中国华融资产管理股份有限公司

CHINA HUARONG ASSET MANAGEMENT CO., LTD.

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

Stock Code：2799

2018
Annual Report

Contents

1. Company Profile

China Huarong Asset Management Co., Ltd. ("China Huarong" or the "Company", Stock Code: 2799), with its predecessor being China Huarong Asset Management Corporation founded on November 1, 1999, 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.

Currently, China Huarong has 31 branches with geographic coverage across 30 provinces, autonomous regions and municipalities in mainland China as well as in Hong Kong and Macau. Its operating subsidiaries include Huarong Securities, Huarong Financial Leasing, Huarong Xiangjiang Bank, Huarong Trust, Huarong Futures, Huarong Rongde, Huarong Real Estate, Huarong International and Huarong Consumer Finance. China Huarong provides financial services in areas such as distressed asset management, asset management, banking, securities, trust, financial leasing, investment, futures and consumer finance.

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

2. Definitions

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

"A Share(s)"	ordinary Shares proposed to be issued by the Company in accordance with A Share(s) Offering, with a nominal value of RMB1.00 each, which will be traded in RMB and listed on the Shanghai Stock Exchange
"A Share(s) Offering"	initial public offering of no more than 6,894,742,669 A Shares in China, proposed by the Company, which will be listed on the Shanghai Stock Exchange
"AMC(s)"	the four asset management companies approved for establishment by the State Council, namely the Company, China Great Wall Asset Management Co., Ltd., China Orient Asset Management Co., Ltd. and China Cinda Asset Management Co., Ltd.
"Articles of Association" or "Articles"	the Articles of Association of the Company as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"CCDI"	the CPC Central Commission for Discipline Inspection and the State Committee of Supervisory of the People's Republic of China (中共中央紀律檢查委員會中華人民共和國國家監察委員會)
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Company"	China Huarong Asset Management Co., Ltd.
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"debt-to-equity swap(s)" or "DES"	the practice of converting indebtedness owed by the obligors to equity

2. Definitions

"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 companies; (4) equities the Company received in satisfaction of debt and assets the Company acquired through distressed asset management; (5) the equity portfolio the Company received as part of its share capital when it was established in 1999; and (6) assets formed by the Company through conducting market-oriented DES business
"DES Companies"	the companies and enterprises whose distressed indebtedness held by the AMCs were swapped for equity
"Director(s)"	director(s) of the Company
"Domestic Share(s)"	ordinary Shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
"Excluded DES Companies"	has the meaning as defined in the Prospectus
"EUR€" or "EURO dollar"	the lawful currency of the European Union
"Group", "our Group" or "China Huarong"	the Company and its subsidiaries
"H Share(s)"	ordinary Shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
"HK$" or "HK dollar"	the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "HKEX"	The Stock Exchange of Hong Kong Limited
"Huarong Consumer Finance"	Huarong Consumer Finance Co., Ltd.

2. Definitions

"Huarong Financial Leasing"	China Huarong Financial Leasing Co., Ltd.
"Huarong Futures"	Huarong Futures Co., Ltd.
"Huarong International"	China Huarong International Holdings Limited
"Huarong Real Estate"	Huarong Real Estate Co., Ltd.
"Huarong Rongde"	Huarong Rongde Asset Management Co., Ltd.
"Huarong Securities"	Huarong Securities Co., Ltd.
"Huarong Trust"	Huarong International Trust Co., Ltd.
"Huarong Xiangjiang Bank"	Huarong Xiangjiang Bank Corporation Limited
"IFRS"	the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
"Latest Practicable Date"	March 22, 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Macau"	the Macau Special administrative Region of the PRC
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"non-performing loan(s)" or "NPL(s)"	loan(s) classified as substandard, doubtful and loss under the five-category loan classification system (as applicable) adopted by financial institutions pursuant to applicable PRC guidelines
"OFAC"	the Office of Foreign Assets Control of the United States
"Offshore Preference Share Issuance Plan"	has the meaning as defined in the circular of the Company dated June 23, 2017

2. Definitions

"Offshore Preference Share(s)"	the not more than 200 million (inclusive) preference shares of an aggregate amount of not more than RMB20 billion (inclusive) or its equivalent, proposed to be issued by the Company in the offshore market pursuant to the Offshore Preference Share Issuance Plan
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC GAAP"	generally accepted accounting principles in the PRC
"Prospectus"	the prospectus for the Company's listing in Hong Kong dated October 16, 2015
"Protection of State Secret Laws"	Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法》), Implementation Measures for the Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法實施條例》) and related laws and regulations
"Relevant Persons"	has the meaning as defined in the Prospectus
"Reporting Period"	the year ended December 31, 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"ROAA"	return on average assets
"ROAE"	return on average equity attributable to equity holders
"Securities and Futures Ordinance"or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Share(s)"	ordinary Shares in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares
"Shareholder(s)"	holder(s) of the Share(s)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Supervisor(s)"	supervisor(s) of the Company
"U.S. dollar" or "USD"	the lawful currency of the U.S.
"Value Estimation"	has the meaning as defined in the Prospectus

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 report and that there are no misstatements, misleading representations or material omissions. And they shall assume several and joint liability for its contents.

On March 28, 2019, the 24th meeting of the second session of the Board considered and approved the 2018 Annual Report and the 2018 Annual Results Announcement of the Company. There were 10 Directors eligible to attend the meeting, of whom 9 attended in person.

The financial report for 2018 prepared by the Group according to the PRC GAAP and IFRS, were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with the Chinese and international auditing standards, respectively, and they have issued the standard audit reports for the Company without qualifications.

The Board proposes to distribute to Shareholders a cash dividend for 2018 of RMB0.121 (tax inclusive) per 10 Shares. The profit distribution plan will be proposed to the Shareholders' general meeting for consideration and approval.

Board of Directors
March 28, 2019

Mr. Wang Zhanfeng, the legal representative, Ms. Li Xin, the President and Mr. Liu Hao, the person in charge of the financial department of the Company undertake that the financial report in this annual report is true, accurate and complete.

This report may contain forward-looking statements relating to risks and future plans. These forward-looking statements are based on information presently available to us and from other sources which we consider to be reliable. The forward-looking statements relating to the future events or the financial, business or other performance of the Company in the future are subject to uncertainties which could cause the actual results to differ materially. Investors are advised not to place undue reliance on these forward-looking statements. Future plans involved in these forward-looking statements do not represent any guarantee made by the Company to the investors. Investors are advised to pay attention to the investment risks.

For details of the major risks faced and the relevant measures taken by the Company, please see "9. Management Discussion and Analysis — 9.4 Risk Management" in this annual report.

4. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Wang Zhanfeng
Authorized representatives	Li Xin, Wang Wenjie
Secretary to the Board	Wang Wenjie (The qualification is subject to approval by the CBIRC)
Joint Company secretaries	Wang Wenjie, Ngai Wai Fung
Registered address	No. 8 Financial Street, Xicheng District, Beijing, China
Postal code of place of registration	100033
Website	www.chamc.com.cn
Principal place of business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares annual report	www.hkexnews.hk
Place for maintaining annual reports available for inspection	Board Office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock code	2799

4. Corporate Information

H Share registrar	Computershare Hong Kong Investor Services Limited (Address: Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong)
Registration number of financial license	J0001H111000001
Social credit code	911100007109255774
Legal advisors as to PRC Law and place of business	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 place of business	Clifford Chance 27th Floor Jardine House, One Connaught Place, Hong Kong
International accounting firm and office address	Deloitte Touche Tohmatsu 35/F, One Pacific Place, 88 Queensway, Hong Kong
Domestic accounting firm and office address	Deloitte Touche Tohmatsu Certified Public Accountants LLP 30/F Bund Center, 222 Yan An Road East, Shanghai, China

5. Financial Summary

The financial information contained in this annual report was prepared in accordance with the IFRS. Unless otherwise specified, the financial information herein is the consolidated financial data of the Group and denominated in RMB.

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(in millions of RMB)				
Income from distressed debt assets classified as receivables	**—**	30,753.4	25,140.0	23,095.0	15,662.0
Fair value changes on financial assets and liabilities	**8,271.5**	12,770.8	9,634.4	4,984.4	2,175.4
Interest income	**79,258.8**	14,833.8	10,922.0	8,616.4	7,006.7
Finance lease income	**6,784.4**	6,181.2	5,522.1	5,450.7	5,040.9
Investment income, gains and losses	**—**	44,179.7	24,678.4	19,167.3	9,803.6
Gains from derecognition of financial assets at amortized cost	**76.9**	—	—	—	—
Loss from derecognition of debt instruments at fair value through other comprehensive income	**(79.2)**	—	—	—	—
Commission and fee income	**4,693.3**	13,039.1	12,920.1	10,398.0	7,985.6
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**228.0**	917.6	2,027.7	427.4	128.0
Dividend income	**2,392.2**	—	—	—	—
Other income and other net gains or losses	**5,627.2**	5,395.0	4,363.0	3,246.6	3,258.5
Total income	**107,253.1**	128,070.6	95,207.7	75,385.8	51,060.7
Interest expenses	**(64,098.1)**	(50,691.1)	(31,416.8)	(25,902.2)	(17,903.7)
Commission and fee expenses	**(2,079.9)**	(1,296.2)	(1,035.9)	(945.3)	(452.5)
Operating expenses	**(14,550.0)**	(15,140.9)	(12,286.8)	(11,487.5)	(8,469.4)
Impairment losses on financial assets	**(17,297.8)**	(16,550.5)	—	—	—
Impairment losses on other assets	**(2,769.0)**	(913.1)	—	—	—
Impairment losses on assets	**—**	—	(16,717.0)	(12,603.8)	(6,225.6)
Total expenses	**(100,794.8)**	(84,591.8)	(61,456.5)	(50,938.8)	(33,051.2)
Change in net assets attributable to other holders of consolidated structured entities	**(1,928.2)**	(7,823.7)	(3,376.3)	(2,456.6)	(1,307.2)
Share of results of associates and joint ventures	**1,481.8**	946.6	134.4	255.5	72.1
Profit before tax	**6,011.9**	36,601.7	30,509.3	22,245.9	16,774.4
Income tax expense	**(4,502.9)**	(10,014.0)	(7,400.8)	(5,295.1)	(3,743.6)
Profit for the year	**1,509.0**	26,587.7	23,108.5	16,950.8	13,030.8
Profit attributable to:					
Equity holders of the Company	**1,575.5**	21,992.6	19,613.5	14,482.1	10,656.2
Holders of perpetual capital instruments	**976.8**	1,140.5	455.8	174.0	0.7
Non-controlling interests	**(1,043.3)**	3,454.6	3,039.2	2,294.7	2,373.9

5. Financial Summary

	As of and for the year ended December 31,				
	2018	2017	2016	2015	2014
	(in millions of RMB)				
Assets					
Cash and balances with central bank	29,909.1	33,207.1	27,259.8	24,982.1	26,945.3
Deposits with financial institutions	107,500.2	162,881.1	154,329.9	76,896.3	51,633.2
Placements with financial institutions	843.6	9,822.7	4,902.3	9,298.7	13,628.3
Financial assets held for trading	—	67,257.7	87,731.3	13,004.0	8,055.1
Financial assets at fair value through profit or loss	391,181.0	—	—	—	—
Financial assets designated as at fair value through profit or loss	—	230,045.3	95,167.3	85,458.2	33,115.2
Financial assets held under resale agreements	20,126.9	41,238.1	36,347.7	32,538.9	21,841.9
Loans and advances to customers	190,654.0	158,221.9	118,406.0	81,625.2	63,239.4
Finance lease receivables	99,002.9	95,703.9	84,991.3	71,672.5	63,494.3
Debt instruments at fair value through other comprehensive income	147,387.3	—	—	—	—
Equity instruments at fair value through other comprehensive income	3,244.3	—	—	—	—
Inventories	19,243.0	16,640.8	16,418.9	10,590.9	5,271.2
Available-for-sale financial assets	—	195,520.7	140,292.6	64,994.2	43,966.7
Held-to-maturity investments	—	64,451.2	44,884.2	34,358.0	18,817.9
Financial assets classified as receivables	—	701,192.4	549,478.0	328,685.8	227,033.2
Debt instruments at amortised cost	612,133.1	—	—	—	—
Interests in associates and joint ventures	36,975.5	42,097.1	9,564.0	6,692.6	2,863.4
Investment properties	5,326.1	2,135.4	1,828.4	1,070.2	977.2
Property and equipment	10,684.5	8,645.2	7,145.8	5,026.8	3,990.7
Deferred tax assets	15,018.7	13,400.2	9,301.2	4,826.6	2,671.8
Contract assets	114.7	—	—	—	—
Other assets	20,478.4	27,457.4	23,713.7	14,825.4	12,976.3
Goodwill	263.4	342.1	206.9	0.0	0.0
Total assets	1,710,086.7	1,870,260.3	1,411,969.3	866,546.4	600,521.1

5. Financial Summary

	As of and for the year ended December 31,				
	2018	2017	2016	2015	2014
	(in millions of RMB)				
Liabilities					
Borrowings from central bank	2,402.2	4,647.0	1,987.0	20.0	80.0
Deposits from financial institutions	7,307.6	10,158.4	6,962.5	15,468.2	13,660.0
Placements from financial institutions	300.2	2,101.6	4,278.5	964.9	2,111.0
Financial assets sold under repurchase agreements	24,410.0	60,317.0	56,390.6	30,361.9	26,203.1
Borrowings	760,995.5	773,057.3	511,308.6	295,031.8	239,885.2
Financial liabilities designated as at fair value through profit or loss	4,728.3	2,547.4	0.0	0.0	0.0
Due to customers	209,116.5	202,349.9	172,405.9	139,998.9	117,246.1
Tax payable	3,731.9	6,025.8	4,680.6	3,223.3	2,276.7
Deferred tax liabilities	605.8	1,380.3	700.4	552.8	123.3
Bonds and notes issued	353,305.3	331,962.9	243,075.2	143,053.8	48,002.1
Contract liabilities	954.4	—	—	—	—
Other liabilities	173,624.0	293,077.8	260,099.0	119,070.2	67,401.5
Total liabilities	1,541,481.7	1,687,625.4	1,261,888.3	747,745.8	516,989.0
Equity					
Share capital	39,070.2	39,070.2	39,070.2	39,070.2	32,695.9
Capital reserve	19,107.4	19,015.0	18,320.7	18,404.8	9,078.3
Surplus reserve	6,971.8	5,299.7	3,615.2	2,441.1	1,631.9
General reserve	15,872.8	12,882.9	10,304.4	8,571.7	4,678.0
Other reserves	987.8	(799.5)	3,071,8	5,475.5	3,807.4
Retained earnings	38,630.2	52,706.3	40,860.7	24,154.1	17,516.7
Equity attributable to equity holders of the Company	120,640.2	128,174.6	115,243.0	98,117.4	69,408.2
Perpetual capital instruments	20,258.5	23,185.4	15,030.3	6,454.1	1,450.7
Non-controlling interests	27,706.3	31,274.9	19,807.7	14,229.1	12,673.2
Total equity	168,605.0	182,634.9	150,081.0	118,800.6	83,532.1
Total equity and liabilities	1,710,086.7	1,870,260.3	1,411,969.3	866,546.4	600,521.1

5. Financial Summary

	As of and for the year ended December 31,				
	2018	2017	2016	2015	2014
Financial Ratios					
ROAE[(1)]	1.3%	18.1%	18.4%	17.3%	19.1%
ROAA[(2)]	0.1%	1.6%	2.0%	2.3%	2.6%
Cost-to-income ratio[(3)]	32.2%	17.7%	17.7%	21.6%	24.7%
Liability to total assets ratio[(4)]	90.1%	90.2%	89.4%	86.3%	86.1%
Basic earnings per share[(5)] (RMB)	0.04	0.56	0.50	0.43	0.38
Diluted earnings per share[(6)] (RMB)	N/A	N/A	0.50	0.43	N/A

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

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

(3) Represents the ratio of the amount of operating expenses net of land development costs to the total income net of interest expenses, commission and fee expenses and land development expenses.

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

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

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

6. Chairman's Statement

Wang Zhanfeng

Chairman

6. Chairman's Statement

2018 marked a year of overcoming against tremendous challenges and realization of stable transition for China Huarong. When facing unprecedented situations and challenges, under the strong leadership of and guidelines from the Party Central Committee, the State Council, the Central Commission for Discipline Inspection, the State Committee of Supervisory and CBIRC and accompanied by the sufficient understanding and full support from shareholders, industry peers, customers and social forces, China Huarong strengthened Party construction in a comprehensive manner and proactively dealt with crises with an united mind, gathering confidence in difficult conditions, by which China Huarong realized a stable operation in special periods where business operation returned to normal and general conditions, minds, teams, businesses and expectations of the Company remained stable. We hereby express our sincere gratitude.

2018 was also a fruitful year where China Huarong successfully turned crises into opportunities and accelerated the transformation of the Company. The management of the Company strongly implemented the decisions and arrangements by the Party Central Committee, the State Council and CBIRC, leveraging the opportunity of comprehensive elimination of the impact from Lai Xiaomin event, to deeply examine and duly handle potential risks, upon which China Huarong practically promoted risk reduction and streamlining, initiated the strategic transformation of New Huarong and optimize the corporate governance and operation management. Observing its original mind and focusing on its main business, China Huarong further consolidated the position of main businesses of distressed assets operation and started a new journey toward high-quality development.

The Company maintained overall stability in its operation. As of the end of 2018, the asset size of the Company is RMB1,710,087 million, representing a decline of 8.6% and total income of RMB107,253 million was recorded, representing a decline of 16.3%. We maintained stable operation, effectively controlled operational risk in addressing crisis; capital adequacy ratio of 13.62%, complied with regulatory requirements and was better than the situation last year. The profit attributable to the parent company in the second half of the year increased consecutively, showing an obvious trend of turnaround. Main business of distressed asset management recorded a stable growth, and ratio of income and profit significantly rose. Our financial subsidiaries such as Huarong Xiangjiang Bank and Huarong Leasing continuously achieved stable development. We maintained year-on-year growth of annual profit. Under the guidance and support of regulatory authorities, the Company successfully issued overseas debts of US$1.1 billion and tier-II capital bonds of RMB10 billion, maintaining good cooperation with industry peers. Credit balance recorded a year-on-year growth, achieving stability in financing sources and cost, and showing the confidence and support from the market, our industry peers and customers.

6. Chairman's Statement

Continuing to consolidate the market position of the main business of distressed asset management. The Company seized the market opportunity arising from increase in disposal of non-performing loans by the banking industry and adhered to the two driving engines of acquisition and disposal, strengthened policy guidance and business assessment, promoted steady growth of main business in distressed asset management, and maintain a high level of market share. At the end of 2018, the assets size of the main business of distressed asset management reached RMB866,250 million, and income amounted to RMB64,771 million. Its proportion in total revenue of the Group increased from 53.8% in the previous year to 60.4%, strengthening the status of main business of distressed asset management. The Company grasped the new changes and new demands to actively explore new business models and vigorously promoted projects in reorganizing problematic enterprises, actively and steadily adopted market principle to implement debt-to-equity swaps, and explored the implementation of business in relieving listed companies, so as to effectively exert the core functions in financial risk prevention of financial asset management companies.

Continuing to optimize the development strategies and operation models. By fully implementing new development philosophy, confirming the goal and phased planning of establishing New Huarong, and responding to past operational problems, the Company clarified the four strategic steps of "stabilization, risk-proof, slimming, and transformation" in operating philosophy, and actively strived to achieve the "soft-landing" objectives of "maintaining stable asset size, realizing reasonable business structure, bringing profitability back to normal, effectively releasing potential risks, and continuously optimizing capital leverage". Under the guidance of new development strategy, the Company put forth effort to reversing the past drastic development approach, optimize capital employment, enhance risk prevention, and optimize the business structures, which laid a solid foundation for healthy and sustainable development.

The structure of corporate governance was further improved. The Company endeavored to establish a structure of legal person governance featuring clear rights and responsibilities, coordinated operation and effective balance to advance the in-depth mix between the leadership of the Party and the corporate governance and to fully make use of the power of the general meeting, decision-making of the Board, the supervision of the Supervisory Committee and the execution of the operating staff. The Group strengthened the regulation and control of the Group and improved the management system of authority granting while optimizing the quota balance of customers and centralized management. By improving the regulation and fine division of internal management, the Group conducted a comprehensive post-evaluation on its original business and management system and established rules and systems to lay a solid foundation. A positive incentive regulation mechanism which is transparently open and scientifically reasonable has been established to support employees to work and start businesses and realize their values in the construction of New Huarong.

6. Chairman’s Statement

Achieve significant success in the compliance construction of risk reduction and streamlining. The Company had comprehensively acknowledged risk factors in a comprehensive manner and established asset preservation department to step efforts in the centralized management of risk disposal, which effectively managed the risks by implementing different strategies based on classification and achieved positive effect. With the help from superior organizations, the restructuring and risk disposal on key projects achieved significant success which really realized the loss-saving and loss-cutting of state-owned assets. The annual provision for asset impairment losses amounted to RMB20,067 million, which allow the Company to maintain the ability to dilute risks. The Company quickly initiated the work of reduction of non-core businesses and assets with low efficiency, and organization optimization, and obtained positive progress. The Company reshaped its compliance culture and voluntarily respected organizations, laws, powers, regulations and markets.

Proactively assumed social responsibility. The company earnestly implemented the strategic plans of the central government to overcome poverty with increasing efforts into poverty alleviation. Over the year, RMB27.1316 million was devoted to poverty alleviation fund to support the designated poverty alleviation counties to complete the poverty alleviation goal of 2018, thus fully fulfilling the commitments in Responsibility of Specific Poverty Relief of Central Government. We fully mobilized the power of the entire system and actively carried out specific poverty alleviation, with capital poured into development of characteristic industries, infrastructure construction, livelihood improvement of the public in poverty regions. Relevant subsidiaries strongly supported the financing of small and micro enterprises and private enterprises, and strengthened financial services for “agriculture, rural areas and farmers”, to actively promote the inclusive finance, which practically performed their obligations and duties as state-owned financial institutions.

2019 marks the first year of the construction of high-quality development for New Huarong. Standing at the new starting point, New Huarong entered a new journey to realize its new dreams. China Huarong will actively carry out the line, principles and policies for financial work of the Central Government and the regulatory requirements of the CBIRC under the guidance of Xi Jinping’s ideology on new era of socialism with Chinese characteristics, with insistence on the overall keynote in the steady progress. By striving for stability over overall situation, it will promote the main business, comprehensively strengthen Party leadership and construction, fully accelerate transformation and development, entirely forging the main business to be strong and precise, amply promoting the risk reduction and streamlining, utterly establishing high-quality and professional cadre team, so as to start a new journey for high-quality development and create more value for the country, Shareholders and society.

Chairman: Wang Zhanfeng

March 28, 2019

7. President's Statement

Li Xin

President

7. President’s Statement

2018 is a special and extraordinary year for China Huarong. Thanks to the careful guidance of relevant superior departments, resolute support of substantial Shareholders and trust of other financial institutions and customers, the new management of the Company led all the cadres and employees to deal with crisis with all efforts, thereby achieving smooth transition. The operation and management of the Company actively implemented the state’s principles and policies of financial work and the spirit of the state’s principles and policies of financial work and regulatory requirements, adjusted its business strategy, focused on the core business, reduced risks, strengthened internal control management and completed various tasks, laying a foundation for the high-quality development of New Huarong.

Strive to ensure stable operation. In the face of unprecedented challenges, the Company formulated various plans and took solid steps to effectively respond to risks and stabilised the market, and kept operation, team and expectation under control, achieving a smooth transition. In 2018, the Group achieved a total income of RMB107,253 million, down by 16.3% year-on-year, basically in line with industry trends; part of its branches and subsidiaries recorded year-on-year growth in operating income and net profit. The Company’s capital adequacy ratio was 13.62%, meeting regulatory requirements.

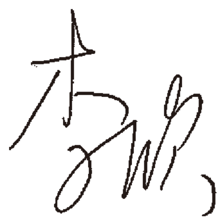
Strive for protection of liquidity safety. The Company effectively managed liquidity to cope with the impact exerted by both internal and external environment. In 2018, the Company replenished its capital and optimized its capital structure by actively seeking support from various financial institutions, with USD1.1 billion of overseas bonds and RMB10 billion of tier II capital bonds successfully issued. The Company established the monitoring mechanism and pre-handling plan for the liquidity management and improved the efficiency of liquidity management. The Company had adequate settlement funds to meet the need of liquidity management of the Company.

Endeavour to focus on the core business of distressed assets. In 2018, the Company adjusted its business development model, allocated more resources for the core business, strengthened the Group synergy, and continuously optimized the existing business segments and asset structure, improved its ability to serve the real economy and consolidated the strategic position of its core business. The investments in the core business of distressed assets remained stable, and the revenue of the parent company accounted for more than 90% of the core business thereof. Investments in the distressed asset package increased by RMB45,341 million, bid-winning asset package taking up 31% of the market share, and investments in the acquisition and restructuring of distressed assets rose by RMB149,908 million. The Company gave full play to the unique function of supportive finance and vigorously promoted the restructuring of problem enterprises. In the whole year, the investments in the restructuring of problem enterprises increased by RMB9,829 million, representing a significant increase year-on-year, demonstrating the initial positive effect of new growth pole cultivation of the core business of distressed assets. The Company served the national supply-side structural reform and helped entity enterprises deleverage. As of the end of the year, the investments in the market-oriented debt-to-equity swaps was RMB19,657 million.

7. President's Statement

Endeavour to strengthen risk management and control. The Company established a more scientific outlook on risk management, adjusted its risk appetite, improved its risk management system, sped up the building of a comprehensive risk management system, and focused on improving its risk management ability. In 2018, the Company organized multi-dimensional and multi-round risk screenings and made continuous and in-depth exploration to learn more about risk limits point by point and area by area. The Company properly disposed of and defused risks and redeployed its assets by setting up a special team to implement policies according to risk classification. As a result, significant breakthroughs were made in resolving key and difficult risk projects and initial results were achieved in risk mitigation, keeping risks under control on the whole. The Company also actively implemented regulatory requirements and steadily streamlined its assets and institutions, which achieved initial results.

In 2019, China Huarong will continue to unswervingly implement the state's principles and policies of financial work and regulatory requirements, observe and serve the national development plan, keep enhancing its ability to serve the real economy, continue to intensify efforts for risk management and control, effectively dispose of potentially risky assets, keep focusing on its core business and seek excellence in its specialty to restore market confidence in the transformation and development, achieve valuation re-rating, and strive for stable value growth and returns for investors.



President: Li Xin

March 28, 2019

8. Statement of Chairman of the Board of Supervisors

MA Zhongfu

Chairman of the Board of Supervisors

8. Statement of Chairman of the Board of Supervisors

In 2018, thanks to the care, support and guidance of relevant superior departments, the Company's new management rapidly led all cadres and employees to unify the ideas and restore the confidence to overcome various internal and external difficulties. In adherence to "two returns" and the principle of steady and orderly operation, the Company paid attention to the core business of distressed asset management, adjusted the mode of development and business, enhanced the management of the Group and established a sound internal control system as well as a comprehensive risk management system, which led to the positive changes in all our work and our successful and smooth transition.

