29,937,600 of annual performance bonus was reclaimed.

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

9.4.9 Internal Audit

The Group has established an independent internal audit department. Under the leadership of the Company's Party Committee, the Board and its Audit Committee, the internal audit department is responsible for the independent and objective supervision, evaluation and giving suggestions on financial revenue and expenditure, business activities, risk conditions and internal control etc.

In 2020, the Group duly performed its duties of audit supervision, focused on the central work and strategic deployment of the Group, continuously deepened the construction of internal audit system, and organized routine audits, special audits and internal control evaluation, realizing all-round supervision on the Group's audit work.

The Group improved the internal audit system. The Group carried out dynamic post-evaluation for the internal audit system, formulated or revised the special audit system, and issued guidance documents for annual internal audit, so as to continuously improve the overall quality of work.

The Group organized and conducted regular audits and special audits. The Group has conducted regular and special audits for its branches and subsidiaries. The Group has also conducted economic responsibility audits on the performance of the middle and senior management and put forward suggestions on accountability for violations of relevant personnel.

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

The Group strengthened the construction of an internal audit team. The Group continued to improve the professional skills of auditors by adopting methods such as practical audit work in place of training, centralized training, business communication, etc. The Group also established a talent pool of audit professionals to coordinate audit forces at all levels and improve the Group's internal audit management level.

9.4.10 Anti-money Laundering Management

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

In 2020, the Group improved the internal control systems for anti-money laundering and anti-terrorist financing; further optimized the functions of the anti-money laundering management information system, strengthened rigid control over anti-money laundering processes, and optimized the system operating environment; conducted comprehensive anti-money laundering inspection, and promoted the effective implementation of anti-money laundering and anti-terrorist financing regulatory requirements and corporate regulations; actively promoted the intensive anti-money laundering propaganda and education, with two special training sessions on anti-money laundering as well as timely summarizing typical cases and operating norms, thereby effectively improved the employees' awareness of anti-money laundering and anti-terrorist financing.

9.5 Capital Management

In accordance with the regulatory requirements, the Company "observing original mind and focusing on the core business", continued to accelerate its business transformation by reducing the proportion of non-core businesses and homogeneous businesses. At the same time, according to the Capital Management Measures for Financial Asset Management Companies (Trial) (Yin Jian Fa [2017] No. 56) and other relevant regulations, the Company went further in implementing the concept of capital constraint, kept optimizing the capital management system, and strived to increase capital efficiency. The significant changes in the Company's financial position in 2020 had a certain effect on its capital adequacy index. The Company will work on and promote the capital replenishment plan and strive to achieve a sound and compliant capital position taking into account the regulatory requirements, development strategies and its actual situation.

As at December 31, 2019 and 2020, the capital adequacy ratios of the Company were 15.29% and 4.16%, respectively.

As at December 31, 2019 and 2020, the leverage ratio[1] of the Company were 9.2:1 and 1,333.0:1, respectively.

9.6 Development Outlook

Looking forward to 2021, the world economic recovery will remain unstable and uneven. With the launch and promotion of the vaccine, the negative impact of the COVID-19 epidemic on the global economy is expected to gradually weaken. Impacted by the effectiveness of the government's macroeconomic policies, the cross-border spillover effects, the structural feature of pre-crisis and other factors, it is expected that economic recovery in various countries will be significantly different, and various derivative risks caused by the impact of the epidemic cannot be ignored.

Under the strong leadership of the Party Central Committee and the State Council, China has achieved significant results in stable economic recovery, with a good momentum for economic development amid sustained and stable economic recovery. However, the external environment has become more complex and severe, and the domestic economic recovery is still not sound and balanced. In macro policies, more attention was paid to cross-cycle regulation to maintain the continuity, stability and sustainability of macro policies, and efforts were made to coordinate macro policy convergence in 2021 and 2022 to keep the economy operation in a reasonable range. There should be active fiscal policies to enhance policy effectiveness, and prudent monetary policies to maintain reasonable and abundant liquidity so as to help small and medium-sized enterprises and difficulty-ridden industries continue to recover. We should prevent and resolve risks in key areas and implement a fiscal and financial risk disposal mechanism within the local responsibility. For the financial asset management industry, due to the impact of the COVID-19 and the economic downturn in the early period, it is expected that the balance of non-performing loans will grow faster in the coming period, and the relevant financial institutions will further increase their efforts in the disposal of distressed assets to ensure disposal of more distressed assets at a faster pace. There is a solid policy protection and a broad market for the Group's core business operation.

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

In respect of the impacts to net assets caused by the significant decline in the performance and substantial loss in 2020, the Group is actively introducing strategic investors and implementing capital replenishment planning to safeguard sustainable operation. In the three years after the case of Lai Xiaomin, the Group has implemented the three-year strategic plan for the construction of New Huarong, and against the background of profound changes in the business environment and continuous tightening of the regulatory provisions, insisted on returning to the main responsibility and core business, continued to promote risk resolution and downsizing, accelerated business transformation, constantly improved the internal management level, realized stable development of the core business fundamentals of distressed assets, further improved the business ability and professional level of employees, improved the effective corporate governance and internal risk control mechanism, and built an operation pattern for achieving high-quality development. At present and in the coming period, the Group will give full play to its subjective initiative while maintaining the basic stability of its core business, and focus on transformation of core businesses and risk resolution simultaneously, in an effort to achieve high-quality and sustainable development. On the one hand, we will broaden the operation ideas for acquisition and disposal business, reshape the profit model of acquisition and restructuring business, continuously enrich the disposal methods and channels, and promote the transformation and upgrading of core businesses; on the other hand, we will innovate the disposal mechanism, increase efforts for risk disposal of key projects, strictly control the quality of assets, and strictly prevent new risks. Looking ahead, the Group has the ability, conditions and confidence to continue to thoroughly implement the work plans of the Party Central Committee, the State Council and the CBIRC, and will focus on the functional positioning set by the state for asset management companies, continue to promote risk resolution and downsizing according to the established strategy, accelerate transformation of core businesses and resolution of inventory of risks, strengthen the endogenous development momentum, and gather the spiritual motivation of all employees to work together to build a New Huarong and start a new stage of high-quality development.

10. Changes in Share Capital and Information on Substantial Shareholders

10.1 Changes in Share Capital

There was no change in the class of share capital and total number of Shares of the Company as at December 31, 2020 comparing to previous period, as detailed below:

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

10.2 Substantial Shareholders

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

As at December 31, 2020, the Company received notices from the following persons about their notifiable interests or short positions held in the Company's Shares and underlying Shares pursuant to Divisions 2 and 3 of Part XV of the SFO, which were recorded in the register pursuant to Section 336 of the SFO as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of share capital of the Company (%)[8]	Approximate percentage to the total share capital of the Company (%)[9]
MOF	Domestic Shares[1]	Beneficial owner	9,901,084,435(L)	70.59(L)	25.34(L)
	H Shares[1]	Beneficial owner	12,376,355,544(L)	49.42(L)	31.68(L)
	H Shares[2]	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
National Council for Social Security Fund[3]	Domestic Shares	Beneficial owner	2,475,271,109(L)	17.65(L)	6.34(L)
China Life Insurance (Group) Company	Domestic Shares	Beneficial owner	1,650,000,000(L)	11.76(L)	4.22(L)
Central Huijin Investment Ltd.[2]	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of share capital of the Company (%)[8]	Approximate percentage to the total share capital of the Company (%)[9]
Warburg Pincus & Co.[4]	H Shares	Interest of controlled corporation	2,060,000,000(L)[5]	8.23(L)	5.27(L)
Warburg Pincus Financial International Ltd[4]	H Shares	Beneficial owner	2,060,000,000(L)[5]	8.23(L)	5.27(L)
Sino-Ocean Group Holding Limited[6]	H Shares	Interest of controlled corporation	1,771,410,000(L)	7.07(L)	4.53(L)
Ko Kwong Woon Ivan[7]	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Siu Lai Sheung[7]	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Fabulous Treasure Investments Limited[2],[6],[7]	H Shares	Beneficial owner	1,716,504,000(L)	6.85(L)	4.39(L)

Note: (L) refers to long position

Notes:

(1) The data is based on the Corporate Substantial Shareholder Notice from the MOF filed with the Hong Kong Stock Exchange on December 1, 2015 and January 22, 2020.

(2) According to the Corporate Substantial Shareholder Notices from the MOF and Central Huijin Investment Ltd. filed with the Hong Kong Stock Exchange, respectively, on December 17, 2015, Fabulous Treasure Investments Limited directly holds 1,716,504,000 H Shares of the Company. As Agricultural Bank of China Limited, ABC International Holdings Limited, ABCI Investment Management Limited, Glorious Align Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by the MOF and Central Huijin Investment Ltd., therefore, for the purpose of the SFO, the MOF, Central Huijin Investment Ltd., Agricultural Bank of China Limited, ABC International Holdings Limited, ABCI Investment Management Limited, Glorious Align Limited and SOL Investment Fund LP are deemed to be interested in the long positions held by Fabulous Treasure Investments Limited.

(3) According to the Corporate Substantial Shareholder Notice from the National Council for Social Security Fund filed with the Hong Kong Stock Exchange on January 7, 2020 and the Corporate Substantial Shareholder Notice from the MOF filed with the Hong Kong Stock Exchange on January 22, 2020.

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

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

(6) According to the Corporate Substantial Shareholder Notice from Sino-Ocean Group Holding Limited filed with the Hong Kong Stock Exchange on September 13, 2016, Fabulous Treasure Investments Limited and Shining Grand Limited directly hold 1,716,504,000 and 54,906,000 H Shares of the Company, respectively. As Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP, Fabulous Treasure Investments Limited and Shining Grand Limited are all corporations directly or indirectly controlled by Sino-Ocean Group Holding Limited, therefore, for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited and SOL Investment Fund LP are deemed to be interested in the long positions of 1,716,504,000 H Shares of the Company held by Fabulous Treasure Investments Limited; and for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited and Sino-Ocean Land (Hong Kong) Limited are deemed to be interested in the long positions of 54,906,000 H Shares of the Company held by Shining Grand Limited.

(7) According to the Individual Substantial Shareholder Notices from Ko Kwong Woon Ivan and Siu Lai Sheung filed with the Hong Kong Stock Exchange, respectively, on December 16, 2015, Fabulous Treasure Investments Limited directly holds 1,716,504,000 H Shares of the Company. As RECAS Global Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by Ko Kwong Woon Ivan and Siu Lai Sheung, therefore, for the purpose of the SFO, Ko Kwong Woon Ivan, Siu Lai Sheung, RECAS Global Limited, SOL Investment Fund GP Limited and SOL Investment Fund LP are deemed to be interested in the long positions held by Fabulous Treasure Investments Limited.

(8) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at December 31, 2020.

(9) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at December 31, 2020.

10.2.2 Substantial Shareholders

During the Reporting Period, the substantial Shareholders of the Company with shareholding of class of Shares over 5% remained unchanged as compared with the previous period. The details of the substantial Shareholders of the Company are as follows:

MOF

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

National Council for Social Security Fund

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

China Life Insurance (Group) Company

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

Warburg Pincus LLC

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

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

Sino-Ocean Group Holding Limited

In pursuit of the strategic vision of being the creator of "building health and creating social value", Sino-Ocean Group is committed to becoming a pragmatic comprehensive corporation focusing on investment and development while exploring related new businesses. Its core businesses include residential development, real estate development and operation, customer service and product construction, while its non-core businesses include real estate finance, logistics real estate, data real estate and elderly care services. Sino-Ocean Group has built up the reputation of "Sino-Ocean" brand in China based on its constant quality products and professional services.

11. Directors, Supervisors and Senior Management

11.1 Directors

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

No.	Name	Gender	Year of Birth	Position	Term of office
Current Directors					
1	Wang Zhanfeng	M	1967	Chairman of the Board and Executive Director	The second session: From September 2018 to June 2020 The third session: From June 2020 to the election of the next session of the Board
2	Liang Qiang[1]	M	1971	Executive Director and President	The third session: From August 2021 to the election of the next session of the Board
3	Wang Wenjie	M	1961	Executive Director and Vice President	The third session: From December 2020 to the election of the next session of the Board
4	Zhao Jiangping	F	1965	Non-executive Director	The second session: From June 2020 to June 2020 The third session: From June 2020 to the election of the next session of the Board
5	Zheng Jiangping	M	1964	Non-executive Director	The second session: From June 2020 to June 2020 The third session: From June 2020 to the election of the next session of the Board
6	Xu Nuo	M	1972	Non-executive Director	The third session: From December 2020 to the election of the next session of the Board

(1) Mr. Liang Qiang was appointed as the President of the Company as resolved by the Board of the Company on June 29, 2021 and was appointed as the executive Director of the Company as approved by the first extraordinary general meeting of Shareholders for 2021 of the Company on August 17, 2021.

No.	Name	Gender	Year of Birth	Position	Term of office
Current Directors					
7	Zhou Langlang	M	1980	Non-executive Director	The second session: From April 2017 to June 2020 The third session: From June 2020 to the election of the next session of the Board
8	Tse Hau Yin	M	1948	Independent Non-executive Director	The first session: From March 2015 to February 2017 The second session: From February 2017 to June 2020 The third session: From June 2020 to the appointment of the new independent non-executive Director
9	Shao Jingchun	M	1956	Independent Non-executive Director	The first session: From November 2016 to February 2017 The second session: From February 2017 to June 2020 The third session: From June 2020 to the election of the next session of the Board
10	Zhu Ning	M	1973	Independent Non-executive Director	The second session: From March 2019 to June 2020 The third session: From June 2020 to the election of the next session of the Board
11	Chen Yuanling	F	1963	Independent Non-executive Director	The third session: From October 2020 to the election of the next session of the Board

No.	Name	Gender	Year of Birth	Position	Term of office
Resigned Directors					
1	Li Xin	F	1960	Executive Director	The second session: From September 2018 to June 2020 The third session: From June 2020 to November 2020
2	Wang Cong	F	1962	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to February 2020
3	Dai Lijia	F	1971	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to February 2020
4	Liu Junmin	M	1950	Independent Non-executive Director	The first session: From June 2015 to February 2017 The second session: From February 2017 to October 2020

11.1.1 Executive Directors

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

Mr. Liang Qiang, a senior economist, has been an executive Director of the Company since August 2021, and the deputy party committee secretary and president of the Company since June 2021. In July 1993, Mr. Liang started his career at Shanxi Branch of China Construction Bank. In September 1999, he began to work at China Cinda Asset Management Corporation and worked successively on multiple positions at Taiyuan Office, the Market Development Department in Headquarters, the Finance Department, the Planning and Finance Department, the Strategic Investors Introduction and Listing Panel Office and Shanghai Branch. He successively took the positions of assistant to president, member of the party committee and vice president of China Cinda Asset Management Co., Ltd. from February 2016 to December 2019. He successively took the positions of member of the party committee, vice president and executive director of China Orient Asset Management Co., Ltd. from December 2019 to December 2020. He successively took the positions of deputy party committee secretary, executive director and president of China Great Wall Asset Management Co., Ltd. from December 2020 to May 2021. Mr. Liang successively obtained a Bachelor degree in Economics (majoring in accounting) from Shanghai University of Finance and Economics, and a Master's degree in Business Administration from the School of Economics and Management of Tsinghua University.

Mr. Wang Wenjie has been an executive Director of the Company since December 2020 and has been a vice president of the Company since November 2014. He was accredited as a senior economist by ICBC in December 1994. Mr. Wang started his career in the Technological Transformation Credit Department of ICBC in July 1986. From March 1987 to December 1999, he served successively as principal staff member of the Technological Transformation Credit Department, deputy director of the Project Management Division, director of Project Management Division I and deputy general manager of the Assessment and Consultation Department of ICBC. Mr. Wang joined the Company in December 1999, serving successively as deputy general manager (in charge) and general manager of International Business Department. He served as deputy general manager (general manager level) and general manager of Nanjing Office from June 2003 to August 2006, general manager of the Investment Business Department (International Business Department) from August 2006 to December 2009, chief investment and operation officer and general manager of the Investment Business Department (International Business Department) from December 2009 to June 2010, chief investment and operation officer and general manager of Shanghai Office from

June 2010 to April 2011, chief risk officer, chief investment and operation officer and general manager of the Risk Management Department from April 2011 to April 2013 and assistant to President and secretary to the Board from September 2012 to November 2014. The Board resolved to re-appoint Mr. Wang as the secretary to the Board again in December 2018, and he acted on behalf and performed the duties of the secretary to the Board until August 2019. Mr. Wang graduated from Shaanxi Institute of Finance and Economics (now known as Xi'an Jiaotong University) majoring in industrial economy with a master's degree in economics.

11.1.2 Non-executive Directors

Ms. Zhao Jiangping has been a non-executive Director of the Company since June 2020 and is a senior accountant. Ms. Zhao Jiangping started her career at the Central Enterprise Division of Shanxi Province commissioned by the Ministry of Finance in July 1988, successively serving as a staff member and a deputy chief staff member of the Central Enterprise Division of the Department of Finance of Shanxi Province commissioned by the Ministry of Finance from March 1989 to January 1995 (during which she worked as a member of the rural task team at Xiashen Village, Qi County, Shanxi Province from October 1989 to October 1990); a deputy chief staff member and a chief staff member of the Business Division I, a chief staff member of the office, a chief staff member of the Business Division I, the deputy director of the office, the director of the Business Division II, the director of the office, a member of the party group and a deputy inspector of the Shanxi Finance Ombudsman Office commissioned by the Ministry of Finance from January 1995 to April 2019. She has been a member of the party group of the Shanxi Regulatory Office of the Ministry of Finance from April 2019 to June 2020, successively serving as a deputy inspector and a level-two inspector. Ms. Zhao Jiangping obtained a bachelor's degree in economics from the Department of Finance of Shanxi College of Finance and Economics, majoring in public finance.

Mr. Zheng Jiangping has been a non-executive Director of the Company since June 2020. Mr. Zheng graduated from the public finance of the Department of Finance of Xiamen University with a doctorate in economics and is a representative of the 15th People's Congress of Beijing, a lawyer and a tax accountant. Mr. Zheng started his career at Collection and Management Department of Sichuan Provincial Tax Service in July 1987; successively serving as an officer, staff member, deputy chief staff member, and chief of the Foreign Taxation Department of Sichuan Provincial Tax Service from September 1988 to October 1994; successively serving as secretary (deputy director level) of the Party group, deputy director and director of the office of Sichuan Provincial Taxation Service from October 1994 to November 2000. Mr. Zheng successively served as deputy secretary of the Party group, director, secretary of the Party group of Mianyang Tax Service in Sichuan Province from November 2000 to April 2003; a member of the Party group and deputy director of Chengdu Tax Service from April 2003 to January 2006; a member of the Party group and deputy director of Sichuan Provincial Taxation Service from January 2006 to September 2012; successively serving as deputy director of the General Office of the State Taxation Administration (level of deputy director general), executive deputy secretary of the Party Committee (level of director general), deputy director general of the personnel department and director of the office of Party building from September 2012 to September 2019. He has been an executive deputy secretary of the Party Committee of the State Taxation Administration (level of director general), deputy director (undersecretary) of personnel department (organization department of Party Committee) and director of the office of Party building since September 2019.

Mr. Xu Nuo has been a non-executive Director of the Company since December 2020. Mr. Xu graduated from Party School of the Central Committee of C.P.C., majoring in political economics with a doctoral degree in economics and is a senior economist. Mr. Xu started his career at China International Futures Brokerage Co., Ltd. (中國國際期貨經紀有限公司, the "CIFCO") in July 1994. From July 1994 to December 2010, he successively served as an employee, business manager, manager of Dalian Representative Office, and manager of business department of CIFCO (中國國際期貨經紀有限公司); assistant to general manager of the business department and deputy general manager of the risk management department of the headquarter of Zhongqi Futures Co., Ltd. (中期期貨有限公司, the "CIFCO"); deputy general manager of CIFCO Jiahe Futures Brokerage Co., Ltd. (中期嘉合期貨經紀有限公司); deputy general manager and general manager of CIFCO (中期期貨有限公司); general manager of CIFCO Jiahe Futures Brokerage Co., Ltd.; and vice president of China International Futures Co., Ltd. (中國國際期貨有限公司). From January 2011 to October 2019, Mr. Xu successively served as the senior manager of the Discipline Inspection and Supervision Bureau, senior manager of the Discipline Inspection and Supervision Department, the head of the inspection work office of the Discipline Inspection and Supervision Department, and the head of the system management group of the Human Resources Department of the China Investment Corporation. Mr. Xu has been serving as a director designated by Central Huijin Investment Ltd. since October 2019. He has been serving as a director of China Jianyin Investment Ltd. since April 2020.

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

11.1.3 Independent Non-executive Directors

Mr. Tse Hau Yin has been an independent non-executive Director of the Company since March 2015. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Tse is a former president of the HKICPA and a former member of the audit committee of the HKICPA. Mr. Tse joined KPMG in 1976 and became a partner in 1984. Before his retirement in 2003, Mr. Tse was a non-executive chairman of KPMG China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse has been an independent non-executive director of OCBC Wing Hang Bank Limited (formerly listed on the Hong Kong Stock Exchange, stock code: 00302) from November 2004 to June 2021, an independent non-executive director of Daohe Global Group Limited (listed on the Hong Kong Stock Exchange, stock code: 00915; and formerly known as Linmark Group Limited) from May 2005 to December 2016, an independent non-executive director of CNOOC Limited (listed on the Hong Kong Stock Exchange, stock code: 00883) since June 2005, an independent non-executive director of China Telecom Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 00728) since September 2005, an independent non-executive director of Sinofert Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00297) since June 2007, an independent non-executive director of SJM Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00880) since October 2007 and an independent non-executive director of CCB International (Holdings) Limited (a wholly-owned subsidiary of CCB) since March 2013. Mr. Tse is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse graduated from the University of Hong Kong and obtained a bachelor's degree in social science in November 1970.

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

Mr. Zhu Ning has been an independent non-executive Director of the Company since March 2019. Mr. Zhu served successively as an assistant professor, associate professor and tenured professor at the University of California (Davis), the United States of America from August 2003 to June 2010; a senior vice president and a quantitative strategies director at Lehman Brothers Asia Limited from July 2008 to October 2008; a general consultant and an executive director of the portfolio advisory team of Nomura International (Hong Kong) Limited from January 2009 to August 2010; a professor and the deputy director of Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiao Tong University since July 2010; and a Chair Professor of Oceanwide Finance at PBC School of Finance, Tsinghua University and a deputy director of National Institute of Financial Research and the director of Center for Global Merger Acquisition and Restructuring at Tsinghua University during his sabbatical leave from July 2016 to June 2018. Mr. Zhu is currently also a distinguished professor of finance at Guanghua School of Management at Peking University and a faculty fellow at Yale University International Center for Finance. Mr. Zhu has been an independent non-executive director of China Asset Management (Hong Kong) Limited since March 2012, and an independent non-executive director of UTour Group Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 002707) since May 2018. Mr. Zhu served as an independent non-executive director of Healthcare Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 603313) from December 2012 to April 2017, an independent non-executive director of Everbright Securities Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601788, and on the Hong Kong

Stock Exchange, stock code: 06178) from February 2013 to September 2017, an independent non-executive director of China Guangfa Bank Co., Ltd. from March 2014 to June 2020, an independent non-executive director of Leshi Internet Information & Technology Corp., Beijing (a company listed on Shenzhen Stock Exchange, stock code: 300104) from October 2015 to April 2017, an independent non-executive director of Industrial Securities Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601377) from February 2016 to December 2017. Mr. Zhu was also formerly a visiting scholar at Federal Reserve (Philadelphia), Federal Reserve Board of Governors and International Monetary Fund, and a senior visiting researcher at Advanced Research Institute of Waseda University. Mr. Zhu graduated from Yale University with a Ph.D. degree in Finance.

Ms. Chen Yuanling has been an independent non-executive Director of the Company since October 2020. Ms. Chen worked as a full-time economic and financial lawyer from 1985 to 2010. She successively served as a lawyer and a partner in law firms such as DeHeng Law Offices in Beijing and Kangda Law Firm in Beijing, and she was a first-grade lawyer. Ms. Chen served as a non-executive director of China Construction Bank Corporation (a company listed on Shanghai Stock Exchange, stock code: 601939, and on the Hong Kong Stock Exchange, stock code: 00939) from June 2010 to June 2016, a non-executive director of New China Life Insurance Company Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601336, and on the Hong Kong Stock Exchange, stock code: 01336) from March 2016 to June 2017, and a deputy general manager and the person in charge of audit of New China Asset Management Co., Ltd. from June 2017 to July 2019. Ms. Chen is currently a senior consultant in DeHeng Law Offices in Beijing and serves concurrently as an independent director of Heilongjiang Transport Development Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601188) since February 14, 2020. Ms. Chen once worked for Government of Jilin Province as a legal adviser, and acted as a mediator at China Council for the Promotion of International Trade and the Mediation Centre of China Chamber of International Commerce, a director of All China Lawyers Association, a member of the Finance Specialize Committee of All China Lawyers Association and an external expert of asset securitization of Shenzhen Stock Exchange. Ms. Chen graduated with a bachelor’s degree from the Department of Law of Peking University in 1985 and graduated from the in-service postgraduate program of Business School of Jilin University in 2000.

11.2 Supervisors

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

No.	Name	Gender	Year of Birth	Position	Term of office
Current Supervisors					
1	Hu Jianzhong	M	1965	Chairman of the Board of Supervisors and Shareholder Representative Supervisor	The second session: From March 2020 to June 2020 The third session: From June 2020 to the election of the next session of the Board of Supervisors
2	Cheng Fengchao	M	1959	External Supervisor	The third session: From June 2020 to the election of the next session of the Board of Supervisors
3	Han Xiangrong	M	1970	External Supervisor	The third session: From June 2020 to the election of the next session of the Board of Supervisors
4	Sun Hongbo	F	1968	Employee Representative Supervisor	The third session: From June 2020 to the election of the next session of the Board of Supervisors
5	Guo Jinghua[(1)]	F	1966	Employee Representative Supervisor	The third session: From May 2021 to the election of the next session of the Board of Supervisors

(1) On May 13, 2021, Ms. Guo Jinghua was elected as an employee representative supervisor of the third session of the Board of Supervisors on the ninth meeting of the third session of the employee representative meeting in 2021.

No.	Name	Gender	Year of Birth	Position	Term of office
Resigned Supervisors					
1	Dong Juan	F	1952	External Supervisor	The first session: From April 2015 to February 2017 The second session: From February 2017 to June 2020
2	Xu Li	F	1958	External Supervisor	The second session: From February 2017 to June 2020
3	Chen Jin	M	1971	Employee Representative Supervisor	The second session: From September 2017 to June 2020
4	Zheng Shengqin	F	1963	Employee Representative Supervisor	The first session: From February 2014 to February 2017 The second session: From February 2017 to June 2020 The third session: From June 2020 to May 2021

Mr. Hu Jianzhong has been the chairman of the Board of Supervisors of the Company since March 2020. He was accredited as a senior accountant by Agricultural Bank of China Limited (the ABC) in September 1994 and was awarded as a researcher by Central University of Finance and Economics in September 2011. Mr. Hu started his career in Guyuan County Sub-branch of ABC in the Ningxia Hui Autonomous Region in December 1980 and served as the deputy director of the Finance and Accounting Division of Ningxia Branch of ABC from December 1994 to November 1996, successively as the deputy director of the State-owned Asset Management Division, the deputy director of the Accounting Cashier Division and the director of the Accounting Management Division I of the Finance and Accounting Department at the head office of ABC from November 1996 to December 1999. He successively served as the deputy general manager and the deputy general manager (in charge) of the Capital and Finance Department, the general manager of the Asset Management Department II, the general manager of Jinan Office of China Great Wall Asset Management Corporation, the assistant to the president and the vice president of China Great Wall Asset Management Corporation and the vice president of China Great Wall Asset Management Co., Ltd. from December 1999 to October 2018; the chairman of the board of supervisors of China Orient Asset Management Co., Ltd. from October 2018 to September 2019. Mr. Hu joined the Company in September 2019 and has been the deputy Party Committee secretary of the Company since then. Mr. Hu graduated from Central University of Finance and Economics, majoring in finance, with a doctorate in economics.

Mr. Cheng Fengchao has been an external Supervisor of the Company since June 2020 and obtained the qualification of Chinese Certified Public Accountant in May 1997 and the qualification of Chinese Certified Public Valuator in December 2003. He was accredited as a researcher by the Senior Professional and Technical Title Evaluation Committee of the People's Bank of China in November 2016 and a senior accountant by Hebei Senior Accountant Evaluation Committee in July 1996. Mr. Cheng served as deputy director of Finance Bureau of Pingquan County in Hebei Province, deputy director of the Office of the Finance Department of Hebei Province, head of Hebei Certified Public Accountants, secretary general of Hebei Institute of Certified Public Accountants, deputy general manager of Shijiazhuang Office, general manager of Evaluation Management Department, general manager of Tianjin Office and general manager of Development Research Department of China Great Wall Asset Management Corporation, and non-executive director of Agricultural Bank of China Limited (a company listed on the Hong Kong Stock Exchange, stock code: 01288, and the Shanghai Stock Exchange, stock code: 601288). He served as non-executive director of Industrial and Commercial Bank of China Limited (a company listed on the Hong Kong Stock Exchange, stock code: 01398, and the Shanghai Stock Exchange, stock code: 601398) from March 2015 to April 2019, and supervisor of China Everbright Group Ltd. from January 2018 to March 2019. He has been the chairman of Zhongguancun Guorui Financial and Industrial Development Research Institute, independent non-executive director of Beijing GeoEnviron Engineering & Technology, Inc. (a company listed on the Shanghai Stock Exchange, stock code: 603588) and independent non-executive director of Minmetals Capital Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600390) since May 2019; an external supervisor of Everbright Securities Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 06178, and the Shanghai Stock Exchange, stock code: 601788) since December 2020. Mr. Cheng is now a doctoral supervisor of Hunan University and a postgraduate supervisor of the Graduate School of the Chinese Academy of Social Sciences. Mr. Cheng graduated from Hunan University, majoring in management science and engineering, with a doctorate in management.

Mr. Han Xiangrong has been an external Supervisor of the Company since June 2020. Mr. Han once served as senior staff member of the Treasury Department of the Ministry of Finance, principal staff member, deputy director and investigator of the Financial Department of the Ministry of Finance, director of the Department for the Supervision of Use of Funds of the China Insurance Regulatory Commission and deputy director of the Department for the Supervision of Use of Insurance Funds of the China Insurance Regulatory Commission, member of the Party Committee and deputy director of the China Insurance Regulatory Commission, Liaoning Bureau; since March 2016, he has been the chairman of the board of directors of Funde Asset Management (Hong Kong) Company Limited. Mr. Han is currently vice chairman of Insurance Asset Management Association of China, chairman of real estate special committee of Insurance Asset Management Association of China, and chairman of Funde Equity Investment Fund Management (Shenzhen) Co., Ltd. Mr. Han graduated from Wuhan University, majoring in foreign history of economic thoughts, with a master's degree in economics.

Ms. Sun Hongbo has been an employee representative Supervisor of the Company since June 2020. She was accredited as an engineer by the Science and Technology Quality Center of the Internal Trade Bureau in January 1997, and received the Accountant Certificate of National Unified Examination issued by the Ministry of Finance in May 1999. Ms. Sun began her career in the Ministry of Commerce in August 1990, serving successively as the deputy director of the Science and Technology and Quality Bureau of the Ministry of Internal Trade, the State Internal Trade Bureau and the China General Chamber of Commerce until March 2001. Ms. Sun joined the Company in March 2001 and worked successively in the Equity Administration Department, Asset Management Department II, Business Review Department and Risk Management Department, and served successively as assistant to the general manager of the Business Review Department, the assistant to the general manager of the Risk Management Department, deputy general manager of the Risk Management Department, deputy director member of the Risk Executive Review Committee of China Huarong Financial Leasing Co., Ltd., deputy general manager of the Investment Business Department (International Business Department), deputy general manager of the Investment Business Department, deputy general manager of the Investment Development Department and risk director from June 2009 to April 2016. Ms. Sun served successively as the supervisor, director, deputy general manager (general manager level) and risk director of China Huarong Capital Management Co., Ltd., and concurrently served as deputy general manager of Investment Development Department and risk director of the Company from April 2016 to July 2019, and she has been the general manager of the Audit Department of the Company since July 2019. Ms. Sun has the qualification in the securities industry. She graduated from Dongbei University of Finance & Economics with a bachelor's degree in economics, majoring in industrial and commercial administration. She later participated in the education of the equivalent degree in finance at Renmin University of China and obtained a master's degree in economics.

Ms. Guo Jinghua has been an employee representative Supervisor of the Company since May 2021, and was accredited as a senior economist by the Company in October 2001. Ms. Guo worked in the Industrial and Commercial Bank of China from July 1988 to November 1999 as the head of the Corporate Management Department of the Head Office and the deputy director of the Corporate Division of the Asset Risk Management Department. Ms. Guo joined the Company in November 1999, serving successively as the deputy director and the senior manager of the Equity Management Department, the general manager assistant of the Operation Management Department, the general manager assistant and the deputy general manager of the Beijing Office, the deputy general manager of the Operation Management Department, the deputy general manager of the Business Development Department, the deputy general manager of the Risk Management Department, the deputy general manager of the Asset Management Department, the deputy general manager (in charge of work) and the general manager of the Customer Marketing Department, the director of the Listing Office, the general manager of the Business Evaluation Department, the director of the Board Office, the general manager of the Internal Control and Compliance Department, and the executive vice chairman of the Labor Union Committee from March 2021. Ms. Guo graduated with a bachelor's degree in arts and a master's degree in economics from Department of Chinese Language and Literature of Peking University and Department of Finance of Central University of Finance and Economics, respectively.

11.3 Senior Management

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

No.	Name	Gender	Year of Birth	Position	Beginning of the term of office
Current senior management					
1	Liang Qiang	M	1971	President	Since June 2021
2	Pang Xuefeng	M	1972	Member of senior management	Since June 2020
3	Wang Wenjie	M	1961	Vice President	Since November 2014
				Perform the duties of the President	From November 2020 to June 2021
4	Xu Yongli	M	1971	Vice President	Since April 2020
				Secretary to the Board	Since June 2020
5	Chen Yanqing	M	1963	Vice President	Since July 2019
6	Yang Pei	F	1963	Assistant to President	Since July 2019
7	Gao Gan	M	1967	Assistant to President	Since July 2019
Resigned senior management					
1	Li Xin	F	1960	President	From September 2018 to November 2020
2	Wu Jinglong	M	1964	Member of senior management	From April 2018 to June 2020
3	Hu Jiliang	M	1964	Vice President	From November 2014 to January 2020

Mr. Liang Qiang has been an executive Director of the Company since August 2021, and served as the president of the Company since June 2021. Details of the biography of Mr. Liang are set out in "11.1.1 Executive Directors".

Mr. Pang Xuefeng has been a member of the senior management of the Company since June 2020. Mr. Pang started his career at the University of Science and Technology Beijing in July 1993, and he worked at the Organization Department of the Central Finance Working Committee, the Human Resources Department of CBRC, and the Human Resources and Education Department and the Life Insurance Supervision Department of CIRC; he served as a member of the Party Committee, assistant to the director, deputy director and secretary of the Discipline and Inspection Commission of Liaoning Bureau of CBRC, deputy director of the Insurance Intermediary Supervision Department of CIRC, and deputy director of Other Non-bank Financial Institution Supervision Department of CBRC. Mr. Pang obtained a master's degree in administration from the School of Management of University of Science and Technology Beijing in March 2003.

Mr. Wang Wenjie has been an executive Director of the Company since December 2020, and served as a vice president of the Company since November 2014. Details of the biography of Mr. Wang are set out in "11.1.1 Executive Directors".

Mr. Xu Yongli has been the vice president of the Company since April 2020, and served as the secretary to the Board of the Company since June 2020, and is an economist. Mr. Xu started his career at the Credit Department of Bank of China Head Office in 1993, and successively served as assistant general manager of the Market Development Department of China Orient Asset Management Company (中國東方資產管理公司), deputy general manager of Oriental Hotel Holdings Limited (in charge of work), deputy head of the liquidation group of MF Securities, deputy general manager of Dongxing Securities Co., Ltd., general manager of Investment Business Department in China Orient Asset Management Company, general manager of Dongxing Securities Co., Ltd., assistant to president and vice president of China Orient Asset Management Company, and vice president of China Orient Assets Management Co., Ltd. Mr. Xu graduated from Central Institute of Finance and Banking majoring in finance with a bachelor's degree in economics in 1993.

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

Ms. Yang Pei has been the assistant to the President of the Company since July 2019. She was named as senior economist by Industrial and Commercial Bank of China in September 1997 and obtained the qualification as lawyer in April 1989. Ms. Yang started her career at Industrial and Commercial Bank of China Head Office in August 1985, successively serving as deputy director of the Legal Division at the Administrative Office, director of the Legal Consultancy Division, director and deputy general manager of the Economic Dispute Management Division at the Legal Affairs Department of Industrial and Commercial Bank of China from December 1994 to January 2000. In January 2000, Ms. Yang joined the Company, successively serving as the deputy general manager (in charge) and general manager of the Legal Affairs Department from January 2000 to March 2013; and serving as general manager of the Risk Management Department of the Company from March 2013 to January 2015. She served as chairman of the board of supervisors of Huarong Rongde Asset Management Co., Ltd. from January 2015 to September 2018; and has been serving as general manager of the Asset Preservation Department of the Company from September 2018 to August 2020, during which she also has been concurrently serving as general manager of the Legal Compliance Department of the Company from January 2019 to May 2019. She has been concurrently serving as director of the Board Office of the Company from June 2019 to September 2019. Ms. Yang was appointed as the secretary to the Board of the Company by resolution of the Board, and she acted on behalf and performed the duties of the secretary to the Board from August 2019 to June 2020. Ms. Yang graduated from Wuhan University in July 1985 with a bachelor's degree in law and graduated from Renmin University of China in January 2004 with a master's degree in law.

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

11.4 Changes in Directors, Supervisors and Senior Management

11.4.1 Changes in Directors

On December 31, 2019, the Board of the Company nominated Ms. Zhao Jiangping as the non-executive Director of the Company. On March 25, 2020, Ms. Zhao Jiangping was appointed as non-executive Director of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company. On June 22, 2020, Ms. Zhao Jiangping performed her duty after the CBIRC approved her qualification as a non-executive Director of the Company. For details, please refer to the announcements of the Company dated December 31, 2019, March 25, 2020 and June 24, 2020.