Looking back to the work in the past year, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Company's Board of Supervisors abode by national laws and regulations, supervising regulations, and Articles of Associations, took performance of duties, finance, internal control and supervision on risk management as the main lines to further establish a sound working system and mechanism for the Board of Supervisors, improve the systems of the Board of Supervisors and solidify the foundation for the protection of the Board of Supervisors' rights to know, to enquiry and to raise proposals. The Company's Board of Supervisors improved the pertinence, timeliness and efficiency of our daily supervision, adhered to the orientation towards problems, focused on major events affecting the Company's reform, development and stability to carry out targeted supervision. We also promoted the Company to strictly implement the national economic and financial policies and supervising requirements of regulatory departments, improved the internal control system and comprehensive risk management system, strengthened basic financial work and enhanced the supervision on performance of duties in compliance with the laws and regulations by the Board, senior management and relevant members. We effectively urged the Company to closely follow the three main tasks of "serving the real economy, preventing and controlling financial risks, and deepening financial reform" in all work and continuously improve development quality. We effectively urged the Company to focus on the function of financial asset management company, return to the main responsibility and the core business of distressed assets, serve the supply-side structural reform, earnestly improve the core competitiveness, protecting the interests of the Company, Shareholders, employees and other stakeholders according to law.

8. Statement of Chairman of the Board of Supervisors

2019 marks the 70th anniversary of the founding of China and is a crucial year for achieving the first centenary goal, i.e. completing the building of a moderately prosperous society in all respects, and building New Huarong. The Board of Supervisors will stick to the original intention and the mission of safeguarding the legitimate rights and interests of various stakeholders, and will faithfully fulfil the duties conferred in laws, regulations, supervising regulations and the Articles of Association, enhance supervision over the formulation and implementation of the Company's development strategies, promote the Company to strictly follow national economic and financial policies, engage in the function positioning of financial asset management companies by "strict supervision", focus on the main responsibility and the core business of distressed assets, serve the supply-side structural reform, continuously improve the quality and efficiency in serving the real economy and effectively exert the function of a supportive financial asset management in deepening financial reform. The Board of Supervisors will work in concert with the Board and the senior management to promote the steady and orderly operation and high-quality development of the Company.

Chairman of the Board of Supervisors: MA Zhongfu

March 28, 2019

9. Management Discussion and Analysis

9.1 Economic, Financial and Supervising Environment

In 2018, global economy differentiated amid steady recovery. While major economies maintained growth, some emerging-market countries underwent economic downturn. With twists and turns in economic globalization and impacts on multilateralism, economic and trade frictions between China and America brought adverse effects to market expectations. Affected by trade protectionism, geopolitical risk and other uncertainties, there is downward risk in global economic growth.

In 2018, economy of China developed steadily in general, with accelerated replacement of traditional growth drivers with new ones, continuous structure optimization and improvement of quality and efficiency. Under circumstances such as the increased risks from external uncertainties, increased fluctuations in domestic stock market and foreign exchange market and difficulties in operation of some enterprises, the effects of national macro-economic policy of "stabilizing employment, finance, foreign trade, foreign investment, investment and expectations" gradually appeared, new drivers grew faster, and consumption provided stronger support for economic growth. The Company promoted the reform of "simplification, regulation and high-efficiency service" to improve the operation environment continuously. Economy in the whole year increased by 6.6% and macro economy kept a momentum of stable growth, which better realized the control targets as expected by the government and solidified the foundation for completing the building of a moderately prosperous society in all aspects and promoting high-quality development.

In 2018, the financial industry of China implemented the spirit of the National Financial Working Conference, correctly understood the nature of finance, deepened the supply-side structural reform in the financial sector, balanced the relationship between growth stabilization and risk prevention, accurately and effectively managed risks in key fields and deepened the reform and opening up in the financial sector, which enhanced the ability of finance in serving the real economy. Under such background, financial asset management companies closely focused on the main line of supply-side structural reform, gave full play to the advantages of the professional operation of distressed asset, took the opportunities for economic structural adjustment, actively restructured problem enterprises, and rescued, liquidated and restructured enterprises in crises, and conducted marketized debt-to-equity swaps, which have strongly supported the development of real economy and played the unique role of preventing financial risks.

9. Management Discussion and Analysis

In 2018, the regulatory authorities launched a series of policies and measures to strengthen supervision, and led financial institutions to return to the sources and to focus on the core business. In respect of industry supervision of distressed assets, firstly, the Measure on Management of Financial Asset Management Companies (Provisional) has been officially implemented to guide financial asset management companies to focus on the core business of distressed assets and enhance their risk prevention capability; secondly, the Notice on the Specific Policy Issues Concerning the Implementation of the Marketized Debt-to-equity Swaps of Banks has been released to unequivocally support enterprises of various ownerships in carrying out marketized debt-to-equity swaps by enlarging the target group for debt-to-equity swaps; thirdly, the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions ("New Asset Management Rules") has been officially released, which played an important role in the elimination of multiple nesting, break rigid payment and restrict regulatory arbitrage; fourthly, the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks has been issued and implemented to promote standard and healthy development of the wealth management business of banks, promote unifying regulatory standards for asset management products and effectively prevent financial risks. The release of a series of policies and measures provided an external policy environment for financial asset management companies to conduct the core business of distressed assets in compliance with laws and regulations, which promoted the stable operations of the Company.

9.2 Analysis of Financial Statements

9.2.1 Changes in accounting policies

In July 2014, the International Accounting Standards Board issued the *IFRS 9 — Financial Instruments* to summarize all the phased items of financial instruments and replace *IAS 39 — Financial Instruments*. In 2017, the MOF revised and issued four accounting standards relating to financial instruments (hereinafter referred to as "New Financial Instrument Standards"), namely, *Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No. 23 — Transfer of Financial Assets, Accounting Standard for Business Enterprises No. 24 — Hedging, and Accounting Standard for Business Enterprises No. 37 — Presentation of Financial Instruments.* The above mentioned accounting standards provide new guidelines for classification and measurement, impairment and hedging of financial instruments. The Group began to adopt the above mentioned New Financial Instrument Standards according to requirements on January 1, 2018.

9. Management Discussion and Analysis

The changes in accounting policies were made by the Company in strict accordance with the New Financial Instrument Standards. The available-for-sale financial assets, financial assets classified as receivables, held-to-maturity investments, financial assets held for trading and financial assets designated as at fair value through profit or loss classified under the original financial instrument standards were reclassified to financial assets at fair value through profit or loss ("**FVTPL**"), debt instruments at fair value through other comprehensive income ("**FVTOCI**"), equity instruments at FVTOCI and debt instruments at amortised cost under the New Financial Instrument Standards. For the influence of the aforesaid reclassification on the amount reflecting the financial conditions on the date of change, please refer to the relevant disclosure in the consolidated financial statements of the Group.

9.2.2 Operating results of the Group

The Group began to adopt the New Financial Instrument Standards on January 1, 2018. Due to fluctuation in the capital market, reduction of non-core businesses and uncompetitive businesses, market risk and credit risk exposure and the increase in interest expenses, the net profit of the Group and net profit attributable to the equity holders of the Company declined. In 2018, the Group recorded a total income of RMB107,253.1 million, representing a decrease of 16.3% as compared with last year, while after excluding the impact of unrealized fair value changes on financial assets and liabilities, the Group's income was RMB117,336.3 million, representing a decrease of 8.1% as compared with last year, which was basically in line with the industry trend; a net profit of RMB1,509.0 million, representing a decrease of 94.3% as compared with last year; a net profit attributable to the equity holders of the Company of RMB1,575.5 million, representing a decrease of 92.8% as compared with last year; a ROAE of 1.3% and an ROAA of 0.1%.

9. Management Discussion and Analysis

	For the year ended December 31			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	—	30,753.4	—	—
Fair value changes on financial assets and liabilities	**8,271.5**	12,770.8	(4,499.3)	(35.2%)
Interest income	**79,258.8**	14,833.8	64,425.0	434.3%
Finance lease income	**6,784.4**	6,181.2	603.2	9.8%
Investment income, gains and losses	—	44,179.7	—	—
Gains from derecognition of financial assets at amortized cost	**76.9**	—	—	—
Loss from derecognition of debt instruments at fair value through other comprehensive income	**(79.2)**	—	—	—
Commission and fee income	**4,693.3**	13,039.1	(8,345.8)	(64.0%)
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**228.0**	917.6	(689.6)	(75.2%)
Dividend income	**2,392.2**	—	—	—
Other income and other net gains or losses	**5,627.2**	5,395.0	232.2	4.3%
Total income	**107,253.1**	128,070.6	(20,817.5)	(16.3%)
Interest expenses	**(64,098.1)**	(50,691.1)	(13,407.0)	26.4%
Commission and fee expenses	**(2,079.9)**	(1,296.2)	(783.7)	60.5%
Operating expenses	**(14,550.0)**	(15,140.9)	590.9	(3.9%)
Impairment losses on financial assets	**(17,297.8)**	(16,550.5)	(747.3)	4.5%
Impairment losses on other assets	**(2,769.0)**	(913.1)	(1,855.9)	203.3%
Total expenses	**(100,794.8)**	(84,591.8)	(16,203.0)	19.2%
Change in net assets attributable to other holders of consolidated structured entities	**(1,928.2)**	(7,823.7)	5,895.5	(75.4%)
Share of results of associates and joint ventures	**1,481.8**	946.6	535.2	56.5%
Profit before tax	**6,011.9**	36,601.7	(30,589.8)	(83.6%)
Income tax expense	**(4,502.9)**	(10,014.0)	5,511.1	(55.0%)
Profit for the year	**1,509.0**	26,587.7	(25,078.7)	(94.3%)
Profit attributable to:				
Equity holders of the Company	**1,575.5**	21,992.6	(20,417.1)	(92.8%)
Holders of perpetual capital instruments	**976.8**	1,140.5	(163.7)	(14.4%)
Non-controlling interests	**(1,043.3)**	3,454.6	(4,497.9)	(130.2%)

9. Management Discussion and Analysis

9.2.2.1 Total income

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	—	30,753.4	—	—
Fair value changes on financial assets and liabilities	8,271.5	12,770.8	(4,499.3)	(35.2%)
Interest income	79,258.8	14,833.8	64,425.0	434.3%
Finance lease income	6,784.4	6,181.2	603.2	9.8%
Investment income, gains and losses	—	44,179.7	—	—
Gains from derecognition of financial assets at amortized cost	76.9	—	—	—
Loss from derecognition of debt instruments at fair value through other comprehensive income	(79.2)	—	—	—
Commission and fee income	4,693.3	13,039.1	(8,345.8)	(64.0%)
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	228.0	917.6	(689.6)	(75.2%)
Dividend income	2,392.2	—	—	—
Other income and other net gains or losses	5,627.2	5,395.0	232.2	4.3%
Total income	107,253.1	128,070.6	(20,817.5)	(16.3%)

Total income of the Group decreased slightly by 16.3% from RMB128,070.6 million in 2017 to RMB107,253.1 million in 2018. In particular, the fair value changes on distressed debt assets from acquisition-and-disposal, the interest income from distressed debt assets from acquisition-and-restructuring, interest income from loans and advances to customers and finance lease income increased steadily; and gains and losses on fair value changes of other financial assets and commission and fee income decreased substantially.

9. Management Discussion and Analysis

9.2.2.1.1 Fair value changes on financial assets and liabilities

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Fair value changes on distressed debt assets at fair value through profit or loss	8,657.9	4,661.3	3,996.6	85.7%
— Realized	7,591.7	4,452.3	3,139.4	70.5%
— Unrealized	1,066.2	209.0	857.2	410.1%
Fair value changes on other financial assets and liabilities	(386.4)	8,109.5	(8,495.9)	(104.8%)
— Realized	10,763.0	7,894.5	2,868.5	36.3%
— Unrealized	(11,149.4)	215.0	(11,364.4)	(5285.8%)
Subtotal	8,271.5	12,770.8	(4,499.3)	(35.2%)
Disposal income from available-for-sale financial assets	—	8,142.4	—	—
Total	8,271.5	20,913.2	(12,641.7)	(60.4%)

Fair value changes on financial assets and liabilities derive from distressed debt assets at FVTPL and other financial assets and liabilities at FVTPL of the Group. The Group's fair value changes on financial assets in 2018 amounted to RMB8,271.5 million, representing a decrease of RMB12,641.7 million or 60.4% as compared with the RMB20,913.2 million of the sum of fair value changes on financial assets and liabilities and disposal income from available-for-sale financial assets of last year.

Fair value changes on distressed debt assets at FVTPL derive from the Group's acquisition-and-disposal business. In 2018, the Group timely adjusted the operating strategies, focused on the core business of distressed assets and allocated resources based on the core business, as a result of which, the core business maintained stable operation and relevant income increased. The Group's fair value changes on distressed debt assets at FVTPL in 2018 amounted to RMB8,657.9 million, including realized income of RMB7,591.7 million and unrealized income of RMB1,066.2 million.

9. Management Discussion and Analysis

As the Group began to implement the New Financial Instrument Standards as from January 1, 2018, some financial assets originally classified as available-for-sale financial assets and financial assets measured at costs were reclassified as financial assets at FVTPL, and fair value changes on such financial assets were converted to the current profits or losses from other comprehensive income or recognised in the current profits or losses. Meanwhile, affected by dual factors: fluctuation in the capital market and project risk exposure, value of some financial assets declined, which caused greater losses in fair value changes. In 2018, fair value changes on other financial assets and liabilities amounted to RMB-386.4 million, including realized income of RMB10,763.0 million and unrealized income of RMB-11,149.4 million.

9.2.2.1.2 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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets at amortised cost	24,847.8	—	—	—
Distressed debt assets at fair value through other comprehensive income	9,601.7	—	—	—
Income from distressed debt assets classified as receivables	—	30,753.4	—	—
Subtotal	34,449.5	30,753.4	3,696.1	12.0%
Debt instruments at amortised cost other than distressed debt assets	23,789.3	—	—	—
Debt instruments at fair value through other comprehensive income	3,751.0	—	—	—
Interest income from other financial assets classified as receivables	—	26,245.2	—	—
Interest income from available-for-sale financial assets	—	6,275.1	—	—
Interest income from held-to-maturity debt securities	—	2,352.6	—	—
Subtotal	27,540.3	34,872.9	(7,332.6)	(21.0%)

9. Management Discussion and Analysis

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers				
Corporate loans and advances	7,383.7	5,991.6	1,392.1	23.2%
Personal loans and advances	4,606.9	2,535.0	2,071.9	81.7%
Loans to margin clients	580.5	558.6	21.9	3.9%
Deposits with financial institutions	2,301.7	2,483.3	(181.6)	(7.3%)
Financial assets held under resale agreements	1,518.6	2,372.7	(854.1)	(36.0%)
Balances with central bank	476.6	483.8	(7.2)	(1.5%)
Placements with financial institutions	401.0	408.9	(7.9)	(1.9%)
Subtotal	17,269.0	14,833.9	2,435.1	16.4%
Total	79,258.8	80,460.2	(1,201.4)	(1.5%)

The Group implemented the New Financial Instrument Standards in 2018, so there were some changes in the presentation format of financial statements and the interest income from debt instruments originally presented in investment income was reclassified and presented under interest income. Data for 2017 in the table above are relevant contents presented in the investment income for last year. The interest income in 2018 was RMB79,258.8 million, representing a decrease of 1.5%, as compared with last year.

The Group actively expanded the core business of distressed asset management, and the acquisition-and-restructuring business remained stable, with increased core business-related assets and income from the core business. Total interest income from distressed debt assets at amortised cost and distressed debt assets at FVTOCI were RMB34,449.5 million, up by 12.0% as compared with the RMB30,753.4 million of the income from distressed debt assets classified as receivables in 2017.

The Group's banking and consumer finance businesses developed steadily, and relevant incomes increased continuously. The interest income from loans and advances to customers increased by 38.4% from RMB9,085.2 million in 2017 to RMB12,571.1 million in 2018.

The Group's interest income from debt instruments at amortised cost and debt instruments at FVTOCI (other than distressed debt assets) amounted to RMB27,540.3 million, representing a decrease of RMB7,332.6 million or 21.0% as compared with the RMB34,872.9 million of the interest income from other financial assets classified as receivables, available-for-sale financial assets and held-to-maturity debt securities classified and presented as investment income, gains and losses in 2017, mainly due to the reduction of debt investment assets (other than distressed debts) and corresponding income caused by the Group's further implementation of the strategic development idea of returning to the core business.

9. Management Discussion and Analysis

9.2.2.1.3 Commission and fee income

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Asset management business	**2,303.1**	8,674.4	(6,371.3)	(73.4%)
Securities and futures brokerage business	**975.9**	1,683.7	(707.8)	(42.0%)
Trust business	**844.1**	2,027.8	(1,183.7)	(58.4%)
Banking and consumer finance business	**480.9**	530.5	(49.6)	(9.3%)
Fund management business	**89.3**	122.7	(33.4)	(27.2%)
Total	**4,693.3**	13,039.1	(8,345.8)	(64.0%)

Commission and fee income of the Group decreased by 64.0% from RMB13,039.1 million in 2017 to RMB4,693.3 million in 2018, mainly due to the decrease in commission and fee income from the asset management business, trust business and securities and futures brokerage business.

Commission and fee income from asset management business decreased by 73.4% from RMB8,674.4 million in 2017 to RMB2,303.1 million in 2018, mainly due to the decline in commission and fee income from non-financial subsidiaries caused by the reduction of the Group's non-core businesses and uncompetitive businesses this year.

Commission and fee income from the trust business decreased by 58.4% from RMB2,027.8 million in 2017 to RMB844.1 million in 2018, mainly due to the reduction of off-balance-sheet assets of Huarong Trust in active response to New Asset Management Rules.

Commission and fee income from securities and futures brokerage business decreased by 42.0% from RMB1,683.7 million in 2017 to RMB975.9 million in 2018, primarily as a result of impacts on Huarong Securities from such factors as fluctuation in the capital market and declined transaction volume in brokerage market.

9. Management Discussion and Analysis

9.2.2.1.4 Other income and other net gains or losses

The following table 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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	**3,192.9**	3,640.4	(447.5)	(12.3%)
Rental income	**698.9**	442.9	256.0	57.8%
Government grants	**497.1**	265.5	231.6	87.2%
Net losses on exchange differences	**(112.2)**	(151.6)	39.4	(26.0%)
Others	**1,350.5**	1,197.8	152.7	12.7%
Total	**5,627.2**	5,395.0	232.2	4.3%

Other income and other net gains or losses of the Group increased by 4.3% from RMB5,395.0 million in 2017 to RMB5,627.2 million in 2018. The increase was mainly due to the increase in rental income and government grants, which was partially offset by the decrease in revenue from properties development.

9.2.2.2 Total expenses

Total expenses of the Group increased by 19.2% from RMB84,591.8 million in 2017 to RMB100,794.8 million in 2018, mainly due to the increase in interest expenses and impairment losses on 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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	**(64,098.1)**	(50,691.1)	(13,407.0)	26.4%
Commission and fee expenses	**(2,079.9)**	(1,296.2)	(783.7)	60.5%
Operating expenses	**(14,550.0)**	(15,140.9)	590.9	(3.9%)
Impairment losses on financial assets	**(17,297.8)**	(16,550.5)	(747.3)	4.5%
Impairment losses on other assets	**(2,769.0)**	(913.1)	(1,855.9)	203.3%
Total expenses	**(100,794.8)**	(84,591.8)	(16,203.0)	19.2%

9. Management Discussion and Analysis

9.2.2.2.1 Interest expenses

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	**(44,125.5)**	(33,216.6)	(10,908.9)	32.8%
Bonds and notes issued	**(14,713.9)**	(11,710.2)	(3,003.7)	25.7%
Due to customers	**(3,011.4)**	(2,303.0)	(708.4)	30.8%
Financial assets sold under repurchase agreements	**(1,194.5)**	(2,373.1)	1,178.6	(49.7%)
Deposits from financial institutions	**(529.8)**	(623.4)	93.6	(15.0%)
Borrowings from central bank	**(87.4)**	(73.7)	(13.7)	18.6%
Placements from financial institutions	**(87.1)**	(142.4)	55.3	(38.8%)
Amounts due to the MOF	**—**	(47.0)	47.0	(100.0%)
Other liabilities	**(348.5)**	(201.7)	(146.8)	72.8%
Total	**(64,098.1)**	(50,691.1)	(13,407.0)	26.4%

Interest expenses of the Group increased by 26.4% from RMB50,691.1 million in 2017 to RMB64,098.1 million in 2018, mainly due to an increase in the average balance of the interest-bearing liabilities such as borrowings and bonds and notes issued and a corresponding increase in the interest expenses, which was caused by increasing financing needs in order to ensure the Group's daily operations and core business development; meanwhile, the slight increase in financing costs also increased the interest expenses of the Group. The interest expenses of borrowings of the Group increased by 32.8% from RMB33,216.6 million in 2017 to RMB44,125.5 million in 2018, and interest expenses of bonds and notes issued increased by 25.7% from RMB11,710.2 million in 2017 to RMB14,713.9 million in 2018.

9. Management Discussion and Analysis

9.2.2.2.2 Operating expenses

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	(5,311.9)	(5,607.8)	295.9	(5.3%)
Turnover tax and surcharges	(766.6)	(1,384.3)	617.7	(44.6%)
Cost of properties development and sales	(1,938.0)	(2,043.8)	105.8	(5.2%)
Others	(6,533.5)	(6,105.0)	(428.5)	7.0%
Including:				
Minimum lease payments under operating leases	(738.4)	(717.9)	(20.5)	2.9%
Depreciation of property and equipment	(858.5)	(515.5)	(343.0)	66.5%
Amortization	(406.5)	(291.7)	(114.8)	39.4%
Depreciation of investment properties	(120.6)	(74.7)	(45.9)	61.4%
Auditor's remuneration	(36.6)	(26.1)	(10.5)	40.2%
Total	(14,550.0)	(15,140.9)	590.9	(3.9%)

Operating expenses of the Group decreased by 3.9% from RMB15,140.9 million in 2017 to RMB14,550.0 million in 2018, lower than decrease of income.

The decrease of 44.6% in turnover tax and surcharges was primarily due to a decrease in taxable income.

The decrease of 5.3% in employee benefits of the Group was due to the decrease of its operating results.

Cost of properties development and sales of the Group decreased by 5.2% from RMB2,043.8 million in 2017 to RMB1,938.0 million in 2018, remaining basically flat with the previous year.

The increase in the Group's depreciation expenses primarily represented a considerable increase in the transportation equipment and transfer of some inventories into investment properties for this year.

9. Management Discussion and Analysis

9.2.2.2.3 Impairment losses on financial assets

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

	For the year ended December 31, 2018 (in millions of RMB)
Debt instruments at amortised cost	(12,620.4)
Loans and advances to customers	(3,901.3)
Financial assets held under resale agreements	(578.7)
Debt instruments at fair value through other comprehensive income	105.8
Finance lease receivables	(240.3)
Other financial assets	(62.9)
Total	(17,297.8)

	For the year ended December 31, 2017 (in millions of RMB)
Financial assets classified as receivables	(8,110.5)
Distressed debt assets classified as receivables	(3,662.5)
Loans and advances to customers	(1,929.5)
Available-for-sale financial assets	(1,502.7)
Finance lease receivables	(425.0)
Other financial assets	(920.3)
Total	(16,550.5)

In 2018, the Group recognized impairment losses on financial assets of RMB17,297.8 million, up by RMB747.3 million or 4.5% from 2017.

According to the New Financial Instrument Standards of the Group taking effect as from January 1, 2018, some financial assets for which impairment losses were originally made are reclassified as financial assets at FVTPL. Meanwhile, based on the expected credit loss model (“ECL model”) this year, allowance for impairment losses was increased.

Affected by market environment, the Group’s non-financial subsidiaries were exposed to more credit risks, resulting in more impairment provisions.

The Group increased efforts for project recovery and risk dissolution this year, resulting in reversal of more impairment provisions.

Owing to the above three factors, impairment losses on financial assets for 2018 increased slightly.

9. Management Discussion and Analysis

9.2.2.2.4 Impairment losses on other assets

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interests in associates and joint ventures	**(2,316.7)**	(859.0)	(1,457.7)	169.7%
Foreclosed assets	**(174.4)**	(54.1)	(120.3)	(222.4%)
Property and equipment	**(94.5)**	—	—	—
Goodwill	**(90.0)**	—	—	—
Others	**(93.4)**	—	—	—
Total	**(2,769.0)**	(913.1)	(1,855.9)	203.3%

Impairment losses on other assets of the Group increased by 203.3% from RMB913.1 million in 2017 to RMB2,769.0 million in 2018, mainly due to impairment losses made for stock price decline of some associates and joint ventures held by the Group under the sustained sluggish stock market.

9.2.2.3 Profit before tax

Profit before tax of the Group decreased by 83.6% from RMB36,601.7 million in 2017 to RMB6,011.9 million in 2018.

9.2.2.4 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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Current income tax				
PRC enterprise income tax	**(6,354.6)**	(10,994.9)	4,640.3	(42.2%)
Hong Kong profits tax	**(219.7)**	(1,569.5)	1,349.8	(86.0%)
Macau profits tax	**—**	(17.0)	17.0	(100.0%)
Adjustment of income tax in the preceding years	**64.9**	(40.0)	104.9	(262.3%)
Deferred income tax	**2,006.5**	2,607.4	(600.9)	(23.0%)
Total	**(4,502.9)**	(10,014.0)	5,511.1	(55.0%)

9. Management Discussion and Analysis

Income tax expense of the Group decreased by 55.0% from RMB10,014.0 million in 2017 to RMB4,502.9 million in 2018, mainly due to the decrease in the Group's taxable income. The effective tax rate of the Group in 2017 and 2018 was 27.4% and 74.9%, respectively. The substantial increase in the effective tax rate of the Group was primarily ascribable to the losses of some subsidiaries.

9.2.2.5 Segment results

Each segment of the Group is subject to different risks and returns. The Group reports financial results in three segments: (i) distressed asset management segment, which mainly includes our distressed debt asset management business, our DES asset management business, distressed asset management business conducted by our subsidiaries, distressed asset-based special situations investments business and distressed asset-based property development business; (ii) financial services segment, which mainly includes securities and futures business, financial leasing business, banking services business and consumer finance business; and (iii) asset management and investment segment, which mainly includes trust business, private equity funds business, financial investments 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,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**64,770.7**	68,912.9	(4,142.2)	(6.0%)
Financial services segment	**30,274.7**	30,931.4	(656.7)	(2.1%)
Asset management and investment segment	**17,808.5**	32,479.9	(14,671.4)	(45.2%)
Inter-segment elimination	**(5,600.8)**	(4,253.6)	(1,347.2)	31.7%
Total	**107,253.1**	128,070.6	(20,817.5)	(16.3%)

9. Management Discussion and Analysis

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

	For the year ended December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**12,904.3**	20,276.1	(7,371.8)	(36.4%)
Financial services segment	**4,499.1**	7,561.7	(3,062.6)	(40.5%)
Asset management and investment segment	**(9,735.7)**	11,013.0	(20,748.7)	(188.4%)
Inter-segment elimination	**(1,655.8)**	(2,249.1)	593.3	(26.4%)
Total	**6,011.9**	36,601.7	(30,589.8)	(83.6%)

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

	As of December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	**866,250.1**	934,966.4	(68,716.3)	(7.3%)
Financial services segment	**545,778.9**	572,779.7	(27,000.8)	(4.7%)
Asset management and investment segment	**355,404.8**	435,906.9	(80,502.1)	(18.5%)
Inter-segment elimination	**(72,365.8)**	(86,792.9)	14,427.1	(16.6%)
Total	**1,695,068.0**	1,856,860.1	(161,792.1)	(8.7%)

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

	For the year ended December 31,	
	2018	2017
Distressed asset management segment	**12.1%**	22.1%
Financial services segment	**9.4%**	18.0%
Asset management and investment segment	**(42.4%)**	33.5%

9. Management Discussion and Analysis

Distressed asset management business is the core business of the Group and a main source of income and profit of the Group. In 2018, the Group further adjusted its business development strategies, focused on the core business of distressed assets, and continued to increase investment in its core business. As a result, the distressed asset management segment accounted for a larger proportion among the three segments. Its total income accounted for 60.4% of the total in 2018, up by 6.6 percentage points from 53.8% in 2017, profit before tax accounted for 214.6% of the total in 2018, up by 159.2 percentage points from 55.4% in 2017, and total assets accounted for 51.1% of the total in 2018, up by 0.7 percentage point from 50.4% in 2017. Affected by such factors as external environment and risk exposure of some subsidiaries that conduct distressed asset-based special situations investments business, total income from the Group's distressed asset management segment decreased by 6.0% from RMB68,912.9 million in 2017 to RMB64,770.7 million in 2018, Profit before tax decreased by 36.4% from RMB20,726.1 million in 2017 to RMB12,904.3 million in 2018, Total assets decreased by 7.3% from RMB934,966.4 million in 2017 to RMB866,250.1 million in 2018.