On March 3, 2020, the financial department of Shareholder of the Company, submitted a provisional proposal to the Board on the election of Mr. Zheng Jiangping as a non-executive Director of the Company for review by the general meeting of Shareholders. On March 25, 2020, Mr. Zheng Jiangping was appointed as non-executive Director of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company. On June 22, 2020, Mr. Zheng Jiangping performed his duty after the CBIRC approved his qualification as a non-executive Director of the Company. For details, please refer to the announcements of the Company dated March 3, 2020, March 25, 2020 and June 24, 2020.

On May 9, 2020, the Board of the Company nominated Ms. Chen Yuanling as an independent non-executive Director of the Company. On June 30, 2020, Ms. Chen Yuanling was appointed as an independent non-executive Director of the Company at the 2019 annual general meeting. On October 29, 2020, Ms. Chen Yuanling performed her duty after the CBIRC approved her qualification as an independent non-executive Director of the Company. For details, please refer to the announcements of the Company dated May 9, 2020, June 30, 2020 and November 4, 2020.

After being nominated by the Board of the Company on May 9, 2020 and approved at the 2019 annual general meeting of the Company on June 30, 2020, Mr. Wang Zhanfeng was reappointed as an executive Director of the third session of the Board of the Company; Ms. Zhao Jiangping, Mr. Zheng Jiangping and Mr. Zhou Langlang were reappointed as non-executive Directors of the third session of the Board of the Company; and Mr. Tse Hau Yin, Mr. Shao Jingchun, Mr. Zhu Ning and Ms. Chen Yuanling were reappointed/appointed as independent non-executive Directors of the third session of the Board of the Company. For details, please refer to the announcements of the Company dated May 9, 2020 and June 30, 2020.

On June 30, 2020, the Board of the Company nominated Mr. Wang Wenjie as an executive Director of the Company. On September 21, 2020, Mr. Wang Wenjie was appointed as an executive Director of the Company at the second extraordinary general meeting of Shareholders for 2020 of the Company. On December 30, 2020, Mr. Wang Wenjie performed his duty after the CBIRC approved his qualification as an executive Director of the Company. For details, please refer to the announcements of the Company dated June 30, 2020, September 21, 2020 and December 31, 2020.

On August 3, 2020, the Board of the Company nominated Mr. Xu Nuo as a non-executive Director of the Company. On September 21, 2020, Mr. Xu Nuo was appointed as a non-executive Director of the Company at the second extraordinary general meeting of Shareholders for 2020 of the Company. On December 30, 2020, Mr. Xu Nuo performed his duty after the CBIRC approved his qualification as a non-executive Director of the Company. For details, please refer to the announcements of the Company dated August 3, 2020, September 21, 2020 and December 31, 2020.

On June 29, 2021, Mr. Liang Qiang was nominated as an executive Director of the Company by the Board of the Company. On August 17, 2021, Mr. Liang Qiang was appointed as an executive Director of the Company at the first extraordinary general meeting for 2021 of the Company. For details, please refer to the announcements of the Company dated June 29, 2021 and August 17, 2021.

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

On June 30, 2020, due to the expiration of his term of office, Mr. Liu Junmin ceased to serve as an independent non-executive director of the Company, however, to meet the requirements regarding the number and proportion of independent non-executive Directors required by laws and regulations and the Articles of Association, Mr. Liu Junmin shall continue to perform his duty as an independent non-executive Director until the appointment of Ms. Chen Yuanling becomes effective. On October 29, 2020, Mr. Liu Junmin resigned as an independent non-executive Director. For details, please refer to the announcements of the Company dated June 30, 2020 and November 4, 2020.

On November 26, 2020, Ms. Li Xin resigned as the executive director of the Company because she has reached retirement age. For details, please refer to the announcement of the Company dated November 26, 2020.

11.4.2 Changes in Supervisors

On December 31, 2019, the Board of Supervisors of the Company nominated Mr. Hu Jianzhong as a Shareholder Representative Supervisor of the Company. On March 25, 2020, Mr. Hu Jianzhong was appointed as a Shareholder Representative Supervisor of the Company at the first extraordinary general meeting of Shareholders for 2020 of the Company. On March 25, 2020, the Board of Supervisors elected Mr. Hu Jianzhong as the Chairman of the second session of the Board of Supervisors. After being nominated by the Board of Supervisors on May 9, 2020, Mr. Hu Jianzhong was appointed as a Shareholder Representative Supervisor of the third session of the Board of Supervisors upon the approval of the 2019 annual general meeting of the Company on June 30, 2020 and the Board of Supervisors elected Mr. Hu Jianzhong as the chairman of the third session of the Board of Supervisors on June 30, 2020. For details, please refer to the announcements of the Company dated December 31, 2019, March 25, 2020, May 9, 2020 and June 30, 2020.

On May 9, 2020, the Board of Supervisors nominated Mr. Cheng Fengchao and Mr. Han Xiangrong as external Supervisors of the Company. On June 30, 2020, Mr. Cheng Fengchao and Mr. Han Xiangrong were appointed as external Supervisors of the third session of the Board of Supervisors at the 2019 annual general meeting. For details, please refer to the announcements of the Company dated May 9, 2020 and June 30, 2020.

On June 18, 2020, Ms. Zheng Shengqin and Ms. Sun Hongbo were elected as employee representative Supervisors of the third session of the Board of Supervisors at the seventh meeting of the third session of the employee representative meeting of the Company, with their terms of office taking effect from June 30, 2020. For details, please refer to the announcements of the Company dated June 18, 2020 and June 30, 2020.

On May 13, 2021, Ms. Zheng Shengqin has resigned as an employee representative Supervisor of the Company due to change of her work arrangements. Ms. Guo Jinghua was elected as an employee representative Supervisor of the third session of the Board of Supervisors of the Company at the ninth meeting of the third session of the employee representative meeting of the Company. For details, please refer to the announcements of the Company dated May 13, 2021.

On June 30, 2020, Ms. Dong Juan and Ms. Xu Li ceased to serve as external Supervisors of the Board of Supervisors due to the expiration of their terms of office. For details, please refer to the announcement of the Company dated June 30, 2020.

On June 30, 2020, Mr. Chen Jin ceased to serve as an employee representative Supervisor of the Board of Supervisors due to the expiration of his term of office. For details, please refer to the announcement of the Company dated June 30, 2020.

11.4.3 Changes in Senior Management

On April 9, 2020, the Board of the Company appointed Mr. Xu Yongli as the vice president of the Company. On June 30, 2020, the Board of the Company appointed Mr. Xu Yongli as the secretary to the Board and the joint company secretary. For details, please refer to the announcements of the Company dated April 9, 2020 and June 30, 2020.

On June 18, 2020, the CBIRC appointed Mr. Pang Xuefeng as a senior management member of the Company and removed Mr. Wu Jinglong from the position of senior management of the Company.

On November 26, 2020, Ms. Li Xin resigned as the president of the Company because she has reached retirement age. To ensure the normal running of each operation work of the Company, the Board appointed Mr. Wang Wenjie, the vice president of the Company, to perform the duties of the president. For details, please refer to the announcement of the Company dated November 26, 2020.

On June 29, 2021, the Board of the Company appointed Mr. Liang Qiang as the president of the Company. For details, please refer to the announcements of the Company dated June 29, 2021.

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

11.4.4 Annual Remuneration

11.4.4.1 Remuneration of Directors, Supervisors and senior management

Details of the remuneration of the Directors, Supervisors and senior management of the Company are set out in “17. Audit Report and Financial Statements — V. Explanatory Notes — 17. Emoluments of Directors and Supervisors”. The remuneration of the above Directors, Supervisors and senior management of the Company for 2020 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC. Further disclosure will be made when the final compensation packages are determined.

11.4.4.2 Highest paid individuals

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

12. Corporate Governance Report

12.1 Summary of Corporate Governance

During the Reporting Period, in compliance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Listing Rules and other laws and regulations, regulatory documents and the Articles of Association, the Company constantly enhanced its corporate governance structure construction and mechanism construction to improve corporate governance level, strengthened internal control and management, improved the overall risk management system, standardized information disclosure and improved the level of investor relations management. These actions boosted the implementation of major strategies, maintained healthy and sustainable development of the Company, and created fruitful returns for the shareholders.

12.1.1 Corporate Governance Code

The Company strictly complies with the code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules to establish and operate a corporate governance mechanism. During the Reporting Period, the Board has reviewed the disclosures in the Corporate Governance Report, and confirmed that the Company had complied with the code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules and adopted the applicable recommended best practices according to actual situations.

Corporate Governance Functions

During the Reporting Period, the Board of the Company performed the corporate governance functions within the terms of reference as set out in Rule D.3.1 of the Corporate Governance Code contained in Appendix 14 of the Listing Rules through the special committees of the Board, specifically including: (1) it completed the office-term shift of the Board and the Board of Supervisors in an orderly manner, optimized the composition of special committees of the Board, which ensured the standard organization and smooth operation of the Board; (2) it intensified training of Directors and senior management and their professional development; and (3) it earnestly implemented the supervision opinions from CBIRC, effectively promoted the effectiveness of rectification, and improved the internal control system to enhance the level of internal control management and it also organized internal control evaluation work, making constant efforts to evaluate and improve corporate governance, and strictly met the requirements of corporate governance in its work.

12.1.2 Amendment of the Articles of Association

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

12.2 Shareholders' General Meetings

12.2.1 Responsibilities of the Shareholders' General Meeting

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

12.2.2 Details of Shareholders' General Meetings

During the Reporting Period, the Company held four Shareholders' general meetings in Beijing, including one annual general meeting and three extraordinary general meetings, which considered and approved 19 resolutions, and heard one report. The Company strictly complied with the legal procedures applicable to Shareholders' general meetings which Shareholders or their proxies attended and exercised their voting rights. The Company engaged PRC legal counsels to attend and witness Shareholders' general meetings and to provide legal opinion. Material matters include: consideration and approval of the final account plan of the Company for 2019; consideration and approval of the profit distribution plan of the Company for 2019; consideration and approval of the work report of the Board and the work report of the Board of Supervisors for 2019; consideration and approval of the appointment of the accounting firm of the Company for 2020; consideration and approval of the election of Directors of the third session of the Board; consideration and approval of the election of Shareholder Representative Supervisors of the third session of the Board of Supervisors and external Supervisors; consideration and approval of the election of Mr. Wang Wenjie as an executive Director.

12.2.3 Shareholders' Rights

12.2.3.1 Right to propose to convene extraordinary general meeting

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

12.2.3.2 Right to submit proposals at the Shareholders' general meeting

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

12.2.3.3 Right to propose to convene extraordinary meeting of the Board

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

12.2.3.4 Right to submit proposals for Board meetings

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

12.2.3.5 Shareholders' right to raise proposal and enquiry

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

12.2.3.6 Other rights

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

12.2.4 Attendance of Directors at Shareholders' General Meetings

Directors' attendance at Shareholders' general meetings in 2020:

Member of the Board	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Wang Zhanfeng	4/4	100%
Wang Wenjie	1/1	100%
Non-executive Directors		
Zhao Jiangping	3/3	100%
Zheng Jiangping	2/3	67%
Xu Nuo	0/1	0%
Zhou Langlang	3/4	75%
Independent Non-executive Directors		
Tse Hau Yin	3/4	75%
Shao Jingchun	4/4	100%
Zhu Ning	4/4	100%
Chen Yuanling	1/1	100%
Resigned Directors during the Reporting Period		
Li Xin	3/3	100%
Wang Cong	N/A	N/A
Dai Lijia	N/A	N/A
Liu Junmin	3/3	100%

Notes:

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

12.2.5 Independence from Controlling Shareholders

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

12.3 Board of Directors

12.3.1 Composition and Responsibilities of the Board

As of the Latest Practicable Date, the Board had eleven Directors, including three executive Directors, namely Mr. Wang Zhanfeng (chairman), Mr. Liang Qiang (president) and Mr. Wang Wenjie (vice president); four non-executive Directors, namely Ms. Zhao Jiangping, Mr. Zheng Jiangping, Mr. Xu Nuo and Mr. Zhou Langlang; and four independent non-executive Directors, namely Mr. Tse Hau Yin, Mr. Shao Jingchun, Mr. Zhu Ning and Ms. Chen Yuanling. The term of office of Directors will last until the election of the next session of Board of Directors.

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

The Board is accountable to the Shareholders' general meeting in accordance with the Articles of Association. The major duties of the Board include: (1) to convene and report its work to the Shareholders' general meeting; (2) to implement the resolutions of the Shareholders' general meeting; (3) to determine the operation plans, development strategies and investment proposals of the Company; (4) to formulate annual financial budget and final accounts of the Company; (5) to formulate profit distribution plan and loss recovery plan of the Company; (6) to formulate proposals for increases or reductions of the registered capital of the Company; (7) to formulate plans for the merger, division, changes of organization and dissolution of the Company; (8) to formulate proposals for the issuance of corporate bonds, any classes of Shares, warrants or other marketable securities by the Company and its listing; (9) to formulate plans for the repurchase of Shares of the Company; (10) to formulate the amendments to the Articles of Association, the rules of procedures of the Shareholders' general meeting and Board meeting; (11) to consider and approve the terms of reference of the president submitted by the president; (12) to appoint or remove the president of the Company and the secretary to the Board; (13) to appoint or remove vice president and other senior management members (excluding secretary to the Board) and the director of the internal audit department as nominated by the president; (14) based on the proposal of Shareholders individually or jointly holding 10% or more Shares of the Company with voting rights, chairman of the Board and at least one-third of the Directors, to elect the chairman and members of the Nomination and Remuneration Committee; based on the nomination of the Nomination and Remuneration Committee, to elect the chairman (other than the chairman of the Strategy and Development Committee) and members of other special committees of the Board;

(15) to propose the performance appraisal system and remuneration packages for Directors to the Shareholders' general meeting for approval; to determine and evaluate matters relating to the training and continuing professional development of Directors; (16) to determine the compensation, performance appraisal, incentive and punishment of the senior management members and director of the internal audit department of the Company; (17) to formulate the basic management system of the Company; to determine the risk management, compliance and internal control policies of the Company and formulate systems in relation to internal control and compliance management as well as internal audit of the Company; (18) to determine the structure of internal management departments of the Company; (19) to regularly evaluate and improve the corporate governance of the Company; (20) to formulate share incentive scheme; (21) to manage matters in relation to information disclosure and management of investors' relations of the Company; (22) to propose the appointment, removal or termination of appointment of accounting firm to the Shareholders' general meeting; (23) to consider and approve, or authorize the Related Party Transactions Committee of the Board to approve related party transactions, except for those which shall be considered and approved by Shareholders' general meeting according to law; (24) within the scope of authorization of Shareholders' general meeting, to consider and approve the investment and disposal of equity interests, investment and disposal of debentures, financing, pledges and mortgage and guarantee of assets, purchases and disposal of fixed assets, disposal of DES Assets, write-off of assets, major decisions of legal corporations and external donations; (25) to consider and approve the proposals of special committees of the Board; (26) to listen to the work report of the president to ensure that each Director obtains the information related to the performance of his/her duties in accordance with the regulatory requirement in a timely manner; to review the work of senior management; to monitor and ensure their effective performance of management duties; (27) to review the execution and rectification of regulation opinions against the Company by the banking regulators of the State Council; (28) the establishment of the first class branches of the Company inside and outside the PRC; (29) to consider the liability insurance of senior management; and (30) to perform other duties as required by laws, regulations, regulatory documents, the securities regulatory authority of the place(s) where the Shares of the Company are listed and the Articles of Association, and other matters as authorized by Shareholders' general meeting.

12.3.2 Board Meetings

In 2020, the Board of Directors held 9 meetings, including 5 regular meetings and 4 extraordinary meetings. 51 resolutions were passed and 14 work reports were heard at the meetings. Among the resolutions passed, there were 21 resolutions on operation and management matters, 8 resolutions on system establishment, 12 resolutions on personnel management and 10 other resolutions. Among above resolutions, the major issues include: reviewing and approving the final accounts plan and the profit distribution plan for 2019 and the fixed assets investment budget for 2020 of the Company; reviewing and approving the 2019 Annual Report (Annual Results Announcement), social responsibility report for 2019 and 2020 Interim Report (Interim Results Announcement) of the Company; reviewing and approving the extension of the validity period of tier II capital bonds resolution of the Company; reviewing and approving the work report of the Board for 2019 and internal control evaluation report of the Company; reviewing and approving the election of the chairman of the third session of the Board, and listening to the report of the Company on related party transaction management and risk management.

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

12.3.3 Attendance of Board Meetings

Directors' attendance at Board meetings in 2020:

Members	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Wang Zhanfeng	8/9	89%
Wang Wenjie	N/A	N/A
Non-executive Directors		
Zhao Jiangping	6/6	100%
Zheng Jiangping	6/6	100%
Xu Nuo	N/A	N/A
Zhou Langlang	9/9	100%
Independent non-executive Directors		
Tse Hau Yin	9/9	100%
Shao Jingchun	9/9	100%
Zhu Ning	9/9	100%
Chen Yuanling	3/3	100%
Resigned Directors during the Reporting Period		
Li Xin	7/7	100%
Wang Cong	N/A	N/A
Dai Lijia	N/A	N/A
Liu Junmin	6/6	100%

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Mr. Wang Wenjie is not applicable as no relevant meetings were convened by the Company during his term of office.
5. The attendance rate for Mr. Xu Nuo is not applicable as no relevant meetings were convened by the Company during his term of office.
6. The attendance rates for Ms. Wang Cong and Ms. Dai Lijia are not applicable as no relevant meetings were convened by the Company during their terms of office.

12.4 Special Committees of the Board

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

12.4.1 Strategy and Development Committee

As of the Latest Practicable Date, the Strategy and Development Committee of the Company consisted of eleven Directors. The chairman was acted by Mr. Wang Zhanfeng, the chairman of the Board. The members included executive Directors Mr. Liang Qiang and Mr. Wang Wenjie, non-executive Directors Ms. Zhao Jiangping, Mr. Zheng Jiangping, Mr. Xu Nuo and Mr. Zhou Langlang, and independent non-executive Directors Mr. Tse Hau Yin, Mr. Shao Jingchun, Mr. Zhu Ning and Ms. Chen Yuanling.

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

In 2020, the Strategy and Development Committee convened five meetings in total to consider 26 resolutions and reports, including the fixed assets investment budget of the Company for 2020 and the business plan for 2020 of the Company, etc.

Attendance of members at Strategy and Development Committee meetings in 2020:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Wang Zhanfeng	5/5	100%
Wang Wenjie	N/A	N/A
Zhao Jiangping	3/3	100%
Zheng Jiangping	3/3	100%
Xu Nuo	N/A	N/A
Zhou Langlang	5/5	100%
Tse Hau Yin	5/5	100%
Shao Jingchun	5/5	100%
Zhu Ning	5/5	100%
Chen Yuanling	1/1	100%
Resigned members during the Reporting Period		
Li Xin	4/4	100%
Wang Cong	N/A	N/A
Dai Lijia	N/A	N/A
Liu Junmin	3/3	100%

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Mr. Wang Wenjie is not applicable as no relevant meetings were convened by the Company during his term of office.
5. The attendance rate for Mr. Xu Nuo is not applicable as no relevant meetings were convened by the Company during his term of office.
6. The attendance rates for Ms. Wang Cong and Ms. Dai Lijia are not applicable as no relevant meetings were convened by the Company during their terms of office.

12.4.2 Risk Management Committee

As of the Latest Practicable Date, the Risk Management Committee of the Company consisted of five Directors. The chairman was acted by Ms. Zhao Jiangping, a non-executive Director. The members included executive Director Mr. Wang Wenjie, non-executive Directors Mr. Zheng Jiangping and Mr. Xu Nuo, and independent non-executive Director Ms. Chen Yuanling.

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

In 2020, the Risk Management Committee convened three meetings in total to consider and listen to five resolutions and reports, including the work summary in 2019 and work plan for 2020 of the Risk Management Committee of the Company and the formulation of Procedures for Case Prevention Management, etc.

Attendance of members at Risk Management Committee meetings in 2020:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Zhao Jiangping	3/3	100%
Wang Wenjie	N/A	N/A
Zheng Jiangping	2/2	100%
Xu Nuo	N/A	N/A
Chen Yuanling	2/2	100%
Resigned members during the Reporting Period		
Li Xin	2/2	100%
Zhu Ning	1/1	100%
Wang Cong	N/A	N/A
Dai Lijia	N/A	N/A

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Mr. Wang Wenjie is not applicable as no relevant meetings were convened by the Company during his term of office.
5. The attendance rate for Mr. Xu Nuo is not applicable as no relevant meetings were convened by the Company during his term of office.
6. The attendance rates for Ms. Wang Cong and Ms. Dai Lijia are not applicable as no relevant meetings were convened by the Company during their terms of office.

12.4.3 Related Party Transaction Committee

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

The main duties of the Related Party Transaction Committee include but are not limited to the following: to review the basic management system of related party transactions, supervise its implementation and make recommendations to the Board of Directors; to recognize the related parties of the Company, report to the Board of Directors and the Board of Supervisors, and timely disclose to the relevant personnel of the Company; to conduct preliminary review of the related party transactions which should be approved by the Board of Directors or the Shareholders' general meeting and submit them to the Board of Directors for approval; within the scope authorized by the

Board of Directors, to consider and approve related party transactions and other matters associated with related party transactions; to accept the related party transactions record and review the information disclosure matters of the Company's significant related party transactions; to consider and approve the annual related party transactions management report and report it to the Board of Directors; and other matters as required by the laws, regulations and regulatory documents, the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2020, the Related Party Transaction Committee convened four meetings in total to consider and listen to eight resolutions and reports, including the related party transaction management of the Company for 2019, and work summary in 2019 and work plan for 2020 of the Related Party Transaction Committee, etc.

Attendance of members at Related Party Transaction Committee meetings in 2020:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Shao Jingchun	4/4	100%
Zheng Jiangping	3/3	100%
Tse Hau Yin	4/4	100%
Zhu Ning	4/4	100%
Resigned members during the Reporting Period		
Wang Cong	N/A	N/A

Notes:

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

12.4.4 Audit Committee

As of the Latest Practicable Date, the Audit Committee of the Company comprised five Directors. The chairman was acted by Mr. Tse Hau Yin, an independent non-executive Director. The members included non-executive Directors Ms. Zhao Jiangping and Mr. Xu Nuo, and independent non-executive Directors Mr. Shao Jingchun and Ms. Chen Yuanling.

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

In 2020, the Audit Committee convened four meetings in total to consider and listen to 23 resolutions and reports, including the Company's internal control evaluation report for 2019, 2019 annual results announcement and 2019 annual report, as well as 2020 interim report and interim results announcement.

Attendance of members at Audit Committee meetings in 2020:

Members	**Number of meetings attended/ required to attend**	**Attendance rate**
Tse Hau Yin	4/4	100%
Zhao Jiangping	3/3	100%
Xu Nuo	N/A	N/A
Shao Jingchun	4/4	100%
Chen Yuanling	1/1	100%
Resigned members during the Reporting Period		
Liu Junmin	1/1	100%
Zhu Ning	1/1	100%
Wang Cong	N/A	N/A
Dai Lijia	N/A	N/A

Notes:

1. Changes in Directors are set out in "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Mr. Xu Nuo is not applicable as no relevant meetings were convened by the Company during his term of office.
5. The attendance rates for Ms. Wang Cong and Ms. Dai Lijia are not applicable as no relevant meetings were convened by the Company during their terms of office.

12.4.5 Nomination and Remuneration Committee

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

The main responsibilities of the Nomination and Remuneration Committee include, but are not limited to: to review the strategic development plan of human resources and make recommendations to the Board of Directors; to make recommendations to the Board of Directors on the candidates for the Directors, the President and the secretary to the Board of Directors; to formulate the procedure and standard for election and appointment of Directors, chairman and members of the special committees of the Board and senior management and make recommendations to the Board of Directors; to conduct preliminary review of the qualifications of Director and senior management candidates and make recommendations to the Board of Directors; to nominate chairmen of special committees under the Board of Directors (except for the chairman of the Strategy and Development Committee) and member candidates; to formulate performance appraisal system and remuneration packages for the Directors, and evaluate the performance and behavior of the Directors, and submit them to the Shareholders' general meeting for determination after reporting to and approval by the Board of Directors; to formulate and review the performance appraisal system and remuneration packages for the senior management and the head of internal audit department of the Company, evaluate the performance and behavior of senior management and submit them to the Board of Directors for approval; to consider the major human resources and remuneration policies and management systems submitted by the senior management and to be approved by the Board of Directors or Shareholders' general meeting, submit them to the Board of Directors for decision-making and monitor the implementation of relevant policies and management systems; and other matters as required by the laws, regulations, regulatory documents, the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2020, the Nomination and Remuneration Committee convened eight meetings in total to consider and listen to 17 resolutions and reports, including the Re-election of the Second Session of the Board of Directors of the Company, nomination of Candidates for the Chairman of the Third Session of the Board of Directors of the Company, and Amendment to the Administrative Measures for Personnel Expenses.

Attendance of members at Nomination and Remuneration Committee meetings in 2020:

Members	Number of meetings attended/ required to attend	Attendance rate
Zhu Ning	8/8	100%
Zheng Jiangping	6/6	100%
Shao Jingchun	8/8	100%
Resigned members during the Reporting Period		
Wang Cong	N/A	N/A
Liu Junmin	3/3	100%

Notes:

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

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

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

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

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

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

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

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

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

In order to implement the Board diversity policy, the following measurable goals have been achieved:

1. The Board of Directors consists of more than one-third of independent non-executive Directors;

2. At least one independent non-executive director has professional qualifications that meet regulatory requirements;

3. At least one member of the Board is female.

12.5 Board of Supervisors

12.5.1 Duties of the Board of Supervisors

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

12.5.2 Composition of the Board of Supervisors

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

As of the Latest Practicable Date, the Board of Supervisors of the Company comprised five Supervisors, including a Shareholder Representative Supervisor, namely Mr. Hu Jianzhong (chairman of the Board of Supervisors), two external Supervisors, namely Mr. Cheng Fengchao and Mr. Han Xiangrong, and two employee representative Supervisors, namely Ms. Sun Hongbo and Ms. Guo Jinghua.

12.5.3 Chairman of the Board of Supervisors

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

12.5.4 Operation of the Board of Supervisors

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

12.5.5 Meetings of the Board of Supervisors

The Board of Supervisors of the Company convened eight meetings in total in 2020, and considered and approved 22 resolutions, mainly including: the 2019 Annual Report of the Company, the Final Accounts of the Company for 2019, the Profit Distribution Plan of the Company for 2019, the Work Report of the Board of Supervisors for 2019 and the Proposal on the Re-election of the Second Session of the Board of Supervisors, etc.

12.5.6 Supervisors' attendance at meetings of the Board of Supervisors

Supervisors' attendance at meetings of the Board of Supervisors in 2020:

Supervisors	**Number of meetings attended/ required to attend**	**Attendance rate**
Shareholder Representative Supervisor		
Hu Jianzhong	8/8	100%
External Supervisors		
Cheng Fengchao	4/4	100%
Han Xiangrong	4/4	100%
Employee Representative Supervisors		
Zheng Shengqin	8/8	100%
Sun Hongbo	4/4	100%
Supervisors Resigned During the Reporting Period		
Dong Juan	4/4	100%
Xu Li	4/4	100%
Chen Jin	4/4	100%

Notes:

1. Attendance includes physical attendance and attendance by telephone and video conference.
2. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.

12.5.7 Special committees of the Board of Supervisors

As of June 30, 2020, the Board of Supervisors set two special committees, namely Performance and Finance Supervision Committee and Risk Internal Control and Subsidiary Management and Supervision Committee. The Performance and Finance Supervision Committee consisted of four Supervisors. The chairman was acted by Ms. Dong Juan and the members included Ms. Xu Li, Ms. Zheng Shengqin and Mr. Chen Jin; the Risk Internal Control and Subsidiary Management and Supervision Committee consisted of four Supervisors. The chairman was acted by Ms. Xu Li and the members included Ms. Dong Juan, Ms. Zheng Shengqin and Mr. Chen Jin.

The major duties of the Performance and Finance Supervision Committee of the Board of Supervisors include: to prepare the procedures and standards for the election and appointment of Supervisors, have preliminary examination of the qualification of the Supervisors candidates and give suggestions to the Board of Supervisors; to supervise the election and appointment procedures of Directors; to comprehensively assess the performance of the Directors, Supervisors and senior management and report to the Board of Supervisors; to supervise the scientificity and rationality of the Company's remuneration management system and policies and the remuneration schemes of senior management; and to formulate the measures for supervising the financial activities of the Company and perform relevant examination.

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

During the Reporting Period, the Performance and Finance Supervision Committee of the Board of Supervisors convened three meetings in total to consider seven resolutions, including the Final Accounts of the Company for 2019; the Risk Internal Control and Subsidiary Management and Supervision Committee of the Board of Supervisors convened one meeting to consider one resolution of the Evaluation Report on the Internal Control of the Company for 2019.

On June 30, 2020, the meeting of the Board of Supervisors resolved that the third session of the Board of Supervisors set up Supervision Committee under the Board of Supervisors as a special committee of the Board of Supervisors, formulated the corresponding working rules, and elected chairmen and members of the Supervision Committee under the Board of Supervisors, and dismissed the Performance and Finance Supervision Committee of the Board of Supervisors, and Risk Internal Control and Subsidiary Management and Supervision Committee of the Board of Supervisors.

As of December 31, 2020, the Board of Supervisors set one special committee, namely the Supervision Committee under the Board of Supervisors, which consisted of four Supervisors. The chairman was acted by Mr. Cheng Fengchao and the members included Mr. Han Xiangrong, Ms. Zheng Shengqin and Ms. Sun Hongbo.

The main duties of the Supervision Committee under the Board of Supervisors include: to assist the Board of Supervisors to organize and carry out daily supervision of the performance of the Board, senior management and its members, financial management, internal control and risk management; to assist the Board of Supervisors to inspect and supervise the Company's finance, and to communicate with the Company's senior management, external auditing institution on the preparation and review of regular financial reports; to organize and implement key tasks specified in the annual plan of the Board of Supervisors; to organize and implement the performance evaluation work according to relevant work system on performance evaluation of Directors, Supervisors and senior management by the Board of Supervisors and the annual performance evaluation programs considered and approved by the Board of Supervisors.

During the Reporting Period, the Supervision Committee under the Board of Supervisors convened six meetings in total to review 13 issues, including 2020 Interim Financial Statements and Review Reports.

As of the Latest Practicable Date, the Supervision Committee under the Board of Supervisors consisted of four Supervisors. The chairman was acted by Mr. Cheng Fengchao and the members included Mr. Han Xiangrong, Ms. Sun Hongbo and Ms. Guo Jinghua.

12.5.8 Trainings for the Supervisors

During the Reporting Period, the Supervisors of the Company had attended the trainings of Hong Kong Institute of Chartered Secretaries ("HKICS"), with contents mainly including:

Interpretation of information disclosure regulatory policies

Interpretation of information disclosure regulatory cases

Practical guidelines on the inside information disclosure of the A+H share company

Latest amendments and practical guidelines on Environmental, Social and Governance Report of the Hong Kong Stock Exchange

12.6 Chairman of the Board and President

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

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

Mr. Liang Qiang was appointed as the president of the Company, and is responsible for the daily management for the business operation of the Company. The president of the Company shall be appointed by the Board and is accountable to the Board. He shall perform his duties in accordance with the requirements of the Articles of Association and the authorization granted by the Board.

12.7 Senior Management

12.7.1 Composition and duties of Senior Management

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

12.7.2 Supervision and evaluation on the performance of senior management

The Board of Supervisors of the Company earnestly implemented relevant regulatory requirements, studied and formulated the plan for evaluating the performance of senior management in 2020, and evaluated the performance of senior management in 2020 in accordance with the procedures and standards of regulatory requirements.

12.7.3 Remuneration of Directors and senior management

The remuneration policies of the Directors and senior management are set out in "14. Report of the Board of Directors — 14.26 Remuneration Policy of Directors, Supervisors and Senior Management".

12.8 Communication with Shareholders

12.8.1 Information disclosure and investor relations

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

In 2020, the Company strictly abided by the principles of truthfulness, accuracy, completeness, timeliness and fairness and conscientiously conducted information disclosure. The Company continued to improve the quality of periodic report disclosure and strengthened the pertinence and effectiveness of the periodic report disclosure. The Company disclosed the extraordinary announcements in accordance with laws and regulations in a timely and accurate manner, and constantly improved the transparency of information disclosure to protect the investors' rights to know. The Company continued to improve the information disclosure mechanism, raised awareness of employees in information disclosure standard and enhanced compliance culture building in information disclosure.

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

12.8.2 Contacts of Board office

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

Board Office of China Huarong Asset Management Co., Ltd.

Address: No. 8 Financial Street, Xicheng District, Beijing, China

Tel. no.: 86-10-59619119

Email address: ir@chamc.com.cn

12.9 Inside Information Management

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

12.10 Audit's Remunerations

The remunerations paid and payable by the Group to the auditor of the Company in respect of audit and non-audit services in 2019 and 2020 are set out below, respectively:

Audit and non-audit services	**For the year ended December 31, 2020**	2019
	(in millions of RMB)	
Annual audit/interim review	**34.6**	31.7
Other audit services	**1.9**	9.6
Tax consultations and other services	**—**	0.8
Total	**36.5**	42.1

12.11 Responsibilities of Directors for Financial Statements

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

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

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

12.13 Securities Transactions by Directors, Supervisors and Relevant Employees

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

12.14 Independence of Independent Non-executive Directors

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

12.15 Training for Directors

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

The major trainings attended by the Directors and their continuous professional development in 2020:

Name of Directors	Types of Training Read the latest information related to regulation	Attend a training class/lecture
Executive Directors		
Wang Zhanfeng	√	√
Wang Wenjie	√	N/A
Non-executive Directors		
Zhao Jiangping	√	√
Zheng Jiangping	√	√
Xu Nuo	√	N/A
Zhou Langlang	√	√
Independent non-executive Directors		
Tse Hau Yin	√	√
Shao Jingchun	√	√
Zhu Ning	√	√
Chen Yuanling	√	√
Resigned Directors		
Li Xin	√	√
Wang Cong	√	N/A
Dai Lijia	√	N/A
Liu Junmin	√	√

Notes:

1. As Mr. Wang Wenjie began to perform his duty as an executive Director on December 30, 2020, he did not attend the trainings for 2020 in his capacity as a Director of the Company.
2. As Mr. Xu Nuo began to perform his duty as a non-executive Director on December 30, 2020, he did not attend the trainings for 2020 in his capacity as a Director of the Company.
3. On November 26, 2020, Ms. Li Xin resigned as an executive Director of the Company.
4. As Ms. Wang Cong and Ms. Dai Lijia resigned as non-executive Directors of the Company on February 26, 2020, they did not attend the trainings for 2020 in their capacities as Directors of the Company.
5. On October 29, 2020, Mr. Liu Junmin resigned as an independent non-executive Director of the Company.

12.16 Liability Insurance for Directors

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

12.17 Joint Company Secretaries

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

13. Internal Control

13.1 Statement of the Board in Relation to Internal Control Responsibilities

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

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

The Company conducted one annual control evaluation work annually in accordance with the relevant requirements of regulations including the Basic Standards for Enterprise Internal Control and its supporting guidelines, the Guidelines for Internal Control of Commercial Banks issued by the CBIRC, and the Basic System for Internal Control and the Evaluation Procedure for Internal Control of the Company. The evaluation work was made in accordance with the principles of comprehensiveness, significance and objectivity. It focused on five elements including the internal environment, risk assessment, control activities, information and communication, and internal supervision to comprehensively evaluate the effectiveness of the Company's internal control design and operation and continue to improve the Company's internal control level. In accordance with requirements of the corporate internal control standard system and requirements of relevant regulations, the Company maintained an effective internal control in all material aspects during the Reporting Period.

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

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

13.3 Main Features and Building of Internal Control Management System

The basic objectives of the Company's internal control were to provide reasonable assurance for the achievement of the effectiveness of the Company's operation, the reliability of the report and the compliance of operation. During the Reporting Period, the Company conducted internal control self-assessment, through the benchmarking against external regulatory documents and the Company's internal system, to comprehensively rationalize and evaluate the core businesses and management processes, and further identify the key risk points, optimize control measures, revise the internal control system and management tools, and ensure that all tasks are in line with the strategic goal of building New Huarong with high-quality development. Meanwhile, the Company has fully completed the system construction for a New Huarong, streamlining the total system, making up for weakness of the system in time, significantly enhancing the operability of the system to further improve business guidance. In addition, the long-term system management mechanism has been gradually established, and a brand-new system with good adaptability to the development of New Huarong was formed. Taking the opportunity of introducing a new internal control system, the Company actively carried out publicity and training of internal control, promoted the construction of an internal control compliance culture, and improved the level of internal control compliance management by research, inspection, rectification, assessment, tracing accountability and other measures.

13.4 Process Used to Evaluate the Effectiveness of the Internal Control and to Resolve Material Internal Control Defects

The Company integrates internal control into daily operation and management activities. In accordance with the methods of relevant regulations, the Company identifies and analyzes the management and business activities of the Company, and establishes and implements effective internal control, and improves the internal control system. The Board of Directors establishes and implements an adequate and effective internal control system, determines the Company's internal control policies, and formulates the Company's basic internal control management system. The Board of Supervisors oversees the Board of Directors and senior management to improve the internal control system. The Company's senior management organizes the monitoring and evaluation of the adequacy and effectiveness of the internal control system. The functional departments of the Head Office assume direct responsibility for the effectiveness of the internal control of the business and management activities within the scope of responsibility, are responsible for identifying the risks in the business and management activities related to their own responsibilities, formulate and improve related systems, operating procedures and management mechanisms, and organize implementation and supervision inspection. The Internal Control and Compliance Department takes the lead in the construction of the internal control system. The internal audit department performs the function of internal control and supervision, inspects the adequacy and effectiveness of the internal control system, and proposes improvements to the internal control deficiencies found in the supervision and inspection and organizes rectification work. The Company will continue to improve the construction of the internal control system, strengthen the implementation of the internal control system, continuously optimize internal control evaluation methods, strengthen internal control supervision and inspection, and continue to provide reasonable guarantees for the effectiveness of the Company's operations, the reliability of reports and the compliance of operations.