As an important part of the Group's business, the financial services business plays an important role in overall business collaboration. In 2018, the Group's financial services segment posted stable performance, effectively exerting its function. Huarong Xiangjiang Bank and Huarong Financial Leasing saw operating results grow amid stability, but Huarong Securities logged a marked drop in its results due to market fluctuation. Regarding the financial services segment, total income decreased 2.1% from RMB30,931.4 million in 2017 to RMB30,274.7 million in 2018, accounting for 28.2% of the total in 2018, up by 4.0 percentage points from 24.2% in 2017; profit before tax declined 40.5% from RMB7,561.7 million in 2017 to RMB4,499.1 million in 2018, accounting for 74.8% of the total in 2018, up by 54.1 percentage points from 20.7% in 2017; and total assets fell 4.7% from RMB572,779.7 million in 2017 to RMB545,778.9 million in 2018, accounting for 32.2% of the total in 2018, up by 1.4 percentage point from 30.8% in 2017.

The asset management and investment business is an extension of the Group's core business. In 2018, the Group further regulated its asset management and investment business and continuously reduced non-core businesses and uncompetitive businesses, and besides, international business was exposed to more risks. As a result, the asset management and investment segment saw a marked decline in its results, with total income decreasing 45.2% from RMB32,479.9 million in 2017 to RMB17,808.5 million in 2018, profit before tax dropping 188.4% from RMB11,013.0 million in 2017 to RMB-9,735.7 million in 2018 and total assets declining 18.5% from RMB435,906.9 million in 2017 to RMB355,404.8 million in 2018.

9.2.3 Financial Positions of the Group

As of December 31, 2017 and 2018, the total assets of the Group amounted to RMB1,870,260.3 million and RMB1,710,086.7 million, respectively, representing a decrease of 8.6%. Total liabilities amounted to RMB1,687,625.4 million and RMB1,541,481.7 million, respectively, representing a decrease of 8.7%. Total equity amounted to RMB182,634.9 million and RMB168,605.0 million, respectively, representing a decrease of 7.7%.

9. Management Discussion and Analysis

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

	As of December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Assets				
Cash and balances with central bank	29,909.1	1.7%	33,207.1	1.8%
Deposits with financial institutions	107,500.2	6.3%	162,881.1	8.7%
Placements with financial institutions	843.6	0.0%	9,822.7	0.5%
Financial assets held for trading	—	—	67,257.7	3.6%
Financial assets at fair value through profit or loss	391,181.0	22.9%	—	—
Financial assets designated as at fair value through profit or loss	—	—	230,045.3	12.3%
Financial assets held under resale agreements	20,126.9	1.2%	41,238.1	2.2%
Loans and advances to customers	190,654.0	11.2%	158,221.9	8.5%
Finance lease receivables	99,002.9	5.8%	95,703.9	5.1%
Debt instruments at fair value through other comprehensive income	147,387.3	8.6%	—	—
Equity instruments at fair value through other comprehensive income	3,244.3	0.2%	—	—
Inventories	19,243.0	1.1%	16,640.8	0.9%
Available-for-sale financial assets	—	—	195,520.7	10.5%
Held-to-maturity investment	—	—	64,451.2	3.4%
Financial assets classified as receivables	—	—	701,192.4	37.5%
Debt instruments at amortised cost	612,133.1	35.8%	—	—
Interests in associates and joint ventures	36,975.5	2.2%	42,097.1	2.3%
Investment properties	5,326.1	0.3%	2,135.4	0.1%
Property and equipment	10,684.5	0.6%	8,645.2	0.5%
Deferred tax assets	15,018.7	0.9%	13,400.2	0.7%
Contract assets	114.7	0.0%	—	—
Other assets	20,478.4	1.2%	27,457.4	1.4%
Goodwill	263.4	0.0%	342.1	0.0%
Total assets	1,710,086.7	100.0%	1,870,260.3	100.0%

9. Management Discussion and Analysis

	As of December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Liabilities				
Borrowings from central bank	**2,402.2**	**0.2%**	4,647.0	0.3%
Deposits from financial institutions	**7,307.6**	**0.5%**	10,158.4	0.6%
Placements from financial institutions	**300.2**	**0.0%**	2,101.6	0.1%
Financial assets sold under repurchase agreements	**24,410.0**	**1.6%**	60,317.0	3.6%
Borrowings	**760,995.5**	**49.4%**	773,057.3	45.8%
Financial liabilities designated as at fair value through profit or loss	**4,728.3**	**0.3%**	2,547.4	0.2%
Due to customers	**209,116.5**	**13.5%**	202,349.9	12.0%
Tax payable	**3,731.9**	**0.2%**	6,025.8	0.4%
Deferred tax liabilities	**605.8**	**0.0%**	1,380.3	0.1%
Bonds and notes issued	**353,305.3**	**22.9%**	331,962.9	19.7%
Contract liabilities	**954.4**	**0.1%**	—	—
Other liabilities	**173,624.0**	**11.3%**	293,077.8	17.2%
Total liabilities	**1,541,481.7**	**100.0%**	1,687,625.4	100.0%
Share capital	**39,070.2**	**23.2%**	39,070.2	21.4%
Capital reserve	**19,107.4**	**11.3%**	19,015.0	10.4%
Surplus reserve	**6,971.8**	**4.1%**	5,299.7	2.9%
General reserve	**15,872.8**	**9.4%**	12,882.9	7.1%
Other reserves	**987.8**	**0.6%**	(799.5)	(0.4%)
Retained earnings	**38,630.2**	**23.0%**	52,706.3	28.8%
Equity attributable to equity holders of the Company	**120,640.2**	**71.6%**	128,174.6	70.2%
Perpetual capital instruments	**20,258.5**	**12.0%**	23,185.4	12.7%
Non-controlling interests	**27,706.3**	**16.4%**	31,274.9	17.1%
Total equity	**168,605.0**	**100.0%**	182,634.9	100.0%
Total equity and liabilities	**1,710,086.7**	**100.0%**	1,870,260.3	100.0%

9. Management Discussion and Analysis

9.2.3.1 Assets

As of December 31, 2017 and 2018, the Group's total assets amounted to RMB1,870,260.3 million and RMB1,710,086.7 million. As of December 31, 2018, the Group's major assets consist of: (i) deposits with financial institutions; (ii) financial assets at FVTPL; (iii) loans and advances to customers; (iv) finance lease receivables; (v) debt instruments at FVTOCI; and (vi) debt instruments at amortised cost.

9.2.3.1.1 Deposits with financial institutions

As of December 31, 2017 and 2018, the Group's deposits with financial institutions amounted to RMB162,881.1 million and RMB107,500.2 million, respectively, representing a decrease of 34.0%.

9.2.3.1.2 Financial assets at fair value through profit or loss

Under the New Financial Instrument Standards, 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 at FVTPL.

The Group adopted the New Financial Instrument Standards for the first time on January 1, 2018, according to which, certain assets originally classified as financial assets held for trading, held-to-maturity investments, financial assets designated as at FVTPL, financial assets classified as receivables and available-for-sale financial assets were reclassified as financial assets at FVTPL.

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

9. Management Discussion and Analysis

	As at December 31, 2018 (in millions of RMB)
Distressed debt assets	166,370.3
Funds	59,361.7
Trust products	42,867.0
Equity instruments	
— Listed	23,149.5
— Unlisted	28,001.6
Bonds	
— Corporate bonds	15,797.5
— Financial institution bonds	648.5
— Public sector and quasi-government bonds	413.5
Wealth management products	13,347.1
Convertible bonds	12,819.7
Asset management plans	10,307.9
Structured products	8,580.9
Other debt assets	5,179.6
Negotiable certificates of deposit	2,668.3
Entrusted loans	742.5
Asset-backed securities	264.6
Others	660.8
Total	391,181.0

As of December 31, 2018, the Group's financial assets at FVTPL amounted to RMB391,181.0 million, in particular, distressed debt assets of RMB166,370.3 million were the Group's acquisition-and-disposal distressed debt assets.

9. Management Discussion and Analysis

9.2.3.1.3 Loans and advances to customers

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

	As of December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers at amortised cost				
Corporate loans and advances				
— Loans and advances	**119,311.2**	108,863.7	10,447.5	9.6%
— Discounted bills	**—**	5,689.5	—	—
Subtotal	**119,311.2**	114,553.2	4,758.0	4.2%
Personal loans and advances				
— Loans for business operations	**12,740.8**	10,556.1	2,184.7	20.7%
— Mortgage	**18,511.7**	11,390.8	7,120.9	62.5%
— Personal consumption loans	**27,562.9**	15,483.2	12,079.7	78.0%
— Others	**2,802.7**	2,504.5	298.2	11.9%
Subtotal	**61,618.1**	39,934.6	21,683.5	54.3%
Loans to margin clients	**6,282.4**	7,523.4	(1,241.0)	(16.5%)
Gross amount of loans and advances to customers at amortised cost	**187,211.7**	162,011.2	25,200.5	15.6%
Less: Allowance for impairment losses				
— 12 month ECL	**(1,967.7)**	—	—	—
— Lifetime ECL	**(3,158.6)**	—	—	—
— Individually assessed	**—**	(1,082.7)	—	—
— Collectively assessed	**—**	(2,706.6)	—	—
Subtotal	**(5,126.3)**	(3,789.3)	(1,337.0)	35.3%
Net amount of loans and advances to customers at amortised cost	**182,085.4**	158,221.9	23,863.5	15.1%
Loans and advances to customers at fair value through other comprehensive income				
Corporate loans and advances				
— Discounted bills	**8,568.6**	—	—	—
Subtotal	**8,568.6**	—	—	—
Net amount of loans and advances to customers	**190,654.0**	158,221.9	32,432.1	20.5%

9. Management Discussion and Analysis

The Group adopted the New Financial Instrument Standards for the first time on January 1, 2018, so loans and advances to customers were reclassified as loans and advances to customers at amortised cost and loans and advances to customers at FVTOCI.

As of December 31, 2017 and 2018, the Group's loans and advances to customers amounted to RMB158,221.9 million and RMB190,654.0 million, respectively, representing an increase of 20.5%. The increase was mainly due to the stable development of Huarong Xiangjiang Bank's business and Huarong Consumer Finance's business, with corporate loans increasing amid stability, and personal consumption loans, mortgages and loans for business operations recording growth.

As of December 31, 2018, based on the ECL model, the Group's allowance for impairment losses for loans and advances to customers was RMB5,126.3 million, representing an increase of 35.3%.

9.2.3.1.4 Finance lease receivables

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

	As of December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	39,607.5	34,965.0	4,642.5	13.3%
1 year to 5 years (inclusive)	66,137.9	70,832.4	(4,694.5)	(6.6%)
Over 5 years	8,942.5	3,782.8	5,159.7	136.4%
Gross amount of finance lease receivables	114,687.9	109,580.2	5,107.7	4.7%
Less: Unrealized finance income	(13,232.8)	(11,852.8)	(1,380.0)	11.6%
Net amount of finance lease receivables	101,455.1	97,727.4	3,727.7	3.8%
Less: Allowance for impairment losses	(2,452.2)	(2,023.5)	(428.7)	21.2%
Carrying amount of finance lease receivables	99,002.9	95,703.9	3,299.0	3.4%
Present value of minimum finance lease receivables:				
Within 1 year (inclusive)	34,044.0	29,913.5	4,130.5	13.8%
1 year to 5 years (inclusive)	58,967.2	64,215.8	(5,248.6)	(8.2%)
Over 5 years	8,443.9	3,598.1	4,845.8	134.7%
Total	101,455.1	97,727.4	3,727.7	3.8%

9. Management Discussion and Analysis

As of December 31, 2017 and 2018, the Group's carrying amount of finance lease receivables amounted to RMB95,703.9 million and RMB99,002.9 million, respectively, representing an increase of 3.4%. The increase was mainly due to the continuous expansion of the leasing business of Huarong Financial Leasing amid stable operation.

Based on the ECL model, the Group's allowance for impairment losses for finance lease receivables were RMB2,452.2 million as at December 31, 2018, representing an increase of 21.2%.

9.2.3.1.5 Debt instruments at fair value through other comprehensive income

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

The following table sets forth the major components of debt instruments at FVTOCI as at the date indicated.

	As at December 31, 2018 (in millions of RMB)
Distressed debt assets	100,445.9
Bonds	
— Corporate bonds	26,494.8
— Public sector and quasi-government bonds	6,144.6
— Financial institutions bonds	319.2
— Government bonds	284.5
Entrusted loans	4,421.1
Asset management plans	4,255.4
Trust products	2,490.6
Debt instruments	1,902.2
Asset-backed securities	629.0
Total	**147,387.3**

9. Management Discussion and Analysis

The Group adopted the New Financial Instrument Standards for the first time on January 1, 2018, so some assets originally classified as financial assets classified as receivables, held-to-maturity investments and available-for-sale financial assets were reclassified as debt instruments at FVTOCI.

As at December 31, 2018, the Group's debt instruments at FVTOCI were RMB147,387.3 million. In particular, the distressed debt assets at FVTOCI were RMB100,445.9 million, which were acquisition-and-restructuring distressed debt assets of the Group; other debt instruments at FVTOCI were RMB46,941.4 million.

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

9.2.3.1.6 Debt instruments at amortised cost

Debt instruments at amortized cost are debt instruments held by the Group that meet the following conditions: (1) the debt instruments is 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.

9. Management Discussion and Analysis

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

	As of December 31, 2018 (in millions of RMB)
Distressed debt assets	
Loans acquired from financial institutions	24,042.6
Other debt assets acquired from non-financial institutions	265,041.7
Subtotal	289,084.3
Less: Allowance for impairment losses	
— 12-month ECL	(2,748.3)
— Lifetime ECL	(20,178.2)
Subtotal	(22,926.5)
Carrying amount of distressed debt assets	266,157.8
Other debt assets	
Trust products	114,321.4
Debt securities	86,699.4
Debt instruments	84,360.8
Entrusted loans	78,871.3
Asset management plans	7,076.2
Others	2,649.2
Subtotal	373,978.3
Less: Allowance for impairment losses	
— 12-month ECL	(3,970.3)
— Lifetime ECL	(24,032.7)
Subtotal	(28,003.0)
Carrying amount of other debt assets	345,975.3
Total	612,133.1

The Group adopted the New Financial Instrument Standards for the first time on January 1, 2018, so some assets originally classified as financial assets classified as receivables, held-to-maturity investments, financial assets held for trading and available-for-sale financial assets were reclassified as debt instruments at amortised cost.

As at December 31, 2018, the Group's debt instruments at amortised cost were RMB612,133.1 million. In particular, the distressed debt assets at amortised cost were RMB266,157.8 million, which were all acquisition-and-restructuring distressed debt assets. Other debt assets at amortised cost were RMB345,975.3 million.

9. Management Discussion and Analysis

Based on the ECL model, the Group's allowance for impairment losses for debt instruments at amortized cost were RMB50,929.5 million as at December 31, 2018. The allowance for impairment Losses for distressed debt assets at amortised cost was RMB22,926.5 million, representing a provision rate of 7.9%, the allowance for impairment Losses for other debt assets at amortised cost were RMB28,003.0 million, representing a provision rate of 7.5%.

9.2.3.2 Liabilities

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

9.2.3.2.1 Borrowings

The borrowings of the Group as at 31, 2017 and 2018 amounted to RMB773,057.3 million and RMB760,995.5 million, respectively, representing a decrease of 1.6%. The Group's financing capability and borrowing remained stable in 2018.

9.2.3.2.2 Due to customers

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

	As of December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate customers	**82,228.4**	96,481.6	(14,253.2)	(14.8%)
Individual customers	**19,092.9**	19,344.7	(251.8)	(1.3%)
Time deposits				
Corporate customers	**55,072.1**	36,435.8	18,636.3	51.1%
Individual customers	**30,477.9**	26,738.4	3,739.5	14.0%
Pledged deposits	**7,364.1**	9,340.5	(1,976.4)	(21.2%)
Others	**14,881.1**	14,008.9	872.2	6.2%
Total	**209,116.5**	202,349.9	6,766.6	3.3%

As of December 31, 2017 and 2018, the amount due to customers of the Group was RMB202,349.9 million and RMB209,116.5 million, respectively, representing an increase of 3.3%. The increase was mainly attributable to time deposits from the corporate customers and personal customers absorbed by Huarong Xiangjiang Bank.

9. Management Discussion and Analysis

9.2.3.2.3 Bonds and notes issued

The following table forth the components of the Group's bonds and notes issued as at the dates indicated.

	As of December 31,			
	2018	2017	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Huarong International	135,211.9	127,208.0	8,003.9	6.3%
The Company	82,943.7	95,051.6	(12,107.9)	(12.7%)
Huarong Xiangjiang Bank	80,127.2	54,662.9	25,464.3	46.6%
Huarong Securities	21,829.7	20,193.4	1,636.3	8.1%
Huarong Financial Leasing	11,473.7	15,469.2	(3,995.5)	(25.8%)
Huarong Real Estate	7,220.1	7,111.0	109.1	1.5%
Huarong (HK) Industrial and Financial Investment Limited	3,896.8	3,865.5	31.3	0.8%
Huarong Rongde	5,578.5	7,801.3	(2,222.8)	(28.5%)
Huarong Huitong Asset Management Co., Ltd. ("Huarong Huitong")	5,023.7	300.0	4,723.7	1,574.6%
Huarong Tianze Investment Limited	—	300.0	(300.0)	(100.0%)
Total	353,305.3	331,962.9	21,342.4	6.4%

As of December 31, 2017 and 2018, the balance of the Group's bonds and notes issued amounted to RMB331,962.9 million and RMB353,305.3 million, respectively, representing an increase of 6.4%. The increase in the balances of bonds and notes issued was mainly due to the Group's continuous efforts to optimize debt structure, expand direct financing channels and reinforce debt financing business.

The newly issued bonds and notes this year mainly included: (i) Huarong International issued mid-term U.S. dollar notes of US$1.35 billion in the current year; (ii) the Company issued tier II capital bonds of RMB10.0 billion in the current Year; (iii) Huarong Xiangjiang Bank issued negotiable certificates of deposit of RMB72.23 billion, and green financial bonds of RMB2.5 billion in the current year; (iv) Huarong Securities issued subordinated bonds of RMB2.5 billion, beneficiary certificates of RMB3.96 billion, and corporate bonds of RMB2.5 billion in the current year; (v) Huarong Financial Leasing issued financial bonds of RMB3.0 billion in the current year; (vi) Huarong Rongde issued interbank bonds of RMB1.0 billion in the current year; and (vii) Huarong Huitong issued corporate bonds of RMB3.15 billion and asset-backed securities of RMB1.41 billion in the current year.

9. Management Discussion and Analysis

9.2.4 Contingent Liabilities

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

As at December 31, 2018, total claim amount of pending litigations was RMB1,796 million (December 31, 2017: RMB1,212 million) for the Group (as defendant). Total provision of RMB112 million (December 31, 2017: RMB110 million) for the Group was made based on court judgments and lawyer's opinions. The Company believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

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

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

9. Management Discussion and Analysis

9.3 Business Overview

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

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

	For the year ended December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Total income				
Distressed asset management segment	**64,770.7**	**60.4%**	68,912.9	53.8%
Financial services segment	**30,274.7**	**28.2%**	30,931.4	24.2%
Asset management and investment segment	**17,808.5**	**16.6%**	32,479.9	25.3%
Inter-segment elimination	**(5,600.8)**	**(5.2%)**	(4,253.6)	(3.3%)
Total	**107,253.1**	**100.0%**	128,070.6	100.0%
Profit before tax				
Distressed asset management segment	**12,904.3**	**214.6%**	20,276.1	55.4%
Financial services segment	**4,499.1**	**74.8%**	7,561.7	20.7%
Asset management and investment segment	**(9,735.7)**	**(161.9%)**	11,013.0	30.1%
Inter-segment elimination	**(1,655.8)**	**(27.5%)**	(2,249.1)	(6.2%)
Total	**6,011.9**	**100.0%**	36,601.7	100.0%

In 2018, the total income from distressed asset management segment, financial services segment and asset management and investment segment of the Group accounted for 60.4%, 28.2% and 16.6% of its total income, respectively, and the profit before tax of these segments accounted for 214.6%, 74.8% and -161.9% of our total profit before tax, respectively.

9.3.1 Distressed asset management

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

9. Management Discussion and Analysis

Distressed asset management business is the foundation of all product business systems of the Group and an important source of income and profit of the Group. In 2017 and 2018, total income from the distressed asset management segment was RMB68,912.9 million and RMB64,770.7 million, respectively, accounting for 53.8% and 60.4% of our total income, respectively, and its profit before tax was RMB20,276.1 million and RMB12,904.3 million, respectively, accounting for 55.4% and 214.6% of the total profit before tax of the Group, respectively.

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB)	
Distressed debt asset management business of the Company		
Gross amount of distressed debt assets(1)	532,946.4	468,892.2
Less: Allowance for impairment losses for distressed debt assets(2)	(24,514.7)	(22,846.7)
Net carrying amount of distressed debt assets	511,350.5	446,045.5
Acquisition cost of newly added distressed debt assets	199,415.0	407,993.7
Total income from distressed debt assets		
Operating income from distressed debt assets(3)	39,748.0	33,742.7
Financial advisory income from acquisition-and-restructuring business	499.0	2,439.5
Total	40,247.0	36,182.2
DES asset management business of the Company		
Carrying amount of DES Assets	16,732.6	12,455.3
Dividend income from DES Assets	192.8	151.4
Acquisition cost of DES Assets disposed	416.3	3,209.7
Net gain from the disposal of DES Assets	582.0	3,397.0
Distressed asset management business conducted by our subsidiaries		
Gross amount of distressed debt assets	19,729.0	39,865.4
Income from distressed debt assets	2,926.9	1,421.2
Total investment in market-oriented debt-to-equity swap business(4)	19,657.0	15,756.0
Distressed asset-based special situations investments business(5)		
Income from Huarong Rongde	2,329.2	3,647.8
Distressed asset-based property development business		
Income from property sales and primary land development of Huarong Real Estate	3,192.9	3,640.4

9. Management Discussion and Analysis

(1) Gross amount of distressed debt assets at the end of 2018 equals the sum of the Company's (i) distressed debt assets presented under financial assets at FVTPL (acquisition-and-disposal model); and (ii) distressed debt assets presented under debt instruments at amortised costs and at FVTOCI (acquisition-and-restructuring model), as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the impact of the standards conversion and the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(2) Allowance for impairment losses for distressed debt assets at the end of 2018 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. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(3) Operating income from distressed debt assets for 2018 equals the sum of the Company's (i) fair value changes on distressed debt assets presented under fair value changes in financial assets (acquisition-and-disposal model); and (ii) interest income from distressed debt assets presented under interest income (acquisition-and-restructuring model), as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(4) Total investment in market-oriented debt-to-equity swap business was the total investment in market-oriented debt-to-equity swap projects made by Huarong Ruitong Equity Investment Management Co., Ltd (華融瑞通股權投資管理有限公司) ("Huarong Ruitong"), a subsidiary set by our Group primarily for market-oriented debt-to-equity swap business, since its establishment.

(5) Distressed asset-based special situations investments business was primarily conducted by Huarong Rongde, China Huarong Western Development Investment Co., Ltd. ("China Huarong Western"), Huarong (Tianjin Free Trade Zone) Investment Co., Ltd. ("Huarong Tianjin Investment"), Huarong Guangdong Free Trade Zone Investment Holdings Co., Ltd. ("Huarong Guangdong Holdings") and other subsidiaries.

9.3.1.1 Distressed debt asset management business of the Company

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

9. Management Discussion and Analysis

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 some key financial indicators of distressed debt assets of the Company by source of acquisition as of the dates and for the years indicated.

	As of or for the year ended December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	**55,820.2**	**28.0%**	114,023.2	27.9%
NFE Distressed Assets	**143,594.8**	**72.0%**	293,970.5	72.1%
Total	**199,415.0**	**100.0%**	407,993.7	100.0%
Gross amount of distressed debt assets at the end of the period(1)				
FI Distressed Assets	**169,819.1**	**31.9%**	127,719.4	27.2%
NFE Distressed Assets	**363,127.3**	**68.1%**	341,172.8	72.8%
Total	**532,946.4**	**100.0%**	468,892.2	100.0%
Operating income from distressed debt assets for the period(2)				
FI Distressed Assets	**8,916.5**	**22.4%**	5,799.7	17.2%
NFE Distressed Assets	**30,831.5**	**77.6%**	27,943.0	82.8%
Total	**39,748.0**	**100.0%**	33,742.7	100.0%

(1) Gross amount of distressed debt assets at the end of 2018 equals the sum of the Company's (i) distressed debt assets presented under financial assets at FVTPL (acquisition-and-disposal model); and (ii) distressed debt assets presented under debt instruments at amortised cost and at FVTOCI (acquisition-and-restructuring model), as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the impact of standard conversion and the changes in items presented as a result of implementation of New Financial Instrument standards, and there is no change in the business basis between the two periods.