13.5 Internal Control Measures for Sanctions Risks

To ensure that the Group abides by its undertakings to the Hong Kong Stock Exchange as disclosed in the Prospectus relating to the listing in Hong Kong that the Group or Relevant Persons[2] would not be subject to any sanctions risks, the Group has improved the internal control policies and procedures and implemented the following measures:

1. The Internal Control Compliance Department of the Group took the lead in the Company's sanctions risks prevention and control, and made the Due Diligence Questionnaire for Sanctions, the Due Diligence Questionnaire for Export Controls and the Commitment Letter of Sanction Risk Control (reference template) which will be used as the basic tools for due diligence, prevention and control of sanctions risks in subsidiaries of the Group and will further strengthen the professionalism of related work.

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

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

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

[2] has the meaning as defined in the Prospectus relating to the Company's listing in Hong Kong

14. Report of the Board of Directors

14.1 Principal Business

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

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

Meanwhile, the environmental policies of the Group are set out in "14.7 Social Responsibility Report (Namely Environmental, Social and Governance Report)" of this report of the Board of Directors. The compliance with relevant laws and regulations with significant impact on the Group are set out in "14.30 Compliance with Relevant Laws and Regulations" of this report of the Board of Directors. Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in "9. Management Discussion and Analysis — 9.3 Business Overview — 9.3.8 Human Resources Management", and "14.11 Major Clients" and "14.12 Major Suppliers" of this report of the Board of Directors, respectively.

14.2 Dividend Policy

The Company attaches great importance to Shareholders' returns and has established a complete decision-making process and mechanism for dividend distribution. According to the Articles of Association, the Company may distribute annual or interim dividends in the form of cash and stock. In distributing dividends, the Company shall pay attention to giving reasonable investment returns to investors and maintain the continuity and stability of the profit distribution policy. In the process of determining the dividend distribution plan, the Board of the Company takes the advice and requests of Shareholders into full consideration in order to safeguard the legal interests of minority Shareholders and submits the dividend distribution plan at the general meeting of Shareholders for approval. Independent non-executive Directors played their part in performing their duties during the decision-making process of the dividend distribution plan.

14.3 Profit and Dividend Distribution

In view of the fact that the profit distributable by the Company at the end of 2020 was negative, according to the provisions of the Articles of Association and considering the actual situation of the Company's current operations and development, no cash dividend will be distributed, no bonus share will be issued, no transfer of any capital reserve to share capital and no other form of distribution will be conducted by the Company for the year ended December 31, 2020.

14.4 Reserves

Reserves of the Group for the year ended December 31, 2020 are set out in the Consolidated Statement of Changes in Equity in the consolidated financial statements.

14.5 Distributable Reserves

The distributable reserves of the Group for the year ended December 31, 2020 are set out in the Consolidated Statement of Financial Position in the consolidated financial statements.

14.6 Summary of Financial Information

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2020 are set out in "5. Financial Summary".

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

In 2020, the Group further improved the Environmental, Social and Governance (ESG) indicator collection system. The disclosure scope of ESG environmental indicator covered the headquarter, headquarters of branches and subsidiaries in 2020. Meanwhile, we made deep communication with stakeholders to enquire their opinions and suggestions regarding 19 social responsibility issues on corporate governance, environment, communities and others, and we derived a materiality matrix in 2020 through scientific analysis and took it as an important reference for the Group to determine the management direction for social responsibility of the year and prepare future work plans. For details regarding ESG of China Huarong, please refer to the 2020 Social Responsibility Report of China Huarong to be independently published by the Company, which can be accessed or downloaded on the websites of the Company and the Hong Kong Stock Exchange.

14.8 Donation

Total donations made by the Group for 2020 amounted to RMB21.1 million.

14.9 Property and Equipment

None of the properties held by the Group had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. The details in relation to the changes in property and equipment of the Group for the year ended December 31, 2020 are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 35. Property and equipment".

14.10 Pension Plan

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

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

14.11 Major Clients

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

14.12 Major Suppliers

During the Reporting Period, the cost from the top five suppliers from which the Company acquired distressed assets accounted for not more than 30% of the Company's acquisition costs in 2020.

14.13 Share Capital and Public Float

As at December 31, 2020, the Company had a total of 39,070,208,462 Shares, of which 25,043,852,918 H Shares were issued, and 458 registered holders of H Shares. Details are set out in "10. Changes in Share Capital and Information on Substantial Shareholders". As of the Latest Practicable Date, based on the public information available to the Company and to the knowledge of the Board of Directors, the public float of the Company was in compliance with requirements of relevant laws, regulations and the Listing Rules.

14.14 Pre-emptive Right and Share Option Arrangement

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

14.15 Purchase, Sale and Redemption of Listed Securities

For the year ended December 31, 2020, neither the Company nor its subsidiaries has purchased, sold or redeemed listed securities of the Company.

14.16 Issuance of Securities

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

14.17 Material Interests and Short Positions

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

14.18 Use of Proceeds

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

As of December 31, 2020, the Group has used HK$16,223.9 million (equivalent to RMB13,700 million) of the proceed, of which RMB9,600 million was used to develop the distressed asset management business of the Group; RMB2,500 million was used to develop the financial services business of the Group; and RMB1,600 million was used to develop the asset management and investment business of the Group. The actual use of proceeds was consistent with the committed use of proceeds set out in the Prospectus relating to the listing in Hong Kong.

As of the Latest Practicable Date, the aggregate balance of the unutilized proceeds was HK$3,003.2 million, among which, HK$2,843.9 million for the development of financial services business remained unutilized, and HK$159.3 million remained unutilized neither after the payment of overseas listing fees. In order to enhance the efficiency of the utilization of the proceeds and reduce the financial costs, thereby enabling more effective deployment of financial resources and promoting the Company's business development, after being deliberated and approved by the Company's first extraordinary general meeting of shareholders in 2021, the Company changed the utilization of the remaining proceeds of HK$3,003.2 million in total to provide capital contribution and fund support to major subsidiaries. For details, please refer to the relevant announcements and circulars issued by the Company on August 2, 2021, August 3, 2021 and August 17, 2021. As of the publication date of this Annual Results Announcement, no specific timetable for the utilization of proceeds was available.

14.19 Borrowings

The balance of the borrowings of the Group as at December 31, 2020 amounted to approximately RMB778,423.8 million. Details of our borrowings are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 44. Borrowings".

14.20 Directors, Supervisors and Senior Management

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

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

As of December 31, 2020, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares and underlying Shares of the Company or other associated corporations (within the meaning of Part XV of the SFO) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

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

None of the Directors and Supervisors of the Company or their associated entities had any beneficial interests, directly or indirectly, in any transactions, arrangements or contracts of significance (except service contracts) concerning the business of the Group entered into with the Company or any of its controlling companies, subsidiaries or fellow subsidiaries in 2020.

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

14.23 Material Contracts with Controlling Shareholders

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

14.24 Management Contracts

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

14.25 Interests of Directors in Businesses Competing with the Company

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

14.26 Remuneration Policy of Directors, Supervisors and Senior Management

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

14.27 Relationship between Directors, Supervisors and Senior Management

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

14.28 Indemnity from Directors, Supervisors and Senior Management

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

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

14.29 Connected Transactions and Related Party Transactions

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

14.30 Compliance with Relevant Laws and Regulations

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

14.31 Major Subsidiaries

The major subsidiaries of the Group are set out in "17. Audit Report and Financial Statements — V. Explanatory Notes — 66. Particulars of principal subsidiaries".

14.32 Auditors

The consolidated financial statements of the Company for 2020 prepared under the IFRS and PRC GAAP have been audited by Ernst & Young and Ernst & Young Hua Ming LLP, respectively.

14.33 Statement for Changes of Auditors in the Past Three Years

Since Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP have provided audit services for the Company for eight years by 2020, reaching the maximum service term stipulated by the MOF, therefore the Company changed its accountants to Ernst & Young and Ernst & Young Hua Ming LLP in 2020.

14.34 Equity-Linked Agreement

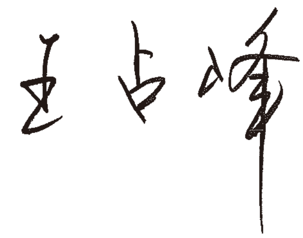
During the Reporting Period, the Company has not entered into or has any equity-linked agreement or stipulates that any agreement entered into by the Company will result in or may result in the issuance of Shares by the Company.

14.35 Debentures Issued

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

14.36 Audit Committee

The Audit Committee of the Board of the Company has reviewed the annual results of the Group for 2020 and the 2020 audited consolidated financial statements prepared in accordance with IFRS and PRC GAAP.



By Order of the Board
Wang Zhanfeng
Chairman

August 28, 2021

15. Report of the Board of Supervisors

During the Reporting Period, the Company's Board of Supervisors operated in a standard way, performed their duties faithfully and dutifully, focused on steadily and orderly operation and strategy implementation of the Company, insisted on the problem-oriented principle, and continued to conduct various supervisions carefully according to relevant PRC laws and regulations, regulatory requirements and the Articles of Association, which played an active role in promoting the Company's focus on the core business constantly, continuously improving corporate governance, strengthening financial management, enhancing risk management level, and improving internal control system.

15.1 Convening of meetings

During the Reporting Period, the Company's Board of Supervisors held eight meetings to review and approve 22 resolutions, including work reports of the Board of Supervisors for 2019, final financial accounts for 2019 of the Company and working plan of the Board of Supervisors for 2020. The special committees of the Board of Supervisors held ten meetings to review and approve eight resolutions, including the final financial accounts for 2019 of the Company, etc., as well as review 13 issues, including the interim financial statements of 2020 and the review report, etc.

15.2 Supervision work

Performance supervision. The Board of Supervisors strengthened the supervision on the implementation of national economic and financial policies, organized and carried out researches related to the development of core business and enhancement of core competitiveness, carefully studied the national authorities' requirements for financial sector and AMCs to focus on their core business, conducted personal visit to certain operation units, benchmarked against the function positioning and made suggestions on transformation and development of core business and enhancement of core competitiveness of core business. The Board of Supervisors strengthened supervision of the implementation of development strategies, listened to the reports on the implementation of the strategic plan at its meetings and made suggestions on the continuous promotion of the implementation of the strategic plan. The Board of Supervisors strengthened supervision of the Board of Directors, senior management and their members in performing their duties, organized members of the Board of Supervisors to attend general meetings of Shareholders, and attend relevant meetings of Board of Directors and senior management, and strengthened supervision of the implementation of resolutions adopted by general meeting of Shareholders and the Board of Directors as well as deliberation procedures of the Board of Directors and its special committees. The Board of Supervisors organized the revision of its performance evaluation system, carried out annual performance evaluation according to the items, standards, methods and procedures specified in the relevant regulatory requirements, and reported evaluation profile and the evaluation results to the general meeting of Shareholders and the regulatory authorities.

Financial supervision. The Board of Supervisors strengthened supervision of regular financial reports. The Board of Supervisors has established a sound supervision mechanism for regular reports. Before the preparation of regular financial reports, the special committee of the Board of Supervisors convened meetings to hear the report on the audit or review plan of regular financial reports and made suggestions on key concerns of the Board of Supervisors. During the audit or review, the Board of Supervisors assigned the Office of the Board of Supervisors to attend all meetings, so as to be timely informed of the preparation progress of regular reports and communication of relevant matters, and report to the Board of Supervisors in a timely manner. After the audit or review was completed, the special committee of the Board of Supervisors convened meetings to hear the report of the audit or review results, and fully communicated with the external auditing institutions regarding the audit or review findings and recommendations. During the Reporting Period, the special committee of the Board of Supervisors successively convened meetings to hear reports on the audit results for 2019, the interim review plan and review results for 2020, and the annual audit plan for 2020, and made suggestions on relevant matters, so as to supervise the independence and effectiveness of the external audit and promote the implementation of key issues. The Board of Supervisors paid close attention to capital planning and capital compliance, organized capital planning research, benchmarked against the regulatory requirements, conducted research on the Company's overall capital planning and the implementation of regulatory requirements, and made recommendations on relevant work to supervise the implementation of relevant regulatory requirements and further improve the capital management mechanism.

Internal control supervision. The Board of Supervisors strengthened supervision on the implementation of policies and regulatory requirements of the relevant state departments. The special committees of the Board of Supervisors convened meetings to listen to the report on the plans and results of the implementation of regulatory requirements, and promoted the implementation of regulatory requirements to achieve substantial results; it strengthened supervision over construction and operation of the internal control system, understood the rules construction and information system construction, institutional setup and the implementation of rules including prevention and control mechanism for non-compliance incidents, anti-fraud through on-site investigation and research on some operating units by Supervisors and provided advice to related operating units on the improvement of the internal control system construction; it organized and conducted investigation and research on the Group's synergistic development to make suggestions on the non-financial subsidiaries' core business positioning and synergistic development with the core business of the Group's parent company as well as the content, paths, policies and arrangements of the Group's synergy; it conducted investigation and research on relevant financial subsidiaries, focused on the financial subsidiaries' core business development, strategic planning, compliance management, and the construction of talents team and key competitiveness to make suggestions for their stable and orderly operation.

Risk management supervision. The Board of Supervisors paid close attention to asset quality and continued to strengthen credit risk management and supervision. The special committees of the Board of Supervisors convened meetings to listen to the basic status and the results of credit risk management and control. Supervisors conducted investigation and research on some operation units to understand details of credit risk management and control, and made suggestions on further strengthening credit risk management and control; the special committees of the Board of Supervisors listened to reports on related party transactions and made suggestions on strict implementation of regulatory requirements and authorization; the Board of Supervisors convened meetings to listen to the reports on risk management and control and business development of overseas institutions, and made suggestions on strengthening management and control of credit risks, market risks and concentration risks of overseas institutions; it organized and conducted investigation and research on liquidity management to learn about the policies, mechanisms, measures, and effects of liquidity risk management and control, and made suggestions on further improving related policies.

Self-construction enhancement. The re-election of the Board of Supervisors was completed in a timely way and the third session of the Board of Supervisors began operation on June 30, 2020 with the capabilities of Supervisors being further improved. The composition of special committees of the Board of Supervisors was adjusted based on the actual situation and the organization and construction of the Board of Supervisors were more adapted for the actual needs of work; it organized the revision of supervision and evaluation systems, further standardized the supervision of the Board of Supervisors, and strengthened the binding force of the system on the Board of Directors, senior management and their members; Supervisors were organized to learn relevant national economic and financial policies, laws and regulations, listen to the reports by relevant departments of the headquarters, attend the training courses given by the Hong Kong Institute of Chartered Secretaries to grasp the necessary knowledge and skills for the performance of duties and continuously improve the ability for the performance of duties. Evaluation and assessment were organized and conducted on Supervisors' performance of their duties to assess the Supervisors' performance of their duties, which was reported to the general meeting of Shareholders and regulatory authorities.

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

August 28, 2021

16. Significant Events

16.1 Material Litigation and Arbitration

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

16.2 Major Acquisition and Disposal of Assets and Merger

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

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

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

16.4 Implementation of Share Incentive Scheme

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

16.5 Major Contracts and Their Implementation

16.5.1 Major Custodies, Underwriting and Leasing

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

16.5.2 Material Guarantees

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

16.6 Events after the Reporting Period

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

16.7 Continued Suspension of Trading

Reference is made to the announcement of the Company dated March 31, 2021. As a relevant transaction of the Company was still being finalized, the auditor would need more information and time to complete the audit procedures for the 2020 annual results. As of the date of the Announcement, the auditor has completed the audit procedures for the 2020 annual results.

At the request of the Company, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited has been suspended with effect from 9:00 a.m. on April 1, 2021 pending the satisfaction of resumption conditions and will remain suspended until further notice. The Company will make further announcement(s) as and when appropriate. The Company will keep the Company's Shareholders and potential investors informed of the latest progress as and when appropriate and will announce quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

17. Audit Report and Financial Statements

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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INDEPENDENT AUDITOR'S REPORT

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

We were engaged to audit the consolidated financial statements of China Huarong Asset Management Co., Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 151 to 337, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Unqualified Opinion on the Group's Consolidated Financial Position

In our opinion, the consolidated financial statements give a true and fair view of the Group's consolidated financial position as at 31 December 2020, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Disclaimer of Opinion on the Group's Consolidated Financial Performance and Consolidated Cash Flows

Because of the significance of the matters described in the following paragraph, we were unable to obtain sufficient appropriate audit evidence to ascertain whether any of the associated gains and losses recognised by the Group in 2020 referred to in the following paragraph should have been recorded in the consolidated statement of profit or loss and the consolidated statement of comprehensive income of previous years, and to provide a basis for our audit opinion on the Group's consolidated financial performance and consolidated cash flows, we do not express an opinion on the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2020.

Basis for Unqualified Opinion on the Group's Consolidated Financial Position and Basis for Disclaimer of Opinion on the Group's Consolidated Financial Performance and Consolidated Cash Flows

The Group performed a comprehensive review and assessment as well as impairment tests of the Group's assets as at 31 December 2020, including financial assets, inventories, investment properties and interest in associates and joint ventures listed in Note III.2, and recognised gains of RMB4,317 million fair value changes on distressed debt assets, RMB12,520 million losses from fair value changes on other financial assets and liabilities, RMB97,680 million credit impairment losses, and RMB10,076 million impairment losses on other assets in its consolidated statement of profit or loss for the year ended 31 December 2020; and recognised RMB7,125 million losses from fair value changes and reclassification of impairment losses of RMB6,375 million on financial assets measured at fair value through other comprehensive income in its consolidated statement of comprehensive income for the year ended 31 December 2020. Based on the reasons discussed in

Basis for Unqualified Opinion on the Group's Consolidated Financial Position and Basis for Disclaimer of Opinion on the Group's Consolidated Financial Performance and Consolidated Cash Flows (Continued)

Note III.2, management was unable to extend the comprehensive review and assessments as well as impairment tests to the relevant assets as at 31 December 2019 and as at 1 January 2019. Therefore, we were unable to make reasonable judgement on whether any of the associated gains and losses recognised by the Group in 2020 should have been recorded in the consolidated statement of profit or loss and the consolidated statement of comprehensive income of previous years.

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under these standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. As described above, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's consolidated financial performance and consolidated cash flows. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the Group's consolidated financial position as at 31 December 2020.

We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion on the Group's consolidated financial position thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including those in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated statement of financial position. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our unmodified audit opinion on the Group's consolidated financial position.

INDEPENDENT AUDITOR'S REPORT — continued

Key Audit Matters — continued

Key audit matters	How our audit addressed the key audit matters
Expected credit loss allowance for loans and advances to customers and debt instruments at amortised cost	
The Group adopts the expected credit loss model to assess the impairment of financial assets according to *International Financial Reporting Standard 9 Financial Instruments* ("IFRS 9"). Complex models and assumptions are used in the measurement of expected credit losses for loans and advances to customers and debt instruments at amortised cost, for example: • Significant increases in credit risk — The selection of criteria for identifying significant increases in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for financial assets with longer remaining periods to maturity; • Models and parameters — Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information — Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; and	With the support of our internal credit risk modelling experts, we evaluated and tested the reasonableness of the methodology, important parameters of the expected credit loss model, management's major judgements and related assumptions, including: • Assessing the reasonableness of the expected credit loss model methodology; • Assessing and testing the design and operating effectiveness of controls over the measurement of expected credit losses for loans and advances to customers and debt assets at amortised cost as at 31 December 2020; • Assessing the reasonableness of related parameters, including the probability of default, loss given default, exposure at default, and the significant increases in credit risk, in response to the macroeconomic changes and the COVID-19 pandemic implications; • Assessing the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and different weights of multiple macroeconomic scenarios; and

Key Audit Matters — continued

Key audit matters	How our audit addressed the key audit matters
Expected credit loss allowance for loans and advances to customers and debt instruments at amortised cost (Continued)	
• Individual impairment assessments — Identifying credit impaired financial assets requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. The Group's disclosures about accounting judgements and estimations of impairment of financial assets and the details of these financial assets are included in Note IV.1.2 Impairment of financial assets, Note V.25 Loans and advances to customers, Note V.30 Debt instruments at amortised cost and Note V.62.1 Credit risk.	• Selecting samples to assess the reasonableness of management judgements on whether the credit risk has increased significantly since initial recognition and whether credit impairment has occurred. We adopted a risk-based sampling approach in our credit review procedures. We assessed the debtors' repayment capacity and evaluated the debtors' credit grading by the Group, taking into consideration debtors' financial information, collateral valuation reports and other available information. We focused on loans and advances to customers and debt instruments at amortised cost with perceived higher risk and selected samples from credit impaired loans and debt instruments, overdue but performing loans and debt instruments, and borrowers with negative warning signs or adverse press coverage. We performed credit review for the selected credit impaired corporate loans and advances and debt instruments by assessing the forecast of recoverable cash flows through inquiry, applying judgement and our own research. We evaluated the experience, independence, competence and integrity of the external appraiser engaged by the management to value certain properties and illiquid collateral, including comparing the valuations with externally derived data, and assessing the reasonableness of valuation method and key assumptions used. Furthermore, we checked the adequacy of related disclosures including the disclosures of credit risk and expected credit losses.

Key Audit Matters — continued

Key audit matters	How our audit addressed the key audit matters
Valuation of financial instruments measured at Level 3 fair value	
Financial assets carried at fair value represented a significant portion of the Group's total assets, and the carrying amount of financial instruments measured at Level 3 fair value accounted for approximately 20% of the Group's total assets. The fair values of Level 3 financial instruments are determined through the application of valuation techniques which often involve the exercise of subjective judgement by management and the use of assumptions and estimates, particularly those requiring significant unobservable inputs. Valuation results can vary significantly when different valuation techniques and assumptions are applied. The Group's disclosures about accounting judgements and estimation and the details of these financial assets are included in Note IV.2.2 Fair value of financial instruments and Note V.63 Fair value of financial instruments.	Our procedures in relation to the valuation of financial instruments measured at Level 3 fair value as at 31 December 2020 included assessing and testing the design and operating effectiveness of controls over the identification, measurement and management of valuation risk. For unobservable inputs, such as estimated future cash flows, we checked the appropriateness by comparing the cash flows against relevant contractual terms or performing assessments of cash flows from collateral or profit forecasts. We re-performed valuations on a sample basis to evaluate the valuation techniques, assumptions and estimates adopted by the Group with the assistance of our internal valuation specialists. Furthermore, we checked the adequacy of related disclosures of fair value including the disclosure of the fair value hierarchy.

Key Audit Matters — continued

Key audit matters	How our audit addressed the key audit matters
Assessment of control over structured entities	
The Group has interests in various structured entities, such as private equity funds, trusts, asset management plans, wealth management products and mutual funds, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them, taking into consideration the power arising from rights, variable returns and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of these investments to the Group and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter. The Group's disclosures about accounting judgements and estimation and the details of these equity investments are included in Note IV.1.4 Control on structured entities, Note V.32 Interests in consolidated structured entities and Note V.33 Interests in unconsolidated structured entities.	We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over the structured entities, and the magnitude and variability of variable returns from its involvement with the structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of the structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to the structured entities, as well as the fairness of transactions between the Group and the structured entities. We evaluated and tested the design and operating effectiveness of internal controls related to the disclosures of structured entities.

Other Information Included in the Annual Report

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

As described in the *Basis for Unqualified Opinion on the Group's Consolidated Financial Position and Basis for Disclaimer of Opinion on the Group's Consolidated Financial Performance and Consolidated Cash Flows* section above, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's consolidated financial performance and consolidated cash flows. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Our unmodified audit opinion on the Group's consolidated financial position does not cover other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S REPORT — continued

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

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

In our audit conducted in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT — continued

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is NG Chi Keung.

Ernst & Young
Certified Public Accountants

Hong Kong
28 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended 31 December 2020	2019
Income from distressed debt assets	2	**34,121,397**	35,067,829
Fair value changes on distressed debt assets	3	**4,317,012**	9,963,734
Fair value changes on other financial assets and liabilities	4	**(12,519,994)**	11,727,245
Interest income	5	**37,589,116**	38,530,000
Finance lease income		**3,535,862**	5,911,550
Gains from derecognition of financial assets measured at amortised cost	30	**866,372**	104,728
Gains/(losses) from derecognition of debt instruments at fair value through other comprehensive income		**154,769**	(9,839)
Commission and fee income	6	**2,114,587**	2,595,786
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**769,081**	1,441,197
Dividend income	7	**1,193,128**	1,818,980
Other income and other net gains or losses	8	**4,366,167**	5,505,299
Total		**76,507,497**	112,656,509
Interest expenses	9	**(54,868,198)**	(60,256,729)
Commission and fee expenses	10	**(2,371,459)**	(2,207,718)
Operating expenses	11	**(12,900,049)**	(13,138,798)
Impairment losses under expected credit loss model	12	**(97,679,629)**	(24,966,214)
Impairment losses on other assets	13	**(10,075,773)**	(1,497,973)
Total		**(177,895,108)**	(102,067,432)
Change in net assets attributable to other holders of consolidated structured entities	32	**(500,515)**	(631,295)
Share of results of associates and joint ventures		**(846,446)**	1,012,305
(Loss)/profit before tax		**(102,734,572)**	10,970,087
Income tax expense	14	**(3,539,692)**	(8,700,835)
(Loss)/profit for the year		**(106,274,264)**	2,269,252
(Loss)/profit attributable to:			
Equity holders of the Company		**(102,902,991)**	1,424,432
Holders of perpetual capital instruments	56	**811,336**	869,353
Non-controlling interests		**(4,182,609)**	(24,533)
		(106,274,264)	2,269,252
(Loss)/earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)	15		
— Basic		**(2.63)**	0.04
— Diluted		**(2.63)**	0.04

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended 31 December 2020	2019
(Loss)/profit for the year		**(106,274,264)**	2,269,252
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit obligations		**(11,568)**	4,466
Fair value (losses)/gains on investments in equity instruments at fair value through other comprehensive income		**(421,346)**	158,203
Share of other comprehensive income of associates		**(9,892)**	—
Income tax effect	37	**111,756**	(35,150)
		(331,050)	127,519
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**2,289,919**	(188,491)
Fair value changes on hedging instruments designated in cash flow hedges	22,55	**(39,763)**	(634,277)
Financial assets measured at fair value through other comprehensive income			
— fair value changes		**(7,125,453)**	257,194
— reclassification of (gains)/losses to profit or loss on disposals		**(141,871)**	9,839
— impairment provided		**6,374,803**	1,511,644
Income tax effect	37	**575,332**	(509,616)
Share of other comprehensive income of associates, net of income tax		**(896)**	54,605
		1,932,071	500,898
Other comprehensive income for the year, net of income tax		**1,601,021**	628,417
Total comprehensive (expense)/income for the year		**(104,673,243)**	2,897,669
Total comprehensive(expense)/income attributable to:			
Equity holders of the Company		**(101,510,759)**	1,843,508
Holders of perpetual capital instruments	56	**811,336**	869,353
Non-controlling interests		**(3,973,820)**	184,808
		(104,673,243)	2,897,669

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

		As at 31 December	
	Notes V	**2020**	2019
Assets			
Cash and balances with central bank	19	**22,808,362**	30,774,690
Deposits with financial institutions	20	**123,875,031**	149,461,964
Placements with financial institutions	21	**5,740,804**	2,709,937
Financial assets at fair value through profit or loss	22	**359,439,987**	367,669,904
Financial assets held under resale agreements	23	**15,224,623**	22,525,935
Contract assets	24	**5,306,994**	—
Loans and advances to customers	25	**232,500,179**	211,265,084
Finance lease receivables	26	**39,796,700**	68,040,296
Debt instruments at fair value through other comprehensive income	27	**83,106,848**	103,739,340
Equity instruments at fair value through other comprehensive income	28	**4,493,861**	3,583,661
Inventories	29	**20,112,360**	19,147,381
Debt instruments at amortised cost	30	**656,048,582**	642,085,956
Interests in associates and joint ventures	31	**14,357,953**	28,078,924
Investment properties	34	**4,001,006**	5,910,866
Property and equipment	35	**12,717,276**	12,325,049
Right-of-use assets	36	**2,447,155**	3,569,619
Deferred tax assets	37	**14,423,850**	12,193,797
Goodwill	38	**322,971**	18,063
Other assets	39	**24,742,494**	21,911,940
Total assets		**1,641,467,036**	1,705,012,406

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued

AS AT 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	As at 31 December 2020	As at 31 December 2019
Liabilities			
Borrowings from central bank	40	**23,182,829**	3,641,673
Deposits from financial institutions	41	**8,924,141**	10,276,669
Placements from financial institutions	42	**4,679,266**	2,253,597
Financial assets sold under repurchase agreements	43	**15,547,448**	15,665,408
Borrowings	44	**778,423,768**	761,506,427
Financial liabilities at fair value through profit or loss	22	**3,301,527**	3,223,853
Due to customers	45	**250,827,219**	226,814,717
Tax payable	46	**1,283,897**	2,887,422
Contract liabilities	47	**649,052**	575,076
Lease liabilities	48	**919,817**	1,983,254
Deferred tax liabilities	37	**408,771**	478,546
Bonds and notes issued	49	**336,971,821**	367,345,588
Other liabilities	50	**152,090,616**	144,883,694
Total liabilities		**1,577,210,172**	1,541,535,924
Equity			
Share capital	51	**39,070,208**	39,070,208
Capital reserve	52	**17,241,496**	18,405,019
Surplus reserve	53	**8,564,210**	8,564,210
General reserve	54	**17,842,051**	16,681,256
Other reserves	55	**3,413,228**	1,806,931
(Accumulated losses)/Retained earnings		**(67,976,466)**	36,731,157
Equity attributable to equity holders of the Company		**18,154,727**	121,258,781
Perpetual capital instruments	56	**25,475,878**	18,430,576
Non-controlling interests		**20,626,259**	23,787,125
Total equity		**64,256,864**	163,476,482
Total equity and liabilities		**1,641,467,036**	1,705,012,406

The accompanying notes form an integral parts of these consolidated financial statements.

The consolidated financial statements on page 151 to 337 were approved and authorised for issue by the Board of Directors on 28 August 2021 and are signed on its behalf by:

CHAIRMAN

EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

		Equity attributable to equity holders of the Company												
						Other reserves								
	Note V	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings/ (Accumulated losses)	Subtotal	Perpetual capital instruments	Non-controlling interests	Total
As at 1 January 2020		39,070,208	18,405,019	8,564,210	16,681,256	2,739,804	(485,921)	(426,303)	(20,649)	36,731,157	121,258,781	18,430,576	23,787,125	163,476,482
(Loss)/profit for the year		—	—	—	—	—	—	—	—	(102,902,991)	(102,902,991)	811,336	(4,182,609)	(106,274,264)
Other comprehensive income for the year		—	—	—	—	(665,394)	2,079,436	630	(22,440)	—	1,392,232	—	208,789	1,601,021
Total comprehensive (expense)/income for the year		—	—	—	—	(665,394)	2,079,436	630	(22,440)	(102,902,991)	(101,510,759)	811,336	(3,973,820)	(104,673,243)
Dividends declared		—	—	—	—	—	—	—	—	(429,772)	(429,772)	—	(932,972)	(1,362,744)
Appropriation to general reserve	54	—	—	—	1,160,795	—	—	—	—	(1,160,795)	—	—	—	—
Issuance of perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	6,994,560	—	6,994,560
Distribution relating to perpetual capital instruments	56	—	—	—	—	—	—	—	—	—	—	(760,594)	—	(760,594)
Acquisition of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	459,391	459,391
Disposals of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	(214,577)	(214,577)
Change in ownership interests in subsidiaries		—	(1,302,208)	—	—	—	—	—	—	—	(1,302,208)	—	1,501,112	198,904
Realised loss of equity instruments at fair value through other comprehensive income	28	—	—	—	—	214,065	—	—	—	(214,065)	—	—	—	—
Others		—	138,685	—	—	—	—	—	—	—	138,685	—	—	138,685
As at 31 December 2020		39,070,208	17,241,496	8,564,210	17,842,051	2,288,475	1,593,515	(425,673)	(43,089)	(67,976,466)	18,154,727	25,475,878	20,626,259	64,256,864

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — continued

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

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

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended 31 December 2020	2019
OPERATING ACTIVITIES			
(Loss)/Profit before tax		**(102,734,572)**	10,970,087
Adjustments for:			
Impairment losses on financial assets and other items under expected credit loss model		**97,679,629**	24,966,214
Impairment losses on other assets		**10,075,773**	1,497,973
Depreciation of property and equipment and investment properties		**1,149,472**	1,145,321
Depreciation of right-of-use assets		**703,387**	688,679
Amortisation of intangible assets and other assets		**240,835**	346,712
Share of results of associates and joint ventures		**846,446**	(1,012,305)
Fair value changes on financial assets and liabilities		**17,378,727**	(3,655,189)
Interest income arising from investment other than held for trading		**(17,490,560)**	(22,199,801)
Dividend income		**(1,110,169)**	(1,013,459)
Gains from derecognition of financial assets measured at amortised cost		**(268,001)**	(73,609)
(Gains)/losses from derecognition of debt instruments at fair value through other comprehensive income		**(154,769)**	9,839
Interest expenses of bonds and notes issued and other borrowings	64	**17,451,112**	26,081,858
Change in net assets attributable to other holders of consolidated structured entities		**500,515**	631,295
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**(769,081)**	(1,441,197)
Net (gains)/losses on disposal of property and equipment		**(18,829)**	50,116
Net foreign exchange losses/(gains)		**33,503**	(225,304)
Net reversal of contingent liabilities		**(15,339)**	(1,580)
Operating cash flows before movements in working capital		**23,498,079**	36,765,650
Net increase in loans and advances to customers		**(25,820,740)**	(24,064,551)
Net decrease in finance lease receivables		**27,554,351**	30,460,795
Net decrease in balances with central bank and deposits with financial institutions		**14,522,987**	7,300,215
Net (increase)/decrease in financial assets at fair value through profit or loss		**(7,601,447)**	22,634,873
Net (increase)/decrease in placements with financial institutions		**(2,038,081)**	605
Net (increase)/decrease in financial assets held under resale agreements		**(3,081,064)**	3,633,216
Net increase in debt instruments at amortised cost		**(64,373,369)**	(91,597,215)

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS — continued

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended 31 December	
		2020	2019
Net decrease in debt instruments at fair value through other comprehensive income		**21,284,254**	37,296,890
Net increase in due to customers		**23,711,597**	16,907,579
Net increase in borrowings from central bank		**19,402,510**	1,240,000
Net increase in placements and deposits from financial institutions		**1,013,011**	4,952,245
Net decrease in financial assets sold under repurchase agreements		**(121,739)**	(8,737,942)
Net increase in borrowings of financial institution subsidiaries		**52,562,710**	65,952,080
Other changes in operating receivables		**(18,691,958)**	(7,713,877)
Other changes in operating payables		**489,240**	(4,665,935)
Cash from operations		**62,310,341**	90,364,628
Income tax paid		**(8,881,526)**	(7,500,764)
NET CASH FROM OPERATING ACTIVITIES		**53,428,815**	82,863,864
INVESTING ACTIVITIES			
Cash receipts from disposals of financial assets		**107,197,930**	156,462,847
Cash receipts from interest income arising from investment other than held for trading		**16,129,964**	20,695,203
Cash receipts from dividend income		**1,350,441**	2,222,227
Cash receipts from disposals/liquidation of associates and joint ventures		**9,704,953**	9,971,071
Cash receipts from disposals of property and equipment, and other assets		**297,603**	162,442
Cash payments for purchases of financial assets		**(137,688,597)**	(109,984,230)
Cash payments for investment in associates and joint ventures		**(1,801,098)**	(1,897,379)
Cash payments for pledge deposits in bank		**603,248**	(733,206)
Cash payments for purchases of property and equipment, investment properties and other assets		**(1,284,882)**	(2,505,832)
Cash payments for rental deposits		**—**	(12,768)
Net cash inflow on acquisitions of subsidiaries		**2,462,850**	—
Net cash inflow/(outflow) on disposals of subsidiaries		**294,852**	(3,371,765)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**(2,732,736)**	71,008,610

The accompanying notes form an integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS — continued

FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended 31 December 2020	2019
FINANCING ACTIVITIES			
Cash payments for consolidated structured entities	64	**(5,207,451)**	(22,263,101)
Cash payments for acquisition of additional interests in subsidiaries		**—**	(1,523,258)
Issuance of perpetual capital instruments		**6,994,560**	—
Redemption of perpetual capital instruments		**—**	(1,200,000)
Proceeds of borrowings of non-financial institution subsidiaries	64	**67,960,269**	155,145,774
Repayments of borrowings of non-financial institution subsidiaries	64	**(103,280,096)**	(210,182,082)
Repayments of leases liabilities	64	**(949,344)**	(770,148)
Cash receipts from bonds and notes issued	64	**152,189,420**	172,037,181
Cash payments for transaction cost of bonds and notes issued	64	**(71,181)**	(95,800)
Cash repayments for bonds and notes redeemed	64	**(172,681,700)**	(161,914,714)
Interest paid for bonds and notes issued and other borrowings	64	**(19,652,439)**	(22,948,105)
Dividends paid	64	**(1,297,991)**	(1,413,025)
Cash payments for distribution to holders of perpetual capital instruments		**(760,594)**	(797,309)
NET CASH USED IN FINANCING ACTIVITIES		**(76,756,547)**	(95,924,587)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(26,060,468)**	57,947,887
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**159,234,357**	101,319,323
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(19,011)**	(32,853)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	57	**133,154,878**	159,234,357
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**54,447,738**	53,730,250
Interest paid		**(36,949,397)**	(35,122,595)
		17,498,341	18,607,655

The accompanying notes form an integral parts of these consolidated financial statements.

(Amounts in thousands of Renminbi, unless otherwise stated)

I. GENERAL INFORMATION

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

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

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

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

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

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

1. Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations

IFRS 3 Amendments	*Definition of 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*

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 International Accounting Standard ("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 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

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 changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendments from 1 January 2020.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

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

2. Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	*Interest Rate Benchmark Reform — Phase 2*	1 January 2021
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Disclosure of Accounting Policies*	1 January 2023
IAS 8 Amendments	*Definition of Accounting Estimates*	1 January 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)		1 January 2022

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates ("IBOR") transition to nearly risk-free rates ("RFRs"). The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is "separately identifiable" to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates is required by the amendments.

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

2. Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 — continued

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 and IFRS Practice Statement 2 (the PS) provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments replace the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies. The amendments add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

IAS 8 Amendments introduce a new definition of "accounting estimates". The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

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

2. Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 — continued

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2018–2020 Cycle were issued in May 2020, including an amendment to IFRS 9 Financial Instruments, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the "10 per cent" test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 Leases, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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

III. SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

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

2. Basis of preparation

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

2. Basis of preparation — continued

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY.

Going concern basis

The Group's consolidated financial statements have been prepared on a going concern basis. Based on the latest progress in risk resolution, the Group performed a comprehensive review and assessment, as well as impairment tests of the Group's assets as at 31 December 2020, including financial assets at fair value through profit or loss in Note V.22, debt instruments at fair value through other comprehensive income in Note V.27, financial assets held under repurchase agreements in Note V.23, debt instruments at amortised cost in Note V.30, inventories in Note V.29, investment properties in Note V.34, and interests in associates and joint ventures in Note V.31. In recent years, the Group has pressed ahead with its "downsizing and risk resolution" strategy by implementing various measures, such as organisational streamlining, internal organisational adjustment, and intra-Group asset reorganisation, resulting in significant changes in the Group's internal organisational structure, asset preservation mechanism, the structure and condition of risk assets, and management personnel. Due to a various factors, the Company was unable to extend its comprehensive review and assessment, as well as impairment tests, to the fair values, credit impairment losses and asset impairment losses, to the aforesaid assets as at 31 December 2019 and as at 1 January 2019. Therefore, all fair value gains and losses, credit impairment losses and impairment provisions calculated based on assessment were recognised in 2020. Accordingly, the Group's net loss attributable to the Company's shareholders for 2020 amounted to RMB102.9 billion. As at 31 December 2020, net assets attributable to the Company's shareholders amounted to RMB18.2 billion.

As affected by significant decline in operating performance and financial condition, as at 31 December 2020, the Company's certain regulatory indicators, such as capital adequacy ratio and leverage ratio, failed to reach the minimum levels required by the regulators. In accordance with regulatory requirements, the regulators could impose a range of restrictive measures on the Group.

In addition, as at 31 December 2020, the Group's bond payables amounted to RMB337.0 billion, of which included domestic bond payables of RMB204.9 billion and overseas bond payables of RMB132.1 billion. Specifically, bond payables falling due within one year amounted to RMB127.5 billion. As at 31 December 2020, the Group's borrowings amounted to RMB778.4 billion, of which borrowings falling due within one year amounted to RMB483.5 billion. The significant decline in operating performance and financial condition may trigger immediate repayment of part of the borrowings, which amounted to RMB12.0 billion.

The above matters or conditions may cast significant doubt on the Group's ability to continue as a going concern.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

2. Basis of preparation — Continued

Going concern basis — Continued

Based on the above circumstances, the Group's management has prudently considered and assessed the Group's future capital replenishment plan, operating conditions, available liquid funds and possible sources of finance to ensure the Group's continuing operation in the next 12 months. These actions include:

1) Implementing capital replenishment plan. With support from all relevant parties, the board of directors of the Company ("the Board") intends to proactively introduce strategic investors to effectively replenish capital, improve risk compensation capacities and ensure the foundation for sustainable operations. On 18 August 2021, the Company signed investment framework agreements with potential strategic investors, namely, CITIC Group Corporation, China Insurance Investment Co., Ltd., China Life Asset Management Company Limited, China Cinda Asset Management Co., Ltd. ("China Cinda") and Sino-Ocean Capital Holding Limited, which will make strategic investments in the Company by subscribing to new shares to be issued by the Company.

2) In accordance with the requirements from regulatory authorities on financial asset management companies of gradual exit from the non-core businesses, the Group plans to dispose of subsidiaries with non-core business activities in the near future to increase internally generated fund inflows and to replenish capital.

3) Maintaining stable liquidity. The Group grasped the monetary policy and regulatory policy guidance, closely monitored market liquidity, strictly implemented risk monitoring and control, maintained normal and stable exchange of funds with financial institutions, timely redeemed domestic and overseas bonds falling due on a timely basis, and therefore the Company's liquidity risk is under control.

4) Constantly promote the development strategy of returning to core business and defusing risks. Under the support of all relevant parties, the Group closely focused on the state's functional positioning of asset management companies, and continued to promote the reduction of risks in accordance with the established development strategy. The Group accelerated transformation of core business and resolution of legacy risks, improved corporate governance, and strengthened risk internal control mechanisms to enhance endogenous development momentum and constantly deepen the high-quality development of New Huarong.

Based on the Company's proposed measures and future operating plan, the Company prepared cash flow forecast for the next 12 months. The Company's senior management have already reviewed such forecasts. The Company's management are of the view that the Company is capable of ensuring the Group's continued operation in the next 12 months, by implementing the above measures to improve regulatory indicators, resolve liquidity risk and obtain sufficient working capital. Accordingly, the Company considers it appropriate to adopt the going concern basis for the preparation of the Company's financial statements.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020 including controlled structured entities. A company consolidates a subsidiary when it controls it. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

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

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

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

3. Basis of consolidation — continued

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

Changes in the Group's interests in existing subsidiaries

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

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

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

4. Business combinations

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

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

4. Business combinations — continued

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

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

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

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

5. Goodwill

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

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

5. Goodwill — continued

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

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

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

6. Interests in associates and joint ventures

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

6. Interests in associates and joint ventures — continued

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

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

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

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

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

6. Interests in associates and joint ventures — continued

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

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

7. Cash and cash equivalents

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

8. Foreign currencies

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

8. Foreign currencies — continued

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

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

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

9. Financial instruments

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

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

9. Financial instruments — continued

9.1 Classification and subsequent measurement of financial assets

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Business model

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, or both collecting contractual cash flows and selling financial assets. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The entity's assessment of the business model is performed on a financial assets portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identity whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However the principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

9.1 Classification and subsequent measurement of financial assets — continued

The contractual cash flow characteristics — continued

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

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

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

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

A financial asset is classified as financial assets at fair value through profit or loss if:

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

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

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

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

9.1 Classification and subsequent measurement of financial assets — continued

The contractual cash flow characteristics — continued

(i) Amortised cost and interest income

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

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

(ii) Debt instruments/receivables classified as at FVOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVOCI

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

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

9.1 Classification and subsequent measurement of financial assets — continued

The contractual cash flow characteristics — continued

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI or designated as FVOCI are measured at FVTPL.

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

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

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument, (referred to as Stage 2 and Stage 3). In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date, (referred to as Stage 1). Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, payment in advance and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix with appropriate groupings.

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

9. Financial instruments — continued

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

(i) Significant increase in credit risk

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

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

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

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

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

9. Financial instruments — continued

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

(i) Significant increase in credit risk — continued

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

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

(iii) Credit-impaired financial assets — continued

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) To purchase or origin a financial asset at a substantial discount which reflects the fact that a credit loss has occurred.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivable in accordance with IFRS 16.

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

9. Financial instruments — continued

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

(v) Measurement and recognition of ECL — continued

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

III. SIGNIFICANT ACCOUNTING POLICIES — continued

9. Financial instruments — continued

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

(v) Measurement and recognition of ECL — continued

For undrawn loan commitments, the loss allowances are the present value of the difference between:

- the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan: and.

- the cash flows that the Group expects to receive if the loan is drawn down.

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

(vi) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation (see Note V.27);

- for loan commitments and financial guarantee contracts: as a provision; and

- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

9. Financial instruments — continued

9.3 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

9.4 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Perpetual capital instruments issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavorable to the Group, are classified as equity instruments and are initially recorded at the proceeds received, net of direct issue costs.

9. Financial instruments — continued

9.4 Financial liabilities and equity instruments — continued

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's

9. Financial instruments — continued

9.4 Financial liabilities and equity instruments — continued

Financial liabilities at FVTPL — continued

credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contracts liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

9.5 Derivative financial instruments

Derivatives are initially recognised at fair value at the date when the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

9. Financial instruments — continued

9.5 Derivative financial instruments — continued

Embedded derivatives — continued

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

9.6 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

10. Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

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

- there is an economic relationship between the hedged item and the hedging instrument;

- the effect of credit risk does not dominate the value changes that result from that economic relationship; and

- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

10. Hedge accounting — continued

Assessment of hedging relationship and effectiveness — continued

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

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

11. Contract assets and contract liabilities

The Group presents contract assets or contract liabilities in the statement of financial position based on the relationship between performance obligations and customer payments.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

11. Contract assets and contract liabilities — continued

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Incremental costs of obtaining a contract

Other than the costs which are capitalized as inventories, property, plant and equipment and intangible assets, costs incurred to obtain a contract with a customer are capitalized as an asset, unless the amortisation period of the assets is one year or less, if all of the following criteria are met:

- The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

- The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

- The costs are expected to be recovered.

The capitalized contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised.

12. Inventories

Properties under development and properties for sale

Properties under development and properties for sale are carried at the lower of cost and net realisable value on an individual basis. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development for sale are transferred to properties for sale upon completion.

13. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes).

All investment properties upon the incorporation of the Company were revalued by reference to the valuation carried out during the financial restructuring. The revalued amount was adopted as the deemed cost of the related investment properties.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost or deemed cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost or deemed cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

14. Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purposes are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

14. Property and equipment — continued

Ownership interests in leasehold land and building — continued

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment other than construction in progress are as follows:

Category	Depreciation	Residual value rates	Annual depreciation rates
Leasehold land and buildings	5–35 years	3%–5%	2.71%–19.40%
Machinery equipment	5–20 years	3%–5%	4.75%–19.40%
Electronic equipment, furniture and fixtures	3–10 years	3%–5%	9.50%–32.33%
Motor vehicles	4–6 years	3%–5%	15.83%–24.25%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

15. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the assets that are necessary to prepare the assets for the intended use or sale have commenced. Capitalization of borrowing costs ceases when the qualifying assets being acquired, constructed or produced becomes ready for the intended use or sale. Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of the qualifying assets are suspended abnormally. Capitalization is suspended until the acquisition, construction or production of the assets is resumed. Other borrowing costs are recognised as an expense in the period in which they are incurred.

15. Borrowing costs — continued

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalization period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalized. Exchange differences in connection with general-purpose borrowings are recognised in profit or loss in the period in which they are incurred.

16. Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

17. Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

17. Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) — continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

18. Resale and repurchase agreements

18.1 Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statements of financial position. The cost (including interests) of purchasing such assets is presented under "financial assets held under resale agreements" in the consolidated statements of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

18.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the statements of financial position. The proceeds (including interests) from selling such assets are presented under "financial assets sold under repurchase agreements" in the consolidated statements of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

19. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

20. Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

20.1 Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

20. Revenue from contracts with customers — continued

20.2 Variable consideration

For contracts that contain variable consideration (including floating management fee), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

20.3 Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

20.4 Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (commission expenses) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

20. Revenue from contracts with customers — continued

20.4 Incremental costs of obtaining a contract — continued

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

20.5 Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its construction contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

21. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

21. Taxation — continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

21. Taxation — continued

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

22. Leases

22.1 Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

22.2 The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings, machinery equipment, electronic equipment and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

22. Leases — continued

22.2 The Group as a lessee — continued

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

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

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

Refundable rental deposits

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

Lease liabilities

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

22. Leases — continued

22.2 The Group as a lessee — continued

Lease liabilities — continued

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

22. Leases — continued

22.2 The Group as a lessee — continued

Lease modifications — continued

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

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

22.3 The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Upon application of IFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

22. Leases — continued

22.3 The Group as a lessor — continued

Refundable rental deposits

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

Sublease

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

Lease modification

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

22.4 Sales and leaseback transactions

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a buyer-lessor

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

23. Fiduciary activities

The Group's fiduciary activities mainly include trust and asset custody services.

The trust service of the Group refer to the business that the Group acts as trustee to undertake investment activity within the agreed period and scope on behalf of the third-party lenders who provide the fund.

The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

24. Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the PRC government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Annuity Scheme

The employees of the Company and some subsidiaries of the Group participate in annuity scheme set up by the Group (the "Annuity Scheme"). The Group made annuity contributions with reference to employees' salaries of last year, and the contributions are expensed in profit or loss when incurred. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

24. Employee benefits — continued

Retirement benefit costs and termination benefits — continued

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service costs (including past service costs, gains and losses on curtailment and settlements);

- interest expenses; and

- remeasurement.

The Group presents the first two components of its defined benefit costs in profit or loss in "Operating expenses". Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficits in the Group's defined benefit plan.

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

III. SIGNIFICANT ACCOUNTING POLICIES — continued

25. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note III, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1. Critical judgements in applying accounting policies

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

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

1. Critical judgements in applying accounting policies — continued

1.1. Classification of financial assets

The Group's critical judgements on determining the classification of financial assets include business model and analysis of contractual cash flow characteristics. The Group's assessment of the business model is performed on a financial assets portfolio basis, taking into consideration of how to generate cash flows of the assets in the past, how the performance of the financial assets are evaluated and reported to the Group's key management personnel, how the risks are evaluated and managed, and how managers of the business are compensated. The Group's critical judgements on whether the cash flows are solely payments of principal and interest on the principal amount outstanding include whether principal amount may change over the life of the financial assets (for example, if there are repayments of principal) and whether interest only consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

1.2. Impairment of financial assets

Significant increase of credit risk and determination of credit impairment: As explained in Note III.9, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition; and it comes to stage 3 when it is credit impaired (other than purchased or original credit-impaired assets). IFRS 9 does not define what constitutes a significant increase in credit risk or credit impairment. In assessing whether the credit risk of an asset has significantly increased or an asset became credit impaired, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note III.9.2 and Note V.62.1 for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note V.62.1 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

1. Critical judgements in applying accounting policies — continued

1.2. Impairment of financial assets — continued

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event. For credit-impaired financial assets, the Group evaluate the future cash flow (including the recoverable value of the collateral held), mainly based on individual financial instruments, in different circumstances and accrue the differences between the present value and the book value determined at the original effective interest rate as impairment loss or gain in profit or loss. See Note V.62.1 for more details on ECL.

1.3. Transfer of financial assets

Whether the derecognition should be applied to part of a financial asset or the financial asset in its entirety, as well as whether, and to what extent, derecognition is appropriate requires significant judgement. In making this judgement, the Group evaluates whether it has transferred the right to collect the contractual cash flows, retained substantially all the risks and rewards of the transferred assets, or retained control of the transferred assets.

1.4. Control on structured entities

The Group's management needs to assess whether the Group has all the following: (a) power over the structured entity, (b) exposure to significant variable returns from its involvement with the structured entity, and (c) the ability to use its power over the structured entity to affect its returns. If such power, exposure and ability exist, the Group has to consolidate such structured entity. When the Group served as manager or trustee of the structured entity, the Group uses the following judgement to determine whether control exists in a structured entity: the scope of decision-making as a manager or trustee, the power held by other parties, the remuneration and the exposure to variability of returns. The Group reassesses whether or not it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in Note III.3. The judgement the Group used in determining whether or not it has control over the structured entities are detailed in Note V.32.

1.5. Judgement on joint control

The joint control over the investees is determined by the Group's assessment of the existence of sharing of control. The assessment involves judgement on whether decisions about the relevant activities require the unanimous consent of the parties sharing control.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

1. Critical judgements in applying accounting policies — continued

1.6. Judgement on significant influence

The significant influence over the investees is determined by the Group's assessment of its power to participate in the investees' financial and operating policy decisions. The assessment involves significant judgement based on factors such as the investees' policy-making process, composition of board of directors or other governing body, change in ownership and existence of contractual arrangements.

2. Key sources of estimation uncertainty

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

2.1. Impairment of financial assets

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. More details of forward looking information are set out in Note V.62.1.(iii).

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

Loss Given Default (the "LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. More details of PD and LGD are set out in Note V.62.1.(iv).

Exposure At Default (the "EAD"): EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

2. Key sources of estimation uncertainty — continued

2.2. Fair value of financial instruments

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. As at 31 December 2020, the fair value of Level 3 financial assets that are measured at fair value on a recurring basis amounted to RMB334,484 million (31 December 2019: RMB385,845 million). Details of Level 3 fair value measurements are set out in note V.63.1.

2.3. Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

2.4. Recognition and allocation of properties under development

The construction cost is accumulated in properties under development during the construction period and recognised as purchases and changes in inventories in the statement of profit or loss when they are sold. The construction cost is estimated by the management of the Group in accordance with budget and the progress of development. The cost directly related to development in the current period is accumulated in properties under development and the common cost among construction periods is allocated among each period on the basis of saleable area.

2.5. Impairment of goodwill

Goodwill is tested for impairment annually or more frequently. This requires an estimate of the present value of future cash flows for the asset group or portfolio of assets allocated to goodwill. When estimating the present value of future cash flows, the Group needs to anticipate future cash flows from the asset group or portfolio of assets, and select the appropriate discount rate.

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

2. Key sources of estimation uncertainty — continued

2.6. Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. By considering all relevant factors that create an economic incentive, the Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew or to terminate.

2.7. Leases — Estimating the incremental borrowing rate

The Group uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates to reflect the terms and conditions of the lease.

V. EXPLANATORY NOTES

1. Segment information

Information relating to business lines is reported to the Board of Directors of the Company and its relevant management committees, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

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

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

Distressed asset management operations

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

Financial services operations

The Group's financial services segment comprises relevant business of the Group, including the provision of financial services in sectors such as banking, securities and futures, finance lease and consumer finance. These operations are mainly carried out by the subsidiaries of the Company.

Asset management and investment operations

The asset management and investment segment comprises relevant business operated by the Company and certain of its subsidiaries, mainly including trust, private equity fund, financial investment, international business and other business.

No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

Revenue and assets of the Group are generated primarily from operating units located in Mainland China and Hong Kong. There is no significant customer concentration of the Group's business with no customer contributing more than 10% of the Group's revenue.

Segment income, expenses, gains, losses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

V. EXPLANATORY NOTES — continued

1. Segment information — continued

Year ended 31 December 2020	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets	34,121,397	—	—	—	34,121,397
Fair value changes on distressed debt assets	4,317,012	—	—	—	4,317,012
Fair value changes on other financial assets and liabilities	9,917,837	360,592	(22,798,423)	—	(12,519,994)
Interest income	7,546,818	26,642,483	7,417,181	(4,017,366)	37,589,116
Finance lease income	—	3,475,699	60,163	—	3,535,862
Gains from derecognition of financial assets measured at amortised cost	29,021	154,811	682,540	—	866,372
Gains/(losses) from derecognition of debt instruments at fair value through other comprehensive income	59,583	173,767	(78,581)	—	154,769
Commission and fee income	209,309	1,444,067	579,679	(118,468)	2,114,587
Net gains on disposals or deemed disposal of subsidiaries, associates and joint ventures	87,213	—	681,868	—	769,081
Dividend income	1,004,524	10,915	1,580,176	(1,402,487)	1,193,128
Other income and other net gains or losses	3,077,083	1,025,862	375,423	(112,201)	4,366,167
Total	60,369,797	33,288,196	(11,499,974)	(5,650,522)	76,507,497
Interest expenses	(31,503,806)	(14,944,276)	(11,973,692)	3,553,576	(54,868,198)
Commission and fee expenses	(283,529)	(2,092,518)	(78,858)	83,446	(2,371,459)
Operating expenses	(6,492,407)	(4,768,639)	(1,643,463)	4,460	(12,900,049)
Impairment losses under expected credit loss model	(35,930,678)	(11,343,760)	(50,405,191)	—	(97,679,629)
Impairment losses on other assets	(3,794,915)	(371,793)	(5,909,065)	—	(10,075,773)
Total	(78,005,335)	(33,520,986)	(70,010,269)	3,641,482	(177,895,108)
Change in net assets attributable to other holders of consolidated structured entities	(1,907,975)	(2,206,375)	3,613,835	—	(500,515)
Share of results of associates and joint ventures	(840,304)	—	(6,142)	—	(846,446)
Loss before tax	(20,383,817)	(2,439,165)	(77,902,550)	(2,009,040)	(102,734,572)
Income tax expense					(3,539,692)
Loss for the year					(106,274,264)
Capital expenditure	85,868	1,327,075	35,751	—	1,448,694
Depreciation and amortisation	543,958	1,205,557	356,938	(12,759)	2,093,694
As at 31 December 2020					
Segment assets	837,605,232	611,064,450	276,060,848	(97,687,344)	1,627,043,186
Including: Interests in associates and joint ventures	1,846,871	—	12,511,082	—	14,357,953
Deferred tax assets					14,423,850
Total assets					1,641,467,036
Segment liabilities	807,801,030	561,312,933	300,689,134	(94,285,593)	1,575,517,504
Deferred tax liabilities					408,771
Tax payable					1,283,897
Total liabilities					1,577,210,172

V. EXPLANATORY NOTES — continued

1. Segment information — continued

Year ended 31 December 2019	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets	35,067,829	—	—	—	35,067,829
Fair value changes on distressed debt assets	9,963,734	—	—	—	9,963,734
Fair value changes on other financial assets and liabilities	10,557,131	2,213,335	(1,014,567)	(28,654)	11,727,245
Interest income	9,204,874	23,029,582	10,011,049	(3,715,505)	38,530,000
Finance lease income	—	5,826,999	84,551	—	5,911,550
Gains/(losses) from derecognition of financial assets measured at amortised cost	12,250	126,882	(34,404)	—	104,728
(Losses)/gains from derecognition of debt instruments at fair value through other comprehensive income	(112,750)	3,333	99,578	—	(9,839)
Commission and fee income	472,317	1,434,613	789,318	(100,462)	2,595,786
Net (losses)/gains on disposals or deemed disposal of subsidiaries, associates and joint ventures	(27,281)	130	1,468,348	—	1,441,197
Dividend income	1,282,873	40,675	1,327,300	(831,868)	1,818,980
Other income and other net gains or losses	3,369,795	899,972	1,580,319	(344,787)	5,505,299
Total	69,790,772	33,575,521	14,311,492	(5,021,276)	112,656,509
Interest expenses	(34,871,434)	(14,889,700)	(14,257,490)	3,761,895	(60,256,729)
Commission and fee expenses	(215,638)	(1,874,614)	(171,516)	54,050	(2,207,718)
Operating expenses	(6,687,309)	(4,744,032)	(1,977,566)	270,109	(13,138,798)
Impairment losses under expected credit loss model	(7,387,419)	(6,374,699)	(11,263,253)	59,157	(24,966,214)
Impairment losses on other assets	102,396	(90,831)	(1,509,538)	—	(1,497,973)
Total	(49,059,404)	(27,973,876)	(29,179,363)	4,145,211	(102,067,432)
Change in net assets attributable to other holders of consolidated structured entities	(1,880,168)	140,841	1,108,032	—	(631,295)
Share of results of associates and joint ventures	739,629	—	272,676	—	1,012,305
Profit before tax	19,590,829	5,742,486	(13,487,163)	(876,065)	10,970,087
Income tax expense					(8,700,835)
Profit for the year					2,269,252
Capital expenditure	485,336	3,043,722	542,274	—	4,071,332
Depreciation and amortisation	1,248,616	1,081,476	128,298	(277,678)	2,180,712
As at 31 December 2019					
Segment assets	852,849,750	573,775,805	347,989,092	(81,796,038)	1,692,818,609
Including: Interests in associates and joint ventures	6,397,421	—	21,681,503	—	28,078,924
Deferred tax assets					12,193,797
Total assets					1,705,012,406
Segment liabilities	746,955,403	522,828,557	342,632,616	(74,246,620)	1,538,169,956
Deferred tax liabilities					478,546
Tax payable					2,887,422
Total liabilities					1,541,535,924

2. Income from distressed debt assets

The amount represents interest income arising from distressed debt assets classified as debt instruments at FVOCI and debt instruments at amortised cost, which include loans acquired from financial institutions and other debt assets acquired from non-financial institutions (see Notes V.27 and V.30).

3. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets measured at FVTPL during the year (see Note V.22).

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

4. Fair value changes on other financial assets and liabilities

	Year ended 31 December	
	2020	2019
Trust products	**(4,799,848)**	638,176
Listed and unlisted shares and funds	**(4,271,238)**	7,659,897
Debt instruments	**(3,427,969)**	1,097,751
Derivatives and structured products	**(1,690,407)**	677,553
Wealth management products	**703,223**	809,704
Other investments and financial liabilities	**966,245**	844,164
Total	**(12,519,994)**	11,727,245

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

5. Interest income

	Year ended 31 December	
	2020	2019
Debt instruments at amortised cost other than distressed debt assets	**13,132,445**	16,816,771
Debt instruments at FVOCI other than distressed debt assets	**1,891,819**	2,523,282
Loans and advances to customers		
Corporate loans and advances and Discounted bills	**8,764,302**	7,352,320
Personal loans and advances	**6,384,756**	6,396,394
Loans to margin clients	**338,921**	872,368
Receivables arising from sales and leaseback arrangements	**3,500,620**	1,269,301
Deposits with financial institutions	**2,292,455**	1,638,124
Financial assets held under resale agreements	**571,758**	1,006,958
Placements with financial institutions	**388,446**	238,722
Balances with central bank	**323,594**	415,760
Total	**37,589,116**	38,530,000

6. Commission and fee income

	Year ended 31 December	
	2020	2019
Securities and futures brokerage business	**897,222**	942,392
Banking and consumer finance business	**624,876**	493,193
Trust business	**338,286**	514,592
Asset management business	**241,008**	612,429
Fund management business	**13,195**	33,180
Total	**2,114,587**	2,595,786

(1) Disaggregation of revenue

	Year ended 31 December	
	2020	2019
By geographical markets		
Mainland China	**2,080,524**	2,422,880
Hong Kong	**34,063**	172,906
Total	**2,114,587**	2,595,786

6. Commission and fee income — continued

(1) Disaggregation of revenue — continued

	Year ended 31 December	
	2020	2019
Timing of revenue recognition		
A point in time	**1,522,098**	1,435,585
Over time	**592,489**	1,160,201
Total	**2,114,587**	2,595,786

(2) Performance obligations for contracts with customers

(a) Asset management business, including trust business and fund management business

The Group acts as trustee, manager or general partners to provide asset management services to special purpose entities including trusts, asset management plans and private equity funds.

The Group is titled fixed and variable considerations for its provision of asset management services. The Group deducts and collects fixed considerations from funds under management regularly over the service period and recognised the revenue over time. For certain asset management service contracts, the Group is entitled additional revenue according to investment performance, and the relevant revenue is recognised when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) Securities and futures business

Apart from asset management services, the Group also provides securities and futures transaction dealing, and securities underwriting services.

The Group's securities and futures transaction dealing services represent clients to perform clearing and settlements of securities, futures and funds according to clients' instructions. The Group collects transaction price as a certain percentage of transaction prices when the instructed transaction is cleared. The Group recognises revenue at a point when the services are completed.

The Group provides underwriting services in respect of equity or debt instruments issued by customers. Transaction price is collected as a certain percentage of funds raised when the securities are successfully issued. The relevant revenue is recognised at one point when the services are completed. Progress payments received by the Group before the issue of the securities are recognised as contract liabilities.

6. Commission and fee income — continued

(2) Performance obligations for contracts with customers — continued

(c) Banking and consumer finance business

Banking and consumer finance business of the Group mainly includes financial product distribution, fiduciary, settlement and clearing services.

The Group distributes financial products for other financial institutions. Performance obligation is satisfied when customers enter into contracts with the relevant financial institutions. The Group retains commissions from these financial institutions usually on monthly or quarterly basis.

The Group provides fiduciary, settlement and clearing services to its customers and performance obligations are satisfied at a point when the services are completed. The Group retains relevant fees from its customers on transaction basis.

(3) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and 2019 the expected timing of recognising revenue are as follows:

	Year ended 31 December 2020	
	Asset management business	**Trust business**
Within one year	**397**	**105,950**
More than one year but not more than two years	**65**	**46,786**
More than two years	**—**	**165,678**
Total	**462**	**318,414**

	Year ended 31 December 2019	
	Asset management business	Trust business
Within one year	11,487	129,791
More than one year but not more than two years	2,910	55,901
More than two years	300	123,440
Total	14,697	309,132

6. Commission and fee income — continued

(3) Transaction price allocated to the remaining performance obligation for contracts with customers — continued

These amounts disclosed above do not include transaction price allocated to performance obligations which is part of a contract that has an original expected duration of one year or less. It also does not include any estimates in variable considerations that the Group will recognise in the future.

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

The Group provides asset management services (excluding trust and fund management) in "Distressed asset management" and "Asset management and investment" segments. The revenue from trust is recorded in "Asset management and investment" segment. For securities and futures brokerage, banking and consumer finance and fund management, they are recorded in "Financial services" segment as disclosed in Note V.1.

7. Dividend income

	Year ended 31 December	
	2020	2019
Financial assets at FVTPL	**1,032,840**	1,655,012
Equity instruments at FVOCI	**160,288**	163,968
Total	**1,193,128**	1,818,980

8. Other income and other net gains or losses

	Year ended 31 December	
	2020	2019
Revenue from properties development[(1)]	**2,396,641**	2,394,840
Income arising from operating leases	**1,081,143**	879,612
Government grants[(2)]	**172,886**	168,537
Revenue from futures and spot trading	**103,771**	88,679
Revenue from hotel operation	**76,156**	333,075
Net gains on exchange differences	**15,884**	248,661
Net gains on pending disposals of assets	**7,038**	84,771
Penalty income	**2,213**	162,990
Revenue from construction services	**—**	566,987
Others	**510,435**	577,147
Total	**4,366,167**	5,505,299

8. Other income and other net gains or losses — continued

(1) Revenue from properties development

The Group entered into contracts with customers to sell properties. According to contract terms, in conjunction with external legal factors, the Group is of the view that it does not have enforceable right to payment from customers for performance completed to date. Therefore, the relevant revenue is recognised at one point when properties are transferred.

Customers have to pay first down payments to the Group according to a certain percentage of transaction prices when they entered into sales and purchases agreements. In additional, the Group collects partial transaction prices in advance from customers for certain properties under progress sold. The Group recognises cumulative amounts received for purchases of properties as contract liabilities initially, and recognises them as revenue from contract liabilities, when customers obtain control over these properties.

Revenue from properties development is recorded in "Distressed asset management" segment and "Asset management and investment" segment as disclosed in Note V.1.

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

9. Interest expenses

Interest expenses mainly arise from the distressed asset management, banking and financial leasing business of the Group.

	Year ended 31 December	
	2020	2019
Borrowings	**(33,489,371)**	(39,199,396)
Bonds and notes issued	**(13,959,360)**	(14,591,771)
Due to customers	**(5,957,579)**	(5,001,475)
Financial assets sold under repurchase agreements	**(458,712)**	(672,450)
Borrowings from central bank	**(299,917)**	(52,255)
Deposits from financial institutions	**(233,588)**	(257,317)
Lease liabilities	**(64,511)**	(54,056)
Placements from financial institutions	**(57,001)**	(57,852)
Other liabilities	**(348,159)**	(370,157)
Total	**(54,868,198)**	(60,256,729)

10. Commission and fee expenses

	Year ended 31 December	
	2020	2019
Banking and consumer finance business	**(1,790,684)**	(1,469,939)
Securities and futures brokerage business	**(322,909)**	(419,809)
Asset management business	**(255,701)**	(313,740)
Fund management and other business	**(2,165)**	(4,230)
Total	**(2,371,459)**	(2,207,718)

11. Operating expenses

	Year ended 31 December	
	2020	2019
Employee benefits[(1)]	**(4,728,870)**	(5,089,709)
Turnover tax and surcharges	**(652,879)**	(641,291)
Others	**(7,518,300)**	(7,407,798)
Including:		
Cost of properties development and sales	**(1,508,983)**	(1,441,872)
Depreciation of property and equipment	**(969,763)**	(965,894)
Depreciation of right-of-use assets	**(703,387)**	(688,679)
Amortisation	**(240,835)**	(346,712)
Rental for short-term leases	**(240,226)**	(349,639)
Depreciation of investment properties	**(179,709)**	(179,427)
Management fee for leases	**(132,403)**	(160,867)
Auditors' remuneration	**(34,586)**	(31,694)
Total	**(12,900,049)**	(13,138,798)

(1) Employee benefits

	Year ended 31 December	
	2020	2019
Wages or salaries, bonuses, allowances and subsidies	**(3,143,114)**	(3,349,926)
Defined contribution plans[(i)]	**(433,186)**	(547,279)
Staff welfare	**(320,081)**	(321,426)
Housing funds	**(271,574)**	(269,239)
Social insurance	**(165,638)**	(292,578)
Labour union and staff education expenses	**(133,206)**	(154,509)
Early retirement benefits	**(53,624)**	(35,962)
Others	**(208,447)**	(118,790)
Total	**(4,728,870)**	(5,089,709)

(i) Defined contribution plans include pension scheme, unemployment insurance and corporate annuity scheme set up by the Company and certain other group entities.

V. EXPLANATORY NOTES — continued

12. Impairment losses under expected credit loss model

	Year ended 31 December	
	2020	2019
Debt instruments at amortised cost (Note V.62.1)	**(74,471,547)**	(17,038,872)
Financial assets held under resale agreements	**(4,927,121)**	(1,014,467)
Debt instrument at FVOCI (Note V.62.1)	**(7,094,140)**	(1,748,502)
Loans and advances to customers (Note V.62.1)	**(4,362,194)**	(4,399,038)
Financial lease receivables (Note V.62.1)	**(689,245)**	(501,849)
Credit enhancement and commitments (Note V.50)	**(3,788,092)**	(56,838)
Others	**(2,347,290)**	(206,648)
Total	**(97,679,629)**	(24,966,214)

13. Impairment losses on other assets

	Year ended 31 December	
	2020	2019
Interests in associates and joint ventures (Note V.31)	**(5,781,801)**	(1,132,912)
Inventories (Note V.29)	**(1,585,686)**	—
Investment properties (Note V.34)	**(1,377,925)**	—
Goodwill (Note V.38)	**(546,871)**	(250,775)
Foreclosed assets	**(357,661)**	(66,711)
Right-of-use assets (Note V.36)	**(252,859)**	—
Property and equipment (Note V.35)	**(145,907)**	(45,249)
Others	**(27,063)**	(2,326)
Total	**(10,075,773)**	(1,497,973)

14. Income tax expense

	Year ended 31 December	
	2020	2019
Current income tax		
PRC enterprise income tax	**(5,313,610)**	(6,279,542)
PRC land appreciation tax (“LAT”)	**(107,481)**	—
Hong Kong and Macau profits tax	**(77,594)**	(350,096)
Over/(under)-provision in prior years	**73,319**	(26,661)
Deferred income tax (Note V.37)	**1,885,674**	(2,044,536)
Total	**(3,539,692)**	(8,700,835)

14. Income tax expense — continued

The statutory income tax rate applicable to PRC enterprises was 25% for the year of 2020 (2019: 25%).

The preferential income tax rate applicable to PRC enterprises within the scope of the western development area was 15% for the year of 2020 (2019: 15%).

The preferential income tax rate applicable to PRC high-tech enterprises was 15% for the year of 2020 (2019: 15%).

Macau profits tax rate applicable to enterprises within Macau was 12% for the year of 2020 (2019: 12%).

On 21 March 2018, *The Inland Revenue (Amendment) (No. 7) Bill 2017* which introduces the two-tiered profits tax rates regime was passed by the Hong Kong Legislative Council.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

Reconciliation of consolidated (loss)/profit before tax to income tax expense is as follows:

	Year ended 31 December	
	2020	2019
(Loss)/profit before tax	**(102,734,572)**	10,970,087
Income tax calculated at the tax rate of 25%	**25,683,643**	(2,742,522)
LAT	**(107,481)**	—
Tax effect of LAT	**26,870**	—
Tax effect of income not taxable for tax purpose	**425,781**	555,825
Tax effect of expenses not deductible for tax purpose	**(1,033,750)**	(724,363)
Tax effect of different tax rate of subsidiaries	**(385,792)**	180,352
Over/(under)-provisions in prior years	**73,319**	(26,661)
Effect of unused tax losses and deductible temporary differences not recognised as deferred tax assets	**(28,263,992)**	(6,083,905)
Utilisation of deductible temporary differences previously not recognised	**41,710**	140,439
Income tax expense	**(3,539,692)**	(8,700,835)

15. (Loss)/earnings per share

The calculation of (loss)/earnings per share attributable to equity shareholders of the Company is as follows:

	Year ended 31 December	
	2020	2019
(Loss)/earnings:		
(Loss)/profit attributable to equity holders of the Company	**(102,902,991)**	1,424,432
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**39,070,208**	39,070,208
Basic (loss)/earnings per share (RMB Yuan)	**(2.63)**	0.04
Diluted (loss)/earnings per share (RMB Yuan)	**(2.63)**	0.04

16. Dividends

	Year ended 31 December	
	2020	2019
Dividends for ordinary shareholders of the company recognised as distribution during the year:		
Final dividend for 2019[1]	**429,772**	—
Final dividend for 2018	**—**	472,750

(1) Distribution of final dividend for 2019

On 30 June 2020, the Company declared a cash dividend in respect of the year ended 31 December 2019 of RMB0.11 Yuan per 10 shares (tax inclusive), in an aggregate amount of RMB430 million.

17. Emoluments of directors and supervisors

	Year ended 31 December 2020				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
WANG Zhanfeng[1]	—	**455**	**248**	**28**	**731**
LI Xin[2]	—	**415**	**227**	**25**	**667**
WANG Wenjie[3]	—	**422**	**223**	**29**	**674**
Non-executive directors					
WANG Cong[4][5]	—	—	—	—	—
DAI Lijia[4][6]	—	—	—	—	—
ZHAO Jiangping[4][7]	—	—	—	—	—
ZHENG Jiangping[4][8]	—	—	—	—	—
XU Nuo[4][9]	—	—	—	—	—
ZHOU Langlang[4]	—	—	—	—	—
Independent non-executive directors					
TSE Hau Yin	**250**	—	—	—	**250**
LIU Junmin[10]	**208**	—	—	—	**208**
SHAO Jingchun	**250**	—	—	—	**250**
ZHU Ning[12]	**250**	—	—	—	**250**
CHEN Yuanling[13]	**63**	—	—	—	**63**
Supervisors					
HU Jianzhong[15]	—	**455**	**248**	**29**	**732**
DONG Juan[16]	—	—	—	—	—
XU Li[17]	**100**	—	—	—	**100**
CHENG Fengchao[18]	**100**	—	—	—	**100**
HAN Xiangrong[19]	**100**	—	—	—	**100**
ZHENG Shengqin	**20**	—	—	—	**20**
CHEN Jin[20]	**10**	—	—	—	**10**
SUN Hongbo[21]	**10**	—	—	—	**10**
Total	**1,361**	**1,747**	**946**	**111**	**4,165**

17. Emoluments of directors and supervisors — continued

	Year ended 31 December 2019				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
WANG Zhanfeng(1)	—	469	294	16	779
LI Xin(2)	—	469	295	16	780
Non-executive directors					
WANG Cong(4)(5)	—	—	—	—	—
DAI Lijia(4)(6)	—	—	—	—	—
LI Yi(4)	—	—	—	—	—
ZHOU Langlang(4)	—	—	—	—	—
Independent non-executive directors					
TSE Hau Yin	250	—	—	—	250
LIU Junmin(10)	250	—	—	—	250
SHAO Jingchun	250	—	—	—	250
SONG Fengming(11)	63	—	—	—	63
ZHU Ning(12)	208	—	—	—	208
Supervisors					
MA Zhongfu(14)	—	392	229	13	634
DONG Juan(16)	—	—	—	—	—
XU Li(17)	200	—	—	—	200
ZHENG Shengqin	20	—	—	—	20
CHEN Jin(20)	20	—	—	—	20
Total	1,261	1,330	818	45	3,454

(1) WANG Zhanfeng was appointed Executive Director and Chairman in September 2018.