(2) Operating income from distressed debt assets for 2018 equals the sum of the Company's (i) fair value changes on distressed debt assets presented under fair value changes on financial assets (acquisition-and-disposal model); and (ii) interest income from distressed debt assets presented under interest incomes (acquisition-and-restructuring model), as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

9. Management Discussion and Analysis

9.3.1.1.1.1 FI Distressed Assets

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

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

	As at 31 December			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Banking				
Large commercial banks	**20,096.0**	**36.0%**	59,219.7	51.9%
Joint stock commercial banks	**22,794.5**	**40.8%**	40,001.1	35.1%
City and rural commercial banks	**1,048.9**	**1.9%**	4,861.8	4.3%
Other banks	**495.0**	**0.9%**	796.5	0.7%
Subtotal	**44,434.4**	**79.6%**	104,879.1	92.0%
Non-banking financial institutions	**11,385.8**	**20.4%**	9,144.1	8.0%
Total	**55,820.2**	**100.0%**	114,023.2	100.0%

9.3.1.1.1.2 NFE Distressed Assets

The NFE Distressed Assets the Company acquired mainly include accounts receivable and other distressed debts of NFEs. These distressed debts 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 management

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

9. Management Discussion and Analysis

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

	As of or for the year ended December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	**49,507.5**	**24.8%**	137,563.9	33.7%
Acquisition-and-restructuring	**149,907.5**	**75.2%**	270,429.8	66.3%
Total	**199,415.0**	**100.0%**	407,993.7	100.0%
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal(1)	**162,691.0**	**30.5%**	140,902.5	30.1%
Acquisition-and-restructuring(2)	**370,255.4**	**69.5%**	327,989.7	69.9%
Total	**532,946.4**	**100.0%**	468,892.2	100.0%
Income from distressed debt assets for the period				
Acquisition-and-disposal(3)	**8,652.8**	**21.5%**	4,583.1	12.7%
Acquisition-and-restructuring(4)	**31,594.2**	**78.5%**	31,599.1	87.3%
Total	**40,247.0**	**100.0%**	36,182.2	100.0%

(1) The gross amount of acquisition-and-disposal distressed debt assets at the end of 2018 is the amount of the Company's distressed debt assets presented under financial assets at FVTPL, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the impact of the standards conversion and the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(2) The gross amount of acquisition-and-restructuring distressed debt assets at the end of 2018 is the sum of the Company's distressed debt assets presented under debt instruments at amortised cost and at FVTOCI, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the impact of the standards conversion and the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(3) The income from acquisition-and-disposal distressed debt assets for 2018 is the Company's fair value change on distressed debt assets presented under the fair value change on financial assets, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(4) The income from acquisition-and-restructuring distressed debt assets for 2018 is the sum of the Company's interest income from distressed debt assets presented under interest income and financial advisory income from acquisition-and-restructuring business presented under commission and fee income, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

9. Management Discussion and Analysis

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 subjective and objective factors, such as the characteristics of the distressed assets, the conditions of the debtors and the conditions of the collaterals and pledges. Disposal methods include: interim participation in operations, asset restructuring, debt-to-equity swaps, individual transfer, package-and-transfer, discounted collection from debtors, liquidation, regular collection, collection through litigation, receipts of other assets in satisfaction of debts and debt restructuring. Our core competitive advantage under the acquisition-and-disposal model is our ability to price and dispose of distressed assets.

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB, except for percentages)	
Gross amount of distressed debt assets at the beginning of the period[1]	**140,667.2**	59,595.0
Acquisition cost of newly added distressed debt assets	**49,507.5**	137,563.9
Gross amount of distressed debt assets disposed	**28,582.6**	56,465.6
Gross amount of distressed debt assets at the end of the period	**162,691.0**	140,902.5
Net gain or loss from distressed debt assets[2]		
Realized gain	**7,553.9**	4,373.9
Unrealized fair value changes	**1,098.9**	209.2
Total	**8,652.8**	4,583.1
IRR on completed projects[3]	**14.5%**	11.9%

(1) Gross amount of distressed debt assets at the end of 2018 equals the gross amount of the Company's distressed debt assets presented under financial assets at FVTPL, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the impact of the standards conversion and the changes in items presented as a result of implementation of New Financial Instrument Standards and there is no change in the business basis between the two periods.

(2) Net gain or loss from distressed debt assets for in 2018 equals the Company's fair value change on distressed debt assets presented under the fair value change on financial assets, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(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.

9. Management Discussion and Analysis

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

	As of December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**53,319.4**	**32.8%**	53,320.3	37.8%
Pearl River Delta[2]	**21,099.3**	**13.0%**	15,310.4	10.9%
Bohai Rim Region[3]	**20,220.5**	**12.4%**	16,247.0	11.5%
Central Region[4]	**23,778.8**	**14.6%**	20,751.5	14.7%
Western Region[5]	**38,425.4**	**23.6%**	31,108.6	22.1%
Northeastern Region[6]	**5,847.6**	**3.6%**	4,164.7	3.0%
Total	**162,691.0**	**100.0%**	140,902.5	100.0%

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

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

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

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

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

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

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

9.3.1.1.2.2 Acquisition-and-restructuring model

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

9. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB, except for percentages)	
Number of new projects (quantity)	**525**	902
Number of existing projects as of the end of the period (quantity)	**1,565**	1,387
Gross amount of distressed debt assets[1]	**370,255.4**	327,989.7
Allowance for impairment losses[2]	**(24,514.7)**	(22,846.7)
Net carrying amount of distressed debt assets[3]	**348,659.5**	305,143.0
Acquisition cost of newly added distressed debt assets	**149,907.5**	270,429.8
The total income from distressed debt assets		
Operating income from distressed debt assets[4]	**31,095.2**	29,159.6
Financial advisory income	**499.0**	2,439.5
Total	**31,594.2**	31,599.1
Annualized return on monthly average gross amount of distressed debt assets (excluding financial advisory income)[5]	**8.9%**	9.0%
Allowance to distressed debt assets ratio[6]	**6.6%**	7.0%
Gross amount of stage III distressed debt assets[7]	**36,199.2**	—
Allowance for impairment losses for III distressed debt assets[8]	**19,009.7**	—
Impaired distressed debt assets[9]	**—**	7,381.1
Impaired distressed debt assets ratio[10]	**—**	2.25%
Impaired distressed debt assets coverage ratio[11]	**—**	309.5%
Distressed debt assets collateral ratio[12]	**37.1%**	37.4%

(1) Gross amount of distressed debt assets at the end of 2018 is the sum of the Company's gross amount of distressed debt assets presented under debt instruments at amortised cost and at FVTOCI, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the impact of the standards conversion and the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(2) Allowance for impairment losses at the end of 2018 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, impairment allowance for the distressed debt assets presented under debt instruments at FVTOCI are presented as a part of the investment revaluation reserve. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(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.

9. Management Discussion and Analysis

(4) The operating income from distressed debt assets for 2018 equals the interest income from distressed debt assets presented under interest income, as shown in the consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to the changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(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 debt assets at the end of each month.

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

(7) Gross amount of distressed debt assets of stage III is balance of stage III distressed debt assets based on the stage division model after applying the New Financial Instrument Standards.

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

(9) Impaired distressed debt assets equals to the Company's impaired distressed debt assets under financial assets classified as receivables, as shown in the consolidated financial statements. It is no longer applicable after the implementation of the New Financial Instruments Standards.

(10) Impaired distressed debt assets ratio equals impaired distressed debt assets divided by the gross amount of distressed debt assets. It is no longer applicable after the implementation of the New Financial Instruments Standards.

(11) Impaired distressed debt assets coverage ratio equals allowance for impairment losses divided by the impaired distressed debt assets. It is no longer applicable after the implementation of the New Financial Instruments Standards.

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

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

	As of December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**68,533.3**	**18.5%**	68,941.5	21.0%
Pearl River Delta[2]	**55,419.9**	**15.0%**	49,412.7	15.1%
Bohai Rim Region[3]	**55,323.1**	**14.9%**	42,893.9	13.1%
Central Region[4]	**75,554.5**	**20.4%**	65,043.8	19.8%
Western Region[5]	**99,105.5**	**26.8%**	84,668.0	25.8%
Northeastern Region[6]	**16,319.1**	**4.4%**	17,029.8	5.2%
Total	**370,255.4**	**100.0%**	327,989.7	100.0%

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

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

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

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

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

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

9. Management Discussion and Analysis

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

	As of December 31,			
	2018		2017	
	Total	Percentage	Total	Percentage
	(in millions of RMB, except for percentages)			
Real estate	**194,340.6**	**52.5%**	193,292.0	58.9%
Manufacturing	**41,460.0**	**11.2%**	31,780.4	9.7%
Leasing and commercial services	**29,057.9**	**7.8%**	18,023.6	5.5%
Construction	**27,164.0**	**7.3%**	18,885.4	5.8%
Water, environment and public utilities management	**17,654.0**	**4.8%**	14,373.0	4.4%
Mining	**5,545.7**	**1.5%**	5,474.2	1.7%
Transportation, logistics and postal services	**4,708.7**	**1.3%**	4,007.9	1.2%
Others	**50,324.5**	**13.6%**	42,153.2	12.8%
Total	**370,255.4**	**100.0%**	327,989.7	100.0%

9. Management Discussion and Analysis

9.3.1.2 DES asset management business of the Company

The Company obtains DES Assets through debt-to-equity swaps, receipt of equity interests in satisfaction of debts and follow-on equity investments. The Company enhances the value of our DES Assets by improving the business operations of the DES Companies. The Company exits such investments primarily through asset swaps, merger and acquisition, restructuring and listing of DES Companies and realize the appreciation of our DES Assets. The Company's DES Assets are classified as shares of unlisted DES Companies ("Unlisted DES Assets") and shares of listed DES Companies ("Listed DES Assets"). As of December 31, 2018, the Company held Unlisted DES Assets in 150 DES Companies, with carrying amount of RMB11,324.7 million; and Listed DES Assets in 24 DES Companies, with carrying amount of RMB5,407.9 million.

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

	As of December 31,	
	2018	2017
	(in millions of RMB, except for number of companies)	
Composition of existing DES asset portfolio		
Number of DES companies	**174**	177
Unlisted	**150**	157
Listed	**24**	20
Carrying amount	**16,732.6**	12,455.3
Unlisted	**11,324.7**	8,510.2
Listed	**5,407.9**	3,945.1

The Company derives the following income from its DES asset management business: (i) disposal income, which is the income from transfer of the Company's equity interests in DES Companies; (ii) restructuring income, which is the income the Company recognizes when exchanging the equity interests in DES Companies into equity interests in related parties of the DES Companies based on the fair value of the equity interests; (iii) dividend income, which are dividends and other distributions from DES Companies; (iv) investment income, gains and losses from follow-on investments, which is the income from transfer of additional equities acquired through private placements of DES Companies; and (v) financial services income, which is the income from providing various financial services to the DES Companies through our financial services subsidiaries. In addition, through the Company's DES Companies, the Company forms reliable and win-win cooperative relationships with local governments where the Company's DES Companies are located and the affiliated enterprises of the DES Companies to explore more business opportunities and income.

9. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB, except for number of companies)	
Number of DES Companies disposed	**6**	23
Acquisition costs of DES Assets disposed	**416.3**	3,209.7
Net gains on DES Assets disposed	**582.0**	3,397.0
Exit multiple of DES Assets disposed(1)	**2.4 times**	2.1 times
Dividend income from DES Companies	**192.8**	151.4

(1) Exit multiple of DES Assets disposed equals the sum of the net gain on DES Assets disposed in a particular year and the acquisition cost of DES Assets disposed divided by the acquisition cost of the DES Assets disposed.

In 2018, the Company's net gain on DES Assets disposed was RMB582.0 million and the average exit multiple was 2.4 times.

9.3.1.3 Distressed asset management business of our subsidiaries

The Group carried out distressed assets business such as distressed asset management and market-oriented debt-for-equity swap through its subsidiaries, including Huarong Huitong and Huarong Ruitong.

9.3.1.3.1 Distressed asset management conducted by our subsidiaries

The following table sets forth the distressed asset management carried out by Huarong Huitong and its subsidiaries as of the dates and for the years indicated.

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB)	
Gross amount of distressed debt assets	**19,729.0**	39,865.4
Allowance for impairment losses	**(994.2)**	(779.5)
Net carrying amount of distressed debt assets	**18,736.0**	39,085.9
Income from distressed debt assets	**2,926.9**	1,421.2

9. Management Discussion and Analysis

9.3.1.3.2 Market-oriented debt-to-equity swap business conducted by our subsidiaries

The Group conducted the market-based debt-to-equity swap business through its subsidiary Huarong Ruitong. The Group's market-based debt-to-equity swap 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 debts-to equity swap implementation and effectively supported the development of real economy.

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

(3) The model of "Cash increment": Cash increment for the subsidiaries under the enterprise customers; the funds increased are used for repaying the debt, and subsequently, the enterprise customers purchases the equity of the subsidiary held by the Group through the issuance of shares to realize the listing of the shares held by the Group.

In the current period, affected by the implementation of the New Financial Instrument Standards and market volatility, the valuation of market-based debt-to-equity swaps launched by Huarong Ruitong temporarily declined, resulting in a loss of RMB2,933.0 million by Huarong Ruitong.

The table below sets forth the market-based debt-to-equity swap business conducted by the Huarong Ruitong as of the dates indicated.

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB)	
Issuing shares for repaying debts	**8,157.0**	6,756.0
Changing debt collection to equity	**11,000.0**	9,000.0
Cash increment	**500.0**	—
Total	**19,657.0**	15,756.0

9. Management Discussion and Analysis

9.3.1.4 Distressed asset-based special situations investments business

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

The Group primarily conducts our distressed asset-based special situations investment business through Huarong Rongde, China Huarong Western, Huarong Tianjin Investment, Huarong Guangdong Holdings and other subsidiaries. In the current period, due to market fluctuations, project risk exposure and other factors, the operating results of some subsidiaries that conduct such business have declined. In the next step, the Group will adjust the direction of such business development, actively resolve stock risks, integrate institutions in category, and continuously strengthen synergies with the distressed asset business of the parent company.

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB, except for percentages)	
Total assets	41,146.1	52,613.2
Income	2,329.2	3,647.8
Net profit	450.1	1,168.9

9.3.1.5 Distressed asset-based property development business

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

The Group conducts distressed assets-based property development business through Huarong Real Estate. In 2017 and 2018, revenue from property development of Huarong Real Estate amounted to RMB3,640.4 million and RMB3,192.9 million, respectively.

9. Management Discussion and Analysis

9.3.2 Financial services

By leveraging the Group's multiple financial licenses, the Group provides its clients with flexible, customized and diversified financing channels and financial products through a comprehensive financial services platform composed of Huarong Securities, Huarong Futures, Huarong Financial Leasing, Huarong Xiangjiang Bank and Huarong Consumer Finance. This creates a comprehensive financial service system which covers the different business life cycles and the entire value chain of clients. In 2017 and 2018, the total income from the Group's financial services segment accounted for 24.2% and 28.2% of our total income, respectively. Profit before tax accounted for 20.7% and 74.8% of the total profit before tax of the Group, respectively.

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB)	
Securities and Futures Business		
Total income	3,578.3	8,811.7
Profit before tax	(1,066.9)	2,096.7
Total assets	79,618.4	120,860.9
Total equity	11,884.9	13,781.0
Financial Leasing Business		
Total income	7,812.3	7,354.9
Profit before tax	2,167.7	2,180.7
Total assets	124,458.4	132,014.8
Total equity	14,860.1	14,239.7
Banking		
Total income	17,684.2	13,999.6
Profit before tax	3,382.7	3,156.2
Total assets	335,451.9	314,525.6
Total equity	21,961.0	19,950.1
Consumer Finance Business		
Total income	1,201.0	765.7
Profit before tax	16.8	128.0
Total assets	8,152.2	6,827.5
Total equity	680.7	668.2

9. Management Discussion and Analysis

9.3.2.1 Securities and futures business

The Group conducts securities business through Huarong Securities. The Group's securities business mainly includes proprietary trading, securities brokerage and wealth management, investment banking and asset management businesses. The financial information for Huarong Securities disclosed in this section is consolidated financial information that includes information of Huarong Futures, its subsidiary. Affected by the securities market fluctuation, total income of Huarong Securities decreased by 59.4% from RMB8,811.7 million in 2017 to RMB3,578.3 million in 2018 and net profit decreased by 156.5% from RMB1,573.9 million in 2017 to RMB-889.1 million in 2018.

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

	As of or for the year ended December 31,		
	2018	2017	Regulatory requirements
Profitability indicators(1)			
Net profit margin(2)	(24.8%)	17.9%	—
ROAE(3)	(6.9%)	12.9%	—
ROAA(4)	(0.9%)	1.2%	—
Cost-to-income ratio	89.1%	22.8%	—
Risk control indicators(5)			
Net capital to total risks ratio	182.3%	253.2%	not lower than 100%
Net capital to net assets ratio	133.8%	131.4%	not lower than 40%
Net capital to liabilities ratio	48.5%	54.9%	not lower than 8%
Net assets to liabilities ratio	36.2%	41.8%	not lower than 20%
Equity securities and derivatives of proprietary trading to net capital ratio	4.9%	8.5%	not higher than 100%
Fixed income securities of proprietary trading to net capital ratio	159.7%	145.5%	not higher than 500%

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

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

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

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

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

9. Management Discussion and Analysis

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

	For the year ended December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Proprietary trading	**978.1**	**27.3%**	4,754.3	54.0%
Securities brokerage and wealth management	**1,518.4**	**42.4%**	2,544.6	28.9%
Investment banking	**319.3**	**8.9%**	731.8	8.3%
Asset management business	**347.5**	**9.7%**	380.6	4.3%
Others	**415.0**	**11.7%**	400.4	4.5%
Total	**3,578.3**	**100.0%**	8,811.7	100.0%

9.3.2.2 Financial leasing business

The Group operates its financial leasing business through Huarong Financial Leasing. Huarong Financial Leasing mainly engages in financial leasing of equipment to provide customized financial solutions to clients, including sale and leaseback, direct leasing and operating leasing. As at December 31, 2018, Huarong Financial Leasing had total assets of RMB124,458.4 million, net assets of RMB14,860.1 million and ROAE of 11.2%, ranking eighth, sixth and fifth among the top 10 financial leasing companies in China, respectively. As at December 31, 2017 and 2018, the carrying amount of finance lease receivables of Huarong Financial Leasing was RMB94,096.8 million and RMB97,730.8 million, respectively. In 2017 and 2018, the net profit of Huarong Financial Leasing was RMB1,628.6 million and RMB1,631.7 million, respectively, representing a growth rate of 0.2%.

9. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2018	2017
Profitability indicators		
ROAA(1)	**1.3%**	1.3%
ROAE(2)	**11.2%**	12.8%
Net interest spread(3)	**1.5%**	1.9%
Net interest margin(4)	**2.1%**	2.4%
Cost-to-income ratio(5)	**22.7%**	17.2%
Asset quality indicators		
Distressed asset ratio(6)	**1.49%**	1.32%
Provision coverage ratio(7)	**156.0%**	157.5%
Capital adequacy indicators		
Core capital adequacy ratio(8)	**12.3%**	11.9%
Capital adequacy ratio(8)	**13.0%**	12.5%

(1) ROAA equals the net profit for the period 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 period as a percentage of the average balance of shareholder's equity as of the beginning and the end of the period.

(3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.

(4) Net interest margin equals net interest income divided by the average daily balance of interest-earning assets.

(5) Cost-to-income ratio equals the ratio of other expenses divided by total income (excluding commission and fees and interest expenses).

(6) 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.

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

(8) Disclosed by the means reported to CBIRC.

9. Management Discussion and Analysis

The table below sets forth the components of the income from the business of Huarong Financial Leasing by business lines for the years indicated.

	For the year ended December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Sale and lease-back	**5,875.2**	**75.2%**	5,888.5	80.1%
Direct leasing	**540.0**	**6.9%**	526.8	7.2%
Others	**1,397.1**	**17.9%**	939.6	12.7%
Total	**7,812.3**	**100.0%**	7,354.9	100%

The table below sets forth the components of the balance of finance lease receivables of Huarong Financial Leasing by industry as of the dates indicated.

	As of December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	**19,381.3**	**19.4%**	17,945.9	18.7%
Water, environment and public utilities management	**40,297.9**	**40.3%**	46,178.2	48.1%
Transportation, logistics and postal services	**10,318.1**	**10.3%**	4,955.1	5.1%
Construction	**5,830.2**	**5.8%**	4,859.1	5.1%
Mining	**3,251.3**	**3.2%**	1,454.1	1.5%
Leasing and commercial services	**1,995.7**	**2.0%**	1,636.0	1.7%
Real estate	**59.0**	**0.1%**	118.8	0.1%
Others	**18,928.4**	**18.9%**	18,948.6	19.7%
Total	**100,061.9**	**100.0%**	96,095.8	100.0%

9.3.2.3 Banking services business

The Group conducts its banking business in China through Huarong Xiangjiang Bank. Huarong Xiangjiang Bank ranked 21st in the top 100 enterprises in Hunan Province in 2018. As at December 31, 2017 and 2018, total assets of Huarong Xiangjiang Bank were RMB314,525.6 million and RMB335,451.9 million, respectively; total loans and advances to customers were RMB149,706.8 million and RMB183,045.7 million, respectively; total due to customers were RMB202,638.2 million and RMB209,361.5 million, respectively. In 2017 and 2018, net profit of Huarong Xiangjiang Bank was RMB2,510.4 million and RMB2,716.1 million, respectively, with an increase of 8.2%.

9. Management Discussion and Analysis

As at December 31, 2018, the non-performing loan ratios and provision coverage ratio of Huarong Xiangjiang Bank was 1.58% and 153.9%, respectively. Its core capital adequacy ratio was 9.6% and its capital adequacy ratio was 12.7%, and all major businesses indicators of Huarong Xiangjiang Bank either satisfied or outperformed regulatory requirements. The rating of Huarong Xiangjiang Bank was "AAA" as assessed by China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級公司)

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

	As of or for the year ended December 31,	
	2018	2017
Profitability indicators		
ROAA[(1)]	0.8%	0.9%
ROAE[(2)]	13.0%	14.6%
Net interest spread[(3)]	2.5%	2.5%
Net interest margin[(4)]	2.7%	2.6%
Cost-to-income ratio[(5)]	26.0%	31.4%
Asset quality indicators		
Non-performing loans ratio[(6)]	1.58%	1.48%
Provision coverage ratio[(7)]	153.9%	159.1%
Allowance to total loans[(8)]	2.4%	2.4%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio[(9)]	9.6%	9.9%
Capital adequacy ratio[(9)]	12.7%	13.2%
Other indicators		
Liquidity ratio[(10)]	63.8%	42.9%

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

(2) ROAE equals the net profit attributable to shareholders for the period divided by the average balance of shareholders' equity at the beginning and end of the period.

(3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.

(4) Net interest margin equals net interest income divided by the average daily balance of interest-earning assets.

(5) Cost-to-income ratio equals the ratio of other expenses divided by total income (excluding commission and fee expenses and interest expenses).

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

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

(8) Allowance to total loans equals allowance for impairment losses divided by gross amount of loans and advances to customers.

(9) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBIRC regulations.

(10) Liquidity ratio is calculated according to CBIRC regulations.

9. Management Discussion and Analysis

Corporate banking business: Huarong Xiangjiang Bank provides diversified financial products and services, such as corporate loans, discounted bills, corporate deposits, and fee and commission based services, for corporate banking clients under the brand of "Cai Zhi Rong" (財智融). The balance of corporate loans of Huarong Xiangjiang Bank was RMB115,938.4 million and RMB129,263.7 million respectively as at December 31, 2017 and 2018, representing an increase of 11.5%. The balance of corporate deposits was RMB133,205.7 million and RMB137,545.6 million, respectively, representing an increase of 3.3%.

Retail banking business: Huarong Xiangjiang Bank provides diversified products and services to retail banking clients, such as retail loans, retail deposits, bank cards as well as fee and commission based services. The balance of retail loans of Huarong Xiangjiang Bank was RMB33,768.4 million and RMB53,782.0 million respectively as at December 31, 2017 and 2018, representing an increase of 59.3%; the balance of retail deposits was RMB46,083.1 million and RMB49,570.7 million, representing an increase of 7.6%.

As at December 31, 2017 and 2018, the balance of loans to small and micro enterprises of Huarong Xiangjiang Bank amounted to RMB46,042.5 million and RMB49,246.2 million, respectively, representing an increase of 7.0%.

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

	As of December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Loans for business operations	**12,740.8**	**23.7%**	10,556.0	31.3%
Mortgage	**18,511.7**	**34.4%**	11,390.8	33.7%
Others	**22,529.5**	**41.9%**	11,821.6	35.0%
Total	**53,782.0**	**100.0%**	33,768.4	100.0%

Financial market business: As at December 31, 2017 and 2018, the balance of placements with financial institutions and financial assets held under resale agreements of Huarong Xiangjiang Bank was RMB7,594.9 million and RMB4,531.2 million, respectively, and the balance of placements from financial institutions and financial assets sold under repurchase agreements was RMB16,093.4 million and RMB11,803.8 million, respectively.

9. Management Discussion and Analysis

9.3.2.4 Consumer finance

In 2016, the Group established Huarong Consumer Finance to provide consumer finance services. Since its inception, Huarong Consumer Finance aims to provide financial services to the general public, featuring small-sized loans, based on the Internet "big data", and supported by its online to offline platform. It is the policy of Huarong Consumer Finance to carry on its retail banking business as a wholesale operation and integrate its online and offline services, to establish "small, quick and flexible" operations in order to enhance its role as a leading provider of financial services to the general public. Since its establishment, it has accumulatively served 6.359 million customers and issued 16.888 million loans.

As at December 31, 2017 and 2018, the total loans of Huarong Consumer Finance amounted to RMB6,166.2 million and RMB7,836.1 million, respectively, representing an increase of 27.1%, and the total assets were RMB6,827.5 million and RMB8,152.2 million, respectively, representing an increase of 19.4%. In 2017 and 2018, Huarong Consumer Finance achieved net profits of RMB105.0 million and RMB12.4 million, respectively, representing a decrease of 88.2%.

9.3.3 Asset Management and Investment

Benefiting from capital, customers and technical advantages accumulated from the distressed asset management business and financial services business of the Group, our asset management, gains and losses and investment business generates commission and fee income, as well as investment income through asset management, financial investments, international business and other businesses. The asset management and investment business of the Group enhances the overall profitability of the distressed asset management business and optimizes the business and income structure of the Group. The Group's asset management and investment business is a natural extension and supplement of its distressed asset management business and serves as an important platform for providing the Group's clients with a comprehensive array of diversified asset management, investment and financing services. As at December 31, 2017 and 2018, the total assets under the Group's asset management and investment segment were RMB435,906.9 million and RMB355,404.8 million, respectively, representing 23.5% and 21.0%, respectively, of our total assets. In 2017 and 2018, the total income from asset management and investment segment was RMB32,479.9 million and RMB17,808.5 million, respectively, representing 25.3% and 16.6%, respectively, of our total income.

9. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2018	2017
	(in millions of RMB)	
Trust business		
Outstanding trust AUM	**189,293.8**	322,053.3
Total trust income	**1,419.2**	2,556.1
Including: trust commission and fee income	**853.2**	1,598.5
Profit before tax	**201.9**	1,129.6
Private fund		
Total income	**698.4**	1,345.5
Financial investments of the Company		
Balance of financial investments(1)	**42,563.4**	62,390.7
Investment income from financial investments(2)	**3,612.1**	6,234.8
International business		
Total assets	**237,912.8**	274,763.5
Total income	**7,749.5**	18,244.9
Profit before tax	**(10,039.2)**	6,175.5
Other businesses		
Total income	**4,329.3**	4,098.6

(1) Balance of financial investments at the end of 2018 including non-distressed debt assets presented under financial assets at FVTOCI, debt instruments at FVTOCI and amortised cost, and each type of financial assets in consolidated structured entities, attributable to the Company in consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

(2) Investment income from financial investments for 2018 including the relevant income presented under fair value changes on financial assets and interest income, attributable to the Company in consolidated financial statements. Please refer to the 2017 Annual Report for the data in 2017. The changes between the two periods are mainly due to changes in items presented as a result of implementation of New Financial Instrument Standards, and there is no change in the business basis between the two periods.

9. Management Discussion and Analysis

9.3.3.1 Trust business

The Group conducts trust business primarily through Huarong Trust, which primarily involves: (1) acting as a trustee to manage, operate and dispose of trust assets and receiving trust business income; and (2) providing financial advisory and other consulting services and receiving commission and fee income. Huarong Trust has implemented a comprehensive system of risk management and internal control. It conducts whole-process risk management for trust projects through industry-leading business and risk management systems, comprehensively covering compliance risk, credit risk, market risk and operational risk in the trust business.

As at December 31, 2017 and 2018, the total trust assets under management of Huarong Trust was RMB322,053.3 million and RMB189,293.8 million, respectively, representing a decrease of 41.2%; we managed 396 and 266 existing trust projects, respectively.

In 2017 and 2018, the income generated from trust business was RMB2,556.1 million and RMB1,419.2 million, respectively.

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

	As at December 31,	
	2018	2017
	(in millions of RMB)	
Industry and commerce	33,335.8	50,088.8
Financial institutions	60,431.4	136,851.6
Securities investment	22,882.9	33,853.2
Infrastructure	24,722.3	34,736.7
Real estate	42,851.6	64,113.0
Others	5,069.8	2,410.0
Total	**189,293.8**	322,053.3

9. Management Discussion and Analysis

9.3.3.2 Private fund business

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

The funds managed by Huarong Yufu cover major private fund categories including high-yield funds, merger and acquisition funds, growth capital funds and industry funds. Principal investors in the funds managed by the Group include various types of investment companies, fund companies, banks, insurance companies, industry leading enterprises, real estate companies, trading companies and individuals. In 2017 and 2018, Huarong Yufu achieved a total income of RMB1,345.5 million and RMB698.4 million.

9.3.3.3 Financial investment business of the Company

Financial investment business of the Group mainly refers to the fixed income investments and equity investments conducted by the Company. As at December 31, 2017 and 2018, the balance of our financial investments was RMB62,390.7 million and RMB42,563.4 million, respectively. In 2017 and 2018, the income from financial investment business was RMB6,234.8 million and RMB3,612.1 million, respectively. The Company continues to return to the core business, and will further increase investment in the core business of the distressed assets business and continue to downsize the financial investment business.

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

	As at December 31,			
	2018		2017	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Fixed income investments	**40,676.4**	**95.6%**	60,283.4	96.6%
Equity investments	**1,887.0**	**4.4%**	2,107.3	3.4%
Total	**42,563.4**	**100.0%**	62,390.7	100.0%

9. Management Discussion and Analysis

9.3.3.4 International business

The Group conducts its international business mainly through Huarong International and other subsidiaries. As the overseas investment and financing platform of the Group, Huarong International takes advantage of the developed capital markets and established legal environment in Hong Kong, penetrates multi-level overseas financing channels and broadly conducts equity, debt and mezzanine capital investment and financing business. Huarong International suffered a large loss for the period due to internal and external factors such as the fluctuation of market. The Group will strengthen its support for Huarong International to stabilize Huarong International's business development.

As at December 31, 2017 and 2018, the total assets of Huarong International were RMB235,482.2 million and RMB205,891.2 million, respectively. The total income for 2017 and 2018 of Huarong International was RMB15,108.9 million and RMB6,899.1 million, respectively, and the profit before tax was RMB5,098.7 million and RMB-7,360.8 million, respectively.

9.3.3.5 Other businesses

The Group also provides consulting and advisory services related to our asset management and investment business, as well as property leasing and management services.

In 2017 and 2018, the income from the Group's other businesses was RMB4,098.6 million and RMB4,329.3 million, respectively.

9.3.4 Business synergy

Through strategic synergy, synergy between products and businesses, synergy between institutional network and clients, and internal resources synergy, the Group has realized resources sharing, complementarity of strength and synergetic development between the Head Office, branches and subsidiaries.

In 2018, the Group actively promoted business cooperation between the Head Office 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 Head Office; (4) subsidiaries and subsidiaries; and (5) subsidiaries and the business department of the Head Office and other synergetic and cooperative relationship amounted to RMB25,179.40 million, and the revenue from all synergistic projects amounted to RMB8,717.64 million.

9. Management Discussion and Analysis

9.3.5 Major investment and acquisition

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

9.3.6 Development of information technology

Information technology governance

During the Reporting Period, the Group improved its technology governance structure for the "group-level and full coverage", strengthened independent research and development, and independent operation and maintenance of core systems, and enhanced research and development capabilities for financial technology. The Group and the Beijing University of Posts and Telecommunications, Beijing University of Aeronautics and Astronautics and other institutions of higher learning established "smart finance", "Fintech" joint laboratory. The "Research and Application of Big Data Risk Intelligent Early Warning in Distressed Assets Business Based on Machine Learning" (基於機器學習的不良資產業務大數據風險智能預警研究與應用) won the 2018 first-class project award for the research results for the information technology risk management in the banking industry by CBIRC. We did a good job in the construction and maintenance of the information security and technology service system, our construction of the information security and technology service system met the certification standards of China Information Security Certification Center (ISCCC), and passed the ISO20000/27001 dual system certification test.

Information system establishment

During the Reporting Period, the Group optimized and transformed the customer management system, promoted the implementation of the customer-hosted system, supported the return to major businesses, completed the launch of the restructuring and short-term transformation project of problematic enterprises, the construction of the off-balance sheet business management system, collateral management system, liquidity risk project, impairment and valuation under New Financial Instrument Standards, the first stage of the asset preservation project and other key systems operation. It improved the construction of the customer risk limit management system, completed the construction of the mobile office system and the unified file management system, and continuously promoted the Group's application system to various subsidiaries to provide information system support for the Group's business development and group management and control.

9. Management Discussion and Analysis

9.3.7 Human resources management

Human resource management description

In 2018, the Group continued to promote the reform of the personnel system and optimized the structure of the workforce. It continuously improved the remuneration incentive and restraint mechanism, promoted the implementation of the employee protection system in an orderly manner, and effectively enhanced the sense of belonging and cohesiveness of employees. In accordance with the standards of standardization, routinization, refinement and transparency, it continuously promoted the level of education and training, and improved the capability and quality of employees, providing a solid talent guarantee for the construction of a New Huarong.

Employees

As at December 31, 2018, the Group had a total of 11,799 employees. Among them, 2,729 people worked for the Company, and 9,070 people worked for subsidiaries at all levels.

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

The table below sets forth a breakdown of the employees by age, as at December 31, 2018:

	Number	% of total
Aged 35 and below	6,431	54.5%
Aged 36–45	2,895	24.5%
Aged 46–55	2,154	18.3%
Above 55	319	2.7%
Total	11,799	100%

The table below sets forth a breakdown of the employees by education level, as at December 31,2018:

	Number	% of total
Doctoral degree or doctoral candidate and above	213	1.8%
Master degree or master candidate	3,821	32.4%
Bachelor degree or undergraduate	6,560	55.6%
Junior college and below	1,205	10.2%
Total	11,799	100%

9. Management Discussion and Analysis

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 to operation contribution, and established and improved a remuneration management system that was competitive in the market, matched performance and took into account internal fairness, in accordance with the principle of matching revenue and risk, and coordinating long-term and short-term incentives.

Education and training

In 2018, the Group further strengthened the construction of a comprehensive training system, issued the "Administrative Measures for Education and Training of Cadres and Staff Members (Trial)" (《幹部員工教育培訓管理辦法（試行）》), and coordinated the management of system-wide education and training. For personnel at all levels and different professional lines, we vigorously carried out a variety of content-rich, flexible, efficient and practical trainings, including the training in rotation on the spirit of the 19th National Congress of the Communist Party of China, a series of activities on "Important Regulatory Policies Interpretation and Proclamation" (重要監管政策意見解讀宣講), distressed assets business training and new employees training, to provide strong talent support and intellectual guarantee for the Group's sustained and healthy development.

9. Management Discussion and Analysis

9.4 Risk Management

In 2018, on the basis of conducting an in-depth post-risk management assessment, the Group comprehensively enhanced the building of risk management system and compliance culture, thoroughly inspected risks and improved management systems and tools, so as to provide risk management security for the building of a high-quality New Huarong.

9.4.1 Comprehensive Risk Management System

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

The Group has established a unified and hierarchical comprehensive risk management structure and defined the risk management responsibilities of the staff at all levels; improved the risk management system and risk appetite management mechanism, kept optimizing the management tools and methods for various risks and strengthened the preservation of asset; advanced the building of risk measurement model and information system and stepped up building of risk management team, so as to provide support for various work in relation to risk management.

In 2018, the Group continued advancing the construction of comprehensive risk management system to effectively prevent and mitigate project risks; reinforced unified management of the Group's business authorization and customer limits and concentration to strictly control business risks; following the principle of substance over form and penetrating to the bottom, comprehensively inspected hidden risks, set up and improved asset preservation work system and implemented different strategies by class, to actually propel risk disposal and mitigation; improved the Group's risk monitoring and reporting mechanism and quality; and emphasized risk management evaluation to urge and guide various business units to effectively prevent and mitigate operational risks and strengthen internal control management. Meanwhile, the Group made a study on big data-based risk warning system, improved internal rating, limits and concentration, related party transaction and other system functions, and formally launched the data market for the comprehensive risk management system, to further solidify the foundation for comprehensive risk management.

9. Management Discussion and Analysis

9.4.2 Structure of Risk Management

The Group has set up a risk management system that on the basis of our corporate governance structure. The corporate governance is managed and controlled by the Board, the senior management and the Board of Supervisors. The professional teams specialized in risk management are managed and controlled by the chief risk officer of the Group, the risk management department and other risk management functional departments of the Group, and the chief risk officers or risk directors of the business departments of the Head Office, branches and subsidiaries. In practical operations, the risk management is conducted by business departments, risk management-related functional departments and audit department.

In 2018, the Group continued to improve its structure of risk management. It established the asset preservation department to comprehensively promote risk disposal and mitigation of the Group; enhanced professional training for the Group's risk management line, improved the professional quality of risk management personnel, further enhanced professional performance ability, independence and specialization in performing duties of risk directors, and strengthened quality management and work management of staff at key risk-related positions, to promote implementation of risk management policies of the Group.

9.4.3 Credit Risk Management

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

According to regulatory requirements and actual operation, the Group continuously promoted the construction of credit risk management system, continuously improved its credit risk management system, mechanisms and tools, and strengthened the construction of the system and tools for authorization, limits and concentration, internal rating, later-stage management, risk classification and impairment; enhanced post-project management and assessment on asset quality; promoted the development of information system to improve management function; prudently measured project risk to improve the comprehensiveness and timeliness of risk monitoring and analysis; and made greater efforts in risk disposal and mitigation, so as to improve the efficiency of risk asset disposal and level of risk asset management.

In 2018, continuing to promote the construction of credit risk management mechanism and tools, the Group strictly controlled business authorization and strengthened the dynamic adjustment to and management on supervision of authorization; improved the system for managing customer limits and concentration, regulated the management on large-sum risk exposure and practically prevented customer concentration risk; optimized the internal rating model to gradually improve the level of credit risk measurement; further improved the system for credit risk monitoring and management and control indicators to improve the comprehensiveness and accuracy of the Group's risk monitoring; and, tightened up its management and control over the system for asset risk classification to improve the accuracy of the classification. In addition, strictly implementing the IFRS 9 and formulating relevant supporting system, the Group optimized the model for measuring impairment and scientifically made provisions for impairment of credit risk assets.

9. Management Discussion and Analysis

In 2018, the Company further accelerated the disposal and mitigation of distressed assets, strengthened asset preservation and formulated plans, policies and relevant systems for risk asset disposal. Based on overall inspection of hidden risks, the Company implemented different strategies by class according to specific conditions of risk assets, promoted risk mitigation by taking specific measures, actively made greater efforts in risk disposal and mitigation by litigation, debt transfer, debt restructuring and other means to realize cash recovery as soon as possible. During the year, positive progress was made in disposal of some key projects.

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.

The Group continuously strengthened the construction of market risk management system and the parent company and subsidiaries involved in market risks formulated a market risk management system to continuously monitor and analyze market risk. According to regulatory requirements, the Group also established a mechanism and procedure to manage the classification of account books and improved the methods for evaluating trading book position to continuously improve relevancy and effectiveness of market risk management.

With regard to stock risk, given the downward fluctuations in domestic capital market against the backdrop of international trade frictions and financial deleveraging policies in 2018, the Group closely monitored the macroeconomic situation at home and abroad, changes in industry fundamentals, interest rates of major economies, abundance of market liquidity, operation of capital market, changes in regulatory policies and other factors affecting the business development, financing environment and valuation of listed companies. The Group also strictly monitored the fluctuations in market value and strengthened asset portfolio management for different types of assets. Besides, the Group took opportunities to reduce shareholding based on the monitoring of assets and promptly disclosed relevant arrangements for shareholding reduction and results thereof to safeguard the interests of investors according to relevant policies and requirements of regulatory authorities and exchanges and the shareholding reduction plan of the Company.

With regard to interest rate risk, the Group refined the risk management framework, formulated the Administrative Measures for Interest Rate Risks of the Company's Trading Accounts (Provisional), Administrative Measures for Interest Rate Risks of Non-trading Accounts and other management policies, which further standardized and improved the interest rate risk management mechanism, defined the organizational structure, responsibility system, management process and method, and measured and analyzed interest rate risks on a regular basis to continuously improve its capability to cope with interest rate risks.

Regarding foreign exchange risk, the Group formulated and issued the Administrative Measures on Foreign Exchange Risk as a guideline for foreign exchange risk management. The Group, operating mainly in China, adopts Renminbi as the recording currency. The proceeds from listing with exchange rate unsettled will be settled flexibly according to use of proceeds and exchange rate fluctuations. Some overseas subsidiaries issued USD bonds and carried out overseas businesses. Relevant assets invested are mainly stated in USD, EURO or HKD linked with the USD exchange rate, and exchange rate risks are effectively controlled by the Group through matching the currencies of the assets and liabilities.

Value at Risk

Value at Risk (VaR) is the methodology used to estimate, in a given time period and for a given confidence interval, the maximum loss likely to be incurred to a position by any change of market interest rate, exchange rate or price. The Company adopts historical simulation method (based on a 99% confidence interval and a one-day holding period) to measure and reflect VaR of trading accounts.

The VaR analysis of the Company's trading accounts for 2018 is summarized as follows:

Unit: 10,000 RMB

VaR	Year-end	Average	Highest	Lowest
Stock risk	4,082.17	3,702.82	4,123.73	3,233.19
Overall risk	4,082.17	3,702.82	4,123.73	3,233.19

As an important tool of measuring market risks, VaR is subject to some restrictions: first, VaR cannot reflect liquidity risk; second, VaR does not reflect any loss likely to arise beyond the 99% confidence interval; third, VaR model is mainly based on relevant information of historical data and may not be able to accurately predict future changes in risks factors, especially with respect to reflect exceptions such as major market fluctuation.

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 unable to meet the needs and terms of business development.

The Group actively implemented the requirements of the regulatory authorities for liquidity management. The Group adopted a centralized liquidity management system and enhanced the initiative and forward-looking nature of liquidity management. Focusing on assets and liabilities management, the Group maintained 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 safety.

9. Management Discussion and Analysis

The Group monitored the maturity mismatch between assets and liabilities, and implemented liquidity management through cash flow forecasts and controls. With respect to asset management, the Group established the working capital planning mechanism, adopted fund transfer pricing method and other measures to expedite the turnover of funds, and maintained fund positions at a reasonable level. With respect to liability management, external financing was centrally managed and greater efforts were made to diversify financing channels. The Group kept improving the proportion of medium and long-term liabilities to effectively improve the debt structure.

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

9.4.6 Operational Risk Management

Operational risk refers to the risk of losses of the Group's business resulting from an inadequacy or deficiency relating to the internal procedures, staff and IT systems, and risk caused by external events during the ordinary business operations management, including legal risks. The Group's operational risks mainly arise from internal fraud, external fraud, employment practices and accidents on our premises, business activities of customers or related to our products, damage to physical assets, incidents related to IT system and incidents related to execution, delivery and process management.

In 2018, the Group carefully sorted out its main businesses and managed its operational procedures, intensified risk management measures against important risk points, actively conducted operational risk stress tests, strengthened supervision, guidance, inspection and training, promoted the concept of operational risk management, enhanced the awareness of operational risks among all employees and integrated operational risk management into daily operation and management activities.

The Group attached great importance to the building of a prevention and control system of legal risk covering all processes, all systems and all directions, continuously improved the legal work system and the compliance risk management system, kept optimizing the legal review process and strengthening contract management, enhanced legal risk prevention and control and made headway in the innovation of working mechanism for case management so as to fully prevent and control the legal risks in its operation management activities. The Group also continuously conducted trainings on legal matters, case studies, legal education programs, actively cultivated the culture of legal compliance, and steadily promoted the development of "rule of law prevailing in Huarong".

9. Management Discussion and Analysis

The Group further refined its information technology risk prevention system. Guided by regulatory requirements, the Group formulated and promulgated the Guiding Opinions on Strengthening the Group's Information Technology Risk Management to revise and improve its information technology system. The Group also conducted information technology risk assessment and disposal, timely discovered various hidden risks in technological activities and worked out risk disposal plans to responsively prevent and dissolve technology risks. The Group also passed the ISO27001/20000 information security and technology service management system annual certification test by China Information Security Certification Center (ISCCC). During the Reporting Period, there was no significant event in relation to information security and technology risks.

9.4.7 Reputational Risk Management

Reputational risk refers to the risk of receiving negative comments from stakeholder(s) by a group as a consequence of operation, management or other behaviours of that group or external events.

The Group attached great importance to reputational risk management, incorporated reputational risk management into corporate governance and comprehensive risk management system, continuously improved the unified reputational risk management mechanism at the Group level, guarded against reputational risks and responded to reputational events in a proactive and effective manner, and insisted on combining centralized control and classified management as well as daily management and special management, so as to ensure timely discovery and handling of events or hazards in relation to reputational risks of the Group.

On April 17, 2018, Lai Xiaomin was under disciplinary review and investigation for suspected serious violation of Party disciplinary rules and law; on October 15, 2018, a message on the website of the CCDI said that Lai Xiaomin was expelled from the Party and was removed from public office for serious violation of Party disciplinary rules and law, which triggered high public concern and wide media coverage. To maintain the normal operation and steady development of the Company, the management of the Company quickly assumed office and set up a special working group to generally manage reputational risk events, strengthen public opinion monitoring at the Group level and work out the contingency plan to properly respond to the impact of incident of Lai Xiaomin and other derivative events on the Company, which ensured the smooth operation of the Company.

9. Management Discussion and Analysis

9.4.8 Internal Control

In 2018, pursuing the objectives of efficiency of operations, reliability of reports and compliance of operations, the Group has continued to improve its internal control management system and strengthen internal control measures. The Board, Board of Supervisors, senior management, Head Office, branches (business departments), subsidiaries and other institutions of different levels of the Company, as well as the three lines of defense of internal control, consisting of operation management department, internal control management department and internal audit department, performed their own functions and complemented and reinforced each other, and worked together for business development and risk prevention and control of the Company.

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

9.4.9 Internal Audit

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

In 2018, the Group duly performed its audit duties. Adhering to the orientation towards the problem, risk, supervision and goal, the Group organized and implemented comprehensive audits, special audits, economic responsibility audits, and internal control evaluations, gave full play to the role of audit supervision, evaluation and recommendation, constantly explored and improved the internal audit supervision system, gradually improved the professional quality of the audit team, and completed the annual audit plan in an all-round way.

The Group improved the internal audit and management systems. The Group established an internal audit system and management mode characterized by "unified management, line operation, regional division, overall coordination and intensified internal control". The Group improved and consolidated its audit and management systems to further specify the objectives of and improve the applicability of the documents of the systems. The Group has optimized the internal audit examination system to further enhance the instruction and supervision of the internal audit of its branches and subsidiaries.

The Group organized and conducted regular audits and special audits. The Group has conducted comprehensive and special audits of major projects, major businesses and financial matters, and internal control of its branches and subsidiaries. The Group has also conducted economic responsibility audits on the performance of the middle and senior management.

9. Management Discussion and Analysis

The Group organized and conducted evaluation of internal control. By adopting self-evaluation, onsite examination and special random inspection across the departments, branches and subsidiaries of the Group, the Group evaluated the efficiency of its internal control on business operation, risk management, financial management and internal supervision, gave suggestions for improvement and urged rectifications to promote the continuous improvement and perfection of the Group's internal control system.

The Group strengthened internal audit capacity building. The Group has strengthened the construction of its audit team by organizing trainings on laws and regulations, internal audit system and professional knowledge for in-system auditors. The Group has also improved its audit technological methods to develop an off-site audit system covering all lines of business. The Group has reallocated and organized the audit resources and highlighted the audit focus so as to improve the overall level of its management control.

9.4.10 Anti-money Laundering Management

The Group has strictly complied with the anti-money laundering laws and regulations, and duly fulfilled its legal duty of anti-money laundering. The Company continuously improves its anti-money laundering management system and working mechanism. In accordance with new regulatory requirements, the Group revised its anti-money laundering mechanism, improved the organizational structure of anti-money laundering management, optimized relevant information system, and strengthened its daily supervision and management to ensure effective enforcement of anti-money laundering laws and regulations and relevant rules of the Company.

9.5 Capital Management

In accordance with the relevant regulations of external regulatory bodies and the Company's development strategy, the Company continuously improved the capital measurement, planning, use, monitoring, income assessment and other mechanisms, optimized the allocation of capital within the Company to ensure the Company's capital position was stable and compliant, so as to support the stable development of the Company.

As at December 31, 2017 and 2018, the capital adequacy ratio of the Company was 13.06% and 13.62%, respectively.

As at December 31, 2017 and 2018, the leverage ratio of the Company was 10.8:1 and 10.2:1, respectively.

9. Management Discussion and Analysis

9.6 Development Outlook

Looking at 2019, under the influence of such factors as resurgence of trade protectionism and geopolitics, downward risk of global economy will increase. Given the weakening utility of fiscal stimulus and sustained effect of interest rate hikes, the economic recovery is slow, and major emerging-market economies will continue to see differentiated economic growth. The slowdown pressure of China's economic growth will deepen in 2019 under the dual influence of internal structural contradiction and external uncertainties. The macroeconomic policy stabilize the total demand through proactive fiscal policies and prudent monetary policies, implement the measures of reducing taxes and fees, support the development of private enterprises and accelerate the transition of the new and old kinetic energy, to ensure that its economy will still run within a reasonable range. By moderately loosening monetary policy, keeping liquidity reasonable and sufficient and improving transmission mechanism of monetary policy, the market environment of financial industry will be further improved.

According to the Central Economic Work Conference, China's economy is facing downward pressure as the current economic condition is stable but changeable while changeable but worrisome and the external environment is complicated and severe; China is still and will be in an important period of strategic opportunity for development for a long time to come; the main contradiction of China economic operations is still supply-side structural, and we must adhere to the principle of the supply-side structural reform as the main line, adopt more reform measures, use more market-based and law-based approaches and make efforts in accordance with the principle of "consolidation, enhancement, promotion and smoothness". The CBIRC further requires continuing efforts to resolve the financial market chaos, mitigate the shadow banking risks in order, dispose of high-risk institutions in accordance with the law, focus on improving corporate governance mechanism, optimize financial institution systems, support direct financing development, promote market-oriented mergers and acquisitions, and expand the opening-up of the banking industry and insurance industry. The economic and financial situation has provided a favorable policy environment for financial asset management companies to return to their original financial sources, return to their core business of distressed assets, and accelerate the business innovation and transformation development.

After deep analysis of internal and external operation situations, Huarong will adhere to the general work tone of steady progress and steady improvement of quality, grip of the main line of the financial supply side structural reform, and strive for stability over overall situation, promote the main business, comprehensively strengthen Party leadership and construction, fully accelerate transformation and development, entirely forging the main business to be strong and precise, amply promoting the risk reduction and streamlining, utterly establishing high-quality and professional cadre team, so as to let China Huarong march forward to a new stage of high-quality development. In 2019, the Company will promote the operation and development of the Company with all its forces and comprehensively realize its proposed operation goals. Firstly, continuing to deepen corporate governance and improve a modern enterprise system. The Party Committee of the Company is required to continue its core leadership to "identify directions, regulate overall conditions

9. Management Discussion and Analysis

and secure implementation" and resolutely implement the line, principles and policies of the Central Government. The Company will always make the service for real economy as its fundamental goal, make the prevention and resolution of financial risks as its fundamental task, and make its own reform as the driving force of development. The Company will perfect the corporate governance structure continuously, rebuild the corporate culture of robust compliance, establish and improve risk internal control mechanism, and strive to achieve continuous, stable and healthy development of the Company. Secondly, implementing new development planning and promote the transformation and development of the Company. Embracing Huarong's new construction goals, we have formulated new development plans to serve for China's supply side structural reform, and focus on the main business of non-performing assets with capital constraint strengthened. Adhering to the robust risk preference, the Company, through the integration of resources and strategic restructuring, will achieve the transformation and development goal of "prominent main business, financial soundness, risk controllable, and synergistic effect". Thirdly, refining and strengthening the distressed asset business to restore and increase the value of the Company. By consistently consolidating the main status of distressed asset business, the Company will take advantage of its years of experience accumulated in management and disposal of distressed assets and professional operations to improve the benefits of asset disposal. The Company will make its financial subsidiaries function well to create their respective industry features and brands. By constantly improving the professional and featured financial service level of the Group, the Company's core competitiveness and profitability will be enhanced, as well as the value of the Company. Fourthly, continuing to mitigate risks so as to make solid foundations for qualified development. To make sure that it will not face liquidity risk, the Company will continue to strengthen construction of comprehensive risk management system, further improve top-level design of internal control of risks, enhance ability to identify, manage and control risks of operational institutions, truly prevent incremental risk, make full efforts to reduce stock risk and constantly optimize assets and liabilities structure. Fifthly, encouraging employees and managers to start their own businesses, and building a professional employee team. The Company will concern about the growth of employees, optimize the inspection appraisal system, and establish an appointment system to "raise the competent, demote the mediocre and eliminate the unqualified", so as to provide a fair and just career platform for employees. By cultivating and utilizing excellent professionals, the coherence and a sense of gain will be improved in employees, thus realizing joint development of personal worth and corporate value.

The year of 2019 marks the opening year for a new Huarong. As the key opportunities to transform and realize development have come, the management of the Company will be dedicated to their work, perform their duties diligently, and make a concerted effort and advance with all sectors of society, trying their best to create returns for the state, investors and markets.

10. Changes in Share Capital and Information on Substantial Shareholders

10.1 Changes in Share Capital

The share capital of the Company as at December 31, 2018 is set out as follows:

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

10.2 Substantial Shareholders

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

As at December 31, 2018, the Company received notices from the following persons about their notifiable interests or short positions held in the Company's Shares and underlying Shares pursuant to Divisions 2 and 3 of Part XV of the SFO, which were recorded in the register pursuant to Section 336 of the SFO as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of Shares of the Company (%)[6]	Approximate percentage to the total share capital of the Company (%)[7]
MOF	Domestic Shares	Beneficial owner	12,376,355,544(L)	88.24(L)	31.68(L)
	H Shares[1]	Beneficial owner	12,376,355,544(L)	49.42(L)	31.68(L)
	H Shares[2]	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
China Life Insurance (Group) Company	Domestic Shares	Beneficial owner	1,650,000,000(L)	11.76(L)	4.22(L)
Central Huijin Investment Ltd.[2]	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Warburg Pincus&Co.[3]	H Shares	Interest of controlled corporation	2,060,000,000(L)	8.23(L)	5.27(L)

10. Changes in Share Capital and Information on Substantial Shareholders

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of Shares of the Company (%)[6]	Approximate percentage to the total share capital of the Company (%)[7]
Warburg Pincus Financial International Ltd[3]	H Shares	Beneficial owner	2,060,000,000(L)	8.23(L)	5.27(L)
Sino-Ocean Group Holding Limited (Formerly known as Sino-Ocean Land Holdings Limited)[4]	H Shares	Interest of controlled corporation	1,771,410,000(L)	7.07(L)	4.53(L)
Ko Kwong Woon Ivan[5]	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Siu Lai Sheung[5]	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Fabulous Treasure Investments Limited[2], [4], [5]	H Shares	Beneficial owner	1,716,504,000(L)	6.85(L)	4.39(L)

Note: (L): long position

Notes:

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

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

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

10. Changes in Share Capital and Information on Substantial Shareholders

(4) According to the Corporate Substantial Shareholder Notice from Sino-Ocean Group Holding Limited (Formerly known as Sino-Ocean Land Holdings Limited) filed with the Hong Kong Stock Exchange on September 13, 2016, Fabulous Treasure Investments Limited and Shining Grand Limited directly holds 1,716,504,000 and 54,906,000 H Shares of the Company, respectively. As Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Team Sources Holdings Limited, SOL GP Limited, Profit Raise Partner 1 Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP, Fabulous Treasure Investments Limited and Shining Grand Limited are all corporations directly or indirectly controlled by Sino-Ocean Group Holding Limited, 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.