(2) LI Xin resigned in November 2020.

(3) WANG Wenjie was appointed Executive Director and Vice President in December 2020.

(4) The above-mentioned non-executive directors have not received any remuneration from the Group in this year.

(5) WANG Cong resigned in February 2020.

(6) DAI Lijia resigned in February 2020.

(7) ZHAO Jiangping was appointed as an non-executive director in June 2020.

(8) ZHENG Jiangping was appointed as an non-executive director in June 2020.

(9) XU Nuo was appointed as an non-executive director in December 2020.

(10) LIU Junmin resigned in October 2020.

17. Emoluments of directors and supervisors — continued

(11) SONG Fengming rendered his resignation as an independent non-executive director in September 2018, and his resignation was approved by CBIRC and became effective in March 2019.

(12) ZHU Ning was appointed as an independent non-executive director in March 2019.

(13) CHEN Yuanling was appointed as an independent non-executive director in October 2020.

(14) MA Zhongfu resigned in October 2019.

(15) HU Jianzhong was appointed as Chief Supervisor Since March 2020.

(16) DONG Juan resigned in June 2020. In accordance with the regulations of the relevant state departments and upon her own application, DONG Juan waived all remuneration from the Group in 2020 and 2019.

(17) XU Li resigned in June 2020.

(18) CHENG Fengchao was appointed as an external supervisor in June 2020.

(19) HAN Xiangrong was appointed as an external supervisor in June 2020.

(20) CHEN Jin resigned in June 2020.

(21) SUN Hongbo was appointed as an employee supervisor in June 2020.

The executive directors and supervisors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company and/or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as the directors of the Company.

The total compensation packages for these directors and supervisors for the year ended 31 December 2020 have not been approved by the general meeting, or finalised in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed in a separate announcement when determined.

During the year, no emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as set out in Note V.18 below as an inducement to join or upon joining the Group or as a compensation for loss of office. Bonus was determined based on the performance of individuals by the Group on a discretionary basis.

18. Five highest paid individuals

The emoluments of the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2020 and 2019 were as follows:

	Year ended 31 December	
	2020	2019
Salaries and other benefits	**3,321**	3,429
Employer's contribution to pension scheme	**792**	354
Discretionary and performance related incentive payments	**8,049**	10,920
Total	**12,162**	14,703

18. Five highest paid individuals — continued

Among the five individuals with the highest emoluments in the Group, none of them was a director nor supervisor during the years of 2020 and 2019. The number of these five individuals whose emoluments fall within the following bands is as follows:

	Year ended 31 December	
	2020	2019
HKD2,500,001 to HKD3,000,000	**3**	1
HKD3,000,001 to HKD3,500,000	**2**	3
HKD3,500,001 to HKD4,000,000	**—**	1
	5	5

19. Cash and balances with central bank

	As at 31 December	
	2020	2019
Cash	**480,745**	447,889
Mandatory reserve deposits with central bank(1)	**18,408,034**	21,501,726
Surplus reserve deposits with central bank(2)	**3,700,102**	8,646,863
Other deposits with central bank	**219,481**	178,212
Total	**22,808,362**	30,774,690

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

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

As at 31 December 2020, the RMB and foreign currency mandatory reserve deposits placed with the PBOC were mainly based on 7.00% (31 December 2019: 9.50%) and 5.00% (31 December 2019: 5.00%) of eligible RMB and foreign currency deposits of Huarong Xiangjiang Bank Corporation Limited ("Huarong Xiangjiang Bank"), a subsidiary of the Company. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

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

20. Deposits with financial institutions

	As at 31 December	
	2020	2019
Banks[(1)]	**115,363,730**	146,675,291
Clearing settlement funds[(2)]	**6,909,093**	2,187,231
Other financial institutions	**1,627,524**	606,247
Subtotal	**123,900,347**	149,468,769
Less: Allowance for ECL[(3)]	**(25,316)**	(6,805)
Total	**123,875,031**	149,461,964

(1) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at 31 December 2020, the bank balances and clearing settlement funds held on behalf of customers by the Group amounted to RMB8,578 million (31 December 2019: RMB5,181 million). The Group has recognised the corresponding amount in accounts payable to brokerage clients and margin deposit received from securities customers (see Note V.50).

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

(3) As at 31 December 2020 and 2019, the Group's deposits with financial institutions were all in Stage I.

21. Placements with financial institutions

(1) Analysed by type of counterparty

	As at 31 December	
	2020	2019
Banks	**3,039,447**	2,709,937
Other financial institutions	**2,701,357**	—
Total	**5,740,804**	2,709,937

(2) Analysed by geographical sectors

	As at 31 December	
	2020	2019
Mainland China	**5,740,804**	2,709,937
Total	**5,740,804**	2,709,937

22. Financial assets and financial liabilities at FVTPL

	As at 31 December	
	2020	2019
Distressed debt assets	**189,056,713**	173,071,741
Equity instruments		
— Listed	**41,392,720**	26,892,473
— Unlisted	**22,128,096**	33,552,989
Funds	**38,657,037**	48,251,590
Debt securities		
— Corporate bonds	**12,665,880**	8,114,738
— Financial institution bonds	**948,542**	586,935
— Government bonds	**586,790**	1,760,109
— Public sector and quasi-government bonds	**90,274**	1,966,136
Trust products	**11,733,711**	27,920,759
Asset management plans	**10,216,345**	6,790,890
Wealth management products[1]	**10,023,565**	14,690,357
Derivatives and structured products[2]	**6,545,926**	8,466,928
Negotiable certificates of deposit	**4,333,885**	2,131,873
Convertible bonds	**3,236,153**	9,686,578
Entrusted loans	**2,381,390**	597,056
Asset-backed securities	**299,546**	39,241
Other debt assets	**5,143,414**	3,149,511
Total	**359,439,987**	367,669,904

	As at 31 December	
	2020	2019
Financial liabilities mandatorily measured at FVTPL		
Derivatives financial instruments[3]	**656,826**	219,378
Financial liabilities designated as at FVTPL		
Interest of other holders of consolidated structured entities[4]	**2,644,701**	3,004,475
Total	**3,301,527**	3,223,853

22. Financial assets and financial liabilities at FVTPL — continued

(1) This mainly represents wealth management products issued by banking institutions outside the Group.

(2) The Group entered into a series of structured transactions that were managed on the fair value basis. Such structured products were accounted for as financial assets mandatorily measured at FVTPL for the years ended 31 December 2020 and 2019 according to their investment management strategy or the contractual cash flows were not solely payments of principal and interest.

As at 31 December 2020, included in structured products were credit linked notes of RMB2,681 million (31 December 2019: RMB2,274 million). Credit linked notes are debt instruments but their returns can be adversely impacted by credit-related performance of reference assets.

The Group entered into a number of total return swap arrangements under which the Group pays counterparties a reference interest rate and receives from counterparties total returns of reference assets. The Group therefore is exposed to default risks of the reference assets. As at 31 December 2020, the fair value and nominal value of these total return swaps amounted to RMB1,589 million (31 December 2019: RMB739 million) and RMB1,450 million (31 December 2019: RMB1,653 million), respectively.

(3) The Group entered into a series of interest rate swap and cross-currency swap contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency denominated bonds and notes issued. The terms of the derivative contracts have been negotiated to match the terms of the respective designated hedged items and therefore the hedge is considered highly effective. As at 31 December 2020, the fair value of these hedging instruments amounted to RMB591 million (31 December 2019: RMB219 million and the instruments were included in structured products classified as financial assets at FVTPL).

(4) In respect of these liabilities designated at FVTPL, the Group is required at maturities to pay amounts according to other investors' share in the underlying assets of the special structure entities consolidated. The amount ultimately paid by the Group depends on the fair values of these assets at maturities and may be different from the carrying amounts as at 31 December 2020.

23. Financial assets held under resale agreements

	As at 31 December	
	2020	2019
By collateral type:		
Securities	**21,780,134**	23,654,458
Bills	**—**	290,357
Others	**—**	209,510
Subtotal	**21,780,134**	24,154,325
Less: Allowance for ECL		
— 12-month ECL	**—**	(3,500)
— Lifetime ECL	**(6,555,511)**	(1,624,890)
Subtotal	**(6,555,511)**	(1,628,390)
Net financial assets held under resale agreements	**15,224,623**	22,525,935

23. Financial assets held under resale agreements — continued

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

As at 31 December 2020, the Group received pledged securities with a fair value of approximately RMB14,676 million (31 December 2019: RMB23,806 million). As at 31 December 2020, none of them could be resold or repledged by the Group in the absence of default by their owners (31 December 2019: RMB290 million). For the years ended 31 December 2020 and 2019, the Group did not repledge the securities. The Group has an obligation to return the pledged securities to their counterparties on the maturity dates of the resale agreements.

24. Contract assets

	As at 31 December	
	2020	2019
Construction contracts	**5,306,994**	—

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. Contract assets relate to revenue earned from ongoing construction services. As such, the balances of this account vary and depend on the progress of ongoing construction services at the end of the year.

25. Loans and advances to customers

	As at 31 December	
	2020	2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	**124,036,751**	116,712,715
Personal loans and advances		
— Personal consumption loans	**35,059,313**	31,028,230
— Mortgages	**31,664,886**	24,430,038
— Loans for business operations	**28,671,044**	18,504,210
— Others	**2,480,609**	2,546,254
Subtotal	**97,875,852**	76,508,732
Loans to margin clients	**4,091,343**	6,142,737
Gross loans and advances to customers measured at amortised cost	**226,003,946**	199,364,184
Less: Allowance for ECL		
— 12-month ECL	**(2,012,940)**	(1,941,342)
— Lifetime ECL	**(5,653,222)**	(4,912,474)
Subtotal	**(7,666,162)**	(6,853,816)
Net loans and advances to customers measured at amortised cost	**218,337,784**	192,510,368
Loans and advances measured at fair value through other comprehensive income		
— Discounted bills	**14,162,395**	18,754,716
Net loans and advances to customers	**232,500,179**	211,265,084

The movements of expected credit loss on loans and advances during the years ended 31 December 2020 and 2019 are detailed in Note V.62.1.

26. Finance lease receivables

	As at 31 December	
	2020	2019
Minimum finance lease receivables:		
Within 1 year (inclusive)	**21,520,563**	22,314,907
1 year to 2 years (inclusive)	**12,370,880**	25,337,404
2 years to 3 years (inclusive)	**7,212,874**	14,675,877
3 years to 4 years (inclusive)	**2,575,909**	7,646,320
4 years to 5 years (inclusive)	**1,682,333**	3,114,288
Over 5 years	**2,803,565**	6,810,243
Gross amount of finance lease receivables	**48,166,124**	79,899,039
Less: Unearned finance income	**(5,469,726)**	(9,051,818)
Net amount of finance lease receivables	**42,696,398**	70,847,221
Less: Allowance for ECL		
— 12-month ECL	**(296,642)**	(490,499)
— Lifetime ECL	**(2,603,056)**	(2,316,426)
Subtotal	**(2,899,698)**	(2,806,925)
Carrying amount of finance lease receivables	**39,796,700**	68,040,296
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	**19,076,334**	19,791,894
1 year to 2 years (inclusive)	**10,983,523**	22,461,386
2 years to 3 years (inclusive)	**6,386,832**	13,023,473
3 years to 4 years (inclusive)	**2,279,471**	6,776,369
4 years to 5 years (inclusive)	**1,489,028**	2,759,562
Over 5 years	**2,481,210**	6,034,537
Total	**42,696,398**	70,847,221

The movements of expected credit loss on finance lease receivables during the years ended 31 December 2020 and 2019 are detailed in Note V.62.1.

27. Debt instruments at FVOCI

	As at 31 December	
	2020	2019
Distressed debt assets	**36,654,337**	64,573,237
Debt securities		
— Corporate bonds	**23,285,767**	20,923,922
— Government bonds	**6,782,962**	455,034
— Financial institution bonds	**5,434,226**	890,329
— Public sector and quasi-government bonds	**2,084,872**	5,047,069
Asset management plans	**3,022,351**	3,874,250
Entrusted loans(1)	**2,758,435**	4,283,029
Debt instruments	**2,213,452**	1,878,915
Asset-backed securities	**592,838**	555,033
Trust products	**277,608**	1,258,522
Total	**83,106,848**	103,739,340

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

The movements of expected credit loss on debt instruments at FVOCI during the years ended 31 December 2020 and 2019 are detailed in Note V.62.1.

28. Equity instruments at FVOCI

	As at 31 December	
	2020	2019
Listed investments	**2,258,248**	222,083
Unlisted investments	**2,235,613**	3,361,578
Total	**4,493,861**	3,583,661

(1) The above listed and unlisted equity investments represent equity instruments listed in PRC or Hong Kong and equity interests in private entities established in PRC or incorporated in Hong Kong. These investments are not held for trading.

(2) In the current year, the Group disposed of certain investments at their fair value of RMB340 million as at the date of disposal as the investment no longer meets the investment objective of the Group (31 December 2019: RMB228 million). A cumulative loss on disposal of RMB214 million has been transferred to retained earnings (2019: RMB400 million). The Group received RMB160 million dividend from equity instruments at FVOCI for the year of 2020 (2019: RMB164 million).

29. Inventories

	As at 31 December	
	2020	2019
Costs		
Property development costs	**19,767,650**	16,393,413
Properties held for sale	**1,930,396**	2,144,584
Land development costs	**—**	609,384
Subtotal	**21,698,046**	19,147,381
Allowance for impairment losses(1)	**(1,585,686)**	—
Total	**20,112,360**	19,147,381

(1) Movement for allowance for impairment losses

	Year ended 31 December	
	2020	2019
Movement for allowance for impairment losses		
At beginning of the year	**—**	—
Charge for the year	**(1,585,686)**	—
At end of the year	**(1,585,686)**	—
Net book value of inventories pledged for borrowings	**280,480**	6,246,974

During the year, borrowing costs of RMB840 million (2019: RMB835 million) were capitalised in the costs of inventory.

Analysis of leasehold lands:

As at 1 January 2020	
Carrying amount	**8,191,785**
As at 31 December 2020	
Carrying amount	**10,139,475**
For the year ended 31 December 2020	
Total cash outflow	**1,325,254**
Additions	**1,329,683**

Effective from 1 January 2019, the carrying amount of leasehold lands is measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses.

30. Debt instruments at amortised cost

	As at 31 December	
	2020	2019
Distressed debt assets		
Loans acquired from financial institutions	**30,726,542**	27,334,528
Other debt assets acquired from non-financial institutions	**326,469,759**	293,838,586
Subtotal	**357,196,301**	321,173,114
Less: Allowance for ECL		
— 12-month ECL	**(3,543,736)**	(1,394,118)
— Lifetime ECL	**(37,352,999)**	(19,644,006)
Subtotal	**(40,896,735)**	(21,038,124)
Carrying amount of distressed debt assets	**316,299,566**	300,134,990
Other debt assets		
Debt instruments	**110,856,836**	73,719,964
Debt securities	**96,867,568**	83,037,861
Trust products	**74,562,640**	102,574,799
Receivables arising from sales and leaseback arrangements	**70,362,626**	41,567,595
Entrusted loans(1)	**66,186,458**	73,898,769
Asset management plans	**8,331,753**	9,199,223
Asset-backed securities	**2,782,093**	—
Others	**1,936,209**	854,069
Subtotal	**431,886,183**	384,852,280
Less: Allowance for ECL		
— 12-month ECL	**(1,343,542)**	(4,307,803)
— Lifetime ECL	**(90,793,625)**	(38,593,511)
Subtotal	**(92,137,167)**	(42,901,314)
Carrying amount of other debt assets	**339,749,016**	341,950,966
Total	**656,048,582**	642,085,956

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

30. Debt instruments at amortised cost — continued

During the year ended 31 December 2020, the Group disposed of certain financial assets measured at amortised cost, primarily because the company had to manage its credit risk.

The movements of expected credit loss on debt instruments at amortised cost during the years ended 31 December 2020 and 2019 are detailed in Note V.62.1.

31. Interests in associates and joint ventures

	As at 31 December	
	2020	2019
Interests in associates		
Cost of investments in associates	**16,402,355**	17,702,795
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**(1,067,304)**	(388,675)
Less: Allowance for impairment losses[1]	**(3,939,096)**	(2,034,673)
Subtotal	**11,395,955**	15,279,447
Interests in joint ventures		
Cost of investments in joint ventures	**6,707,579**	13,713,749
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**(276,372)**	(238,308)
Less: Allowance for impairment losses[1]	**(3,469,209)**	(675,964)
Subtotal	**2,961,998**	12,799,477
Total	**14,357,953**	28,078,924
Fair value of listed companies	**843,063**	626,600

(1) Allowance for impairment losses

	Year ended 31 December	
	2020	2019
At beginning of the year	**(2,710,637)**	(3,188,198)
Charge for the year	**(5,781,801)**	(1,132,912)
Write-off and transfer out	**1,084,134**	1,610,473
At end of the year	**(7,408,305)**	(2,710,637)

V. EXPLANATORY NOTES — continued

31. Interests in associates and joint ventures — continued

During the year, the Group received an aggregate of dividend of RMB250 million (2019: RMB1,164 million) from associates and joint ventures.

During the year, the Group ceased to have significant influences over certain associates due to the loss of representation in board of directors of these associates and partial disposal of these interests. The Group has accounted for the remaining interests in these associates as financial assets at FVTPL. The realised and deemed gains recognised on the disposals during the year amounted to RMB0.16 million (2019: RMB820 million).

The Group performed an impairment test on the interests in associates and joint ventures at the end of the reporting period and assessed recoverable amounts, being the higher of the fair value and the value in use of the related investments. Provision was made for the items with recoverable amounts being lower than the carrying amounts and the impairment losses were recognised in profit or loss. The fair value of these associates and joint ventures were mainly the unadjusted quotation in the active market.

Details of the Group's principal associates and joint ventures are as follows:

Name of entity	Place of incorporation/ establishment	Principal place of business	Carrying amount		Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities
			At 31 December		At 31 December		At 31 December		
			2020	2019	**2020**	2019	**2020**	2019	
					%	%	%	%	
Associates									
Ruikong (Holdings) Ltd.	Hong Kong, PRC	Hong Kong PRC/ Netherlands	**1,934,986**	2,088,347	**22.59**	22.59	**22.59**	22.59	Investment holding
Beijing Energy International Holding Co., Ltd. (Original name is "Panda Green Energy Group Ltd.")	Bermuda, UK	Hong Kong, PRC	**1,355,392**	1,598,258	**13.59**	19.99	**13.59**	19.99	Energy Industry
Huarong Jinshang Asset Management Co., Ltd.	Taiyuan, PRC	Mainland China	**952,474**	1,975,442	**48.88**	48.88	**48.88**	48.88	Asset Management
Joint ventures									
Sacred Heart Healthcare L.P.	Cayman Islands	Cayman Islands	**324,970**	2,680,954	**83.33**	83.33	**50.00**	50.00	Fund

V. EXPLANATORY NOTES — continued

32. Interests in consolidated structured entities

To determine whether control exists in a structured entity, the Group uses the following judgements:

(1) For a structured entity that the Group sponsors and provides financial guarantee, the Group therefore has an obligation to fund the losses beyond its investment, if any, in accordance with the guarantee agreements. The Group then concludes that its exposure to variability of returns is of such significance that the structured entity will be consolidated.

(2) For private equity funds where the Group involves as both general partner and limited partner, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The fund will be consolidated if the Group acts in the role of principal.

(3) For trust products or asset management plans where the Group involves as trustee/manager and/or as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the trust products or asset management plans that is of such significance that it indicates that the Group is a principal. The trust products or asset management plans will be consolidated if the Group acts in the role of principal.

The Group had consolidated certain structured entities during the year. They mainly include trust products, asset management plans and private equity funds.

As at 31 December 2020, interests in these consolidated structured entities held by the Group amounted to RMB82,295 million (31 December 2019: RMB82,142 million).

The financial impact of these trust products, asset management plans and private equity funds on the Group's financial position as at 31 December 2020 and 2019, and results and cash flows for the years then ended, though consolidated, are not significant individually and therefore not disclosed separately.

Interests held by other interest holders are presented as other liabilities and financial liabilities at FVTPL in the consolidated statement of financial position as disclosed in Notes V.50 and V.22. For the year of 2020, the change in net assets attributable to other holders of consolidated structured entities aggregately amounted to RMB501 million (2019: RMB631 million) and the loss from fair value changes on financial liabilities aggregately amounted to RMB700 million (2019: profit from fair value changes on financial liabilities aggregately amounted to RMB22 million).

33. Interests in unconsolidated structured entities

Apart from the structured entities the Group has consolidated as detailed in Note V.32, the Group also served as general partner, manager or trustee of certain structured entities and therefore had power over them. However, in the opinion of the directors of the Company, the variable returns the Group exposed to over these structured entities are not significant. The Group therefore did not consolidate these structured entities.

The Group classified the investments in these unconsolidated structured entities as financial assets at FVTPL, debt instruments at FVOCI, debt instruments at amortised cost or interests in joint ventures as appropriate.

The size of assets under management, carrying amount and maximum exposure to loss of the Group's investments in unconsolidated structured entities that are sponsored by the Group are as follows:

	31 December 2020				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income type
Trust products	**117,075,043**	**7,107,506**	**7,107,506**	**606,768**	
				237,096	**Commission and fee income**
				125,627	**Interest income**
				244,045	**Fair value changes on other financial assets and liabilities**
Private equity funds	**22,603,495**	**9,244,413**	**9,244,413**	**444,184**	
				10,053	**Commission and fee income**
				30,165	**Interest income**
				403,966	**Fair value changes on other financial assets and liabilities**
Asset management plans	**84,822,574**	**4,563,473**	**4,563,473**	**503,796**	
				142,919	**Commission and fee income**
				150,849	**Interest income**
				210,028	**Fair value changes on other financial assets and liabilities**
Total	**224,501,112**	**20,915,392**	**20,915,392**	**1,554,748**	

33. Interests in unconsolidated structured entities — continued

	31 December 2019				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	126,482,598	2,788,709	2,788,709	498,447	
				364,603	Commission and fee income
				25,185	Interest income
				108,659	Fair value changes on other financial assets and liabilities
Private equity funds	50,346,651	8,689,902	8,689,902	175,717	
				9,421	Commission and fee income
				26,190	Interest income
				140,106	Fair value changes on other financial assets and liabilities
Asset management plans	148,248,036	5,772,786	5,772,786	618,077	
				316,969	Commission and fee income
				237,137	Interest income
				63,971	Fair value changes on other financial assets and liabilities
Total	325,077,285	17,251,397	17,251,397	1,292,241	

Meanwhile, the Group also holds interests in the unconsolidated structured entities sponsored by independent third parties through investments. As at 31 December 2020, the carrying amount and maximum exposure to loss amounted to RMB36,045 million. As at 31 December 2020, these investments are accounted for in financial assets at FVTPL, debt instruments at FVOCI, debt instruments at amortised cost and interests in associates and joint ventures.

34. Investment properties

	Year ended 31 December	
	2020	2019
Cost		
At 31 December 2018	**N/A**	5,791,637
Adjustment upon application of IFRS 16	**N/A**	135,029
At beginning of the year	**6,552,175**	5,926,666
Purchases	**52,232**	150,272
Transfer in	**111,505**	503,838
Transfer out	**(572,998)**	(28,601)
At end of the year	**6,142,914**	6,552,175
Accumulated depreciation		
At beginning of the year	**641,309**	465,582
Charge for the year	**179,709**	179,427
Transfer in	**4,805**	4,156
Transfer out	**(61,840)**	(7,856)
At end of the year	**763,983**	641,309
Allowance for impairment losses		
At beginning of the year	**—**	—
Charge for the year	**1,377,925**	—
At end of the year	**1,377,925**	—
Net book value		
At beginning of the year	**5,910,866**	5,461,084
At end of the year	**4,001,006**	5,910,866
Net book value of investment properties pledged for borrowings	**2,240,283**	2,225,793

The Group leases out buildings under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 5 years, with unilateral rights to extend the lease beyond initial period held by lessees only.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

34. Investment properties — continued

During the year, the total cash outflow for leased properties under sub-leases amounted to RMB16 million (2019: RMB31 million), income from subleasing of right-of-use assets amounted to RMB4 million (2019: RMB35 million).

During the year, the Group transferred inventories of RMB100 million (2019: RMB322 million), property and equipment of RMB12 million (2019: Nil) and construction in progress of RMB0 million (2019: RMB182 million) to investment properties.

35. Property and equipment

	Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles and vessels	Construction in progress	Total
Costs						
As at 1 January 2020	6,430,973	3,112,741	1,532,623	4,796,064	673,312	16,545,713
Purchases	29,158	25,981	205,102	970,749	219,797	1,450,787
Disposals	(84,451)	(16,753)	(181,516)	(249,040)	(873)	(532,633)
Transfer in	241,010	420,768	20,321	363	—	682,462
Transfer out	(26,523)	—	—	—	(70,120)	(96,643)
As at 31 December 2020	6,590,167	3,542,737	1,576,530	5,518,136	822,116	18,049,686
Accumulated depreciation						
As at 1 January 2020	1,561,954	395,053	1,190,365	892,852	—	4,040,224
Charge for the year	188,340	57,681	211,422	512,320	—	969,763
Disposals	(25,212)	(2,467)	(137,525)	(115,083)	—	(280,287)
Transfer in	47,776	177,893	178	306	—	226,153
Transfer out	(5,424)	—	—	—	—	(5,424)
As at 31 December 2020	1,767,434	628,160	1,264,440	1,290,395	—	4,950,429
Allowance for impairment losses						
As at 1 January 2020	97,830	80,000	2,610	—	—	180,440
Charge for the year	131,782	14,125	—	—	—	145,907
Disposals	58,244	—	(2,610)	—	—	55,634
As at 31 December 2020	287,856	94,125	—	—	—	381,981
Net book values						
As at 1 January 2020	4,771,189	2,637,688	339,648	3,903,212	673,312	12,325,049
As at 31 December 2020	4,534,877	2,820,452	312,090	4,227,741	822,116	12,717,276
Including:						
Net book value of assets pledged						
As at 31 December 2020	—	—	—	4,006,110	—	4,006,110

35. Property and equipment — continued

	Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles and vessels	Construction in progress	Total
Costs						
As at 1 January 2019	5,748,530	3,367,101	1,436,467	2,602,926	926,821	14,081,845
Purchases	301,788	26,433	170,014	2,237,698	173,611	2,909,544
Disposals	(15,799)	(280,793)	(74,612)	(44,560)	—	(415,764)
Transfer in	396,454	—	754	—	14,456	411,664
Transfer out	—	—	—	—	(441,576)	(441,576)
As at 31 December 2019	6,430,973	3,112,741	1,532,623	4,796,064	673,312	16,545,713
Accumulated depreciation						
As at 1 January 2019	1,261,386	485,084	1,051,717	463,968	—	3,262,155
Charge for the year	303,949	15,661	184,478	461,806	—	965,894
Disposals	(3,381)	(105,692)	(45,830)	(32,922)	—	(187,825)
As at 31 December 2019	1,561,954	395,053	1,190,365	892,852	—	4,040,224
Allowance for impairment losses						
As at 1 January 2019	76,792	58,399	—	—	—	135,191
Charge for the year	21,038	21,601	2,610	—	—	45,249
As at 31 December 2019	97,830	80,000	2,610	—	—	180,440
Net book values						
As at 1 January 2019	4,410,352	2,823,618	384,750	2,138,958	926,821	10,684,499
As at 31 December 2019	4,771,189	2,637,688	339,648	3,903,212	673,312	12,325,049
Including:						
Net book value of assets pledged						
As at 31 December 2019	12,453	—	—	—	—	12,453

As at 31 December 2020, properties that the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB747 million (31 December 2019: RMB180 million). The directors of the Company do not anticipate the aforesaid matters to have any significant adverse effect on the Group's operations.

As at 31 December 2020, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB1,035 million (31 December 2019: RMB366 million).

36. Right-of-use assets

	Buildings	Leasehold land	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Total
Costs						
As at 1 January 2020	**2,423,697**	**2,007,937**	**529**	**2,771**	**5,178**	**4,440,112**
Addition	**494,403**	**34**	**3,023**	**8,587**	**1,563**	**507,610**
Disposals	**(740,280)**	**(686)**	**—**	**(1,453)**	**(3,719)**	**(746,138)**
As at 31 December 2020	**2,177,820**	**2,007,285**	**3,552**	**9,905**	**3,022**	**4,201,584**
Accumulated depreciation						
As at 1 January 2020	**594,903**	**272,899**	**170**	**505**	**2,016**	**870,493**
Charge for the year	**645,034**	**54,212**	**627**	**2,762**	**752**	**703,387**
Disposals	**(70,508)**	**(299)**	**—**	**(69)**	**(1,434)**	**(72,310)**
As at 31 December 2020	**1,169,429**	**326,812**	**797**	**3,198**	**1,334**	**1,501,570**
Allowance						
As at 1 January 2020	**—**	**—**	**—**	**—**	**—**	**—**
Charge for the year	**—**	**252,859**	**—**	**—**	**—**	**252,859**
As at 31 December 2020	**—**	**252,859**	**—**	**—**	**—**	**252,859**
Net book values						
As at 1 January 2020	**1,828,794**	**1,735,038**	**359**	**2,266**	**3,162**	**3,569,619**
As at 31 December 2020	**1,008,391**	**1,427,614**	**2,755**	**6,707**	**1,688**	**2,447,155**

36. Right-of-use assets — continued

	Buildings	Leasehold land	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Total
Costs						
As at 1 January 2019	1,659,834	2,007,057	529	1,118	3,197	3,671,735
Addition	853,916	—	—	1,653	1,981	857,550
Disposals	(90,053)	—	—	—	—	(90,053)
Transfer in	—	880	—	—	—	880
As at 31 December 2019	2,423,697	2,007,937	529	2,771	5,178	4,440,112
Accumulated depreciation						
As at 1 January 2019	—	214,626	—	—	—	214,626
Charge for the year	628,069	57,919	170	505	2,016	688,679
Disposals	(33,166)	—	—	—	—	(33,166)
Transfer in	—	354	—	—	—	354
As at 31 December 2019	594,903	272,899	170	505	2,016	870,493
Net book values						
As at 1 January 2019	1,659,834	1,792,431	529	1,118	3,197	3,457,109
As at 31 December 2019	1,828,794	1,735,038	359	2,266	3,162	3,569,619

For interest expenses on lease liabilities for the years ended 31 December 2020 and 2019, please refer to Note V.9 for details.

For expenses on short-term leases for the years ended 31 December 2020 and 2019, please refer to Note V.11 for details.

As at 31 December 2020, total cash outflow for leases amounted to RMB949 million (31 December 2019: RMB770 million).

36. Right-of-use assets — continued

For both years, lease contracts of the Group are entered into for fixed term of 1 year to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, lease liabilities of RMB920 million (31 December 2019: RMB1,983 million) are recognised with related right-of-use assets of RMB2,447 million (31 December 2019: RMB3,570 million) and investment properties of RMB58 million (31 December 2019: RMB106 million) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

37. Deferred taxation

For the purpose of presentation on the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the analysis of the deferred tax balances:

	As at 31 December	
	2020	2019
Deferred tax assets	**14,423,850**	12,193,797
Deferred tax liabilities	**(408,771)**	(478,546)
Total	**14,015,079**	11,715,251

37. Deferred taxation — continued

	Changes in fair value of financial assets at FVOCI	Changes in fair value of financial assets at FVTPL	Accrued but not paid staff costs	Allowance for impairment losses	Lease arrangement	Others	Total
As at 1 January 2020	**(987,981)**	**587,515**	**488,402**	**11,943,948**	**5,560**	**(322,193)**	**11,715,251**
(Charge)/credit to profit or loss (Note V.14)	**—**	**(1,105,183)**	**102,896**	**2,603,379**	**6,972**	**277,610**	**1,885,674**
(Charge)/credit to other comprehensive income	**2,104,234**	**—**	**—**	**(1,454,324)**	**—**	**—**	**649,910**
Disposals of subsidiaries and others	**(812)**	**21,650**	**(1,950)**	**(231,017)**	**—**	**(23,627)**	**(235,756)**
As at 31 December 2020	**1,115,441**	**(496,018)**	**589,348**	**12,861,986**	**12,532**	**(68,210)**	**14,015,079**
As at 31 December 2018	(443,215)	1,938,646	405,811	13,142,479	—	(630,895)	14,412,826
Adjustment on initial application of IFRS 16	—	—	—	—	(1,004)	1,027	23
As at 1 January 2019 (restated)	(443,215)	1,938,646	405,811	13,142,479	(1,004)	(629,868)	14,412,849
(Charge)/credit to profit or loss (Note V.14)	—	(1,310,099)	82,591	(1,116,536)	6,564	292,944	(2,044,536)
(Charge)/credit to other comprehensive income	(544,766)	—	—	—	—	—	(544,766)
Disposals of subsidiaries and others	—	(41,032)	—	(81,995)	—	14,731	(108,296)
As at 31 December 2019	(987,981)	587,515	488,402	11,943,948	5,560	(322,193)	11,715,251

As at 31 December 2020, the Group's unused tax losses and deductible temporary differences not recognised as deferred tax assets amounted to RMB18,947 million and RMB140,004 million respectively (31 December 2019: RMB7,866 million and RMB38,658 million respectively).

The expiry dates of unused tax losses are as follows:

	As at 31 December	
	2020	2019
1 to 5 years	**8,260,091**	4,083,600
Undated	**10,686,548**	3,781,947
Total	**18,946,639**	7,865,547

38. Goodwill

	Year ended 31 December	
	2020	2019
Cost		
At 1 January	**360,684**	353,331
Acquisition of subsidiaries	**851,779**	—
Exchange difference	**—**	7,353
At 31 December	**1,212,463**	360,684
Impairment		
At 1 January	**(342,621)**	(89,974)
Impairment loss recognised in the year (Note V.13)	**(546,871)**	(250,775)
Exchange difference	**—**	(1,872)
At 31 December	**(889,492)**	(342,621)
Net goodwill at 31 December	**322,971**	18,063

As disclosed in Note V.65, the goodwill mainly arose from the acquisition of Huarong Rongda Futures Co., Ltd. ("Huarong Rongda Futures") on 30 April 2020 amounting to RMB834 million.

Impairment testing on goodwill

The gross balance was mainly comprised of goodwill of RMB834 million, RMB245 million and RMB90 million arising from acquisitions of Huarong Rongda Futures, Huarong Investment Stock Corporation Ltd. ("HISC") and Huarong International Financial Holdings Limited ("HIFH") respectively.

As at 31 December 2020, the impairment of the goodwill arising from acquisitions determined to be:

- For Huarong Rongda Futures, its fair value less costs of disposals. An impairment of RMB547 million was recognised during the year.
- For HISC, its value in use, which is calculated using cash flow projection based on financial budget approved by management covering a five-year period. As at 31 December 2019, the goodwill has been fully impaired.
- For HIFH, its fair value less costs of disposals. As at 31 December 2018, the goodwill has been fully impaired.

39. Other assets

	As at 31 December	
	2020	2019
Other receivables	**22,222,713**	15,354,065
Foreclosed assets[(1)]	**4,208,303**	3,377,974
Payments in advance	**3,078,211**	1,657,086
Prepaid income tax	**1,382,663**	—
Intangible assets	**474,849**	416,747
Deductible value-added tax	**420,278**	519,529
Clearing and settlement receivables	**503,257**	427,171
Prepaid expenses	**275,930**	480,653
Notes receivable	**165,767**	71,470
Dividends receivable	**30,480**	20,143
Others	**1,008,110**	1,078,599
Subtotal	**33,770,561**	23,403,437
Allowance for other assets	**(9,028,067)**	(1,491,497)
Total	**24,742,494**	21,911,940

(1) The Group disposes foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

40. Borrowings from central bank

	As at 31 December	
	2020	2019
Due within 1 year	**23,182,829**	3,641,673

As at 31 December 2020, borrowings from central bank carry interest at market rates which range from 1.55% to 3.15% (31 December 2019: 2.75% to 3.25%) per annum.

41. Deposits from financial institutions

	As at 31 December	
	2020	2019
Banks	**1,865,012**	633,138
Other financial institutions	**7,059,129**	9,643,531
Total	**8,924,141**	10,276,669

Deposits from financial institutions carry interest at market rates which range from 0.35% to 3.70% (31 December 2019: 0.30% to 4.00%) per annum.

42. Placements from financial institutions

(1) Analysed by type of counterparties

	As at 31 December	
	2020	2019
Banks	**4,677,959**	2,253,597
Other financial institutions	**1,307**	—
Total	**4,679,266**	2,253,597

(2) Analysed by geographical sectors

	As at 31 December	
	2020	2019
Mainland China	**4,679,266**	2,253,597
Total	**4,679,266**	2,253,597

Placements from financial institutions carry interest at market rates which range from 0.30% to 5.50% (31 December 2019: 0.85% to 6.00%) per annum.

43. Financial assets sold under repurchase agreements

	As at 31 December	
	2020	2019
Bonds	**15,456,721**	15,665,408
Negotiable certificates of deposit	**90,727**	—
Total	**15,547,448**	15,665,408

44. Borrowings

	As at 31 December	
	2020	2019
Unsecured loans	**741,241,192**	692,926,260
Pledged loans	**14,337,731**	23,906,939
Guaranteed loans(1)	**13,874,128**	36,980,694
Loans secured by properties	**8,970,717**	7,692,534
Total	**778,423,768**	761,506,427

(1) Among the balance of guaranteed loans, a balance of RMB12,856 million (31 December 2019: RMB29,627 million) was borrowed by subsidiaries of the Company and guaranteed by the Company.