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

(6) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at December 31, 2018.

(7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at December 31, 2018.

10. Changes in Share Capital and Information on Substantial Shareholders

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, details of which 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.

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

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

Warburg Pincus LLC

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

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

Sino-Ocean Group Holding Limited (formerly known as Sino-Ocean Land Holdings Limited)

Sino-Ocean Group Holding Limited, established in 1993, is a leading real estate developer operating in the major economically developed regions in China. Sino-Ocean Group is on the mission to "create a high quality environment for middle to high urban residents and high-end customers", and is committed to becoming an investment and financing group with leading industrial investment capability based on excellent real estate industry with the business scope mainly covering mid-to-high end residential development, development and investment and operation of urban complexes and office buildings, property management services, community O2O, pension industry, medical industry, long-term rental apartments, real estate funds, equity investment, asset management and overseas investments.

11. Directors, Supervisors and Senior Management

11.1 Directors

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

No.	Name	Gender	Age	Position	Term of office
Current Directors					
1	Wang Zhanfeng[(1)]	M	52	Chairman of the Board and Executive Director	The second session: From September 2018 to the election of the next session of the Board
2	Li Xin[(2)]	F	58	Executive Director and President	The second session: From September 2018 to the election of the next session of the Board
3	Li Yi	M	59	Non-executive Director	The first session: From January 2017 to February 2017 The second session: From February 2017 to the election of the next session of the Board
4	Wang Cong	F	56	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to the election of the next session of the Board
5	Dai Lijia	F	47	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to the election of the next session of the Board
6	Zhou Langlang	M	38	Non-executive Director	The second session: From April 2017 to the election of the next session of the Board
7	Song Fengming[(3)]	M	72	Independent Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 until Zhu Ning's qualification for serving as Director has been approved by the CBIRC

11. Directors, Supervisors and Senior Management

No.	Name	Gender	Age	Position	Term of office
8	Tse Hau Yin	M	71	Independent Non-executive Director	The first session: From March 2015 to February 2017 The second session: From February 2017 to the election of the next session of the Board
9	Liu Junmin	M	69	Independent Non-executive Director	The first session: From June 2015 to February 2017 The second session: From February 2017 to the election of the next session of the Board
10	Shao Jingchun	M	62	Independent Non-executive Director	The first session: From November 2016 to February 2017 The second session: From February 2017 to the election of the next session of the Board
Resigned Directors					
1	Lai Xiaomin	M	56	Chairman of the Board and Executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to April 2018
2	Wang Lihua	M	54	Executive Director and Vice President	The second session: From April 2017 to November 2018

(1) Mr. Wang Zhanfeng was considered and appointed as an executive Director of the Company at the third extraordinary general meeting for 2018 of the Company on June 29, 2018 and he took office on September 27, 2018 upon the approval of the CBIRC.

(2) Ms. Li Xin was considered and appointed as an executive Director of the Company at the third extraordinary general meeting for 2018 of the Company on June 29, 2018 and she took office on September 27, 2018 upon the approval of the CBIRC.

(3) Mr. Song Fengming resigned as an independent non-executive Director of the Company on September 26, 2018. The resignation of Mr. Song shall take effect only after a new independent non-executive Director has been elected at the Shareholders' general meeting of the Company to fill the vacancy and whose qualification for serving as the independent non-executive Director has been approved by the CBIRC.

11. Directors, Supervisors and Senior Management

11.1.1 Executive Directors

Mr. Wang Zhanfeng, aged 52, has been the chairman of the Board and executive Director since September 27, 2018. Mr. Wang began his career in August 1991, and has served as party committee member and vice president of Qingdao City Centre Branch of the PBOC from January 2003 to July 2003, a member of the Organization Group of Qingdao Office of China Banking Regulatory Commission ("CBRC", now known as the CBIRC), from July 2003 to September 2003, party committee member and deputy director of Qingdao Office of the CBRC from September 2003 to December 2005, deputy director of the Cooperative Financial Institution Supervision Department of the CBRC from December 2005 to October 2011, party committee secretary and director of Shanxi Office of the CBRC from October 2011 to April 2014, party committee secretary and director of Guangdong Office of the CBRC from April 2014 to April 2018. Mr. Wang joined the Company in April 2018 and has been the party committee secretary of the Company up to now. Mr. Wang graduated with a doctor's degree in finance from the School of Finance of the Southwestern University of Finance and Economics.

Ms. Li Xin, aged 58, has been the executive Director and president of the Company since September 27, 2018, and was accredited as a senior economist by Bank of China ("BOC") in December 1996. Ms. Li began her career in February 1980, and has served as vice president of Jiangsu Yangzhou Branch of BOC from August 1992 to October 1996, the leader of the Organization Group and president of Jiangsu Taizhou Branch of BOC from October 1996 to March 1998, president of Jiangsu Yangzhou Branch of BOC from March 1998 to October 2001, deputy general manager of the Nanjing Office of China Orient Asset Management Corporation (now known as China Orient Asset Management Co., Ltd. ("China Orient")) from October 2001 to November 2004, leader of the Organization Group of the Asset Management Department of the headquarters of China Orient from November 2004 to June 2005, general manager of the Asset Management Department of the headquarters of China Orient from June 2005 to November 2005, general manager of the Market Development Department and general manager of the Asset Management Department of the headquarters of China Orient from November 2005 to April 2006, assistant-to-president of China Orient and general manager of the Asset Management Department and Market Development Department from April 2006 to May 2006, assistant-to-president of China Orient and general manager of the Market Development Department from May 2006 to November 2006, assistant-to-president of China Orient from November 2006 to April 2007, vice president of China Orient from April 2007 to May 2016, chairman of the board of supervisors of China Orient from May 2016 to April 2018. Ms. Li joined the Company in April 2018 and has been a deputy party secretary of the Company up to now. Ms. Li graduated with a bachelor's degree.

11. Directors, Supervisors and Senior Management

11.1.2 Non-executive Directors

Mr. Li Yi, aged 59, has been a non-executive Director of the Company since January 3, 2017. Mr. Li began his career in April 1978. He worked in the MOF, serving successively as cadre, staff member and deputy principal staff member of the Party Committee Publicity Department from June 1985 to February 1989, principal staff member of the Department for Tax Affairs from March 1989 to November 1996, assistant researcher of the Tariff Division of the Department for Tax Affairs from November 1996 to September 1997, and deputy director of the Tariff Division of the Department for Tax Affairs from September 1997 to February 1998. He practiced as deputy county magistrate of Xinhua County, Hunan Province from March 1998 to February 2000 (during which he studied as a part-time postgraduate at Economics and Management School of Hunan Normal University from September 1998 to July 2000). He worked in the MOF, serving successively as deputy director of the Agricultural Tax Division of the Department for Tax System and Tax Rules from February 2000 to June 2000, deputy director of the Agricultural Tax Division of the Department for Tax Affairs from June 2000 to August 2006, secretary of the Department for Tax Affairs (level of director) from September 2006 to August 2014 and deputy director of the Information and Network Center from August 2014 to January 2017 (level of deputy director general).

Ms. Wang Cong, aged 56, has been a non-executive Director of the Company since September 27, 2012. Ms. Wang has been appointed as deputy researcher by PBOC in October 1997. Ms. Wang had been working in PBOC for many years, successively served as principal staff member and deputy director at the Scientific Research Organization Division of the Financial Research Institute from August 1985 to August 1998, then served as deputy director (in charge) of the Fiscal and Taxation Research Division of the Research Bureau from August 1998 to February 2004, researcher of the Risks Management of Banking Institutions Division, researcher and director of the Deposit Insurance System Division of the Finance Stability Bureau from February 2004 to December 2012, during which period Ms. Wang practiced as assistant general manager of the Personal Financial Department of the Bank of China from August 2011 to August 2012. Ms. Wang graduated from the School of Finance of Renmin University of China, majoring in finance, with a bachelor's degree in economics in July 1985, and graduated from the Department of Public Finance of Xiamen University with a master's degree in economics in July 1996.

11. Directors, Supervisors and Senior Management

Ms. Dai Lijia, aged 47, has been a non-executive Director of the Company since September 27, 2012. Ms. Dai worked for many years at The People's Insurance Company (Group) of China Limited ("PICC"), the Central Financial Work Commission and CBRC, serving successively as a deputy director of PICC, deputy director of the Non-Banking Division of the Supervisory Committee Work Department of the Central Financial Work Commission, director of the Non- Banking Division of the Supervisory Committee Work Department of CBRC, researcher of the China Development Bank Regulatory Division of the Banking Regulatory Department IV, director of the General Office (Comprehensive Affairs Division), director of the Market Entry Division and counsel of deputy director level of the Banking Regulatory Department IV of CBRC. Ms. Dai graduated from the Finance and Accounting Department of Jiangxi College of Finance and Economics (now known as Jiangxi University of Finance and Economics) in July 1993 with a bachelor's degree in economics, and graduated from the Graduate School of the Research Institute for Fiscal Science (now known as Chinese Academy of Fiscal Sciences) of the MOF in July 1999 with a master's degree in economics and graduated from the Faculty of Business of University of Bath in UK in October 2006 with an MBA degree.

Mr. Zhou Langlang, aged 38, has been the non-executive Director of the Company since April 12, 2017. Mr. Zhou has been a managing director of Warburg Pincus LLC since 2005 and is currently a director of Hwabao WP Fund Management Co., Ltd., Cango Inc. and Wacai Holdings Limited. 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. Directors, Supervisors and Senior Management

11.1.3 Independent Non-executive Directors

Mr. Song Fengming, aged 72, has been an independent non-executive Director of the Company since September 27, 2012. He is entitled to the Government Special Allowance of the State Council. He is currently a professor and PhD supervisor of the School of Economics and Management of Tsinghua University. Mr. Song served as a deputy dean (in charge) of the Management Department (now known as School of Economics and Management) of Zhenjiang Shipbuilding Institute (now known as Jiangsu University of Science and Technology), dean of the Department of Finance of the School of Economics and Management and co-chairman of the China Centre for Financial Research of Tsinghua University. Mr. Song was a senior visiting scholar of MIT Sloan School of Management and attended the training course for general managers offered by Harvard Business School. Mr. Song served as an independent director of China Construction Bank Corporation ("CCB") (a company listed on the Hong Kong Stock Exchange, stock code: 00939, and on Shanghai Stock Exchange, stock code: 601939) from May 2004 to May 2010 and a supervisor of CCB from May 2010 to March 2013. He has been an independent director of China Guangfa Bank Co., Ltd. from 2013 to December 2016 and chairman of the board of supervisors of Tsinghua Holdings Co., Ltd. from October 2003 to October 2016. Mr. Song received a doctor's degree in engineering (now known as system engineering) from Tsinghua University in August 1988. He pursued his post-doctorate research at University of California from 1992 to 1994. Currently, Mr. Song is deputy secretary-general, managing director, member of the Academic Committee and chairman of the Financial Engineering Professional Committee of China Society for Finance and Banking, managing director, member of the Academic Committee, chairman of the Quantitative Financial Professional Committee of the Society of Quantitative Economics of China, and managing director and member of the Academic Committee of China Urban Financial Society and China Society for Rural Finance.

Mr. Tse Hau Yin, aged 71, has been an independent non-executive Director of the Company since March 23, 2015. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a former president of the HKICPA and a former member of the audit committee of the HKICPA. He joined KPMG in 1976 and became a partner in 1984. Before his retirement in 2003, Mr. Tse was a non-executive chairman of KPMG China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse has been an independent non-executive director of OCBC Wing Hang Bank Limited (formerly listed on the Hong Kong Stock Exchange, stock code: 00302) since November 2004, an independent non-executive director of Daohe Global Group Limited (listed on the Hong Kong Stock Exchange, stock code: 00915 and formerly known as Linmark Group Limited) from May 2005 to December 2016, an independent non-executive director of CNOOC Limited (listed on the Hong Kong Stock Exchange, stock code: 00883) since June 2005, an independent non-executive director of China Telecom Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 00728) since September 2005, an independent non-executive director of Sinofert Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00297) since June 2007, an independent non-executive director of SJM Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00880) since October 2007 and an independent non-executive director of CCB International (Holdings) Limited (a wholly-owned subsidiary of CCB) since March 2013. Mr. Tse is a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse graduated from the University of Hong Kong and obtained a bachelor's degree in social science in November 1970.

11. Directors, Supervisors and Senior Management

Mr. Liu Junmin, aged 69, has been an independent non-executive Director of the Company since June 23, 2015. Mr. Liu taught in Tianjin University of Finance and Economics and served as a lecturer and an associate professor from 1982 to 1992. He has been teaching in the Department of Economics of Nankai University since 1992 and served successively as an associate professor and a professor of the department and retired in July 2015. Mr. Liu served as an independent non- executive director of Tianjin Faw Xiali Automobile Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 000927) from May 2003 to June 2009 and has been serving as an independent non-executive director of Tianjin Faw Xiali Automobile Co., Ltd. again since November 2016. Mr. Liu served as an independent non-executive director of Suzhou Jinfu New Material Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 300128) from March 2008 to June 2014. Mr. Liu was an independent non-executive director of AVIC Electromechanical Systems Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 002013) from February 2013 to March 2018. Currently, Mr. Liu is an independent non-executive director of Chinese People Holdings Company Limited (a listed company on the Hong Kong Stock Exchange, stock code: 00681) and Yingli Green Energy Holdings Co., Ltd.. Mr. Liu graduated from Nankai University, majoring in economy and obtained a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctor's degree in economics in July 1994.

Mr. Shao Jingchun, aged 62, has been an independent non-executive Director of the Company since November 11, 2016. Mr. Shao served as a lecturer of the faculty of law of Peking University in 1988; a post-doctoral fellow of the European University Institute in 1989; a guest researcher of the European University Institute in 1990; Mr. Shao has been travelling, studying and conducting legal practice in Europe from 1991 to 1994. He was an associate professor of the faculty of law of Peking University in 1994; the director of international economic law department of the Law School of Peking University in 1996. He has been serving as a professor of Law School and doctoral supervisor, the director of the international economic law institute of Peking University since 2001; He was 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. Mr. Shao was admitted to the Law School of Peking University in 1978 and got the bachelor's degree in law, master's degree in law and doctor's degree in law of Peking University in 1982, 1985 and 1988, respectively.

11. Directors, Supervisors and Senior Management

11.2 Supervisors

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

No.	Name	Gender	Age	Position	Term of office
Current Supervisors					
1	Ma Zhongfu	M	52	Chairman of the Board of Supervisors and Shareholder Representative Supervisor	The first session: From October 2016 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
2	Dong Juan	F	66	External Supervisor	The first session: From April 2015 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
3	Xu Li	F	60	External Supervisor	The second session: From February 2017 to the election of the new session of the Board of Supervisors
4	Zheng Shengqin	F	55	Employee Representative Supervisor	The first session: From February 2014 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
5	Chen Jin	M	47	Employee Representative Supervisor	The second session: From September 2017 to the election of the new session of the Board of Supervisors

11. Directors, Supervisors and Senior Management

Mr. Ma Zhongfu, aged 52, has been the chairman of the Board of Supervisors since October 2016. He was accredited as a senior economist by Agricultural Bank of China Limited ("ABC") in December 1996. Mr. Ma started his career with Credit Cooperation Department of ABC in July 1988 and served successively as a staff member, deputy principle staff member and principal staff member. Mr. Ma served as a deputy director of System Reform Division of Agriculture and Economic Reform Department of the State Council from November 1996 to June 1997. From June 1997 to September 2003, Mr. Ma worked in PBOC, serving successively as a deputy director of Finance Division and deputy director of Comprehensive Affairs Division of Rural Cooperative Financial Supervision and Management Bureau, deputy director of Comprehensive Affairs Division, deputy director of Business Division, deputy director of Credit Business Administration Division, deputy director of Supervision Division V, director of Supervision Division V of Cooperative Financial Institutions Supervision and Management Department. From September 2003 to April 2016, Mr. Ma worked in the CBRC, serving successively as a director of Agriculture Business Supervision Division and Comprehensive Affairs Division of Cooperative Financial Institutions Supervision and Management Department, deputy director of CBRC Jiangxi Office, director of CBRC Xiamen Office, director of CBRC Jiangxi Office and director of CBRC Chongqing Office. Mr. Ma joined the Company in April 2016 and has been a deputy party secretary of the Company up to now. Mr. Ma graduated from Nankai University with a bachelor's degree in economics in July 1988 and graduated from Chinese Academy of Social Sciences with a doctor's degree in management in June 2000.

Ms. Dong Juan, aged 66, has been an external Supervisor since April 2015. She obtained the qualification of PRC certified public accountant in 1994. Ms. Dong had served as deputy director and director of the Foreign Trade Division in the Commerce and Trade Department of the MOF from 1984 to 1994. Ms. Dong worked as director of the Enterprise Department of the National State-owned Assets Supervision and Administration Bureau from 1994 to 1998, director of the Assessment Department of MOF from 1998 to 2000, and chairman of the board of directors of Grandchina International Consulting Co., Ltd. from 2000 to 2014. She also served as an external supervisor of China Cinda Asset Management Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 01359) from June 2010 to February 2015, and an external supervisor of Industrial and Commercial Bank of China Limited ("ICBC") (listed on the Hong Kong Stock Exchange, stock code: 01398, and the Shanghai Stock Exchange, stock code: 601398) from May 2009 to June 2016. Ms. Dong graduated from Shanxi Finance and Economics College in July 1978, and graduated from Dongbei University of Finance and Economics in August 1997 with a master's degree in economics.

Ms. Xu Li, aged 60, has been an external Supervisor since February 2017. She was accredited as a senior economist by the MOF in November 1993. Ms. Xu served successively as a senior staff member and principal staff member of the Agricultural Finance Department of the MOF from January 1982 to April 1988. From April 1988 to November 2002, she successively served as the general manager of the Planning and Financial Department, the general manager of the Financial Department and assistant to general manager of China Economic Development Trust & Investment Corporation. From December 2002 to January 2015, she successively served as the chief financial officer and vice president of China Minzu Securities Co., Ltd. Since March 2015 and up to now, she has acted as the deputy general manager of China Water Affairs Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00855). Ms. Xu graduated from Dongbei University of Finance & Economics with a bachelor of Economics degree in January 1982 and finished post graduate courses of monetary banking major from Dongbei University of Finance & Economics in December 1997.

11. Directors, Supervisors and Senior Management

Ms. Zheng Shengqin, aged 55, has been an employee representative Supervisor since February 2014. She was accredited as a senior economist by ICBC in 1997. Ms. Zheng worked in ICBC from August 1984 to January 2000, serving successively as deputy director level inspector, deputy director and director of the Supervisory Office of the Disciplinary Committee of ICBC Head Office. Ms. Zheng joined the Company in January 2000 and served successively as deputy general manager of the Creditor's Rights Management Department, deputy general manager of the Operational Management Department, deputy general manager of the Operational Development Department, general manager of the Operational Management Department and general manager of the Risk Management Department until December 2010, and concurrently served as general manager of the Risk Management Department and the secretary of Disciplinary Committee of Huarong Securities from December 2010 to April 2011, secretary of the Disciplinary Committee of Huarong Securities from April 2011 to July 2011 and chairman of the board of supervisors and secretary of the Disciplinary Committee of Huarong Securities from July 2011 to January 2014. Ms. Zheng served successively as head and executive vice chairman of the Labor Union Committee of the Company since 2014. Ms. Zheng graduated from Sichuan College of Finance and Economics (now known as Southwestern University of Finance and Economics) with a bachelor's degree in finance in July 1984. From September 2001 to August 2003, she studied the IMBA course at Fudan University and at The University of Hong Kong and received a master's degree.

Mr. Chen Jin, aged 47, has been an employee representative Supervisor since September 2017 and was accredited as a senior economist by the Company in November 2012. Mr. Chen worked in Hangzhou Communication Equipment Plant of Ministry of Posts and Telecommunications of China from August 1993 to January 1995, worked in Hangzhou Branch of CCB Trust and Investment Co., Ltd. from January 1995 to May 1996, worked successively as the manager assistant of Management Department 1, deputy manager of the Management Department, the deputy manager of the Management Department and the deputy manager of Evaluation Department, the manager of the Evaluation Department, the general manager of the Risk Management Department, the general manager of Project Evaluation Department, the general manager assistant and deputy general manager of Huarong Financial Leasing from May 1996 to January 2015, served as the deputy general manager, the deputy general manager (general manager level) and the deputy general manager (general manager level, in charge) of the Risk Management Department of the Company from January 2015 to September 2017 and has been the general manager of the Risk Management Department of the Company since September 2017 till now. He graduated from the specialty of mechanical engineering of Ningbo University with a bachelor's degree in engineering in August 1993.

11. Directors, Supervisors and Senior Management

11.3 Senior Management

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

No.	Name	Gender	Age	Position	Beginning of the term of office
Existing senior management					
1	Li Xin	F	58	President	September 2018
2	Wu Jinglong	M	55	Member of senior management	April 2018
3	Hu Jiliang	M	54	Vice President	November 2014
4	Wang Wenjie[(1)]	M	57	Vice President	He serves as a vice president since November 2014
				Secretary to the Board	His term of office shall take effect from the date of approval by the CBIRC
5	Chen Yanqing[(2)]	M	55	Vice President	His term of office shall take effect from the date of approval by the CBIRC
6	Hu Ying	F	54	Assistant to President	December 2015
Resigned senior management					
1	Li Yuping	M	56	Member of senior management	From September 2012 to April 2018
2	Wang Lihua	M	54	Vice President	From October 2012 to November 2018

11. Directors, Supervisors and Senior Management

No.	Name	Gender	Age	Position	Beginning of the term of office
3	Xiong Qiugu	M	58	Vice President	From October 2012 to November 2018
4	Yang Guobing	M	53	Assistant to President	From December 2015 to November 2018
5	Li Yingchun	M	46	Secretary to the Board	From October 2017 to December 2018

(1) Mr. Wang Wenjie was appointed as the secretary to the Board by the Board on December 27, 2018 and his qualification is in the process of approval by the CBIRC.

(2) Mr. Chen Yanqing was appointed as the vice president of the Company by the Board on December 7, 2018 and his qualification is in the process of approval by the CBIRC.

11. Directors, Supervisors and Senior Management

Ms. Li Xin, aged 58, has been an executive Director and President of the Company since September 2018. Details of the experiences of Ms. Li are set out in "11.1.1 Executive Directors".

Mr. Wu Jinglong, aged 55, has been a member of the senior management of the Company since April 2018. Mr. Wu began to work in October 1982. He successively served as staff officer at the level of deputy company commander and company commander in Chinese People's Armed Police Force at the Beijing Division from October 1982 to August 1993; staff member and principal staff member in the Organization and Propaganda Department of Chinese Financial Workers' Union from August 1993 to March 1999; principal staff member, discipline inspector and supervisor at vice-minister level in the Office of the Central Commission for Financial Work and Discipline Inspection from March 1999 to September 2003; and deputy section chief, section chief and director (deputy director general) of the Discipline Inspection Commission and the General Section of the Office of Inspection Department of CBRC from September 2003 to November 2013; took a temporary post as member of the Party Committee and secretary of the Discipline Inspection Commission of Guangdong Office of CBRC from November 2013 to March 2016; served as discipline inspector at deputy director level in the Discipline Inspection Group of the Central Commission for Discipline Inspection in CBRC from March 2016 to April 2018. Mr. Wu graduated from the Correspondence Institute of the Party School of the CPC Central Committee with a bachelor's degree in politics and law in December 2000.

Mr. Hu Jiliang, aged 54, has been a vice president of the Company since November 2014. He was accredited as a senior economist by the Company in December 2000. Mr. Hu started his career in PBOC in December 1981. He held various positions in ICBC from February 1985 to April 2000, including deputy manager of Quzhou Trust and Investment Corporation of ICBC, director of the Infrastructure Construction Office of Quzhou Branch of ICBC, director of the Planning Loan Section of Quzhou Branch of ICBC, general manager of Zhejiang Industrial and Commercial Real Estate Development Corporation, deputy general manager (in charge) of the Asset Management Department and deputy director (in charge) of the Asset Risk Management Division of Zhejiang Branch of ICBC. Mr. Hu joined the Company in April 2000, serving successively as senior manager, assistant to general manager and deputy general manager of the Creditor's Rights Management Department of Hangzhou Office till August 2004, deputy director of the Reorganization Office I of the Company, deputy general manager of Hangzhou Office and general manager of Huarong Financial Leasing from August 2004 to December 2009, marketing director, chairman of the board of directors and general manager of Huarong Financial Leasing from December 2009 to January 2014, and assistant to President from September 2012 to November 2014. Mr. Hu graduated from Hangzhou Cadre's Institute of Finance and Management majoring in banking management in 1997, and graduated from The University of Hong Kong with an MBA degree in August 2003.

11. Directors, Supervisors and Senior Management

Mr. Wang Wenjie, aged 57, 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 appoint Mr. Wang Wenjie as the Secretary to the Board on December 27, 2018, and his qualification is in the process of approval by the CBIRC. Mr. Wang graduated from Shaanxi Institute of Finance and Economics (now known as Xi'an Jiaotong University) majoring in industrial economy with a master's degree in economics.

Mr. Chen Yanqing, aged 55, was appointed as the vice president of the Company in December 2018 and his qualification is in the process of approval by the CBIRC. He was accredited as a senior engineer by the Ministry of Machine Building in October 1996. Mr. Chen started his career in Ministry of Machinery in August 1983 and consecutively served as the director officer of the National Machinery Committee and the Department of Engineering, Agriculture and Machinery of the Ministry of Machine Building and Electronics Industry, the secretary (at deputy director level) of the General Office of the Ministry of Machinery and the secretary (at director level) of the Office of the Head of the National Machinery Bureau from January 1987 to January 2000. Mr. Chen joined China Cinda Asset Management Corporation (currently known as China Cinda Asset Management Co., Ltd., "China Cinda") in January 2000, he successively served as the deputy general manager of the Asset Management Department, the general manager of the Restructuring Business Department, the Market Development Department, the Group Synergy Department and the Corporate Management Department, the general manager of Shenzhen Branch and Shenzhen Regional Business chief officer, 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 the 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 at 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.

11. Directors, Supervisors and Senior Management

Ms. Hu Ying, aged 54, has been an assistant to President of the Company since December 2015. She was accredited as a senior economist by the Company in October 2003. Ms. Hu started her career with Quzhou sub-branch of PBOC in December 1983. She worked in Quzhou branch of ICBC from May 1984 to January 1999, serving successively as deputy director of the Planning Loan Section and deputy director of Asset Preservation Department (in charge). She was the vice president of Quhua sub-branch of ICBC (in charge) from January 1999 to February 2000. Ms. Hu joined the Company in February 2000, serving successively as senior deputy manager of the Creditor's Rights Management Department and senior manager, deputy general manager and general manager of Assets Management Department I of Hangzhou Office till October 2012 (concurrently held a temporal position as senior manager of the Assets Management Department I of the Company from September 2003 to May 2004). She served as general manager of Zhejiang Branch from October 2012 to December 2015 (concurrently serving as general manager of Shanghai Branch from January 2013 to December 2015). She served as assistant to President of the Company from December 2015 up to now (concurrently serving as general manager of Shanghai Branch and Zhejiang Branch from December 2015 to May 2016, the director of the General Overseas Business Management Department of the Company from August 2017 to January 2018, the general manager of Department of International Business Administration from December 2018 up to now). Ms. Hu graduated from Zhejiang Gongshang University majoring in business administration with an MBA degree in July 2009.