The carrying amounts of assets pledged or secured for borrowings are listed as follows:

	As at 31 December	
	2020	2019
Finance lease receivables	**34,148,563**	20,442,260
Deposits with financial institutions	**4,811,782**	5,415,030
Investment properties	**2,240,283**	2,225,793
Inventories	**280,480**	6,246,974
Others	**7,221,432**	3,589,527
Total	**48,702,540**	37,919,584

44. Borrowings — continued

	As at 31 December	
	2020	2019
Carrying amount repayable[(1)]:		
Within 1 year (inclusive)	**477,307,698**	441,294,808
1 year to 2 years (inclusive)	**87,645,300**	171,399,986
2 years to 5 years (inclusive)	**182,291,863**	100,607,108
More than 5 years	**24,465,323**	27,438,328
Subtotal	**771,710,184**	740,740,230
Carrying amount of borrowings that contain a repayment on demand clause repayable[(1)]:		
Within 1 year (inclusive)	**6,213,584**	16,599,534
1 year to 2 years (inclusive)	**500,000**	1,589,857
2 years to 5 years (inclusive)	**—**	2,576,806
Subtotal	**6,713,584**	20,766,197
Total	**778,423,768**	761,506,427

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

The exposure of the Group's fixed-rate borrowings by remaining contractual maturity periods are as follows:

	As at 31 December	
	2020	2019
Within 1 year (inclusive)	**475,800,319**	431,094,911
1 year to 2 years (inclusive)	**87,549,407**	170,963,395
2 years to 5 years (inclusive)	**176,964,575**	99,921,166
More than 5 years	**22,678,211**	25,606,422
Total	**762,992,512**	727,585,894

In addition, the Group has variable-rate borrowings which carry interest based on borrowing or deposit benchmark interest rate of PBOC, Shanghai Inter-bank Offered Rate ("SHIBOR"), Hong Kong Inter-bank Offered Rate ("HIBOR"), London Inter-bank Offered Rate ("LIBOR") or prime rate.

V. EXPLANATORY NOTES — continued

44. Borrowings — continued

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

	As at 31 December	
	2020	2019
Effective interest rate		
Fixed-rate borrowings	**2.15%–10.00%**	1.80%–10.00%
Variable-rate borrowings	**1.02%–6.37%**	1.60%–7.50%

As at 31 December 2020, the Group failed to comply with certain financial or non-financial conditions stipulated in certain lending and borrowing agreements, and the relevant amount of these borrowings was RMB12,043 million (31 December 2019: RMB5,669 million). The Group is in active dialogue with the relevant banks, these banks still provide normal banking facilities to the Group and have not yet requested early repayments of borrowings.

45. Due to customers

	As at 31 December	
	2020	2019
Demand deposits		
Corporate customers	**76,769,425**	66,837,524
Individual customers	**23,510,514**	19,233,296
Time deposits		
Corporate customers	**68,018,771**	70,490,136
Individual customers	**64,490,669**	50,515,767
Pledged deposits	**7,408,947**	7,803,263
Others	**10,628,893**	11,934,731
Total	**250,827,219**	226,814,717

46. Tax payable

	As at 31 December	
	2020	2019
Enterprise income tax	**785,890**	2,307,578
PRC Land appreciation tax	**310,875**	—
Hong Kong profits tax	**187,132**	579,844
Total	**1,283,897**	2,887,422

47. Contract liabilities

	As at 31 December	
	2020	2019
Properties development contracts[1]	**649,052**	575,076
Total	**649,052**	575,076

(1) Properties development contracts

	Year ended 31 December	
	2020	2019
At beginning of the year	**575,076**	954,376
Deferred during the year	**1,588,493**	521,338
Recognised as revenue during the year	**(1,514,517)**	(900,638)
At end of the year	**649,052**	575,076

Typical payment terms which impact on the amount of contract liabilities recognised are disclosed in the information about the Group's performance obligation, which is set out in Note V.8.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities.

	Year ended 31 December	
	2020	2019
Revenue recognised that was included in the contract liabilities balance at the beginning of the year properties development contracts	**462,269**	900,638

The most significant changes in contract liabilities is related to revenue recognised and cash received in advance during current and prior year.

48. Lease liabilities

	As at 31 December	
	2020	2019
Lease liabilities payable:		
Within one year	**262,148**	763,555
Within a period of more than one year but not more than two years	**307,786**	433,632
Within a period of more than two years but not more than five years	**224,271**	620,454
Within a period of more than five years	**125,612**	165,613
Total	**919,817**	1,983,254

49. Bonds and notes issued

	As at 31 December		Term	Coupon rate per annum	Interest payment terms
	2020	2019			
Mid-term U.S. dollar notes	**98,899,418**	105,884,544	1–30 years	2.13%-5.50% fixed rate	Interest payable semi-annually
Negotiable certificates of deposit	**65,789,796**	68,916,112	1–12 months	1.65%-3.52% fixed rate	Interest payable on maturity date
Financial bonds	**58,160,238**	79,131,458	3–5 years	3.39%-5.42% fixed rate	Interest payable annually
Tier II capital bonds[(1) (2)]	**25,662,422**	25,701,949	10 years	4.50%-5.00% fixed rate	Interest payable annually
Mid-term U.S. dollar notes	**20,951,194**	27,047,699	3–5 years	3 months LIBOR+1.125%-1.85% floating rate	Interest payable quarterly
Asset-backed securities[(3)(4)]	**19,232,683**	—	131–938 days	3.00%-4.50% fixed rate	Interest payable semi-annually
Corporate bonds	**15,365,412**	19,892,272	1–6 years	3.14%-6.60% fixed rate	Interest payable annually
Subordinate bonds	**10,948,293**	13,434,936	3 years	4.60%-5.80% fixed rate	Interest payable annually
Micro bonds[(5)]	**6,681,493**	6,677,956	3 years	3.60%-3.70% fixed rate	Interest payable annually
Mid-term SGD notes	**4,955,659**	5,195,738	4–8 years	3.20%-3.80% fixed rate	Interest payable semi-annually
Euro bonds	**4,001,378**	3,888,877	5 years	1.625% fixed rate	Interest payable annually
U.S. Dollar bonds	**3,290,918**	2,091,005	1 year	3.10% fixed rate	Interest payable semi-annually
Green financial bonds	**2,604,768**	3,611,305	3 years	5.35% fixed rate	Interest payable annually
Leasing asset-backed securities[(6) (7) (8)]	**396,809**	1,813,402	6–10 years	5.30% fixed rate and floating rate	Interest payable quarterly
Beneficiary certificates	**31,340**	2,537,154	14 days	6.00% fixed rate	Interest payable on maturity date
Mid-term HK dollar notes	**—**	896,432	1 year	3.00% fixed rate	Interest payable semi-annually
Private placement note instrument	**—**	624,749	2 years	4.70% fixed rate	Interest payable annually
Total	**336,971,821**	367,345,588			

V. EXPLANATORY NOTES — continued

49. Bonds and notes issued — continued

(1) As at 31 December 2020, for certain Tier II capital bonds of RMB10,210 million (31 December 2019: RMB10,203 million), the Company has the right to exercise early redemption partially or fully on 29 June 2022. If no early redemption is exercised, the coupon rate of the bonds will remain at 4.95% per annum.

(2) As at 31 December 2020, for Tier II capital bonds of RMB2,455 million (31 December 2019: RMB2,454 million), Huarong Xiangjiang Bank has the right to exercise early redemption partially or fully on 17 July 2022. If no early redemption is exercised, the coupon rate of the bonds will remain at 5.00% per annum.

(3) The Company issued asset-backed securities of RMB9,870 million in September 2020. These asset-backed securities are comprised of Class A-1, Class A-2, Class A-3, Class A-4, Class A-5 and Class A-6. The tenure of these securities is 938 days. The coupon rates of these asset-backed securities range from 3.00% to 4.50% per annum.

(4) The Company issued asset-backed securities of RMB9,545 million in December 2020. These asset-backed securities are comprised of Class A-1, Class A-2, Class A-3, and Class A-4. The tenure of these securities is 678 days. The coupon rates of these asset-backed securities range from 3.58% to 4.25% per annum.

(5) Huarong Xiangjiang Bank issued 3-year fixed interest rate micro bonds in inter-bank bond markets on 7 March 2019 and 23 April 2019, respectively. The aggregate face value of these bonds were RMB6,500 million and carried interests at 3.60% and 3.70% per annum. Funds subscribed from these issues will be advanced to micro-enterprises to provide financial services to micro-enterprises.

(6) China Huarong Financial Leasing Co., Ltd. ("Huarong Financial Leasing") set up an asset securitisation trust of RMB4,411 million in April 2016. Floating rates for Class A and Class B asset-backed securities are determined as PBOC one-year deposit rate plus 2.10% and 2.95% per annum.

(7) Huarong Financial Leasing set up an asset securitisation trust of RMB4,990 million in February 2017. These asset-backed securities are comprised of Class A-1, Class A-2 and Class B. The tenure of these securities is 6 years. The coupon rate of Class A-1 is 4.40% per annum, while those of Class A-2 and Class B are PBOC one-year fixed deposit rates plus 3.25% and 3.70% per annum.

(8) Huarong Financial Leasing set up an asset securitisation trust of RMB4,961 million in November 2017. These asset-backed securities are comprised of Class A-1, Class A-2, Class A-3 and Class B. The tenure of these securities is 10 years. The coupon rate of Class A-1 is 5.30% per annum, while those of Class A-2, Class A-3 and Class B are PBOC one-year fixed deposit rates plus 4.06%, 4.30% and 4.50%, respectively, per annum.

50. Other liabilities

	As at 31 December	
	2020	2019
Payables to interest holders of consolidated structured entities	**68,177,577**	72,983,379
Other payables	**22,606,227**	23,962,556
Guarantee deposits received from customers	**19,183,997**	15,467,628
Letter of credit	**8,560,337**	4,697,511
Amounts received in advance(1)	**8,198,336**	7,607,708
Account payable to brokerage clients	**5,719,629**	4,726,446
Employee benefits payable(2)	**4,029,695**	4,067,872
Dividends payable	**4,312,345**	4,436,341
Margin deposits received from securities customers	**2,769,308**	364,074
Amounts due to China Trust Protection Fund	**2,550,000**	2,600,000
Provisions(3)	**3,938,432**	260,289
Sundry taxes payable	**1,179,011**	1,603,573
Bills payable	**187,500**	276,357
Account payable to financial institutions	**—**	868,652
Others	**678,222**	961,308
Total	**152,090,616**	144,883,694

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

50. Other liabilities — continued

(2) Employee benefits payable

	2020			
	As at 1 January	Increase in the current year	Decrease in the current year	As at 31 December
Wages or salaries, bonuses, allowances and subsidies	**2,847,815**	**3,158,000**	**(3,243,826)**	**2,761,989**
Social insurance	**93,722**	**166,656**	**(220,851)**	**39,527**
Housing funds	**5,489**	**273,431**	**(274,995)**	**3,925**
Staff welfare	**7,287**	**322,618**	**(321,639)**	**8,266**
Defined benefit plans[i]	**336,859**	**64,773**	**(49,025)**	**352,607**
Labour union fees and staff education expenses	**325,034**	**133,292**	**(110,666)**	**347,660**
Defined contribution plans	**102,639**	**433,606**	**(460,269)**	**75,976**
— Basic pension insurance	**33,318**	**151,020**	**(147,707)**	**36,631**
— Unemployment insurance	**8,506**	**4,267**	**(8,987)**	**3,786**
— Annuity contribution	**60,815**	**278,319**	**(303,575)**	**35,559**
Others	**349,027**	**209,775**	**(119,057)**	**439,745**
Total	**4,067,872**	**4,762,151**	**(4,800,328)**	**4,029,695**

50. Other liabilities — continued

(2) Employee benefits payable — continued

	2019			
	As at 1 January	Increase in the current year	Decrease in the current year	As at 31 December
Wages or salaries, bonuses, allowances and subsidies	2,977,204	3,415,000	(3,544,389)	2,847,815
Social insurance	77,416	282,055	(265,749)	93,722
Housing funds	7,484	272,296	(274,291)	5,489
Staff welfare	1,871	327,061	(321,645)	7,287
Defined benefit plans(i)	367,300	26,338	(56,779)	336,859
Labour union fees and staff education expenses	280,676	154,649	(110,291)	325,034
Defined contribution plans	41,176	567,674	(506,211)	102,639
— Basic pension insurance	36,085	337,855	(340,622)	33,318
— Unemployment insurance	2,664	13,351	(7,509)	8,506
— Annuity contribution	2,427	216,468	(158,080)	60,815
Others	273,555	126,653	(51,181)	349,027
Total	4,026,682	5,171,726	(5,130,536)	4,067,872

(i) Defined benefit plans

As at 31 December 2020, the actuarial liabilities existing in relation to the retirement benefit obligations for employees were RMB353 million (31 December 2019: RMB337 million), using the projected unit credit method.

50. Other liabilities — continued

(2) Employee benefits payable — continued

(i) Defined benefit plans — continued

Principal actuarial assumptions used are as follows:

	As at 31 December 2020
Discount rate — post-employment benefits	**3.25%**
Discount rate — termination benefits	**2.75%**
Annual increase rate of annuity compensation benefits for Pre-existing Retirees	**4.00%**
Annual increase rate of yearly allowance benefits for Pre-existing Retirees	**4.00%**
Annual increase rate of medical reimbursement and supplemental medical insurance benefits for Pre-existing Retirees	**4.00%**
Annual increase rate of lump-sum death benefits for Pre-existing Retirees	**4.00%**
Annual increase rate of basic salary for current internal retirees	**4.00%**
Annual increase rate of social insurance and housing fund contributions for current internal retirees	**4.00%**

The assumption of future mortality is based on China Life Insurance Mortality Table (2010–2013) — CL5/CL6.

(3) The movement of the loss allowance during the year in credit commitment and financial guarantee contracts are as follows:

	2020	2019
As at 1 January	**150,340**	93,502
Charge for the year	**3,788,092**	56,838
As at 31 December	**3,938,432**	150,340

Provisions are also made by the Group relating to litigation claims on the Group's entities. As at 31 December 2020 and 2019, total amount of provisions arising from legal actions of the Group was Nil and RMB110 million, respectively.

51. Share capital of the Company

	For the year ended 31 December	
	2020	2019
Authorised, issued and fully paid at beginning and end of the year	**39,070,208**	39,070,208

	As at 31 December 2020 and 2019	
	Number of shares (thousands)	**Nominal value**
Registered, issued and fully paid		
Domestic shares	**14,026,355**	14,026,355
H shares	**25,043,853**	25,043,853
Total	**39,070,208**	39,070,208

52. Capital reserve

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

V. EXPLANATORY NOTES — continued

53. Surplus reserve

Under PRC Laws, the Company and its domestic subsidiaries are required to transfer 10% of their net profit determined under the PRC Generally Accepted Accounting Principles to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital of the respective entity.

The surplus reserve of the Group disclosed represents only the surplus reserve appropriated by the Company.

54. General reserve

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

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

For the year ended 31 December 2020, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB1,161 million (2019: RMB808 million) to general reserve pursuant to the regulatory requirements in the PRC. Among which, the Company transferred RMB1,085 million to general reserve for the year ended 31 December 2020 (2019: RMB752 million).

55. Other reserves

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of equity instruments at FVOCI and debt instruments at FVOCI that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those equity instruments at FVOCI and debt instruments at FVOCI are disposed of or are determined to be impaired.

The hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain and loss arising on changes in fair value of the hedging instrument that are recognised and accumulated under the heading of other reserves will be reclassified to profit or loss when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy or when the hedged forecast transaction is no longer expected to occur.

56. Perpetual capital instruments

Movement of the perpetual capital instruments is as follows:

	Principal	Distribution	Total
Balance at 1 January 2019	19,962,407	296,125	20,258,532
Decrease in perpetual capital instruments	(1,200,000)	—	(1,200,000)
Disposal of subsidiary	(700,000)	—	(700,000)
Profit attributable to holders of perpetual capital instruments	—	869,353	869,353
Distribution to holders of perpetual capital instruments	—	(797,309)	(797,309)
Balance at 31 December 2019	18,062,407	368,169	18,430,576
Increase in perpetual capital instruments	**6,994,560**	**—**	**6,994,560**
Profit attributable to holders of perpetual capital instruments	**—**	**811,336**	**811,336**
Distribution to holders of perpetual capital instruments	**—**	**(760,594)**	**(760,594)**
Balance at 31 December 2020	**25,056,967**	**418,911**	**25,475,878**

There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers. The perpetual capital instruments are callable. When the issuers and/or the guarantors elect to declare dividends, the distribution to the holders of perpetual capital instruments shall be made at the distribution rate as defined in the subscription agreements.

57. Cash and cash equivalents

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

	As at 31 December	
	2020	2019
Deposits with financial institutions	**117,871,917**	134,690,769
Financial assets held under resale agreements	**7,401,783**	12,739,290
Balances with central bank	**3,701,384**	8,646,863
Placements with financial institutions	**3,699,049**	2,709,546
Cash on hand	**480,745**	447,889
Total	**133,154,878**	159,234,357

58. Contingent liabilities

Legal proceedings

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2020, total claim amount of pending litigations was RMB610 million (31 December 2019: RMB1,944 million) for the Group, and no provision (31 December 2019: RMB110 million) for the Group was made based on court judgements or the advice of legal counsels. The directors of the Company believe that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

59. Commitments

(1) Credit enhancement

As at 31 December 2020, the Group didn't provide credit enhancement for counterparties involving in borrowing arrangements (31 December 2019: RMB9 million).

(2) Credit commitments

	As at 31 December	
	2020	2019
Bank bill acceptance	**17,154,405**	12,911,537
Undrawn credit card commitments	**7,788,812**	7,386,924
Loan commitments	**3,525,969**	4,875,867
Letters of credit issued	**2,428,255**	1,499,646
Letters of guarantee issued	**485,424**	440,625
Total	**31,382,865**	27,114,599

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

Impairment allowance of RMB158 million was made for credit commitments as at 31 December 2020 (31 December 2019: RMB150 million).

(3) Other commitments

	As at 31 December	
	2020	2019
Contracted but not provided for		
— Commitments for the acquisition of intangible assets, property and equipment	**229,951**	224,198

60. Transfers of financial assets

Repurchase agreements

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

	Carrying amount of pledged assets		**Related liabilities**	
	As at 31 December		**As at 31 December**	
	2020	2019	**2020**	2019
Debt instruments at fair value through other comprehensive income	**12,259,809**	7,752,518	**8,831,774**	5,208,790
Debt instruments at amortised cost	**6,092,822**	13,782,448	**5,864,738**	9,528,955
Financial assets at fair value through profit or loss	**1,193,749**	946,074	**850,936**	927,663
Total	**19,546,380**	22,481,040	**15,547,448**	15,665,408

Asset-backed securities

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. 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 derecognised, and the consideration paid by third parties is recorded as a financial liability. As at 31 December 2020, the Group' s carrying amount of transferred assets that did not qualify for derecognition was RMB20,273 million (31 December 2019: RMB4,765 million), and the carrying amount of their associated liabilities which are recognised as bonds and notes issued and other liabilities amounted to RMB19,629 million (31 December 2019: RMB1,831 million)

60. Transfers of financial assets — continued

Asset-backed securities — continued

With respect to the securitization of financial assets that qualified for derecognition, the Group derecognized the transferred financial assets in their entirety. As at 31 December 2020, the Group's carrying amount of transferred assets that qualify for derecognition was RMB68 million (31 December 2019: Nil).

61. Related party transactions

(1) The MOF

As at 31 December 2020, the MOF directly owned 57.02% (31 December 2019: 57.02%) of share capital of the Company including domestic shares and H shares.

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

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

The Group had the balances with the MOF:

	As at 31 December	
	2020	2019
Financial assets at amortised cost	**11,298,682**	8,498,545
Dividends payable	**4,180,733**	4,180,733
Debt instruments at fair value through other comprehensive income	**3,705,254**	431,369
Financial assets at fair value through profit or loss	**587,032**	1,760,108
Other assets	**151,044**	—
Other payables	**12,348**	12,347

The Group had the following transactions with the MOF:

	Year ended 31 December	
	2020	2019
Interest income	**436,153**	308,288
Fair value changes on other financial assets and liabilities	**35,333**	15,285

61. Related party transactions — *continued*

(2) Government related entities

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

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

(3) Associates and joint ventures

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

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

	As at 31 December	
	2020	2019
Financial assets at amortised cost	**431,495**	3,374,531
Other liabilities	**82,550**	6,693
Financial assets at fair value through profit or loss	**45,577**	32,053
Other assets	**1,073,903**	816,191
Trade receivables	**5,211**	—

61. Related party transactions — continued

(3) Associates and joint ventures — continued

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

	Year ended 31 December	
	2020	2019
Interest income	**103,625**	195,231
Commission and fee income	**9,331**	5,305
Rental income	**1,492**	11,937
Operating expenses	**313**	1,827

Trust asset management:

As at 31 December 2020, associates and joint ventures did not hold a trust issued by the Group (31 December 2019: RMB13 million).

(4) Annuity scheme

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

	Year ended 31 December	
	2020	2019
Contribution to Annuity Schemes	**165,605**	179,426

61. Related party transactions — continued

(5) Key management personnel

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

	Year ended 31 December	
	2020	2019
Emoluments of key management personnel		
— Fees	**1,361**	1,261
— Salaries and other benefits	**3,704**	3,658
— Employer's contribution to pension scheme	**351**	208
— Discretionary and performance related incentive payments	**2,392**	2,239
Total (before tax)	**7,808**	7,366

The total compensation packages for the above key management personnel for the year ended 31 December 2020 have not yet been finalised in accordance with regulations of the relevant authorities in the PRC.

The number of key management personnel whose emoluments fall within the following bands is as follows:

	Year ended 31 December	
	2020	2019
Nil to HKD500,000	**20**	15
HKD500,001 to HKD1,000,000	**8**	9
	28	24

62. Financial risk management

Overview

The Group's primary objectives of risk management are to ensure (1) the prudent operation and sound business development of the Group; (2) the execution of significant decisions to achieve business targets and ensure operational efficiency; and (3) that risk parameters are managed within a range consistent with the Group's strategies and business targets. Based on this, the Group has refined a particular philosophy of risk management culture and established a risk management model and an organisational structure. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The most significant types of risk to the Group include credit risk, market risk, liquidity risk and distressed assets risk. Market risk includes interest rate risk, foreign exchange risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies. The Board has established Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's overall risk exposures regularly.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures relating to risk management. Risk Management Department and other relevant functional units are responsible for monitoring financial risks.

62.1 Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. Credit risk mainly arises from loans and advances to customers, finance lease receivables, debt instruments at FVOCI and debt instruments at amortised cost. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes. The nature of credit risk of distressed debt assets classified as debt instruments at amortised cost, debt instruments at FVOCI and financial assets at FVTPL is similar to those mentioned above. Risk management of the distressed assets is detailed in Note V.62.4 together with other types of distressed assets.

62. Financial risk management — continued

62.1 Credit risk — continued

(i) Credit risk management

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

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

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

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

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

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

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

(ii) Significant increase in credit risk

The Group monitors all financial assets, contract assets, credit enhancement and credit commitments that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

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

62. Financial risk management — continued

62.1 Credit risk — continued

(ii) Significant increase in credit risk — continued

Internal credit risk ratings — continued

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

The following data are typically used to monitor the Group's exposures:

- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- Information obtained by periodic review of customer files including audited financial statements review, market data such as prices of quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, consumer price index, and producer price index. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

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

62. Financial risk management — continued

62.1 Credit risk — continued

(ii) Significant increase in credit risk — continued

<u>Internal credit risk ratings — continued</u>

The Group considers credit risk has significantly increased if there is:

- Overdue principal or interests by more than 30 days; or
- Significant downgrade in internal rating or external rating; or
- Extension period exceeds 90 days; or
- Significant adverse changes in the operation or financial situation of the issuer or debtor.

(iii) Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs external and internal information to generate different scenarios of future forecast of relevant economic variables. In 2020, the macro-economic factors used in the Group's forward-looking model are the year-on-year growth rate of GDP (at constant prices) on the quarterly basis,the year-on-year growth rate of M2, the growth rate of accumulated value added of the Industry and the purchasing managers' index. The forecasts for year-on-year growth rate of GDP (at constant prices) on the quarterly basis range from 5.45% to 6.07% under the baseline, optimistic and pessimistic scenarios in the expected credit loss measurement model. The Group has considered the COVID-19 impact on the macroeconomy when evaluating the forward-looking information used in the expected credit loss measurement model in 2020.

(iv) Measurement of ECL

The key inputs used for measuring ECL are:

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

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(iv) Measurement of ECL — continued

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

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

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

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

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

62. Financial risk management — continued

62.1 Credit risk — continued

(v) Grouping based on shared risks characteristics

When ECL is measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- industry;
- geographic location of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

62. Financial risk management — continued

62.1 Credit risk — continued

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

	As at 31 December	
	2020	2019
Distressed debt assets at amortised cost	**357,196,301**	321,173,114
Loans and advances to customers	**240,166,341**	218,118,900
Distressed debt assets at FVOCI	**36,654,337**	64,573,237
Finance lease receivables	**42,696,398**	70,847,221
Subtotal	**676,713,377**	674,712,472
Allowance for ECL		
Distressed debt assets at amortised cost	**(40,896,735)**	(21,038,124)
Loans and advances to customers measured at amortised cost	**(7,666,162)**	(6,853,816)
Finance lease receivables	**(2,899,698)**	(2,806,925)
Subtotal	**(51,462,595)**	(30,698,865)
Net carrying amount		
Distressed debt assets at amortised cost	**316,299,566**	300,134,990
Loans and advances to customers	**232,500,179**	211,265,084
Distressed debt assets at FVOCI	**36,654,337**	64,573,237
Finance lease receivables	**39,796,700**	68,040,296
Total	**625,250,782**	644,013,607

For financial assets at FVOCI (including distressed debt assets and loans and advances to customers) disclosed above, no loss allowance is recognised as the carrying amount is measured at fair value. The loss allowances from those financial assets were recognised in impairment losses on financial assets and OCI. As at 31 December 2020, the loss allowance of distressed debt assets at FVOCI and the loans and advances to customers at FVOCI were RMB8,722 million (31 December 2019: RMB4,367 million) and RMB2 million (31 December 2019: RMB11 million), respectively.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

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

Analysed by geographical area

	As at 31 December			
	2020		2019	
Area	**Gross amount**	**%**	Gross amount	%
Central Region	**328,057,326**	**48.5**	306,013,677	45.3
Western Region	**118,406,961**	**17.5**	126,933,036	18.8
Yangtze River Delta	**80,661,012**	**11.9**	92,935,682	13.8
Bohai Rim	**65,066,105**	**9.6**	65,123,968	9.7
Pearl River Delta	**61,558,156**	**9.1**	58,861,601	8.7
Northeastern Region	**20,227,016**	**3.0**	18,219,762	2.7
Overseas	**2,736,801**	**0.4**	6,624,746	1.0
Total	**676,713,377**	**100.0**	674,712,472	100.0

Notes:

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

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

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

Analysed by industry

	As at 31 December			
	2020		2019	
	Gross amount	**%**	Gross amount	%
Corporate business				
Real estate	**213,832,244**	**31.5**	215,020,924	31.9
Water, environment and public utilities management	**77,126,100**	**11.4**	81,057,010	12.0
Manufacturing	**61,928,999**	**9.2**	65,852,493	9.8
Construction	**47,380,800**	**7.0**	49,650,909	7.4
Leasing and commercial services	**45,987,669**	**6.8**	43,980,139	6.5
Wholesale and retail trade	**40,092,104**	**5.9**	39,908,013	5.9
Production and supply of power, heat, gas and water	**18,958,761**	**2.8**	21,823,630	3.2
Bill to discount	**14,162,395**	**2.1**	18,754,716	2.8
Transportation, logistics and postal services	**11,951,907**	**1.8**	14,987,807	2.2
Mining	**8,388,973**	**1.2**	6,551,527	1.0
Others	**34,936,230**	**5.2**	34,473,835	5.1
Subtotal	**574,746,182**	**84.9**	592,061,003	87.8
Personal business				
Personal consumption loans	**35,059,313**	**5.2**	31,028,230	4.6
Mortgages	**31,664,886**	**4.7**	24,430,038	3.6
Loans for business operations	**28,671,044**	**4.2**	18,504,210	2.7
Others	**2,480,609**	**0.4**	2,546,254	0.4
Subtotal	**97,875,852**	**14.5**	76,508,732	11.3
Loans to margin clients	**4,091,343**	**0.6**	6,142,737	0.9
Total	**676,713,377**	**100.0**	674,712,472	100.0

62. Financial risk management — continued

62.1 Credit risk — continued

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

By contractual maturity and security type

	Gross amount as at 31 December 2020				Gross amount as at 31 December 2019			
	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Up to 1 year	1 to 5 years	Over 5 years	Total
Unsecured	**45,220,900**	**24,881,387**	**8,070,064**	**78,172,351**	27,718,566	32,589,949	11,320,841	71,629,356
Guaranteed	**14,469,407**	**46,553,130**	**22,452,206**	**83,474,743**	53,848,456	25,923,066	10,052,840	89,824,362
Collateralised	**28,070,199**	**361,287,797**	**66,129,031**	**455,487,027**	30,569,006	358,578,183	58,881,980	448,029,169
Pledged	**19,164,500**	**33,020,810**	**7,393,946**	**59,579,256**	28,476,103	29,813,938	6,939,544	65,229,585
Total	**106,925,006**	**465,743,124**	**104,045,247**	**676,713,377**	140,612,131	446,905,136	87,195,205	674,712,472

(vii) Past due distressed debt assets at amortised cost and at FVOCI, loans and advances to customers and finance lease receivables

	Gross amount as at 31 December 2020						Gross amount as at 31 December 2019					
	Past due up to 90 days	**Past due 91 to 360 days**	**Past due 361 days to 3 years**	**Past due Over 3 years**	**Past due Total**	**Past due amount as a % of total gross amount**	Past due up to 90 days	Past due 91 to 360 days	Past due 361 days to 3 years	Past due Over 3 years	Past due Total	Past due amount as a % of total gross amount
Distressed debt assets at amortised cost	**8,801,888**	**5,455,002**	**26,387,539**	**6,342,973**	**46,987,402**	**13.2**	8,364,756	11,423,613	22,069,412	3,592,484	45,450,265	14.2
Distressed debt assets at FVOCI	**1,452,581**	**1,612,734**	**3,862,719**	**211,469**	**7,139,503**	**19.5**	2,076,795	4,260,783	2,622,578	—	8,960,156	13.9
Loans and advances to customers	**2,328,110**	**2,244,600**	**2,379,361**	**171,703**	**7,123,774**	**3.0**	4,183,341	3,397,924	1,359,603	72,992	9,013,860	4.1
Finance lease receivables	**1,407,998**	**693,207**	**1,484,370**	**582,565**	**4,168,140**	**9.8**	1,059,766	914,589	1,146,198	383,344	3,503,897	4.9
Total	**13,990,577**	**10,005,543**	**34,113,989**	**7,308,710**	**65,418,819**	**9.7**	15,684,658	19,996,909	27,197,791	4,048,820	66,928,178	9.9

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(viii) Maximum credit risk exposure without taking into account any collateral or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure per class of financial assets to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk mainly arises from distressed debt assets acquired from financial institutions and non-financial institutions, loans and advances to customers, finance lease receivables, investment securities, and treasury operations of its banking activities. For loan commitments and financial guarantee contracts, the amounts represent the amounts committed or guaranteed, respectively.

At the end of the reporting period, maximum exposure to credit risk is as follows:

	As at 31 December	
	2020	2019
Balances with central bank	**22,327,617**	30,326,801
Deposits with financial institutions	**123,875,031**	149,461,964
Placements with financial institutions	**5,740,804**	2,709,937
Financial assets at fair value through profit or loss	**106,862,458**	134,152,701
Financial assets held under resale agreements	**15,224,623**	22,525,935
Loans and advances to customers	**232,500,179**	211,265,084
Finance lease receivables	**39,796,700**	68,040,296
Debt instruments at FVOCI	**83,106,848**	103,739,340
Debt instruments at amortised cost	**656,048,582**	642,085,956
Other assets	**14,698,156**	14,715,437
Subtotal	**1,300,180,998**	1,379,023,451
Credit enhancements	**—**	8,800
Credit commitments	**31,382,865**	27,114,599
Subtotal	**31,382,865**	27,123,399
Total	**1,331,563,863**	1,406,146,850

62. Financial risk management — continued

62.1 Credit risk — continued

(viii) Maximum credit risk exposure without taking into account any collateral or other credit enhancements — continued

Distressed debt assets at FVTPL may contain certain elements of credit risk. The risks that such assets are exposed to are detailed in Note V. 62.4. The carrying amount of distressed debt assets at FVTPL amounted to RMB189,057 million for the Group as at 31 December 2020 (31 December 2019: RMB173,072 million).

(ix) Credit quality

(1) Loss allowance

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

	As at 31 December	
	2020	2019
Debt instruments at amortised cost	**133,033,902**	63,939,438
Debt instruments at FVOCI	**11,220,134**	4,761,201
Loans and advances to customers	**7,668,219**	6,864,593
Financial assets held under resale agreements	**6,555,511**	1,628,390
Credit commitments and financial guarantee contracts	**3,938,432**	150,340
Finance lease receivables	**2,899,698**	2,806,925
Total	**165,315,896**	80,150,887

No loss allowance is recognised in the statement of financial position for debt instruments at FVOCI as the carrying amount is at fair value.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movements of loss allowance

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

Loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	1,968,557	818,263	2,340,347	5,127,167
Changes in the loss allowance				
— Transfer to stage 1	40,774	(40,200)	(574)	—
— Transfer to stage 2	(9,269)	23,953	(14,684)	—
— Transfer to stage 3	(16,834)	(202,352)	219,186	—
— Charge for the year	973,956	717,110	4,611,173	6,302,239
— Reversal for the year	(1,005,065)	(443,445)	(454,691)	(1,903,201)
— Write-offs	—	—	(3,062,918)	(3,062,918)
— Others	—	—	401,306	401,306
As at 31 December 2019	1,952,119	873,329	4,039,145	6,864,593
Changes in the loss allowance				
— Transfer to stage 1	**40,028**	**(36,489)**	**(3,539)**	**—**
— Transfer to stage 2	**(135,316)**	**156,071**	**(20,755)**	**—**
— Transfer to stage 3	**(23,245)**	**(247,197)**	**270,442**	**—**
— Charge for the year	**959,100**	**880,320**	**5,058,505**	**6,897,925**
— Reversal for the year	**(777,582)**	**(322,557)**	**(1,435,592)**	**(2,535,731)**
— Write-offs	**—**	**—**	**(3,347,999)**	**(3,347,999)**
— Others	**(107)**	**(613)**	**(209,849)**	**(210,569)**
As at 31 December 2020	**2,014,997**	**1,302,864**	**4,350,358**	**7,668,219**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movements of loss allowance — continued

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	484,815	608,900	1,358,403	2,452,118
Changes in the loss allowance				
— Transfer to stage 1	74,765	(74,765)	—	—
— Transfer to stage 2	(16,419)	16,419	—	—
— Transfer to stage 3	(28,264)	(253,320)	281,584	—
— Charge for the year	32,724	261,743	434,314	728,781
— Reversal for the year	(57,408)	(70,092)	(99,432)	(226,932)
— Write-offs	—	—	(148,010)	(148,010)
— Others	286	78	604	968
As at 31 December 2019	490,499	488,963	1,827,463	2,806,925
Changes in the loss allowance				
— Transfer to stage 1	**14,401**	**(14,401)**	**—**	**—**
— Transfer to stage 2	**(63,348)**	**82,350**	**(19,002)**	**—**
— Transfer to stage 3	**(568)**	**(75,969)**	**76,537**	**—**
— Charge for the year	**91,254**	**303,511**	**777,828**	**1,172,593**
— Reversal for the year	**(312,882)**	**(66,946)**	**(103,520)**	**(483,348)**
— Write-offs	**—**	**—**	**(604,057)**	**(604,057)**
— Others	**77,286**	**(16,963)**	**(52,738)**	**7,585**
As at 31 December 2020	**296,642**	**700,545**	**1,902,511**	**2,899,698**

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movements of loss allowance — continued

Debt instruments at FVOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	839,374	602,661	1,817,397	3,259,432
Changes in the loss allowance				
— Transfer to stage 1	28,428	(28,428)	—	—
— Transfer to stage 2	(144,729)	455,646	(310,917)	—
— Transfer to stage 3	(54,488)	(87,224)	141,712	—
— Charge for the year	129,213	620,644	2,346,085	3,095,942
— Reversal for the year	(614,096)	(336,800)	(396,544)	(1,347,440)
— Others	98,238	—	(344,971)	(246,733)
As at 31 December 2019	281,940	1,226,499	3,252,762	4,761,201
Changes in the loss allowance				
— Transfer to stage 1	**—**	**—**	**—**	**—**
— Transfer to stage 2	**(135,482)**	**135,482**	**—**	**—**
— Transfer to stage 3	**(20,851)**	**(470,027)**	**490,878**	**—**
— Charge for the year	**114,920**	**1,054,636**	**7,387,191**	**8,556,747**
— Reversal for the year	**(43,933)**	**(306,034)**	**(1,112,640)**	**(1,462,607)**
— Others	**(27,747)**	**(118,866)**	**(488,594)**	**(635,207)**
As at 31 December 2020	**168,847**	**1,521,690**	**9,529,597**	**11,220,134**

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(2) Movements of loss allowance — continued

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	6,718,586	10,869,591	33,341,287	50,929,464
Changes in the loss allowance				
— Transfer to stage 1	281,491	(281,491)	—	—
— Transfer to stage 2	(645,070)	1,300,708	(655,638)	—
— Transfer to stage 3	(825,824)	(5,718,956)	6,544,780	—
— Charge for the year	3,349,424	3,646,006	21,071,366	28,066,796
— Reversal for the year	(2,947,387)	(2,551,793)	(5,528,744)	(11,027,924)
— Write-offs	—	—	(689,737)	(689,737)
— Others	(229,299)	(178,426)	(2,931,436)	(3,339,161)
As at 31 December 2019	5,701,921	7,085,639	51,151,878	63,939,438
Changes in the loss allowance				
— Transfer to stage 1	**199,738**	**(199,738)**	**—**	**—**
— Transfer to stage 2	**(867,330)**	**1,520,385**	**(653,055)**	**—**
— Transfer to stage 3	**(3,007,951)**	**(3,727,841)**	**6,735,792**	**—**
— Charge for the year	**4,276,518**	**3,938,196**	**73,499,948**	**81,714,662**
— Reversal for the year	**(794,204)**	**(876,305)**	**(5,572,606)**	**(7,243,115)**
— Write-offs	**—**	**—**	**(379,848)**	**(379,848)**
— Transfer in and transfer out	**(8,782)**	**139,144**	**(379,274)**	**(248,912)**
— Unwinding of discount on allowance	**—**	**—**	**(1,865,978)**	**(1,865,978)**
— Exchange differences and other	**(612,632)**	**(1,945,650)**	**(324,063)**	**(2,882,345)**
As at 31 December 2020	**4,887,278**	**5,933,830**	**122,212,794**	**133,033,902**

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

Changes in assumptions during the year are mainly changes in forward looking information and revision of estimates in probabilities of default by taking into account latest default experience.