11. Directors, Supervisors and Senior Management

11.4 Changes in Directors, Supervisors and Senior Management

11.4.1 Changes in Directors

On May 11, 2018, the Board nominated Mr. Wang Zhanfeng and Ms. Li Xin as the executive Directors of the Company. On June 29, 2018, Mr. Wang Zhanfeng and Ms. Li Xin were appointed as executive Directors of the Company at the third extraordinary general meeting for 2018 of the Company. On September 27, 2018, they performed their duties after the CBIRC approved their qualifications as Directors. For details, please refer to the announcements and circulars of the Company dated May 11, 2018, May 15, 2018, June 29, 2018 and October 2, 2018.

On September 26, 2018, the Board nominated Mr. Zhu Ning as an independent non-executive Director of the Company. Meanwhile, Mr. Song Fengming resigned as an independent non-executive Director of the Company, the resignation of whom shall take effect only after a new independent non-executive Director has been elected at the Shareholders' general meeting of the Company and whose qualification for serving as the independent non-executive Director has been approved by the CBIRC. On November 13, 2018, Mr. Zhu Ning was appointed as an independent non-executive Director of the Company at the fifth extraordinary general meeting for 2018 of the Company. For details, please refer to the announcements and circular of the Company dated September 26, 2018, September 27, 2018 and November 13, 2018.

On November 27, 2018, Mr. Wang Lihua ceased to be an executive Director of the Company due to change of work arrangement. For details, please refer to the announcement of the Company dated November 27, 2018.

On April 17, 2018, Mr. Lai Xiaomin ceased to be chairman of the Board and executive Director of the Company due to personal reason. For details, please refer to the announcement of the Company dated April 19, 2018.

11. Directors, Supervisors and Senior Management

11.4.2 Changes in Senior Management

On May 11, 2018, the Board of the Company appointed Ms. Li Xin as the president of the Company. On September 27, 2018, Ms. Li Xin's qualification of the president is approved by the CBIRC. For details, please refer to the announcements of the Company dated May 11, 2018 and October 2, 2018.

On April 28, 2018, the CBIRC appointed Mr. Wu Jinglong as the member of senior management of the Company, and removed Mr. Li Yuping from the position of member of senior management of the Company.

On December 7, 2018, the Board of the Company appointed Mr. Chen Yanqing as the vice president of the Company. For details, please refer to the announcement of the Company dated December 7, 2018.

On December 27, 2018, the Board of the Company appointed Mr. Wang Wenjie as the Secretary to the Board. His term of office shall take effect from the date of approval by the CBIRC until change of appointment is made by the Board. Mr. Wang Wenjie acted on behalf and performed the duties of the Secretary to the Board from December 27, 2018. For details, please refer to the announcement of the Company dated December 27, 2018.

On November 27, 2018, Mr. Wang Lihua resigned as an executive Director of the Company and a vice president of the Company due to work changes. Mr. Xiong Qiugu resigned as a vice president of the Company due to change of his work arrangement. Mr. Yang Guobing resigned as an assistant to the president of the Company due to work changes. For details, please refer to the announcement of the Company dated November 27, 2018.

11.4.3 Annual Remuneration

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 "18. Audit Report and Financial Statements — V. Explanatory Notes — 16. Emoluments of Directors and Supervisors" and "18. Audit Report and Financial Statements — V. Explanatory Notes — 62. Related party transactions". The total compensation packages for the above Directors, Supervisors and senior management of the Company for 2018 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.

Highest paid individuals

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

12. Corporate Governance Report

12.1 Summary

During the Reporting Period, in compliance with the Company Law of the PRC, Securities Law of the PRC, the Listing Rules, other laws and regulations, regulatory documents and the Articles of Association, the Company constantly enhanced its corporate governance structure construction and mechanism construction, corporate governance ability and internal control and management. Efforts were also made to continuously optimize comprehensive risk management system and standardize information disclosure and improve investor relations management ability to promote the implementation of major strategies and ensure the sound and sustainable development of the Company with a view to creating good returns for Shareholders.

12.1.1 Code of Corporate Governance

During the Reporting Period, the Board has reviewed the disclosures in the Corporate Governance Report, and confirmed that the Company had complied with the provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules and adopted the applicable recommended best practices according to actual situations.

Corporate governance function

During the Reporting Period, the Board, and through its special committees, performed the following corporate governance functions: (1) further modified the Articles of Association in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; (3) constantly assessed and optimized corporate governance and performed their duties in strict compliance with all requirements on corporate governance.

12.1.2 Amendment of the Articles of Association

During the Reporting Period, the Company has received the "China Banking and Insurance Regulatory Commission's Approval in relation to the Amendments to the Articles of Association of China Huarong Asset Management Co., Ltd." (Yin Bao Jian Fu [2018] No. 309), which approved the amendments to the Articles of Association. Please refer to the announcement of the Company dated December 10, 2018 for details.

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 approved by Shareholders' general meeting under the laws, regulations, regulatory documents and applicable requirements of the securities regulatory authorities of the place(s) where the Company's Shares are listed and the Articles of Association; (19) to consider and approve the liability insurance of Directors and Supervisors; and (20) to consider and approve all other matters which are required to be determined by Shareholders' general meeting under the laws, regulations, regulatory documents, applicable requirements of the securities regulatory authorities of the place(s) where the Company's Shares are listed and the Articles of Association.

12.2.2 Details of Shareholders' General Meetings

During the Reporting Period, the Company held six Shareholders' general meetings in Beijing, including one annual general meeting and five extraordinary general meetings, which considered and approved 13 resolutions, and heard one report. The Company strictly complied with the legal procedures applicable to Shareholders' general meetings which Shareholders or their proxies attended and exercised their voting rights. The Company engaged PRC legal counsels to attend and witness Shareholders' general meetings and to provide legal opinion. Material matters include: consideration and approval of the final financial account plan of the Company for 2017; consideration and approval of the profit distribution plan of the Company for 2017; consideration and approval of the report of the Board and the report of the Board of Supervisors for 2017; consideration and approval of the employment of external auditor of the Company for 2018; consideration and approval of extension of the authorization to the Board granted by the general meeting of Shareholders to deal with matters relating to the Offshore Preference Share Issuance; consideration and approval of election of Mr. Wang Zhanfeng and Ms. Li Xin as executive Directors; consideration and approval of election of Mr. Zhu Ning as an independent non-executive Director.

12. Corporate Governance Report

12.2.3 Shareholders' Rights

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 five 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 five 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.

Right to propose resolutions 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 two 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.

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. Corporate Governance Report

Right to propose resolutions for Board meetings

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

Shareholders' right to raise proposal and enquiry

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

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. Corporate Governance Report

12.2.4 Attendance of Directors at Shareholders' General Meetings

Directors' attendance at Shareholders' general meetings in 2018 is set out in the following table:

Members of the Board	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Wang Zhanfeng	1/1	100%
Li Xin	1/1	100%
Non-executive Directors		
Li Yi	6/6	100%
Wang Cong	6/6	100%
Dai Lijia	6/6	100%
Zhou Langlang	5/6	83%
Independent non-executive Directors		
Song Fengming	6/6	100%
Tse Hau Yin	5/6	83%
Liu Junmin	6/6	100%
Shao Jingchun	6/6	100%
Resigned Directors during the Reporting Period		
Lai Xiaomin	2/2	100%
Wang Lihua	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 by video conference.
3. Attendance rate is the percentage of the number of meetings attended to the number of meetings required to be attended.

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. Corporate Governance Report

12.3 Board of Directors

12.3.1 Composition and Responsibilities of the Board

As of the Latest Practicable Date, the Board had ten Directors, including two executive Directors, namely Mr. Wang Zhanfeng (chairman) and Ms. Li Xin (president); four non-executive Directors, namely Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and Mr. Zhou Langlang; and four independent non-executive Directors, namely Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun. 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 report, the Board has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors and at least one of the independent non-executive Directors as the requisite appropriate professional qualification qualifications or accounting or relevant financial management expertise. In addition, the Company has complied with Rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive Directors appointed by a listed company shall not be less than one third of the Board.

The Board is accountable to the Shareholders' general meeting in accordance with the Articles of Association. The major duties of the Board include: (1) to convene and report its work to the Shareholders' general meeting; (2) to implement the resolutions of the Shareholders' general meeting; (3) to determine the operation plans, development strategies and investment proposals of the Company; (4) to formulate annual financial budget and final accounts of the Company; (5) to formulate profit distribution plan and loss recovery plan of the Company; (6) to formulate proposals for increases or reductions of the registered capital of the Company; (7) to formulate plans for the merger, division, changes of organization and dissolution of the Company; (8) to formulate proposals for the issuance of corporate bonds, any classes of Shares, warrants or other marketable securities by the Company and its listing; (9) to formulate plans for the repurchase of Shares of the Company; (10) to formulate the amendments to the Articles of Association, the rules of procedures of the Shareholders' general meeting and Board meeting; (11) to consider and approve the terms of reference of the president submitted by the president; (12) to appoint or remove the president of the Company and the secretary to the Board; (13) to appoint or remove vice president and other senior management members (excluding secretary to the Board) and the director of internal audit as nominated by the president; (14) based on the proposal of Shareholders individually or jointly holding 10% or more Shares of the Company with voting rights, chairman of the Board and at least one-third of the Directors, to elect the chairman and members of the Nomination and Remuneration Committee; based on the nomination of the Nomination and Remuneration Committee, to elect the chairman (other than the chairman of the Strategy and Development Committee) and members of other special committees of the Board; (15) to propose the performance appraisal system and remuneration packages for Directors to the Shareholders' general meeting for approval; (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

12. Corporate Governance Report

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; (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 consider the work report of the president to ensure that each Director obtains the information related to the performance of his/her duties in accordance with the regulatory requirement in a timely manner; to review the work of senior management members to monitor and ensure their effective performance of management duties; (27) to review the execution and rectification of regulation opinions against the Company by the banking regulators of the State Council; (28) the establishment of the first class branches of the Company inside and outside the PRC; (29) to consider the liability insurance of senior management; and (30) to perform other duties as required by laws, regulations, regulatory documents, the requirements of the securities regulatory authority of the place(s) where the Shares of the Company are listed and the Articles of Association, and other matters as authorized by Shareholders' general meeting.

12.3.2 Board Meetings

In 2018, the Board had conducted thirteen meetings, including four regular meetings and nine extraordinary meetings. 51 resolutions were passed and 8 work reports were reviewed at the meetings, including 25 resolutions on operation and management matters, 5 resolutions on system establishment, 12 resolutions on personnel management, and 9 other resolutions. The major issues include: the final accounts plan and the profit distribution plan of the Company for 2017; and the fixed assets investment budget for 2018; the 2017 Annual Report (Annual Results Announcement) and 2018 Interim Report (Interim Results Announcement) of the Company; extension of the authorization to the Board granted by the general meeting of Shareholders to deal with matters relating to the non-public issuance of Offshore Preference Share Issuance; the work report of the Board of Directors for 2017, internal control evaluation report and social responsibility report of the Company; election of Mr. Wang Zhanfeng as the chairman of the second session of the Board of Directors and appointment of Ms. Li Xin as the president of the Company; 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. Corporate Governance Report

12.3.3 Attendance of Board Meetings

Directors' attendance at Board meetings in 2018:

Members	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Wang Zhanfeng	3/3	100%
Li Xin	2/3	67%
Non-executive Directors		
Li Yi	13/13	100%
Wang Cong	13/13	100%
Dai Lijia	13/13	100%
Zhou Langlang	13/13	100%
Independent non-executive Directors		
Song Fengming	11/13	85%
Tse Hau Yin	10/13	77%
Liu Junmin	13/13	100%
Shao Jingchun	13/13	100%
Resigned Directors during the Reporting Period		
Lai Xiaomin	3/3	100%
Wang Lihua	11/11	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 personal attendance and attendance by telephone and video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required.

12. Corporate Governance Report

12.4 Special Committees of the Board

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

12.4.1 Strategy and Development Committee

As of the Latest Practicable Date, the Strategic Development Committee of the Company consisted of 10 Directors. The chairman was acted by Mr. Wang Zhanfeng, the chairman of the Board. The members included executive Director Ms. Li Xin, non-executive Directors Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and Mr. Zhou Langlang, and independent non-executive Directors Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun.

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

12. Corporate Governance Report

In 2018, the Strategy and Development Committee had convened five meetings to consider 5 resolutions, including the fixed assets investment budget of the Company for 2018 and the upgrade of Asset Preservation Department to the headquarters tier-one department level.

Attendance of members at Strategy and Development Committee meetings in 2018:

Members	Number of meetings attended/ required to attend	Attendance rate
Wang Zhanfeng	N/A	N/A
Li Xin	N/A	N/A
Li Yi	5/5	100%
Wang Cong	5/5	100%
Dai Lijia	5/5	100%
Zhou Langlang	5/5	100%
Song Fengming	5/5	100%
Tse Hau Yin	5/5	100%
Liu Junmin	5/5	100%
Shao Jingchun	5/5	100%
Resigned Directors during the Reporting Period		
Lai Xiaomin	2/2	100%
Wang Lihua	5/5	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 Zhanfeng and Ms. Li Xin is not applicable as no meeting was 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 four Directors. The chairman was acted by Ms. Dai Lijia, a non-executive Director. The members included Ms. Li Xin, an executive Director, Ms. Wang Cong, a non-executive Director and Mr. Song Fengming, an independent non-executive Director.

The major duties of the Risk Management Committee include, but 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 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 to perform such other duties as stipulated by laws, regulations, regulatory documents, the requirements of the securities regulatory authorities of the place(s) where the Shares of the Company are listed and the Articles of Association and other matters as authorized by the Board.

In 2018, the Risk Management Committee convened seven meetings to consider 25 resolutions and reports, including the 2017 risk management of the Company and amendments to the Methods for Measuring Provision for Impairment of Operating Assets.

12. Corporate Governance Report

Attendance of members at Risk Management Committee meetings in 2018:

Members	Number of meetings attended/ required to attend	Attendance rate
Dai Lijia	7/7	100%
Li Xin	N/A	N/A
Wang Cong	6/7	86%
Song Fengming	3/7	43%
Resigned Director during the Reporting Period		
Wang Lihua	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 be attended.
4. The attendance rate for Ms. Li Xin is not applicable as no meetings were convened by the Company during her term 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. Li Yi, and independent non-executive Directors, Mr. Song Fengming and Mr. Tse Hau Yin.

The main duties of the Related Party Transaction Committee include but are not limited to the following items: reviewing the basic management system of related party transactions, supervising its implementation and making recommendations to the Board of Directors; recognizing the related parties of the company, reporting to the Board of Directors and the Board of Supervisors, and timely disclosing 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 general meeting of Shareholders 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 normative documents, the securities regulatory authorities where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

12. Corporate Governance Report

In 2018, the Related Party Transaction Committee convened four meetings to consider eight resolutions and reports, including the related party transaction management of the Company for 2017 and list of related parties of the Company for 2017.

Attendance of members at Related Party Transaction Committee meetings in 2018:

Members	Number of meetings attended/ required to attend	Attendance rate
Shao Jingchun	4/4	100%
Li Yi	3/4	75%
Song Fengming	3/4	75%
Tse Hau Yin	3/4	75%

Notes:

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

12.4.4 Audit Committee

As of the Latest Practicable Date, the Audit Committee of the Company comprised seven Directors. The chairman was acted by Mr. Tse Hau Yin, an independent non-executive Director. The members included non-executive Directors, Mr. Li Yi, Ms. Wang Cong and Ms. Dai Lijia, and independent non-executive Directors, Mr. Song Fengming, Mr. Liu Junmin and Mr. Shao Jingchun.

The main responsibilities of the Audit Committee include but are not limited to the following: supervising the establishment of the Company's internal control, the Company's core business and management rules and regulations and its implementation, assessing the compliance and effectiveness of the Company's major business activities; supervising the Company's financial information and its disclosure, major financial policies of the Company and its implementation and financial operation status; monitoring the authenticity of financial reports and the effectiveness of management's implementation of financial reporting procedures; reviewing the basic management rules and regulations of the Company's auditing, medium and long-term auditing planning, annual work plan and internal auditing system setting program and making recommendations to the Board of Directors; supervising and evaluating the internal auditing work of the Company, supervising the implementation of the internal auditing system of the Company; evaluating the working procedures and work effectiveness of the internal auditing department; proposing to hire or replace the external auditing firm and reporting to the Board of Directors for deliberation, taking appropriate measures to supervise the work of

12. Corporate Governance Report

the external auditing institution, and examining the reports of the external auditing institutions to ensure the ultimate responsibility of the external auditing institutions for the Board of Directors and the audit committee; reviewing 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; making judgments on the authenticity, completeness and accuracy of the audited financial report information and submitting them to the Board for deliberation; coordinating the communication between the internal audit department and the external auditing institution; and other matters as required by the laws, regulations and normative documents, the securities regulatory authorities of the place where the Shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2018, the Audit Committee convened ten meetings to consider 40 resolutions and reports, including final accounts of the Company for 2017, profit distribution plan of the Company for 2017, financial statements and audit reports of the Company for 2017.

Attendance of members at Audit Committee meetings in 2018:

Members	Number of meetings attended/ required to attend	Attendance rate
Tse Hau Yin	10/10	100%
Li Yi	10/10	100%
Wang Cong	10/10	100%
Dai Lijia	10/10	100%
Song Fengming	8/10	80%
Liu Junmin	10/10	100%
Shao Jingchun	10/10	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 be attended.

12.4.5 Nomination and Remuneration Committee

As of the Latest Practicable Date, the Nomination and Remuneration Committee of the Company consisted of five Directors. The chairman was acted by Mr. Song Fengming, an independent non-executive Director. The members included non-executive Directors, Mr. Li Yi and Ms. Wang Cong, and independent non-executive Directors, Mr. Liu Junmin and Mr. Shao Jingchun.

12. Corporate Governance Report

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

In 2018, the Nomination and Remuneration Committee convened ten meetings to consider and hear 15 resolutions and reports on appointment of the head of the audit department and assessment results of the members of senior management at the operation management level by the Board for 2017.

Attendance at Nomination and Remuneration Committee meetings in 2018:

Members	Number of meetings attended/ required to attend	Attendance rate
Song Fengming	9/10	90%
Li Yi	10/10	100%
Wang Cong	10/10	100%
Liu Junmin	10/10	100%
Shao Jingchun	10/10	100%

Notes:

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

12. Corporate Governance Report

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

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

a candidate for Director shall, at least fourteen days prior to the convening of the Shareholders' general meeting, give a written undertaking letter indicating that he/she agrees to accept the nomination and that the personal information as publicly disclosed is true and complete, and warrants that he/she will duly perform his/her obligations as a Director after he/she is elected. A written notice of the candidate's willingness to be elected shall have a notice period of no less than 7 days, and shall be delivered to the Company no later than seven days prior to the convening of the Shareholder's general meeting and no earlier than the day after issue date on which the notice of such meeting for the election is delivered;

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

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

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

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

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

12. Corporate Governance Report

12.5 Board of Supervisors

12.5.1 Duties of the Board of Supervisors

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

12.5.2 Composition of the Board of Supervisors

As at December 31, 2018, the Board of Supervisors comprised five Supervisors, including a Shareholder representative Supervisor, namely Mr. Ma Zhongfu (chairman of the Board of Supervisors), two external Supervisors, namely Ms. Dong Juan and Ms. Xu Li, and two employee representative Supervisors, namely Ms. Zheng Shengqin and Mr. Chen Jin.

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. 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.

12. Corporate Governance Report

12.5.3 Chairman of the Board of Supervisors

Mr. Ma Zhongfu has been the chairman of the Board of Supervisors and he is responsible for the operation of the Board of Supervisors in accordance with the Articles of Association.

12.5.4 Operation of the Board of Supervisors

The Board of Supervisors conducts voting on resolutions in meetings of the Board of Supervisors. The meetings of the Board of Supervisors are divided into regular and extraordinary meetings. Regular meetings of the Board of Supervisors shall be convened at least once every six months informing all Supervisors in writing 10 days prior to the holding of meeting. To convene an extraordinary meeting of the Board of Supervisors, written notice shall be given seven days before the date of meeting. The resolutions of the meeting 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 convened five meetings in 2018, and considered and approved 23 resolutions, mainly including:

The Work Report of the Board of Supervisors of the Company for 2017;

The Final Accounts of the Company for 2017;

The Profit Distribution Plan of the Company for 2017;

The Work Plan of the Board of Supervisors of the Company for 2018;

The 2017 Annual Report of the Company;

The Evaluation Report on the Internal Control of the Company for 2017;

The Social Responsibility Report of the Company for 2017.

12.5.6 Supervisors' attendance at meetings of the Board of Supervisors

Supervisors	Number of meetings attended/ required to attend	Attendance rate
Shareholder Representative Supervisor		
Ma Zhongfu	5/5	100%
External Supervisors		
Dong Juan	5/5	100%
Xu Li	5/5	100%
Employee Representative Supervisors		
Zheng Shengqin	5/5	100%
Chen Jin	5/5	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 Committee of the Board of Supervisors

As at December 31, 2018, the Board of Supervisors set two special committees, namely Performance and Finance Supervision Committee and Risk Internal Control and Subsidiary Management and Supervision Committee.

Performance and Finance Supervision Committee

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

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

During the Reporting Period, the Performance and Finance Supervision Committee convened four meetings to consider 12 resolutions, including the Final Accounts of the Company for 2017.

12. Corporate Governance Report

Risk Internal Control and Subsidiary Management and Supervision Committee

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

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

During the Reporting Period, the Risk Internal Control and Subsidiary Management and Supervision Committee convened three meetings to consider 2 issues and 1 resolution of the Evaluation Report on the Internal Control of the Company for 2017.

12.5.8 Trainings for the Supervisors

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

Directors of listed companies shall be subject to continuing duty and punishment for violation;

Latest amendments and updates of listing rules in Hong Kong;

Reformation of verifying system of H share issue, adjustment of overseas listing rules and cross-border supervision between the mainland and Hong Kong;

Amendments to the regulation of strengthening the duty and supervision of directors and senior management;

Practical operations of inside information management and control and disclosure of A+H share companies;

Discussion on risk management and practice;

Financial audit and results announcement workshop — Changes in 2018 annual results announcement;

Rules and practical work for the preparation and convening of Shareholders' general meetings;

Practical operations of related party transactions and difference treatments between the mainland and Hong Kong;

Environment, Social and Governance Report and non-financial report;

Compliance transaction and governance.

12. Corporate Governance Report

12.6 Chairman of the Board and President

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

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

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

12.7 Senior Management

12.7.1 Composition and Duties of Senior Management

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

12.7.2 Supervision and Evaluation on the Performance of Senior Management

The Board of Supervisors of the Company earnestly implements the regulatory requirements including the Guidelines on Corporate Governance of Commercial Banks issued by CBIRC, supervises the performance of the duties of the Board, senior management and its members by ways of attending meetings as non-voting participants, conducting survey, carrying out investigation, and carrying out work interviews in accordance with the relevant policies of the Board of Supervisors of the Company; and evaluates the performance of the Directors and senior management during the year in accordance with the regulatory requirements and relevant policies of the Board of Supervisors of the Company.

12. Corporate Governance Report

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, to conduct the management of information disclosure and investor relations of the Company, communicate and interact with Shareholders and potential investors in various forms, assist them in making rational investment decisions and protect the legal interests of investors.

In 2018, the Company strictly abided by the principles of truthfulness, accuracy, completeness, timeliness and fairness and conscientiously conducted information disclosure. The Company continued to improve the quality of periodic report disclosure and strengthened the pertinence and effectiveness of the periodic report disclosure. The Company disclosed the interim announcements in accordance with laws and regulations in a timely and accurate manner, and constantly improved the transparency of information disclosure to protect the investors' rights to know. The Company continued to improve the information disclosure mechanism, raised awareness of employees in information disclosure and enhanced the Group's information disclosure management.

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

12. Corporate Governance Report

12.8.2 Contacts of Board of Directors' 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 are known, during the Reporting Period, there were no incidents of insider trading of the Company's Shares by those who are aware of inside information taking advantage of the inside information.

12.10 Audit's remunerations

The remunerations paid and payable by the Group to Deloitte, the auditor of the Company in respect of audit and non-audit services provided to the Group in 2017 and 2018 are set out below, respectively:

Audit and Non-audit Services	Year ended December 31, 2018	2017
	(in millions of RMB)	
Annual audit/interim review	**36.6**	26.1
Other audit services	**20.3**	15.6
Tax consultations and other services	**0.5**	0.1
Total:	**57.4**	41.8

12.11 Responsibilities of Directors for Financial Statements

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

12. Corporate Governance Report

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

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

12.13 Securities Transactions by Directors, Supervisors and Relevant Employees

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

12.14 Independence of Independent Non-executive Directors

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

12. Corporate Governance Report

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》), the Board focused on the continuing professional development of the Directors by encouraging them to take part in and organizing training programs for them. All members of the Board continued to familiarize themselves with various regulatory information and the latest regulatory requirements, 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 they can contribute to the Board in a well-informed manner based on its actual needs.

The trainings attended by the Directors in 2018 mainly include:

The Forty-seventh and Forty-eighth seminars on Joint Members to Strengthen Continuing Professional Development and the advanced seminar on corporate regulation for the companies listed outside of China organized by HKICS;

The online special training courses such as Thoroughly Study and Implement the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, Adhere to the Concept of New Development in New Era and Poverty Alleviation organized by the Chinese Cadre Networking Academy;

Symposium on China Industry Development in 2019 organized by China Economic Information Network of the State Information Center;

Besides, the independent non-executive Director Mr. Tse Hau Yin participated in the special trainings on “Dialogue between Regulators and Directors: The Development Prospect of Banking Supervision” and “RegTech: Achieving Risk Management and Performance Optimization through Regulatory Behavioral Science and AI” organized by the Hong Kong Institute of Bankers; the forum of independent non-executive directors organized by KPMG; the special training on “Who Will Win the AI Contest between China and the United States - How to Integrate the Block Chain” organized by OCBC Wing Hang Bank Limited; the special training on “Escorting the Oil and Gas Business come through the Energy Transition Period” organized by Mckinsey&Co.; the seminar on independent non-executive directors organized by the Hong Kong Monetary Authority; the special training on “How to Establish Social License in the Environment that Security Faces Challenge” organized by PricewaterhouseCoopers.

12. Corporate Governance Report

12.16 Liability Insurance for Directors

The Company maintained liability insurance for Directors in 2018 to provide protection against possible claims arising from the lawful discharge of duties by Directors, thus encouraging Directors to fully perform their duties.

12.17 Joint Company Secretaries

The secretary to the Board and one of the joint company secretaries, Mr. Wang Wenjie 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. Wang 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 supplier. In respect of corporate governance, the Listing Rules and other applicable laws and regulations related to the Company and other matters, Mr. Ngai will contact Mr. Wang, and Mr. Wang will be responsible for reporting to the Board and/or the chairman of the Board. The relevant professional trainings that Mr. Ngai participated in during the Reporting Period has reached 15 hours, which is in compliance with the requirements of Rule 3.29 of the Listing Rules. Since the Company appointed Mr. Wang as the joint company secretary on December 27, 2018, Mr. Wang promised to take at least 15 hours of relevant professional training every year from 2019 to update his knowledge and skills.