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance

More information about the significant changes in the gross carrying amount of financial assets during the year that contributed to movement of the loss allowance, is provided at the table below:

Loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	184,176,581	7,131,921	4,471,801	195,780,303
Changes in the gross amount				
— Transfer to stage 1	359,407	(358,363)	(1,044)	—
— Transfer to stage 2	(4,159,110)	4,179,962	(20,852)	—
— Transfer to stage 3	(5,680,917)	(1,209,072)	6,889,989	—
— New financial assets originated or purchased	123,420,227	—	—	123,420,227
— Financial assets that have been derecognised	(93,633,152)	(3,712,138)	(673,422)	(98,018,712)
— Write-offs	—	—	(3,062,918)	(3,062,918)
As at 31 December 2019	204,483,036	6,032,310	7,603,554	218,118,900
Allowances for impairment loss as at 31 December 2019	1,952,119	873,329	4,039,145	6,864,593
As at 1 January 2020	**204,483,036**	**6,032,310**	**7,603,554**	**218,118,900**
Changes in the gross amount				
— Transfer to stage 1	**266,258**	**(262,715)**	**(3,543)**	**—**
— Transfer to stage 2	**(7,093,667)**	**7,117,072**	**(23,405)**	**—**
— Transfer to stage 3	**(2,880,118)**	**(1,132,614)**	**4,012,732**	**—**
— New financial assets originated or purchased	**111,392,787**	**—**	**—**	**111,392,787**
— Financial assets that have been derecognised	**(79,608,172)**	**(3,511,428)**	**(2,877,747)**	**(85,997,347)**
— Write-offs	**—**	**—**	**(3,347,999)**	**(3,347,999)**
As at 31 December 2020	**226,560,124**	**8,242,625**	**5,363,592**	**240,166,341**
Allowances for impairment loss as at 31 December 2020	**2,014,997**	**1,302,864**	**4,350,358**	**7,668,219**

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance — continued

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	94,557,783	5,270,264	1,627,011	101,455,058
Changes in the gross amount				
— Transfer to stage 1	1,091,073	(1,091,073)	—	—
— Transfer to stage 2	(1,669,074)	1,669,074	—	—
— Transfer to stage 3	(706,408)	(444,155)	1,150,563	—
— New assets originated or purchased	1,646,934	—	—	1,646,934
— Assets that have been derecognised	(31,223,884)	(727,841)	(155,036)	(32,106,761)
— Write-offs	—	—	(148,010)	(148,010)
As at 31 December 2019	63,696,424	4,676,269	2,474,528	70,847,221
Allowances for impairment loss as at 31 December 2019	490,499	488,963	1,827,463	2,806,925
As at 1 January 2020	**63,696,424**	**4,676,269**	**2,474,528**	**70,847,221**
Changes in the gross amount				
— Transfer to stage 1	**110,834**	**(110,834)**	**—**	**—**
— Transfer to stage 2	**(2,966,420)**	**2,995,736**	**(29,316)**	**—**
— Transfer to stage 3	**(648,998)**	**(1,360,222)**	**2,009,220**	**—**
— New assets originated or purchased	**1,409,386**	**—**	**—**	**1,409,386**
— Assets that have been derecognised	**(27,631,278)**	**(822,777)**	**(502,097)**	**(28,956,152)**
— Write-offs	**—**	**—**	**(604,057)**	**(604,057)**
As at 31 December 2020	**33,969,948**	**5,378,172**	**3,348,278**	**42,696,398**
Allowances for impairment loss as at 31 December 2020	**296,642**	**700,545**	**1,902,511**	**2,899,698**

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance — continued

Debt instruments at FVOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	133,017,760	11,184,035	3,185,512	147,387,307
Changes in the gross amount				
— Transfer to stage 1	168,610	(168,610)	—	—
— Transfer to stage 2	(24,979,383)	25,714,349	(734,966)	—
— Transfer to stage 3	(3,979,375)	(2,554,952)	6,534,327	—
— New financial assets originated or purchased	22,163,912	—	—	22,163,912
— Financial assets that have been derecognised	(61,009,264)	(3,879,485)	(923,130)	(65,811,879)
As at 31 December 2019	65,382,260	30,295,337	8,061,743	103,739,340
Allowances for impairment loss as at 31 December 2019	281,940	1,226,499	3,252,762	4,761,201
As at 1 January 2020	**65,382,260**	**30,295,337**	**8,061,743**	**103,739,340**
Changes in the gross amount				
— Transfer to stage 1	**—**	**—**	**—**	**—**
— Transfer to stage 2	**(12,610,295)**	**12,610,295**	**—**	**—**
— Transfer to stage 3	**(2,678,412)**	**(8,939,047)**	**11,617,459**	**—**
— New financial assets originated or purchased	**26,040,886**	**—**	**—**	**26,040,886**
— Financial assets that have been derecognised	**(28,029,278)**	**(10,111,445)**	**(8,532,655)**	**(46,673,378)**
As at 31 December 2020	**48,105,161**	**23,855,140**	**11,146,547**	**83,106,848**
Allowances for impairment loss as at 31 December 2020	**168,847**	**1,521,690**	**9,529,597**	**11,220,134**

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance — continued

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	496,719,031	97,590,011	68,753,530	663,062,572
Changes in the gross amount				
— Transfer to stage 1	4,197,320	(4,197,320)	—	—
— Transfer to stage 2	(59,547,838)	61,164,731	(1,616,893)	—
— Transfer to stage 3	(46,011,648)	(36,458,491)	82,470,139	—
— New financial assets originated or purchased	322,304,910	—	—	322,304,910
— Financial assets that have been derecognised	(220,596,698)	(46,190,808)	(11,864,845)	(278,652,351)
— Write-offs	—	—	(689,737)	(689,737)
As at 31 December 2019	497,065,077	71,908,123	137,052,194	706,025,394
Allowances for impairment loss as at 31 December 2019	5,701,921	7,085,639	51,151,878	63,939,438
As at 1 January 2020	**497,065,077**	**71,908,123**	**137,052,194**	**706,025,394**
Changes in the gross amount				
— Transfer to stage 1	**2,164,297**	**(2,164,297)**	**—**	**—**
— Transfer to stage 2	**(101,466,117)**	**106,458,816**	**(4,992,699)**	**—**
— Transfer to stage 3	**(66,384,041)**	**(45,936,751)**	**112,320,792**	**—**
— New financial assets originated or purchased	**303,029,931**	**—**	**—**	**303,029,931**
— Financial assets that have been derecognised	**(165,888,021)**	**(28,994,500)**	**(24,710,472)**	**(219,592,993)**
— Write-offs	**—**	**—**	**(379,848)**	**(379,848)**
As at 31 December 2020	**468,521,126**	**101,271,391**	**219,289,967**	**789,082,484**
Allowances for impairment loss as at 31 December 2020	**4,887,278**	**5,933,830**	**122,212,794**	**133,033,902**

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(4) Modified financial assets

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. The adjustment of the modified assets can only be made after meeting specified criteria throughout the observation period. As at 31 December 2020, the carrying amount of financial assets with such modified contractual cash flows was not significant.

(5) Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with loans and advances to customers, finance lease receivables, debt instruments at FVOCI and debt instruments at amortised cost. The main types of collateral include leasehold land and buildings, machinery and equipment, shares, accounts receivable and bank deposits.

In addition to the financial assets held under resale agreements as set out in Note V.23, the fair value of collateral held by the Group amounted to RMB1,452,146 million as at 31 December 2020 (31 December 2019: RMB1,710,820 million). The Group did not repledge any collateral held. The Group has to return the collateral when the relevant borrowers repay the balances. Assets foreclosed by the group was disclosed in Note V.39.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(5) Collateral held as security and other credit enhancements — continued

The Group requests collateral and guarantees for financial assets including loans and advances to customers, finance lease receivables, debt instruments at FVOCI and debt instruments at amortised cost. The most relevant indicator of their creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason, the valuation of collateral held against such financial assets is not routinely updated.

For credit-impaired of financial assets including loans and advances to customers, finance lease receivables, debt instruments at FVOCI and debt instruments at amortised cost, the Group obtains appraisals of collateral to inform its credit risk management actions. As at 31 December 2020, the net carrying amount of such financial assets was RMB110,683 million (31 December 2019: RMB94,921 million) and the value of the respective collateral was RMB280,130 million (31 December 2019: RMB362,364 million).

As at 31 December 2020, the Group has finance lease receivables at a carrying amount of RMB3,335 million (31 December 2019: RMB7,910 million) which are secured by the property and equipment leased to the lessee.

62. Financial risk management — continued

62.1 Credit risk — continued

(ix) Credit quality — continued

(6) Investment securities analysed by credit rating from reputable rating agencies

	As at 31 December 2020					
	AAA	**AA**	**A**	**Below A**	**Unrated**	**Total**
Government bonds	**3,800,415**	**—**	**—**	**—**	**31,491,627**	**35,292,042**
Public sector and quasi-government bonds	**302,037**	**—**	**—**	**21,622**	**41,993,236**	**42,316,895**
Financial institution bonds	**3,426,873**	**2,218,313**	**—**	**609,076**	**3,747,160**	**10,001,422**
Corporate bonds	**19,398,178**	**13,790,432**	**84,340**	**11,070,665**	**16,792,907**	**61,136,522**
Convertible bonds	**82**	**309,465**	**—**	**853,198**	**2,073,408**	**3,236,153**
Asset-backed securities	**2,128,145**	**1,228,445**	**—**	**10,875**	**307,012**	**3,674,477**
Total	**29,055,730**	**17,546,655**	**84,340**	**12,565,436**	**96,405,350**	**155,657,511**

	As at 31 December 2019					
	AAA	AA	A	Below A	Unrated	Total
Government bonds	8,246,597	—	—	—	16,283,496	24,530,093
Public sector and quasi-government bonds	700,222	—	14,548,026	—	33,012,598	48,260,846
Financial institution bonds	3,420,234	1,196,972	—	—	2,745,445	7,362,651
Corporate bonds	11,766,758	12,523,385	4,205,338	7,369,170	6,763,892	42,628,543
Convertible bonds	127,991	26,832	—	—	9,531,755	9,686,578
Asset-backed securities	250,010	335,673	—	—	8,591	594,274
Total	24,511,812	14,082,862	18,753,364	7,369,170	68,345,777	133,062,985

As at 31 December 2020, among debt securities held by the Group, debt securities issued within Mainland China amounted to RMB138,729 million (31 December 2019: RMB120,366 million), and their credit ratings are assessed by domestic credit agents; debt securities issued outside Mainland China amounted to RMB16,929 million (31 December 2019: RMB12,697 million), and their credit ratings are assessed by international credit agents.

(x) Other financial assets

Other financial assets include balances with central bank, deposits and placement with financial institutions, financial assets at fair value through profit or loss (excluding distressed debt assets), financial assets held under resale agreements and others. The directors of the Company consider that their credit risks are not significant.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.2 Market risk

Market risk is the risk of loss, in respect of the Group's on-and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities.

The risk of fair value and cash flows changes due to interest rate changes are mainly related to the Group's fixed rates and floating rates financial instruments.

The Group manages its interest rate risk by:

- minimising the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities; and

- regularly performing quantitative analysis, including periodic sensitivity analysis.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.2 Market risk — continued

Interest rate risk — continued

At the end of the reporting period, the Group's financial assets and financial liabilities at carrying amounts, categorised by remaining maturity based on the earlier of contractual repricing or maturity dates are as follows:

	As at 31 December 2020						
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central bank	22,108,136	—	—	—	—	700,226	22,808,362
Deposits with financial institutions	117,558,531	2,740,447	1,866,378	1,653,759	—	55,916	123,875,031
Placements with financial institutions	2,803,302	895,747	2,000,000	—	—	41,755	5,740,804
Financial assets at fair value through profit or loss	18,780,693	2,712,016	11,433,619	40,809,918	13,600,654	272,103,087	359,439,987
Financial assets held under resale agreements	14,732,192	—	—	—	—	492,431	15,224,623
Loans and advances to customers	57,205,789	21,108,815	90,055,474	51,213,439	12,204,460	712,202	232,500,179
Finance lease receivables	3,820,784	2,904,952	21,857,666	8,908,117	813,294	1,491,887	39,796,700
Debt instruments at fair value through other comprehensive income	11,157,272	6,456,582	20,329,603	39,698,249	4,891,629	573,513	83,106,848
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	4,493,861	4,493,861
Debt instruments at amortised cost	94,873,829	21,740,525	197,900,701	307,861,610	30,730,423	2,941,494	656,048,582
Other financial assets	395,290	111,407	1,159,169	205,455	588,459	12,238,376	14,698,156
Total financial assets	343,435,818	58,670,491	346,602,610	450,350,547	62,828,919	295,844,748	1,557,733,133
Borrowings from central bank	(13,000)	(4,124,668)	(18,607,740)	—	—	(437,421)	(23,182,829)
Deposits from financial institutions	(17,637)	(2,050,000)	(6,800,000)	—	—	(56,504)	(8,924,141)
Placements from financial institutions	(1,994,747)	(1,300,312)	(1,373,000)	—	—	(11,207)	(4,679,266)
Financial assets sold under repurchase agreements	(14,191,081)	(296,312)	(1,054,242)	—	—	(5,813)	(15,547,448)
Borrowings	(32,757,341)	(78,448,291)	(433,901,191)	(216,707,339)	(12,947,345)	(3,662,261)	(778,423,768)
Financial liabilities at fair value through profit or loss	—	—	(17,222)	(635,980)	—	(2,648,325)	(3,301,527)
Due to customers	(123,046,811)	(12,771,993)	(21,690,316)	(89,060,110)	(12)	(4,257,977)	(250,827,219)
Lease liabilities	(32,540)	(34,436)	(252,280)	(444,947)	(151,930)	(3,684)	(919,817)
Bonds and notes issued	(1,209,393)	(35,119,394)	(111,301,335)	(116,152,070)	(71,766,062)	(1,423,567)	(336,971,821)
Other financial liabilities	(16,731,391)	(10,738,407)	(28,976,715)	(19,923,167)	(1,543,565)	(44,814,499)	(122,727,744)
Total financial liabilities	(189,993,941)	(144,883,813)	(623,974,041)	(442,923,613)	(86,408,914)	(57,321,258)	(1,545,505,580)
Interest rate gap	153,441,877	(86,213,322)	(277,371,431)	7,426,934	(23,579,995)	238,523,490	12,227,553

62. Financial risk management — continued

62.2 Market risk — continued

Interest rate risk — continued

	As at 31 December 2019						
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central bank	30,136,024	—	—	—	—	638,666	30,774,690
Deposits with financial institutions	139,987,523	3,081,542	5,967,113	300,000	—	125,786	149,461,964
Placements with financial institutions	2,500,260	209,286	—	—	—	391	2,709,937
Financial assets at fair value through profit or loss	29,640,827	2,128,227	13,138,443	37,603,671	8,285,036	276,873,700	367,669,904
Financial assets held under resale agreements	21,445,857	—	470,828	—	—	609,250	22,525,935
Loans and advances to customers	42,213,729	16,575,739	94,001,724	46,327,649	11,061,055	1,085,188	211,265,084
Finance lease receivables	1,968,600	2,934,690	15,449,140	40,445,788	5,772,448	1,469,630	68,040,296
Debt instruments at fair value through other comprehensive income	16,036,129	6,235,390	31,053,681	47,559,230	2,271,145	583,765	103,739,340
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	3,583,661	3,583,661
Debt instruments at amortised cost	139,656,935	24,196,693	137,846,576	311,585,691	26,497,781	2,302,280	642,085,956
Other financial assets	—	—	—	—	—	14,715,437	14,715,437
Total financial assets	423,585,884	55,361,567	297,927,505	483,822,029	53,887,465	301,987,754	1,616,572,204
Borrowings from central bank	—	(40,000)	(3,600,000)	—	—	(1,673)	(3,641,673)
Deposits from financial institutions	(3,747,175)	(980,000)	(5,510,000)	—	—	(39,494)	(10,276,669)
Placements from financial institutions	(1,399,446)	(50,000)	(800,000)	—	—	(4,151)	(2,253,597)
Financial assets sold under repurchase agreements	(14,012,742)	(1,650,632)	—	—	—	(2,034)	(15,665,408)
Borrowings	(48,998,550)	(77,869,770)	(328,290,911)	(275,724,859)	(27,266,720)	(3,355,617)	(761,506,427)
Financial liabilities at fair value through profit or loss	—	—	(180,430)	(1,324)	(28,868)	(3,013,231)	(3,223,853)
Due to customers	(113,396,659)	(16,139,725)	(19,246,681)	(67,321,848)	(6,800,029)	(3,909,775)	(226,814,717)
Lease liabilities	(32,931)	(51,817)	(331,448)	(1,226,474)	(124,016)	(216,568)	(1,983,254)
Bonds and notes issued	(21,570,907)	(22,888,409)	(98,744,723)	(143,892,327)	(77,911,078)	(2,338,144)	(367,345,588)
Other financial liabilities	(1,380,643)	(1,256,261)	(2,638,343)	(9,398,012)	(6,648,785)	(108,192,247)	(129,514,291)
Total financial liabilities	(204,539,053)	(120,926,614)	(459,342,536)	(497,564,844)	(118,779,496)	(121,072,934)	(1,522,225,477)
Interest rate gap	219,046,831	(65,565,047)	(161,415,031)	(13,742,815)	(64,892,031)	180,914,820	94,346,727

62. Financial risk management — continued

62.2 Market risk — continued

Interest rate risk — continued

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield rate on the Group's profit before tax and other comprehensive income before tax, based on the Group's positions of interest-generating assets and interest-bearing liabilities at the end of the reporting period.

This sensitivity analysis is performed by assuming that:

- Interest income and expenses are changed by 100 basis points when interest generating assets and interest bearing liabilities within one year are reset or reinvested/replaced with similar assets or liabilities when they become matured. No changes in fair value are assumed in this assessment for financial assets at FVTPL.

- The fair value of financial instruments at FVOCI changes in respond to this change of 100 basis points.

Interest rate sensitivity analysis

	Year ended 31 December			
	2020		2019	
	Profit before tax	**Other comprehensive income before tax**	Profit before tax	Other comprehensive income before tax
+ 100 basis points	**(525,067)**	**(1,536,247)**	625,425	(1,715,833)
- 100 basis points	**525,067**	**1,593,211**	(625,425)	1,764,369

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.2 Market risk — continued

Foreign exchange risk

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

At the end of the reporting period, a breakdown of the financial assets and liabilities analysed by currency is as follows:

	As at 31 December 2020				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	22,795,949	12,396	17	—	22,808,362
Deposits with financial institutions	110,580,988	7,467,711	5,467,952	358,380	123,875,031
Placements with financial institutions	5,545,007	195,797	—	—	5,740,804
Financial assets at fair value through profit or loss	328,332,233	19,601,592	6,712,173	4,793,989	359,439,987
Financial assets held under resale agreements	15,224,623	—	—	—	15,224,623
Loans and advances to customers	232,385,457	18,922	75,903	19,897	232,500,179
Finance lease receivables	37,873,873	1,922,827	—	—	39,796,700
Debt instruments at fair value through other comprehensive income	77,855,502	5,251,346	—	—	83,106,848
Equity instruments at fair value through other comprehensive income	813,135	3,492,033	188,693	—	4,493,861
Debt instruments at amortised cost	610,666,963	39,084,903	6,296,716	—	656,048,582
Other financial assets	13,773,320	155,097	769,739	—	14,698,156
Total financial assets	1,455,847,050	77,202,624	19,511,193	5,172,266	1,557,733,133
Borrowings from central bank	(23,182,829)	—	—	—	(23,182,829)
Deposits from financial institutions	(8,924,141)	—	—	—	(8,924,141)
Placements from financial institutions	(4,397,999)	(261,199)	—	(20,068)	(4,679,266)
Financial assets sold under repurchase agreements	(14,493,206)	(1,054,242)	—	—	(15,547,448)
Borrowings	(663,737,586)	(112,443,072)	(2,243,110)	—	(778,423,768)
Financial liabilities at fair value through profit or loss	(2,648,325)	(653,202)	—	—	(3,301,527)
Due to customers	(250,576,085)	(250,485)	(24)	(625)	(250,827,219)
Lease liabilities	(663,538)	(147)	(250,254)	(5,878)	(919,817)
Bonds and notes issued	(204,873,254)	(123,141,527)	(4,001,378)	(4,955,662)	(336,971,821)
Other financial liabilities	(116,609,184)	(553,501)	(5,565,059)	—	(122,727,744)
Total financial liabilities	(1,290,106,147)	(238,357,375)	(12,059,825)	(4,982,233)	(1,545,505,580)
Net exposure	165,740,903	(161,154,751)	7,451,368	190,033	12,227,553

62. Financial risk management — continued

62.2 Market risk — continued

Foreign exchange risk — continued

	As at 31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	30,760,054	14,436	199	1	30,774,690
Deposits with financial institutions	116,534,354	19,776,872	12,654,299	496,439	149,461,964
Placements with financial institutions	2,500,260	209,677	—	—	2,709,937
Financial assets at fair value through profit or loss	327,868,682	15,385,787	21,006,334	3,409,101	367,669,904
Financial assets held under resale agreements	22,525,935	—	—	—	22,525,935
Loans and advances to customers	208,646,493	26,562	2,592,029	—	211,265,084
Finance lease receivables	65,628,038	2,412,258	—	—	68,040,296
Debt instruments at fair value through other comprehensive income	95,776,007	7,963,333	—	—	103,739,340
Equity instruments at fair value through other comprehensive income	832,192	2,565,010	186,459	—	3,583,661
Debt instruments at amortised cost	571,213,898	14,953,627	55,918,431	—	642,085,956
Other financial assets	12,387,438	759,399	1,564,149	4,451	14,715,437
Total financial assets	1,454,673,351	64,066,961	93,921,900	3,909,992	1,616,572,204
Borrowings from central bank	(3,641,673)	—	—	—	(3,641,673)
Deposits from financial institutions	(10,276,669)	—	—	—	(10,276,669)
Placements from financial institutions	(2,253,597)	—	—	—	(2,253,597)
Financial assets sold under repurchase agreements	(13,640,861)	(2,024,547)	—	—	(15,665,408)
Borrowings	(724,677,443)	(32,692,483)	(4,136,501)	—	(761,506,427)
Financial liabilities at fair value through profit or loss	(3,004,475)	(219,378)	—	—	(3,223,853)
Due to customers	(226,511,751)	(290,362)	(3,031)	(9,573)	(226,814,717)
Lease liabilities	(1,595,086)	(10)	(386,675)	(1,483)	(1,983,254)
Bonds and notes issued	(222,341,314)	(135,146,947)	(896,463)	(8,960,864)	(367,345,588)
Other financial liabilities	(128,725,532)	(695,802)	(92,957)	—	(129,514,291)
Total financial liabilities	(1,336,668,401)	(171,069,529)	(5,515,627)	(8,971,920)	(1,522,225,477)
Net exposure	118,004,950	(107,002,568)	88,406,273	(5,061,928)	94,346,727

62. Financial risk management — continued

62.2 Market risk — continued

Foreign exchange risk — continued

Foreign exchange rate sensitivity analysis

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

	Year ended 31 December			
	2020		2019	
	Profit before tax	**Other comprehensive income before tax**	Profit before tax	Other comprehensive income before tax
5% appreciation	**3,886,611**	**(446,604)**	643,480	(535,740)
5% depreciation	**(3,886,611)**	**446,604**	(643,480)	535,740

Price risk

Certain equity financial assets included in financial assets at FVTPL and financial assets at FVOCI are subject to price risk which may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may be caused by factors relating to the financial instrument itself or the issuer, and it also may be caused by market factors.

The following table illustrates the potential impact of an increase or decrease of 10 percent in price on these equity financial assets at FVTPL and financial assets at FVOCI measured at fair value on the Group's profit before tax and other comprehensive income before tax.

	Year ended 31 December			
	2020		2019	
	Profit before tax	**Other comprehensive income before tax**	Profit before tax	Other comprehensive income before tax
+10 percent	**3,020,421**	**1,661,388**	2,449,052	921,093
- 10 percent	**(3,020,421)**	**(1,661,388)**	(2,449,052)	(921,093)

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.3 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all business operations and can be affected by a range of group-specific and market-wide events.

The Group manages its liquidity risk by:

- optimising assets and liabilities structure;

- implementing a centralised liquidity management system by pooling group-wide funds and maintaining an efficient internal fund transfer mechanism within the Group; and

- regularly performing quantitative analysis.

Due to its business nature, the Group has diverse funding sources, including taking deposits from the public (for its banking operations), issues of debt instruments and perpetual capital instruments and banking borrowings.

62. Financial risk management — continued

62.3 Liquidity risk — continued

The tables below present the cash flows of financial assets and financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

	As at 31 December 2020							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central bank	18,618,154	4,180,853	—	9,397	—	—	—	22,808,404
Deposits with financial institutions	8,463,080	104,836,629	4,649,535	2,558,144	1,758,772	1,714,463	—	123,980,623
Placements with financial institutions	—	—	2,804,703	919,138	2,040,863	—	—	5,764,704
Financial assets at fair value through profit or loss	322,202,235	6,335,315	2,974,716	3,900,601	13,759,728	51,234,749	6,710,368	407,117,712
Financial assets held under resale agreements	7,878,282	—	9,276,608	—	—	—	—	17,154,890
Loans and advances to customers	6,166,645	—	14,882,432	34,800,358	79,698,747	103,464,653	63,925,146	302,937,981
Finance lease receivables	1,956,223	—	1,646,232	3,402,872	14,249,332	23,813,641	2,802,376	47,870,676
Debt instruments at fair value through other comprehensive income	14,008,606	—	1,841,970	7,563,484	23,631,732	46,420,626	6,554,579	100,020,997
Equity instruments at fair value through other comprehensive income	4,493,861	—	—	—	—	—	—	4,493,861
Debt instruments at amortised cost	139,552,356	—	44,023,139	45,116,160	229,320,519	381,906,628	37,451,574	877,370,376
Other financial assets	703,035	7,887,554	1,024,304	1,596,948	666,670	1,408,537	2,371,109	15,658,157
Total financial assets	524,042,477	123,240,351	83,123,639	99,867,102	365,126,363	609,963,297	119,815,152	1,925,178,381
Borrowings from central bank	—	—	(13,000)	(4,263,055)	(19,321,770)	—	—	(23,597,825)
Deposits from financial institutions	—	(158,928)	—	(2,079,657)	(7,140,405)	—	—	(9,378,990)
Placements from financial institutions	—	—	(2,005,245)	(1,318,922)	(1,379,997)	—	—	(4,704,164)
Financial assets sold under repurchase agreements	—	—	(15,265,937)	(299,395)	—	—	—	(15,565,332)
Borrowings	—	(19,678,225)	(27,376,932)	(73,853,613)	(451,919,935)	(270,979,072)	(16,769,064)	(860,576,841)
Financial liabilities at fair value through profit or loss	(2,648,325)	—	—	—	(17,222)	(635,980)	—	(3,301,527)
Due to customers	—	(109,861,501)	(13,955,878)	(13,344,676)	(22,940,987)	(100,464,605)	(19)	(260,567,666)
Lease liabilities	—	(286)	(35,659)	(40,361)	(311,791)	(483,820)	(171,922)	(1,043,839)
Bonds and notes issued	—	—	(1,130,918)	(36,792,248)	(123,167,259)	(129,793,695)	(90,895,136)	(381,779,256)
Other financial liabilities	(9,497,696)	(3,992,008)	(19,281,866)	(12,329,178)	(64,725,733)	(29,451,143)	(754,391)	(140,032,015)
Total financial liabilities	(12,146,021)	(133,690,948)	(79,065,435)	(144,321,105)	(690,925,099)	(531,808,315)	(108,590,532)	(1,700,547,455)
Net position	511,896,456	(10,450,597)	4,058,204	(44,454,003)	(325,798,736)	78,154,982	11,224,620	224,630,926

Maturity analysis for derivative financial assets and liabilities are not presented separately as the amount is insignificant.

62. Financial risk management — continued

62.3 Liquidity risk — continued

In respect of financial liabilities at FVTPL, the ultimate cash outflow depends on the corresponding underlying assets, and the actual amount can be different from those presented above.

	As at 31 December 2019							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central bank	21,663,610	9,098,148	—	12,854	—	—	—	30,774,612
Deposits with financial institutions	29,597,194	105,311,589	5,422,203	2,152,690	6,716,505	300,710	154,453	149,655,344
Placements with financial institutions	—	—	2,500,966	210,556	—	—	—	2,711,522
Financial assets at fair value through profit or loss	277,125,118	5,042,146	24,712,187	2,648,727	15,780,433	41,452,423	8,305,484	375,066,518
Financial assets held under resale agreements	10,599,434	—	13,090,667	—	513,868	—	—	24,203,969
Loans and advances to customers	4,121,415	—	20,720,254	20,091,456	74,626,486	89,117,334	40,234,308	248,911,253
Finance lease receivables	2,953,521	—	2,322,523	3,479,178	16,513,206	47,820,368	6,810,243	79,899,039
Debt instruments at fair value through other comprehensive income	7,578,103	—	9,144,277	9,387,807	35,825,853	53,364,939	2,468,513	117,769,492
Equity instruments at fair value through other comprehensive income	3,583,661	—	—	—	—	—	—	3,583,661
Debt instruments at amortised cost	67,569,143	—	84,739,599	38,519,541	198,113,816	322,369,074	29,317,831	740,629,004
Other financial assets	386,290	6,973,567	404,067	1,372,032	4,406,446	1,127,091	45,944	14,715,437
Total financial assets	425,177,489	126,425,450	163,056,743	77,874,841	352,496,613	555,551,939	87,336,776	1,787,919,851
Borrowings from central bank	—	—	—	(63,542)	(3,665,103)	—	—	(3,728,645)
Deposits from financial institutions	—	(3,348,319)	(405,879)	(991,652)	(5,661,027)	—	—	(10,406,877)
Placements from financial institutions	—	—	(1,434,583)	(56,860)	(816,221)	—	—	(2,307,664)
Financial assets sold under repurchase agreements	—	—	(14,178,955)	(1,855,132)	—	—	—	(16,034,087)
Borrowings	—	(21,769,962)	(32,408,676)	(84,950,481)	(347,609,491)	(294,041,577)	(28,827,147)	(809,607,334)
Financial liabilities at fair value through profit or loss	(3,013,231)	—	—	—	(180,430)	(1,324)	(28,868)	(3,223,853)
Due to customers	—	(104,023,317)	(10,418,949)	(16,959,351)	(20,218,600)	(78,104,028)	(8,291,527)	(238,015,772)
Lease liabilities	(11,330)	(142,641)	(52,307)	(83,296)	(736,380)	(1,050,162)	(131,687)	(2,207,803)
Bonds and notes issued	—	—	(23,513,505)	(25,362,125)	(111,674,086)	(163,469,917)	(98,338,014)	(422,357,647)
Other financial liabilities	(50,807,490)	(29,530,605)	(2,579,367)	(7,394,370)	(14,759,153)	(14,640,572)	(10,700,267)	(130,411,824)
Total financial liabilities	(53,832,051)	(158,814,844)	(84,992,221)	(137,716,809)	(505,320,491)	(551,307,580)	(146,317,510)	(1,638,301,506)
Net position	371,345,438	(32,389,394)	78,064,522	(59,841,968)	(152,823,878)	4,244,359	(58,980,734)	149,618,345

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.4 Risk management of distressed assets

62.4.1 Overview

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

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

62.4.2 Risk management of distressed debt assets

The Group exercises standardised management procedures, including project initiation, due diligence investigation, design and approval of recovery plan and continuous monitoring and management. The Group enhances its risk management by strengthening investigation, review and approval procedures before taking up distressed assets, and monitoring measures after taking up the distressed assets; enhancing risk mitigation effect through collateral; and continuously upgrading the management system of distressed assets.

Specifically, the risks to which distressed debts measured as financial assets at FVTPL mainly comprise valuation risk, legal title risk and to certain extent credit risk; while the risks to which distressed debts initially classified as debt instruments at amortised cost and at FVOCI mainly comprise credit risk.

(i) Valuation risk

Valuation risk is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed debt assets measured at FVTPL and at FVOCI, due to variance in factors including future cash flows, collection period, discount rate, disposal cost and etc. Measures the Group takes to minimise the valuation risk include:

- Perform investigation strictly on the parties involved in the transaction (including the debtors and the guarantors), collateral provided, repayment sources and etc.;

- Adopt conservative estimation on incurrence rate, discount rate, disposal cost and future cash flows when performing valuation; and

- Review the difference between actual results and estimation after the completion of the disposal of distressed assets to improve the accuracy of future estimations.

62. Financial risk management — continued

62.4 Risk management of distressed assets — continued

62.4.2 Risk management of distressed debt assets — continued

(i) Valuation risk — continued

The Group has established an independent valuation process for financial assets and financial liabilities. The Operation Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Finance Department records these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

(ii) Legal title risk

Legal title risk is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. Measures the Group takes to minimise the legal title risk include:

- Set up alert management system to ensure the expiry of legal claim periods related to distressed assets are managed effectively;

- Set up periodic revisiting mechanism to interview debtors and monitor the conditions of collateral. Maintain regular investigation report properly to ensure the Group has access to the most updated information; and

- Set up reporting mechanism of significant event to ensure immediate recovery action is taken when certain risk elements emerge.

(iii) Credit risk

In addition to distressed debt assets classified as debt instruments at amortised cost and at FVOCI, certain distressed debt assets measured as at FVTPL may also be subject to credit risk. Depending on the status of the obligor of distressed debt assets that are measured at FVTPL, the Group may decide to pursue repayment from the obligor instead of disposing of it to third party, credit risk arises in such situation. Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation.

62. Financial risk management — continued

62.4 Risk management of distressed assets — continued

62.4.2 Risk management of distressed debt assets — continued

(iii) Credit risk — continued

Measures the Group takes to minimise the credit risk of distressed assets include:

- Manage the creditworthiness of counterparties using independent credit rating on the counterparties as reference;

- Select counterparties with appropriate creditworthiness and repayment capability; and

- Require counterparties to provide collateral to cover the credit exposure.

62.4.3 Risk management of assets obtained through debt-to-equity swap

Certain equity classified as equity instruments at FVTPL and at FVOCI were obtained through debt-to-equity swap. Risk related to these equity instruments is the risk of loss arising from movements in the value of equity shares due to price changes or decline in value of the investees.

Measures the Group takes to minimise the risk related to these equity instruments include:

- Strengthen continuous monitoring, analysis and management of equity values;

- Gain better understanding of macro-economic policies reinforced by the government and assess their impact on the equity investments; and

- Track the value changes dynamically and identify the appropriate timing for disposal to realise the maximum value of equity shares.

62.4.4 Determination of fair value

The Group determines the fair value of distressed debt assets, which are classified as financial assets at FVTPL and at FVOCI, by using valuation techniques as these assets usually do not have an active market. Valuation techniques mainly include discounted cash flow method with future cash flow estimated based on recent prices of similar transactions entered between market participants or realisable value of the underlying assets.

V. EXPLANATORY NOTES — continued

62. Financial risk management — continued

62.4 Risk management of distressed assets — continued

62.4.5 Impairment assessment

The Group performs impairment assessment on distressed debt assets at amortised cost and at FVOCI. Assessment procedures for distressed debt assets at amortised cost and at FVOCI are similar to those set out in Note V.62.1.

62.5 Capital management

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

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

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

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

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Yinjianbanfa [2016] No. 38) and Capital Rules for Financial Asset Management Companies (Provisional) (Yinjianfa [2017] No. 56), issued by the CBIRC in 2016 and 2017 respectively, the Company is required to maintain a minimum core Tier II Capital Adequacy Ratio ("CAR") at 12.5%. CAR is calculated by dividing the corresponding qualified capital of the Company by its risk-weighted assets.

As at December 31 2019, the Company complied with the regulatory requirements on the minimum CAR. As at December 31 2020, the Company did not comply with the regulatory requirements on the minimum CAR. The Company will replenish the Company's capital by introducing strategic investors for injecting capital and other measures, which will further consolidate the Company's foundation for sustainable operations and ensure that the Company meets regulatory requirements.

63. Fair value of financial instruments

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

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

	As at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	**30,204,209**	**40,242,026**	**288,993,752**	**359,439,987**
Debt instruments at FVOCI	**14,355,631**	**23,744,737**	**45,006,480**	**83,106,848**
Equity instruments at FVOCI	**2,258,248**	**1,751,645**	**483,968**	**4,493,861**
Loans and advances to customers at FVOCI	**—**	**14,162,395**	**—**	**14,162,395**
Total	**46,818,088**	**79,900,803**	**334,484,200**	**461,203,091**

	As at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities at FVTPL	**—**	**(3,301,527)**	**—**	**(3,301,527)**

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	24,490,519	35,913,529	307,265,856	367,669,904
Debt instruments at FVOCI	8,988,847	19,533,274	75,217,219	103,739,340
Equity instruments at FVOCI	222,083	—	3,361,578	3,583,661
Loans and advances to customers at FVOCI	—	18,754,716	—	18,754,716
Total	33,701,449	74,201,519	385,844,653	493,747,621

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL	—	(3,223,853)	—	(3,223,853)

There were no significant transfers between Level 1 and Level 2 within the Group for the years ended 31 December 2020 and 2019.

63. Fair value of financial instruments — continued

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

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

Financial assets	Fair value as at 31 December		Fair value hierarchy
	2020	2019	
1) Financial assets at FVTPL			
Distressed debt assets	**189,056,713**	173,071,741	Level 3
Funds			
— Listed	**1,284,612**	919,210	Level 1
— Investing in the underlying assets with open or active quotations	**7,408,949**	5,887,732	Level 2
— Investing in the underlying assets without open or active quotations	**29,963,476**	41,444,648	Level 3
Trust products			
— Investing in the underlying assets with open or active quotations	**1,345,821**	1,211,018	Level 2
— Investing in the underlying assets without open or active quotations	**10,387,890**	26,709,741	Level 3
Equity instruments			
— Listed shares			
— Unrestricted shares	**28,315,653**	22,349,988	Level 1
— Restricted shares	**13,077,067**	4,542,485	Level 3
— Unlisted shares	**22,128,096**	33,552,989	Level 3
Debt securities			
— Traded in stock exchanges	**417,398**	1,066,498	Level 1
— Traded in stock exchanges (private equity bonds)	**—**	127,549	Level 3
— Traded in inter-bank markets	**12,917,322**	9,936,821	Level 2
— Traded over the counter	**956,766**	1,297,050	Level 3
Wealth management products			
— Investing in the underlying assets with open or active quotations	**9,013,565**	14,690,357	Level 2
— Investing in the underlying assets without open or active quotations	**1,010,000**	—	Level 3
Convertible bonds			
— Listed	**16,547**	154,823	Level 1
— Unlisted	**3,219,606**	9,531,755	Level 3

63. Fair value of financial instruments — continued

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

Financial assets	Fair value as at 31 December		Fair value hierarchy
	2020	2019	
Derivatives and structured products	**6,545,926**	8,466,928	Level 3
Other debt assets			
— Traded in stock exchanges	**169,999**	—	Level 1
— Investing in the underlying assets without open or active quotations	**4,973,415**	3,149,511	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	**5,222,484**	2,055,728	Level 2
— Investing in the underlying assets without open or active quotations	**4,993,861**	4,735,162	Level 3
Negotiable certificates of deposit	**4,333,885**	2,131,873	Level 2
Entrusted loans	**2,381,390**	597,056	Level 3
Asset-backed securities	**299,546**	39,241	Level 3
Subtotal	**359,439,987**	367,669,904	
2) Debt instruments at FVOCI			
Distressed debt assets	**36,654,337**	64,573,237	Level 3
Debt securities			
— Traded in stock exchanges	**14,355,631**	8,904,230	Level 1
— Traded in inter-bank markets	**23,169,196**	18,294,291	Level 2
— Traded over the counter	**63,000**	117,833	Level 3
Entrusted loans	**2,758,435**	4,283,029	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	**534,498**	768,567	Level 2
— Investing in the underlying assets without open or active quotations	**2,487,853**	3,105,683	Level 3
Debt instruments	**2,213,452**	1,878,915	Level 3
Trust products	**277,608**	1,258,522	Level 3

63. Fair value of financial instruments — continued

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

Financial assets	Fair value as at 31 December 2020	2019	Fair value hierarchy
Asset-backed securities			
— Traded in active market	**—**	84,617	Level 1
— Investing in the underlying assets with open or active quotations	**41,043**	470,416	Level 2
— Investing in the underlying assets without open or active quotations	**551,795**	—	Level 3
Subtotal	**83,106,848**	103,739,340	
3) Equity instruments at FVOCI			
Shares			
— Listed shares	**2,258,248**	222,083	Level 1
— Unlisted shares	**1,751,645**	—	Level 2
— Unlisted shares	**483,968**	3,361,578	Level 3
Subtotal	**4,493,861**	3,583,661	
4) Loans and advances to customers at FVOCI			
Discounted bills	**14,162,395**	18,754,716	Level 2
Total	**461,203,091**	493,747,621	

Financial liabilities	2020	2019	Fair value hierarchy
Financial liabilities mandatorily measured as at FVTPL			
— Derivatives financial instruments	**(656,826)**	(219,378)	Level 2
Financial liabilities designated as at FVTPL			
— Interests of other holders in consolidated structured entities	**(2,644,701)**	(3,004,475)	Level 2
Total	**(3,301,527)**	(3,223,853)	

V. EXPLANATORY NOTES — continued

63. Fair value of financial instruments — continued

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

Valuation methods for financial instruments

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

For Level 2 financial instruments, valuations are generally calculated based on discounted cash flow methods or quoted prices of actively traded underlying assets. For discounted cash flow methods, the most significant inputs are yield curves published by China Central Depository & Clearing Co., Ltd., interest rates publicly available from Shanghai Commercial Paper Exchange, announced expected returns of similar wealth management products sponsored by the same banks, or forward interest rate or exchange rate. Actively traded underlying assets are primarily listed shares or quoted debt instruments. When some of these securities are denominated in currencies other than Renminbi, they are converted at appropriate exchange rates prevailing on the balance sheet dates.

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

63. Fair value of financial instruments — continued

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

The following table summaries the major valuation information for Level 3 financial instruments:

Business	Valuation technique	Significant unobservable input(s)	The effect of unobservable inputs on fair value
Distressed debt assets	• Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level	• Estimated recoverable amount, estimated recovery date, discount rate in line with estimated risk level	• The higher the expected recoverable amount, 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.
Unlisted equity instruments	• Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level	• Estimated recoverable amount, estimated recovery date, discount rate in line with estimated risk level	• The higher the expected recoverable amount, 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.
	• Comparable listed company method, comparable transaction cases, etc.	• Market multiplier, discount for lack of marketability (DLOM)	• The higher market multiplier, the higher the fair value. The lower the DLOM, the higher the fair value.
	• Asset-Based approach	• Adjusted net assets, discount for lack of marketability (DLOM)	• The higher the adjusted net assets, the higher the fair value. The lower the DLOM, the higher the fair value.

63. Fair value of financial instruments — continued

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

The following table summaries the major valuation information for Level 3 financial instruments: — continued

Business	Valuation technique	Significant unobservable input(s)	The effect of unobservable inputs on fair value
Listed equity instruments (restricted)	• Option Pricing Model	• Stock volatility	• The lower the stock volatility, the higher the fair value.
Debt securities	• Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level	• Estimated recoverable amount, estimated recovery date, discount rate in line with estimated risk level	• The higher the expected recoverable amount, 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.
Funds; Trust products; Wealth management products; Derivatives and structured products, etc	• Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level	• Estimated recoverable amount, estimated recovery date, discount rate in line with estimated risk level	• The higher the expected recoverable amount, 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.
	• Comparable listed company method, comparable transaction cases, etc.	• Market multiplier, discount for lack of marketability (DLOM)	• The higher market multiplier, the higher the fair value. The lower the DLOM, the higher the fair value.
	• Asset-Based approach	• Adjusted net assets, discount for lack of marketability (DLOM)	• The higher the adjusted net assets, the higher the fair value. The lower the DLOM, the higher the fair value.

63. Fair value of financial instruments — continued

63.2 Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL	Debt instruments at FVOCI	Equity instruments at FVOCI	Financial liabilities at FVTPL
As at 1 January 2020	**307,265,856**	**75,217,219**	**3,361,578**	**—**
Recognised in profit or loss	**(34,736,882)**	**—**	**—**	**—**
Recognised in other comprehensive income	**—**	**(8,124,362)**	**(96,492)**	**—**
Additions	**82,739,108**	**6,681,669**	**249,134**	**—**
Settlements/disposals	**(52,582,281)**	**(28,768,046)**	**(278,783)**	**—**
Transferred-out from Level 3	**(13,692,049)**	**—**	**(2,751,469)**	**—**
As at 31 December 2020	**288,993,752**	**45,006,480**	**483,968**	**—**
Changes in unrealized losses for the year included in profit or loss for assets and liabilities held at the end of the year	**(25,589,264)**	**—**	**—**	**—**

63. Fair value of financial instruments — continued

63.2 Reconciliation of Level 3 fair value measurements — continued

	Financial assets at FVTPL	Debt instruments at FVOCI	Equity instruments at FVOCI	Financial liabilities at FVTPL
As at 1 January 2019	333,745,861	113,507,743	3,212,538	(578,088)
Recognised in profit or loss	3,888,219	1,880,165	—	(82,994)
Recognised in other comprehensive income	—	(2,149,954)	458,972	—
Additions	80,619,641	14,045,759	282,670	—
Settlements/disposals	(110,987,865)	(52,066,494)	(592,602)	661,082
As at 31 December 2019	307,265,856	75,217,219	3,361,578	—
Changes in unrealised losses for the year included in profit or loss for assets and liabilities held at the end of the year	(1,296,858)	(2,163,540)	—	—

For the year ended 31 December 2020, certain restricted shares were transferred out from Level 3 fair value measurement as they became unrestricted during the year.

63. Fair value of financial instruments — continued

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

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

	As at 31 December			
	2020		2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Debt instruments at amortised cost	**656,048,582**	**691,430,559**	642,085,956	662,428,417
Loans and advances to customers	**218,337,784**	**241,165,009**	192,510,368	195,269,628
Total	**874,386,366**	**932,595,568**	834,596,324	857,698,045
Financial liabilities				
Borrowings	**(778,423,768)**	**(780,436,264)**	(761,506,427)	(764,114,028)
Bonds and notes issued	**(336,971,821)**	**(342,610,138)**	(367,345,588)	(367,360,870)
Total	**(1,115,395,589)**	**(1,123,046,402)**	(1,128,852,015)	(1,131,474,898)

63. Fair value of financial instruments — continued

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

	As at 31 December		Fair value hierarchy	Valuation technique
	2020	2019		
Financial assets				
Loans and advances to customers	**241,165,009**	195,269,628	Level 3	Discounted cash flows
Debt instruments at amortised cost	**—**	20,684,625	Level 1	Quoted ask prices in an active market
Debt instruments at amortised cost	**97,356,303**	82,274,686	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Debt instruments at amortised cost	**594,074,256**	559,469,106	Level 3	Discounted cash flows
Total	**932,595,568**	857,698,045		
Financial liabilities				
Borrowings	**(780,436,264)**	(764,114,028)	Level 3	Discounted cash flows
Bonds and notes issued	**(25,557,463)**	(35,498,623)	Level 1	Quoted ask prices in an active market
Bonds and notes issued	**(298,418,770)**	(309,504,770)	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Bonds and notes issued	**(18,633,905)**	(22,357,477)	Level 3	Discounted cash flows
Total	**(1,123,046,402)**	(1,131,474,898)		

64. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Bonds and notes issued	Financial liabilities at FVTPL	Lease liabilities	Payables to interest holders of consolidated structured entities	Dividends payable	Total
	Note V.44	Note V.49	Note V.22	Note V.48	Note V.50	Note V.50	
As at 1 January 2020	90,338,389	367,345,588	3,223,853	1,983,254	72,983,379	4,436,341	540,310,804
Financing cash flows	(41,929,438)	(35,485,299)	608,042	(949,344)	(5,306,317)	(1,297,991)	(84,360,347)
Non-cash changes							
Fair value adjustments	—	—	(530,954)	—	—	—	(530,954)
Foreign exchange translation	(3,080,763)	(8,847,828)	—	(16,753)	—	—	(11,945,344)
Interest expenses	3,427,241	13,959,360	—	64,511	—	—	17,451,112
Interest capitalisation	774,770	—	—	—	—	—	774,770
Net decrease in lease	—	—	—	(170,360)	—	—	(170,360)
Acquisition/Disposal of subsidiary	3,701,016	—	586	8,509	—	—	3,710,111
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	500,515	—	500,515
Dividends declared	—	—	—	—	—	1,173,995	1,173,995
As at 31 December 2020	53,231,215	336,971,821	3,301,527	919,817	68,177,577	4,312,345	466,914,302

64. Reconciliation of liabilities arising from financing activities — continued

	Borrowings	Bonds and notes issued	Financial liabilities at FVTPL	Lease liabilities	Payables to interest holders of consolidated structured entities	Dividends payable	Total
	Note V.44	Note V.49	Note V.22	Note V.48	Note V.50	Note V.50	
As at 1 January 2019	154,887,933	353,305,299	4,728,291	1,786,683	92,869,809	4,364,099	611,942,114
Financing cash flows	(67,167,324)	(790,422)	(1,745,376)	(770,148)	(20,517,725)	(1,413,025)	(92,404,020)
Non-cash changes							
Fair value adjustments	—	—	240,938	—	—	—	240,938
Foreign exchange translation	888,293	3,790,280	—	112,000	—	—	4,790,573
Interest expenses	11,436,031	14,591,771	—	54,056	—	—	26,081,858
Interest capitalisation	834,580	—	—	—	—	—	834,580
Net increase in lease	—	—	—	800,663	—	—	800,663
Disposal of subsidiary	(10,541,124)	(3,551,340)	—	—	—	—	(14,092,464)
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	631,295	—	631,295
Dividends declared	—	—	—	—	—	1,485,267	1,485,267
As at 31 December 2019	90,338,389	367,345,588	3,223,853	1,983,254	72,983,379	4,436,341	540,310,804

Only cash flows of borrowings of non-financial institution subsidiaries are considered as financing activities in the presentation of consolidated statement of cash flows.

65. Acquisition of subsidiaries

The Group acquired 59.26% shares in Huarong Rongda Futures through debt-to-equity business. On 30 April 2020, according to the resolutions of the Shareholders' meeting of Huarong Rongda Futures, the Company effectively control over the board of directors, thereby effectively obtained the control of Huarong Rongda Futures. Huarong Rongda Futures, which was previously known as CEFC Futures Co., Ltd, was established in Zhengzhou City, Henan Province, PRC and its principal activity is futures business.

V. EXPLANATORY NOTES — continued

65. Acquisition of subsidiaries — continued

The fair value and carrying amount of identifiable assets and liabilities of Huarong Rongda Futures as at the date of acquisition:

	As at 30 April	
	2020	2020
	Fair Value	Carrying amount
Deposits with financial institutions	**2,390,576**	**2,390,576**
Financial assets at fair value through profit or loss	**119,704**	**119,704**
Interests in associates and joint ventures	**52,293**	**52,293**
Investment properties	**52,233**	**52,233**
Property and equipment	**38,184**	**14,982**
Right-of-use assets	**9,201**	**9,201**
Other assets	**399,674**	**400,647**
Financial liabilities at fair value through profit or loss	**(586)**	**(586)**
Lease liabilities	**(8,509)**	**(8,509)**
Deferred tax liabilities	**(15,518)**	**(9,960)**
Other liabilities	**(1,909,745)**	**(1,909,745)**
Total	**1,127,507**	**1,110,836**
Non-controlling interests	**—**	
Identifiable fair value share of net assets	**668,116**	
Goodwill arising on acquisition	**833,558**	
Consideration transferred[(1)]	**1,501,674**	

(1) The balance is the fair value of equity investment in Huarong Rongda Futures held by the Group as at 30 April 2020.

65. Acquisition of subsidiaries — continued

The financial performance and cash flows of Huarong Rongda Futures from the date of acquisition to 31 December 2020 are as follow:

	For the period from 30 April to 31 December 2020
Total income	**531,910**
Net profit for the period	**1,813**
Net cash flows for the period	**423,336**

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Huarong Rongda Futures is as follow:

	As at 30 April 2020
Cash and cash equivalents held by Huarong Rongda Futures as at the acquisition date	**1,293,105**
Less: Cash consideration paid	**—**
Net cash inflow on the acquisition	**1,293,105**

66. Particulars of principal subsidiaries

Details of the Company's subsidiaries as at 31 December 2020 are set out below:

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December 2020 (In '000)	Proportion of ownership held by the Group At 31 December 2020 %	2019 %	Proportion of voting rights held by the Group At 31 December 2020 %	2019 %	Principal activities
Huarong Xiangjiang Bank (華融湘江銀行股份有限公司)[c][1][2][7]	Changsha, PRC	October 2010	RMB7,750,431	**40.53**	40.53	**40.53**	40.53	Bank
Huarong Securities Co., Ltd. (華融證券股份有限公司)[c][1][7]	Beijing, PRC	September 2007	RMB 5,840,703	**71.99**	71.99	**71.99**	71.99	Securities
Huarong Financial Leasing (華融金融租賃股份有限公司)[c][1][7]	Hangzhou, PRC	December 2001	RMB 5,926,761	**79.92**	79.92	**79.92**	79.92	Leasing
Huarong Rongde Asset Management Co., Ltd. (華融融德資產管理有限公司)[b][7]	Beijing, PRC	June 2006	RMB 1,788,000	**59.30**	59.30	**59.30**	59.30	Asset Management
Huarong International Trust Co., Ltd. (華融國際信託有限責任公司)[d][1]	Urumqi, PRC	August 2002	RMB 3,035,653	**76.79**	76.79	**76.79**	76.79	Trust
Huarong Industrial Investment & Management Co., Ltd (the former Huarong Real Estate Co., Ltd.) (華融實業投資管理有限公司, 原華融置業有限責任公司)[a][7]	Zhuhai, PRC	May 1994	RMB 1,850,000	**100.00**	100.00	**100.00**	100.00	Real Estate Industry and Investment Management
Huarong Huitong Asset Management Co., Ltd. (華融匯通資產管理有限公司)[a][7]	Beijing, PRC	September 2010	RMB 906,700	**100.00**	100.00	**100.00**	100.00	Asset Management
Huarong Zhiyuan Investment & Management Co., Ltd. (華融致遠投資管理有限責任公司)[a]	Beijing, PRC	November 2009	RMB 691,000	**100.00**	100.00	**100.00**	100.00	Asset Management
Huarong Consumer Finance Co., Ltd. (華融消費金融股份有限公司)[c][1][3]	Hefei, PRC	January 2016	RMB 900,000	**70.00**	55.00	**70.00**	55.00	Personal Consumption Loan
Huarong Rongda Futures (華融融達期貨股份有限公司)[c][1][4]	Zhengzhou, PRC	April 1993	RMB 1,830,307	**59.26**	N/A	**59.26**	N/A	Futures Broking
China Huarong International Holdings Limited (中國華融國際控股有限公司)[7]	Hong Kong, PRC	January 2013	HKD 2,771,382	**100.00**	100.00	**100.00**	100.00	Investment Holding

V. EXPLANATORY NOTES — continued

66. Particulars of principal subsidiaries — continued

Details of the Company's subsidiaries as at 31 December 2020 are set out below: — continued

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December 2020 (In '000)	Proportion of ownership held by the Group At 31 December 2020	2019	Proportion of voting rights held by the Group At 31 December 2020	2019	Principal activities
				%	%	%	%	
Huarong Futures Co., Ltd. (華融期貨有限責任公司)[(d) (1)]	Haikou, PRC	September 1993	RMB 320,000	**92.50**	92.50	**92.50**	92.50	Futures Broking
Huarong Tianze Investment Limited (華融天澤投資有限公司)[(a)]	Shanghai, PRC	November 2012	RMB 461,000	**100.00**	100.00	**100.00**	100.00	Investment Holding
Huarong Yufu Equity Investment Fund Management Co., Ltd. (華融渝富股權投資基金管理有限公司)[(d)]	Chongqing, PRC	July 2010	RMB 446,306	**91.00**	91.00	**91.00**	91.00	Investment Holding
Huarong Qianhai Wealth Management Co., Ltd. (華融前海財富管理股份有限公司)[(c)]	Shenzhen, PRC	September 2014	RMB 481,618	**68.00**	68.00	**68.00**	68.00	Wealth Management
China Huarong Western Development Investment Co., Ltd. (華融西部開發投資有限公司)[(a)]	Yinchuan, PRC	December 2014	RMB 540,000	**100.00**	100.00	**100.00**	100.00	Asset Management
HIFH (華融國際金融控股有限公司)[(1)]	Bermuda, UK	November 1993	HKD 3,588	**51.00**	51.00	**51.00**	51.00	Securities
HISC (華融投資股份有限公司)	Cayman Islands	July 2014	HKD 18,160	**51.00**	50.99	**51.00**	50.99	Investment Management
Huarong Guangdong FTA Investment Holdings Limited (華融廣東自貿區投融資控股有限公司)[(a)]	Zhuhai, PRC	November 2015	RMB 255,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong (Tianjin FTA) Investment Co., Ltd. (華融（天津自貿試驗區）投資有限公司)[(a)]	Tianjin, PRC	November 2015	RMB 255,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong Gannan Finance Investment Limited (華融贛南產融投資有限責任公司)[(a)]	Ganzhou, PRC	November 2015	RMB 200,000	**100.00**	100.00	**100.00**	100.00	Investment Management

66. Particulars of principal subsidiaries — continued

Details of the Company's subsidiaries as at 31 December 2020 are set out below: — continued

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December 2020 (In '000)	Proportion of ownership held by the Group At 31 December 2020 %	2019 %	Proportion of voting rights held by the Group At 31 December 2020 %	2019 %	Principal activities
Huarong Huaqiao Asset Management Co., Ltd. (華融華僑資產管理股份有限公司)[(c) (5)]	Shantou, PRC	December 2015	RMB 500,000	**91.00**	91.00	**100.00**	91.00	Investment Management
Huarong Capital Management Co., Ltd. (華融資本管理有限公司)[(d)]	Beijing, PRC	March 2016	RMB 300,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong Kunlun Qinghai Asset Management Co., Ltd. (華融昆侖清海資產管理股份有限公司)[(c)(6)]	Xining, PRC	June 2016	RMB 1,000,000	**N/A**	75.00	**N/A**	75.00	Investment Management
Huarong Emerging Industry Investment Management Co., Ltd. (華融新興產業投資管理有限公司)[(a)]	Beijing, PRC	November 2016	RMB 510,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong Innovation Investment Co., Ltd. (華融創新投資有限責任公司)[(a)]	Beijing, PRC	January 2016	RMB 255,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong (Fujian Free Trade Test Area) Investment Co., Ltd. (華融(福建自貿試驗區)投資有限公司)[(a)]	Xiamen, PRC	June 2016	RMB 255,000	**100.00**	100.00	**100.00**	100.00	Investment Management
China Huarong (Macau) International Co., Ltd. (中國華融(澳門)國際股份有限公司)	Macau, PRC	November 2016	MOP 233,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong Zhong Guancun Distressed Assets Exchange Center Co., Ltd (華融中關村不良資產交易中心股份有限公司)[(c)]	Beijing, PRC	January 2017	RMB 500,000	**79.60**	79.60	**79.60**	79.60	Investment Management
Huarong Ruitong Equity Investment Co., Ltd. (華融瑞通股權投資管理有限公司)[(a)]	Beijing, PRC	January 2017	RMB 300,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong (HK) Industrial and Financial Investment Limited (華融(香港)產融投資有限公司)[(a)]	Hong Kong	November 2015	USD 40,000	**100.00**	100.00	**100.00**	100.00	Investment Management

The English names of these subsidiaries are for identification purpose only.

66. Particulars of principal subsidiaries — continued

The above table lists the principal subsidiaries of the Company.

(a) This entity is registered as solely invested by a corporation limited liability company under the PRC laws.

(b) This entity is registered as a Sino-foreign joint venture limited liability company under the PRC laws.

(c) This entity is registered as an unlisted joint stock limited company under the PRC laws.

(d) This entity is registered as other limited liability company under the PRC laws.

To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

(1) These subsidiaries are regulated financial institutions, therefore, they have to comply with regulatory requirements on related party transactions or capital requirements. As a result, the ability of the Group to access assets held by these subsidiaries to settle liabilities is restricted. As at 31 December 2020, the aggregate balance of total assets of these subsidiaries before consolidation eliminations amounted to RMB650,718 million (31 December 2019: RMB617,764 million).

(2) According to the articles of association, the Directors of the Company conclude that the Group has the power to direct the relevant operation plan and financial policies of Huarong Xiangjiang Bank and has control over Huarong Xiangjiang Bank.

(3) On 26 April 2020, through the Company's capital injection of RMB300 million to Huarong Consumer Finance Co., Ltd. ("Huarong Consumer Finance"), the shareholding ratio increased to 70.00%.

(4) As disclosed in Note V.65, on 30 April 2020, according to the resolutions of the Shareholders' meeting of Huarong Rongda Futures, the Company effectively control over the board of directors, thereby effectively obtained the control of Huarong Rongda Futures.

(5) In 2020, Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") signed a shareholder agreement with the shareholder holding 9% equity of Huarong Huaqiao Asset Management Co., Ltd., agreeing that Huarong Zhiyuan would take over and exercise the full voting rights at the general meetings of shareholders.

(6) In June 2020, Hangzhou Huitong Huayuan Investment Partnership (Limited Partnership), a subsidiary directly wholly owned by Huarong Huitong Asset Management Co., Ltd. ("Huarong Huitong"), entered into a Sale and Purchase Agreement with Qinghai Chenming Industrial Co., Ltd. and Shandong Shouguang Jinxin Investment Development Holding Group Co., Ltd. in relation to the sale and purchase of 75.00% of the total issued shares of Huarong Kunlun Qinghai Asset Management Co., Ltd. ("Huarong Kunlun"). Upon completion, Huarong Kunlun ceased to be a subsidiary of the Company and Huarong Huitong.

(7) The balances of bonds and notes were issued by the Company and its subsidiaries are as follows:

Name of entity	As at 31 December **2020**	2019
The Company	**87,325,048**	85,521,702
Huarong Xiangjiang Bank	**80,567,722**	84,744,394
Huarong Securities Co., Ltd.	**18,633,905**	22,150,141
Huarong Financial Leasing	**13,926,356**	14,132,413
Huarong Rongde Asset Management Co., Ltd.	**7,322,321**	7,612,146
Huarong Industrial Investment & Management Co., Ltd	**4,390,198**	12,709,476
Huarong Huitong	**—**	826,154
Huarong International Holdings Limited	**124,806,271**	139,649,162
Total	**336,971,821**	367,345,588

Apart from information of bonds and notes issued by certain subsidiaries, no other debt securities had been issued by other subsidiaries at the end of the year.

V. EXPLANATORY NOTES — continued

67. Non-controlling interests in the subsidiaries of the Group

The subsidiaries that have significant non-controlling interests to the Group are set out below. They include Huarong Xiangjiang Bank, Huarong Rongde Asset Management Co., Ltd ("Huarong Rongde"), Huarong Financial Leasing, and Huarong International Trust Co., Ltd ("Huarong Trust").

General information about these subsidiaries has been set out in Note V.67. Summarised financial information about these subsidiaries and entities controlled by them, before intra-group eliminations, are as follows:

Huarong Xiangjiang Bank

	As at 31 December	
	2020	2019
Total assets	**405,975,610**	366,776,834
Total liabilities	**374,973,311**	342,795,794
Equity attributable to equity holders of the subsidiary	**30,943,307**	23,919,497
Non-controlling interests	**58,992**	61,543
Total equity	**31,002,299**	23,981,040
Non-controlling interests of the subsidiary	**15,251,384**	14,224,924
Equity attributable to holders of perpetual capital instruments	**5,297,799**	—

	Year ended 31 December	
	2020	2019
Total revenue	**21,146,311**	19,285,003
Profit before tax	**3,671,454**	3,771,717
Total comprehensive income	**2,824,020**	3,029,816
Profit attributable to non-controlling interests of the subsidiary	**1,705,058**	1,791,031
Dividend distribution to non-controlling interests	**654,504**	599,194

	Year ended 31 December	
	2020	2019
Net cash flow from operating activities	**11,999,766**	8,157,707
Net cash flow used in investing activities	**(15,378,655)**	(134,813)
Net cash flow (used in)/from financing activities	**(2,576,454)**	418,833
Net cash (outflow)/inflow	**(5,955,343)**	8,441,727

67. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Financial Leasing

	As at 31 December	
	2020	2019
Total assets	**138,280,407**	138,254,066
Total liabilities	**121,632,240**	122,075,449
Total equity	**16,648,167**	16,178,617
Non-controlling interests of the subsidiary	**3,342,834**	3,248,551

	Year ended 31 December	
	2020	2019
Total revenue	**8,253,019**	8,340,493
Profit before tax	**2,046,474**	2,279,637
Total comprehensive income	**1,481,405**	1,756,371
Profit attributable to non-controlling interests of the subsidiary	**313,318**	351,471
Dividend distribution to non-controlling interests	**203,173**	87,927

	Year ended 31 December	
	2020	2019
Net cash flow from operating activities	**2,870,844**	5,189,525
Net cash flow (used in)/from investing activities	**(40,098)**	231,382
Net cash flow (used in)/from financing activities	**(1,801,619)**	1,597,399
Net cash inflow	**1,029,127**	7,018,306

67. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Rongde

	As at 31 December	
	2020	2019
Total assets	**24,356,476**	25,199,420
Total liabilities	**18,522,243**	19,591,353
Total equity	**5,834,233**	5,608,067
Non-controlling interests of the subsidiary	**2,374,533**	2,282,483

	Year ended 31 December	
	2020	2019
Total revenue	**1,866,423**	2,178,069
Profit before tax	**575,811**	785,023
Total comprehensive income	**411,165**	934,687
Profit attributable to non-controlling interests of the subsidiary	**167,344**	152,195
Profit attributable to holders of perpetual capital instruments	**—**	128,344
Dividend distribution to non-controlling interests	**75,295**	50,468

	Year ended 31 December	
	2020	2019
Net cash flow used in operating activities	**(1,365,902)**	(422,354)
Net cash flow from investing activities	**2,623,754**	3,272,597
Net cash flow used in financing activities	**(2,720,295)**	(3,168,123)
Net cash outflow	**(1,462,443)**	(317,880)

V. EXPLANATORY NOTES — continued

67. Non-controlling interests in the subsidiaries of the Group — continued

Huarong Trust

	As at 31 December	
	2020	2019
Total assets	**19,910,657**	21,772,238
Total liabilities	**17,129,456**	13,524,406
Total equity	**2,781,201**	8,247,832
Non-controlling interests of the subsidiary	**645,564**	1,914,461

	Year ended 31 December	
	2020	2019
Total revenue	**(2,288,002)**	1,417,939
Loss before tax	**(5,961,682)**	(346,706)
Total comprehensive expense	**(5,933,785)**	(422,973)
Loss attributable to non-controlling interests of the subsidiary	**(1,382,449)**	(104,994)

	Year ended 31 December	
	2020	2019
Net cash flow (used in)/from operating activities	**(2,194,517)**	273,977
Net cash flow used in investing activities	**(1,655,727)**	(1,033,155)
Net cash flow from financing activities	**2,472,871**	1,351,057
Net cash (outflow)/inflow	**(1,377,373)**	591,879

68. Statement of financial position and changes in equity of the Company

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	As at 31 December	
	2020	2019
Assets		
Cash and balances with central bank	**1,282**	1,274
Deposits with financial institutions	**56,035,319**	63,595,807
Placements with financial institutions	**3,003,302**	2,800,814
Financial assets at fair value through profit or loss	**231,478,624**	217,458,993
Financial assets held under resale agreements	**1,185,752**	2,782,278
Debt instruments at fair value through other comprehensive income	**34,684,226**	66,796,143
Equity instruments at fair value through other comprehensive income	**458,968**	579,214
Debt instruments at amortised cost	**342,822,554**	338,948,117
Amounts due from subsidiaries	**70,215,146**	89,876,725
Interests in consolidated structured entities	**6,315,716**	6,397,365
Investment properties	**480,541**	503,641
Property and equipment	**626,981**	662,854
Right-of-use assets	**120,722**	326,067
Deferred tax assets	**8,417,135**	5,922,214
Interests in associates	**1,065,689**	72,058
Interests in subsidiaries	**18,469,777**	26,408,017
Other assets	**8,065,710**	4,279,638
Total assets	**783,447,444**	827,411,219
Liabilities		
Borrowings	**634,839,327**	571,104,982
Tax payable	**—**	1,305,526
Lease liabilities	**60,359**	307,516
Bonds and notes issued	**87,259,973**	85,761,976
Other liabilities	**37,435,129**	42,428,743
Total liabilities	**759,594,788**	700,908,743

68. Statement of financial position and changes in equity of the Company — continued

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 — continued

	As at 31 December	
	2020	2019
Equity		
Share capital	**39,070,208**	39,070,208
Capital reserve	**17,162,909**	17,136,824
Surplus reserve	**8,564,210**	8,564,210
General reserve	**11,353,388**	10,267,972
Other reserves	**1,377,809**	2,808,403
(Accumulated losses)/Retained earnings	**(53,675,868)**	48,654,859
Total equity	**23,852,656**	126,502,476
Total equity and liabilities	**783,447,444**	827,411,219

68. Statement of financial position and changes in equity of the Company — continued

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves: Investment revaluation reserve	Other reserves: Others	Retained earnings/ (Accumulated losses)	Total
As at 1 January 2020	**39,070,208**	**17,136,824**	**8,564,210**	**10,267,972**	**2,824,643**	**(16,240)**	**48,654,859**	**126,502,476**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(100,704,007)**	**(100,704,007)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**(1,530,558)**	**(11,568)**	**—**	**(1,542,126)**
Total comprehensive expense for the year	**—**	**—**	**—**	**—**	**(1,530,558)**	**(11,568)**	**(100,704,007)**	**(102,246,133)**
Dividends declared	**—**	**—**	**—**	**—**	**—**	**—**	**(429,772)**	**(429,772)**
Appropriation to general reserve	**—**	**—**	**—**	**1,085,416**	**—**	**—**	**(1,085,416)**	**—**
Others	**—**	**26,085**	**—**	**—**	**111,532**	**—**	**(111,532)**	**26,085**
As at 31 December 2020	**39,070,208**	**17,162,909**	**8,564,210**	**11,353,388**	**1,405,617**	**(27,808)**	**(53,675,868)**	**23,852,656**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves: Investment revaluation reserve	Other reserves: Others	Retained earnings	Total
As at 31 December 2018	39,070,208	17,371,028	6,971,780	9,515,689	1,593,593	(75,311)	35,938,706	110,385,693
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	(56,915)	(56,915)
As at 1 January 2019 (Restated)	39,070,208	17,371,028	6,971,780	9,515,689	1,593,593	(75,311)	35,881,791	110,328,778
Profit for the year	—	—	—	—	—	—	15,924,299	15,924,299
Other comprehensive income for the year	—	—	—	—	897,282	59,071	—	956,353
Total comprehensive Income for the year	—	—	—	—	897,282	59,071	15,924,299	16,880,652
Dividends declared	—	—	—	—	—	—	(472,750)	(472,750)
Appropriation to surplus reserve	—	—	1,592,430	—	—	—	(1,592,430)	—
Appropriation to general reserve	—	—	—	752,283	—	—	(752,283)	—
Others	—	(234,204)	—	—	333,768	—	(333,768)	(234,204)
As at 31 December 2019	39,070,208	17,136,824	8,564,210	10,267,972	2,824,643	(16,240)	48,654,859	126,502,476

VI. EVENTS AFTER THE REPORTING PERIOD

1. Huarong Industrial Investment & Management Co., Ltd, a subsidiary of the Company, issued Debt Financing Plans on CFAE (Beijing Financial Assets Exchange Co. Ltd.) of RMB800 million on 6 January 2021. These Debt Financing Plans carry interests of 5.50% per annum and will mature in 2022.

2. Huarong Financial Leasing, a subsidiary of the Company, issued US dollar corporate notes of USD340 million on 14 January 2021. These bonds carry interests of 1.90% per annum will mature in 2022.

3. Huarong Rongde, a subsidiary of the Company, issued corporate bonds of RMB900 million on 25 January 2021. These bonds carry interests of 5.00% per annum and will mature in 2024.

4. On 29 June 2021, the Board of Directors of the Company announced that the Company intends to transfer its equity of 79.6% holding in Huarong Zhongguancun Distressed Asset Exchange Center Co., Ltd. (the "Potential Equity Transfer"). As at the reporting date, no binding agreement has been entered into by the Company with respect to the Potential Equity Transfer mentioned above and there is no assurance that any definitive transaction will materialise.

5. In accordance with the requirements from regulatory authorities on financial asset management companies of gradual exit from the non-core businesses, the Company intends to implement public transfer of its 70% equity in Huarong Consumer Finance to external parties(the"Equity Transfer"). On 17 August 2021, the general meetings of the Company reviewed and approved the equity transfer project. The Company intends to adopt a public way in the Equity Transfer to transfer its shares (630,000,000 shares in total, representing a shareholding of 70%) in Huarong Consumer Finance at lawfully established property rights transfer agency (provincial level (included) or above). The initial listing price shall not be lower than the asset valuation results filed with the MOF. The Valuation Benchmark Date is determined as 30 June 2021. The Equity Transfer is subject to the approval by relevant regulatory authorities.

6. In accordance with the requirements from regulatory authorities on financial asset management companies of gradual exit from the non-core businesses, the Company intends to implement restructuring of its equity in Huarong Trust(the "Equity Restructuring").On 17 August 2021, the general meetings of the Company reviewed and approved the equity restructuring project. In respect of the outstanding debt of Huarong Trust, the Company intends to negotiate with main institution creditors, in order to implement the Equity Restructuring of Huarong Trust by way of "debt-to-equity swap and equity transfer". The Equity Restructuring is subject to the approval by relevant regulatory authorities.

7. On 18 August 2021, the Board of Directors of the Company announced that, the Company signed investment framework agreements (the "Framework Agreements") with CITIC Group Corporation, China Insurance Investment Co., Ltd., China Life Asset Management Company Limited and China Cinda Asset Management Co., Ltd. and Sino-Ocean Capital Holding Limited respectively. Subject to the approval and consent of relevant regulatory authorities and

VI. EVENTS AFTER THE REPORTING PERIOD — Continued

without affecting the Company’s listing status on The Stock Exchange of Hong Kong Limited, the above company intend to make strategic investments in the Company by subscribing the newly issued shares of the Company.The Framework Agreements are not binding formal share subscription documents. If the Potential Strategic Investment is implemented, it will effectively replenish the Company’s capital.

VII. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 28 August 2021.

18. List of Domestic and Overseas Entities

18.1 Head Office

China Huarong Asset Management Co., Ltd.
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18.2 Branches

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18.3 Principal Platform Subsidiaries

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This results announcement may contain forward-looking statements relating to risks and future plans. These forward-looking statements are based on the Company's own information and from other sources which we consider to be reliable. These forward-looking statements relating to the future events or the financial, business or other performance of the Company in the future are subject to certain uncertainties which could cause the actual results to differ materially. Investors are advised not to place undue reliance on these forward-looking statements. Future plans involved in these forward-looking statements do not constitute actual commitments made by the Company to the investors. Investors are advised to pay attention to the investment risks. For details of the major risks faced and the relevant measures taken by the Company, please see "9. Management Discussion and Analysis — 9.4 Risk Management" in this results announcement.

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

Beijing, the PRC
August 28, 2021

As at the date of this announcement, the Board comprises Mr. WANG Zhanfeng, Mr. LIANG Qiang 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.