13. Internal Control

13.1 Statement of the Board in Relation to Internal Control Responsibilities

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

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

Pursuant to relevant regulatory requirements set out in the Basic Internal Control Norms for Enterprises and its implementation guidelines jointly promulgated by the five ministries including the MOF and the relevant regulatory requirements from CBIRC, the Company organized and conducted the evaluation of internal control for 2018. This year, by adopting a combination of measures including comprehensive self-evaluation, on-site examination and special random inspection across the headquarters' departments, branches and subsidiaries of the Group, the Group evaluated the effectiveness of its internal control on multiple levels including business operation, risk management, financial management, internal supervision and information communication, gave suggestions for improvement and urged implementation of rectifications to promote the continuous improvement and perfection of the Group's internal control system.

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

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

13. Internal Control

13.3 Establishment of Internal Control Management System

During the Reporting Period, the Company identified internal control problems and strengthened internal control management by centering on source management, process control and focusing on risk prevention and quality improvement, comprehensively sorted out the various business and management activities according to the corresponding processes and evaluated the applicability of internal control process framework, the rationality of management and control responsibilities, the adequacy of risk identification, and the effectiveness of control measures through two-way benchmarking of external compliance documents and internal systems of the Company. Focusing on problems, the Company targetedly improved the internal control measures, implemented responsibility division and optimized process management and control. The Company also revised the Internal Control Process Framework, the Internal Control Manual and the related Risk Control Matrix and through measures including trainings, investigation, examination, rectification and evaluation to improve the construction of internal control culture and upgrade the internal control management.

13.4 Internal Control Measures for Sanctions Risks

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

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

2. The Group has compiled the compliance operational handbook and compliance review manual to sort out procedures of business activities of the Company and to identify and highlight relevant compliance issues on preventing sanctions risks.

3. The Group has compiled the Questionnaire on Due Diligence Investigation in respect of Sanctions and Export Control of Investees and issued it to all units of the Group as a basic tool of due diligence investigation on sanctions risks.

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

5. The Group has engaged an attorney to provide assistance to the Company in evaluating sanctions risks of the Group every six months and carried out the necessary training on sanctions risks for relevant personnel.

13. Internal Control

13.5 Internal Control Measures for Excluded DES Companies

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

1. Since the listing, the Company has strictly complied with the Company's requirements on the prevention of OFAC sanctions risks when conducting new equity investment businesses. Through reviewing the public lists of restricted parties and countries of the United States, the European Union, the United Kingdom and the United Nations, the Company identified the sanctions risks for potential investment opportunity in a timely manner. The Company could conduct OFAC risk investigation in time during due diligence for proprietary new equity investment projects. According to the investigation results, new equity investment projects have not been subject to OFAC sanctions risks.

2. For the DES Companies trading with the sanctioned country or person as showed by information disclosed in the Prospectus, the Group has the corresponding business groups and project managers responsible for the daily management of the enterprise. The Group obtained the daily operation and management information of the enterprises through attending the Shareholders' general meetings, the Board meetings and the meetings of Board of Supervisors of the invested enterprises and conducting regular visits. According to the daily management information accessible to the Company, the Group currently has not found any relevant sanctions matters of such enterprises, or any matters affecting the production and operation due to sanctions risks.

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

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

The disposal of equity in excluded DES companies is set out in "14. Report of the Board of Directors — 14.19 Disposal of Equity in Excluded DES Companies".

13. Internal Control

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

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

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

14. Report of the Board of Directors

14.1 Principal Business

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

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

Meanwhile, the environmental policies of the Group are set out in "14.6 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 — 9.3.7 Human Resources Management", and "14.10 Major Clients" and "14.11 Major Suppliers" of this report of the Board of Directors, respectively.

14.2 Profit and Dividend Distribution

The profit and financial condition of the Group for the year ended December 31, 2018 are set out in "9. Management Discussion and Analysis — 9.2 Analysis of Financial Statements".

The Board of Directors proposed to distribute cash dividends for 2018 based on the total share capital of 39,070,208,462 Shares of Domestic Shares and H Shares of the Company as at December 31, 2018. Shareholders of Domestic Shares and H Shares whose names appeared on our register of members as at the record date will be distributed RMB0.121 (tax inclusive) for every 10 Shares with the total cash dividend distributed amounting to approximately RMB0.473 billion, representing approximately 30.0% of the net profit attributable to the Shareholders of the Company on a consolidated basis of the Group for 2018.

The dividend payout date for 2018 is no earlier than Thursday, August 22, 2019. Except MOF and the National Council for Social Security Fund enjoyed the H Shares dividends distributed in RMB, other H Shares dividends shall be distributed in HK dollars. The exchange rate shall be the middle rate of RMB against HK dollars published by the PBOC on the day of the annual general meeting of Shareholders. Dividends on domestic Shares will be paid in RMB.

14. Report of the Board of Directors

In order to determine the list of H Share Shareholders entitled to receive the 2018 annual dividends, the Company will closure of register of H Share from Thursday, June 27, 2019 to Tuesday, July 2, 2019 (both dates inclusive). The H Share Shareholders who wish to receive the 2018 annual dividend shall return the instrument of transfer and relevant Shares at or before 4:30 p.m. on Wednesday, June 26, 2019 to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Arrangement for Withholding and Payment of Income Tax

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

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation regulations, State Administration of Taxation's Notice on the Relevant Issues Concerning the Withholding of Enterprise Income Tax for Dividends Distributed by Chinese Resident Enterprises to Overseas H-share Non-resident Enterprises Shareholders (Guo Shui Han [2008] No. 897 (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) and other relevant regulations, the Company is obliged to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the H Share register of members of the Company when distributing annual dividends of 2018. Any Shares which are registered under the names of non-individual Shareholders, including those registered under HKSCC Nominees Limited, other agents or trustees, or other organizations and groups, shall be deemed as Shares held by non-resident enterprise Shareholders, and enterprise income tax shall be withheld from dividends payable to such Shareholders.

Withholding and Payment of Individual Income Tax on Behalf of Foreign Individual Holders of H Shares

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《國家稅務總局關於發佈<非居民納稅人享受稅收協定待遇管理辦法>的公告》) (SAT Announcement 2015 No. 60) and the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) and other relevant laws and regulations and regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the 2018 annual dividends to be distributed to them. However, the individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between PRC and the countries (regions) in which the individual holders of H Shares are

14. Report of the Board of Directors

domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). In this regard, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax of dividends for the individual holders of H Shares in the distribution of the dividends:

(1) For individual holders of H Shares who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares when distributing the 2018 annual dividends.

(2) For individual holders of H Shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating other tax rates, the Company will temporarily withhold and pay individual income tax at the rate of not less than 10% required by relevant tax treaties on behalf of the individual holders of H Shares when distributing the 2018 annual dividends.

(3) For a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual holders of H Shares when distributing the 2018 annual dividends.

Withholding and payment of Income Tax on Dividends for Southbound Trading

Pursuant to the relevant requirements under the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect" (Caishui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅 [2014]81 號)), upon distributing the 2018 Annual Dividend to investors investing in H Shares of the Company through the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the Company shall withhold and pay individual income tax at the rate of 20% on behalf of individual domestic investors; for securities investment funds, the tax payable shall be the same as that for individual investors; for domestic enterprise investors, the Company will not withhold and pay the enterprise income tax and those enterprises shall report and pay the relevant tax themselves. The record date and the date of appropriation of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares.

The Company has been attaching great importance to Shareholders' returns. Well-established decision making process and mechanism for dividend distribution have been in place to distribute cash dividends to the Shareholders. In the process of determining the dividend distribution plan, the Board takes the advice and requests of Shareholders into full consideration in order to safeguard the legal interests of minority Shareholders and submits the dividend distribution plan at the Shareholders' general meeting for approval. Independent Directors play their part in performing their duties during the decision making process of the dividend distribution plan.

14. Report of the Board of Directors

14.3 Reserves

Reserves of the Group for the year ended December 31, 2018 are set out in the Consolidated Statement of Changes in Equity in the consolidated financial statements.

14.4 Distributable Reserves

The distributable reserves of the Group for the year ended December 31, 2018 are set out in the Consolidated Statement of Financial Position in the consolidated financial statements.

14.5 Financial Highlights

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2018 are set out in the section headed "5. Financial Summary".

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

In 2018, the Group further improved the Environmental, Social and Governance (ESG) indicator system. The disclosure coverage of ESG environmental indicator expanded to the Company's headquarter, branches and subsidiaries in 2018. Meanwhile, we made deep communication with stakeholders to enquire their opinions and suggestions regarding 16 social responsibility issues on economy, society, environment and corporate governance, and we derived a materiality matrix in 2018 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 Social Responsibility Report of China Huarong 2018 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.

14.7 Donation

Total donations made by the Group for 2018 amounted to RMB35.2 million.

14.8 Property and Equipment

None of the properties held by the Group had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. For the details in relation to the changes in property and equipment of the Group for the year ended December 31, 2018, please see "18. Audit Report and Financial Statements — V. Explanatory Notes — 37. Property and equipment".

14. Report of the Board of Directors

14.9 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.

14.10 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.

14.11 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 2018.

14.12 Share Capital and Public Float

As at December 31, 2018, the Company had a total of 39,070,208,462 Shares and 479 registered Shareholders. Details are set out in "10. Changes in Share Capital and Information on Substantial Shareholders". As of the Latest Practicable Date, based on the public information available to the Company and to the knowledge of the Board of Directors, the public float of the Company was in compliance with requirements of relevant laws, regulations and the Listing Rules.

14.13 Pre-emptive Right and Share Option Arrangement

During the Reporting Period, none of the Shareholders 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. Report of the Board of Directors

14.14 Purchase, Sale and Redemption of Shares

For the year ended December 31, 2018, neither the Company nor its subsidiaries has purchased, sold or redeemed any Shares of the Company.

14.15 Issuance of Securities

Details of debt securities issued by the Company are set out in "18. Audit Report and Financial Statements — V. Explanatory Notes — 49. Bonds and notes issued".

A Share Offering

The Board of Directors of the Company resolved to withdraw the application for A Share Offering on September 10, 2018. Please refer to the Company's announcement published on September 10, 2018 for details. On October 10, 2018, the CSRC decided to terminate the review of the Company's application for A Share Offering.

Issuance of Preference Shares

The Company considered and approved the extension of the authorization to the Board granted by the general meeting of Shareholders to deal with matters relating to the Offshore Preference Share Issuance at the fourth extraordinary general meeting for 2018, the first domestic Shareholders' class meeting for 2018 and the first H Shareholders' class meeting for 2018 convened on September 26, 2018. Please refer to the Company's relevant announcements and circulars published on August 7, 2018, August 10, 2018 and September 26, 2018, respectively, for details.

14.16 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".

14.17 Use of Proceeds

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

14. Report of the Board of Directors

As at December 31, 2018, the Group has used HK$16,223.9 million (equivalent to RMB13.7 billion) of the proceeds from the listing, of which RMB9.6 billion was used to develop the distressed asset management business of the Group; RMB2.5 billion was used to develop the financial services business of the Group; and RMB1.6 billion was used to develop the asset management and investment business of the Group. The actual use of proceeds was consistent with the committed use of proceeds set out in the Prospectus. As at December 31, 2018, the balance of proceeds in the domestic fundraising account was HK$2,865 million (interest included). The unused proceeds will be used to increase the capital of our subsidiaries under the financial services business segment of the Group, in order to develop the financial services business.

14.18 Borrowings

The balance of the borrowings of the Group as at December 31, 2018 amounted to approximately RMB760,995.5 million. Details of our borrowings are set out in "18. Audit Report and Financial Statements — V. Explanatory Notes — 46. Borrowings".

14.19 Disposal of Equity in Excluded DES Companies

The Group has comprehensively carried out the disposal plan of the Excluded DES Companies. As of the end of 2018, the Group has negotiated with six Excluded DES Companies, their respective de-facto controllers and controlling Shareholders regarding the disposal of the shareholdings in such companies, among which, two companies have been disposed, and one has completed workflows related to the disposal, and is undergoing changes of industrial and commercial registration. For the remaining three Excluded DES Companies, the Group has communicated with them and their de-facto controllers on the program of equity disposal, and, with internal approval procedures such as project approval completed, the disposal is in process. From January to November 2018, the executive Director, Mr. Wang Lihua, took charge of the disposal process. From December 2018 to the present, Ms. Li Xin, the executive Director, took charge of the disposal process and supervised the disposal. The independent non-executive Directors conducted official supervision of relevant acts of Ms. Li Xin, the executive Director. In March 2019, Ms. Li Xin, the executive Director, together with the independent non-executive Directors of the Company, discussed such disposal plans and progress, which were reported to the independent non-executive Directors by Ms. Li Xin, and for which the independent non-executive Directors proposed certain corresponding issues to Ms. Li Xin, the executive Director. In March 2019, Ms. Li Xin, the executive Director, reported such disposal plans and progress to Audit Committee of the Board.

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

We will retain China International Capital Corporation Hong Kong Securities Limited as our compliance adviser until all of our equity interests in the Excluded DES Companies have been disposed of.

The Group will not make any further investments in the Excluded DES Companies or increase the portfolio of DES Assets for which we cannot obtain sufficient information for Value Estimation due to restrictions from the Law of the Protection of State Secret Laws.

14. Report of the Board of Directors

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 at December 31, 2018, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares and underlying Shares of the Company or other associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

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

None of the Directors and Supervisors or their associated entities had any beneficial interests, directly or indirectly, in any transactions, arrangements or contracts of significance (except service contracts) concerning the business of the Group entered into with the Company or any of its controlling companies, subsidiaries or fellow subsidiaries in 2018.

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

14.23 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 Measures for the Remuneration of Directors and Supervisors by the Company. The remuneration policy adheres to the principles of integrating incentives and restrictions, aligning their performance with risks and responsibilities of their respective positions, and combining government supervision and adjustment according to market condition. The remuneration system comprises basic annual salary, performance-based annual salary, bonuses based on term of service, and other benefits, as well as corporate pension 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. Report of the Board of Directors

14.29 Connected Transactions and Related Party Transactions

During the Reporting Period, the Company did not conduct any connected transaction and related party transaction which is required to be disclosed according to 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 "18. Audit Report and Financial Statements — V. Explanatory Notes — 68. Particulars of principal subsidiaries".

14.32 Auditors

The consolidated financial statements of the Company for 2018 prepared under the IFRS and PRC GAAP have been audited by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively.

14.33 Statement for Changes of Auditors in the Past Three Years

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

14. Report of the Board of Directors

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 Directors has reviewed the annual results of the Group for 2018 and the 2018 audited consolidated financial statements prepared in accordance with IFRS and PRC GAAP.

By Order of the Board
Wang Zhanfeng
Chairman

March 28, 2019

15. Report of the Board of Supervisors

During the Reporting Period, the Company's Board of Supervisors conducted various in-depth supervisions according to relevant PRC laws and regulations, regulatory requirements and the Articles of Association, which played an important role in promoting the Company's continuous improvement of corporate governance and realization of stable and compliance operation.

15.1 Convening of meetings

In 2018, the Company's Board of Supervisors held five meetings to review and approve 23 resolutions, including reports of the Board of Supervisors for 2017, final accounts for 2017 of the Company and working plan of the Board of Supervisors for 2018. The Special Committees of the Board of Supervisors held 7 meetings to review 13 resolutions, including the final accounts for 2017 of the Company.

15.2 Supervision work

Performance supervision. The Board of Supervisors strengthened the supervision on the implementation of national economic and financial policies and regulatory requirements by the Board of Directors and senior management, made suggestions on the development concepts, development patterns, business layout and the focus on primary responsibilities and main businesses of New Huarong, and drove the Company to base on our function as a financial asset management company and support and serve real economy; it strengthened the supervision of the performance of the Board of Directors, senior management and their members, instructed on the standard operation of the Board of Directors and its special committees, informed senior management of some concerns of the Board of Supervisors, and promoted the performance of the Board of Directors and senior management in compliance with laws and regulations; and it also strengthened the supervision of the performance of the Board of Directors and senior management on their fulfilment of loyalty and diligence obligations; it organized evaluation of the annual performance of the directors and senior management according to regulatory requirements, and reported the evaluation results to the Shareholders' general meeting and regulatory authorities.

Financial supervision. The Board of Supervisors reviewed regular financial reports in an earnest manner, focused on the authenticity of financial information and paid attention to changes in key indicators. The special committees of the Board of Supervisors heard the annual audit plan, the implementation and reporting of the audit results, suggested audit focus and supervised the independence and effectiveness of external audit; it paid attention to the rectification of problems found in external audit, and listened to the report on relevant opinions and the Company's plan for rectification; and, it also enhanced the supervision and organized special researches on remuneration management and put forward suggestions to the Board of Directors to promote the Company's construction of a scientific and effective remuneration management system in strict compliance with regulatory requirements.

15. Report of the Board of Supervisors

Risk management supervision. The Board of Supervisors strengthened supervision of credit risk, liquidity risk, market risk, concentration risk and other key areas as well as some key institutions; it conducted research on risk management of overseas business and some branches, disposal and resolution of risk assets in stock and liquidity risk management of overseas institutions and provided opinions to the Board of Directors and senior management; it conducted special research on the Group's management and synergistic development, urged the Company to implement regulatory requirements, further enhance pertinence and efficiency of the Group's management, strengthen strategic collaboration within the Group and serve primary responsibility and main business.

Internal control supervision. The Board of Supervisors strengthened supervision over the implementation of regulatory requirements, and its special committees listened to the report on the implementation of regulatory requirements and urged the Company to take practicable measures for implementation; it strengthened the supervision over construction and operation of the internal control system, focused on the formulation and implementation of policies on granting authorization to subsidiaries by the parent company of the Group and provided advice to the Board of Directors; it paid attention to compliance management, and its special committees listened to the report on compliance management and proposed opinions on improving the compliance management system; it paid attention to the Company's IT building, organized relevant meetings to conduct special research and gave advice on improving IT plans in accordance with regulatory requirements and the needs of Group's management and control; it carefully reviewed the internal control evaluation report of the Board of Directors and urged the Board of Directors to continuously improve the internal control system.

Strengthen self-construction. The Board of Supervisors further improved its working system by revising some of its working rules in accordance with regulatory requirements and strengthened its role in restricting the Board of Directors, senior management and members thereof; it improved its working system, continuously standardized requirements for the scope, manner and time of information reporting to the Board of Supervisors by the Board of Directors and senior management, improved the form for its supervision opinions and strengthened the mechanism for communication and coordination between the Board of Supervisors and the Board of Directors and senior management; it organized Supervisors to participate in trainings to continuously improve their working capability; it conducted assessment on duty performance of Supervisors and reported the assessment results to the Shareholders' general meeting and regulatory authorities.

By Order of the Board of Supervisors
Ma Zhongfu
Chairman of the Board of Supervisors

March 28, 2019

16. Significant Events

16.1 Material Litigation and Arbitration

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

During the Reporting Period, we were involved in various unresolved litigation matters. For example, as of December 31, 2018, unresolved legal proceedings of which the amount in dispute exceeded RMB10 million and in which the Company was a defendant had an aggregate alleged amount of approximately RMB1,159.46 million and unresolved legal proceedings of which the amount in dispute exceeded RMB10 million and in which the Company was a plaintiff had an aggregate alleged amount of RMB51,981.74 million. We believe that we have made full accrual allowance for the potential losses arising from unresolved legal proceedings and that none of such legal proceedings, individually or in aggregate, would have a material adverse impact on the business, financial condition and results of operations of the Company.

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. Significant Events

16.5 Major Contracts and Their Implementation

16.5.1 Major Custodies, Underwriting and Leasing

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

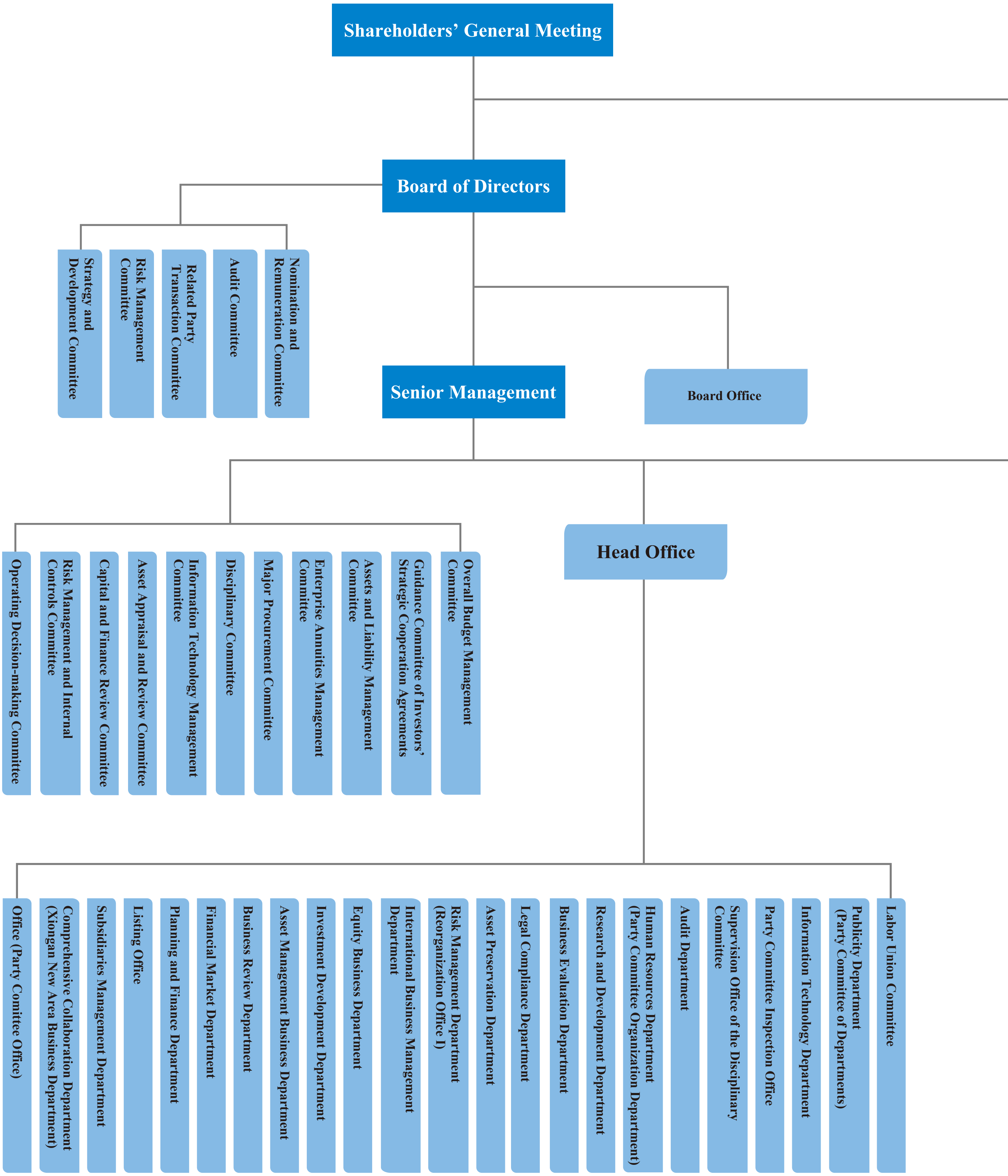
16.5.2 Material Guarantees

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

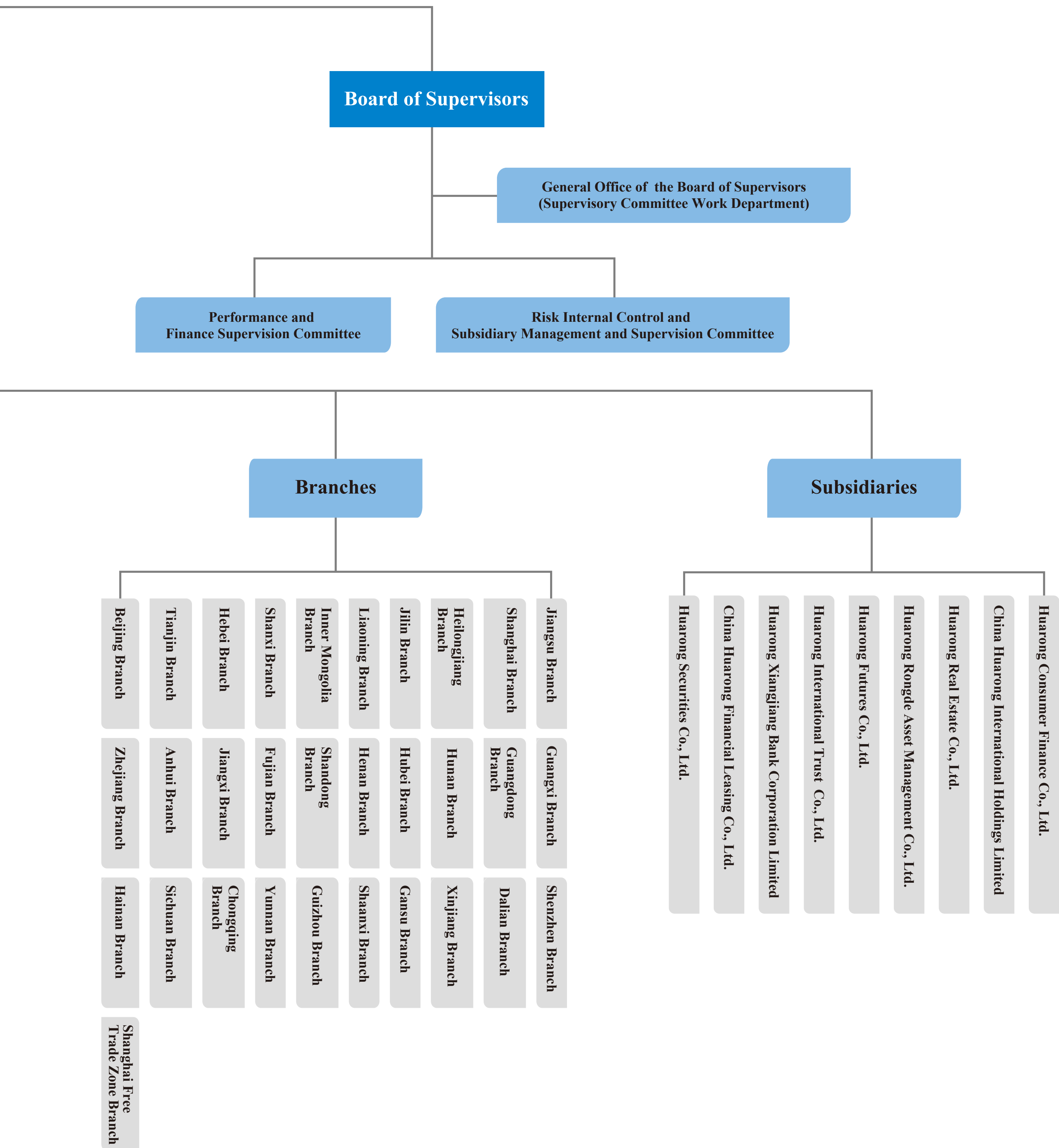
16.6 Events after the Reporting Period

Details of events after the Reporting Period are set out in "18. Audit Report and Financial Statements — VI. Events after the Reporting Period".

17. Organizational Chart



17. Organizational Chart



18. Audit Report and Financial Statements

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

CONTENTS	Page(s)

Independent Auditor's Report

Deloitte.

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To the Shareholders of China Huarong Asset Management Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of China Huarong Asset Management Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 171 to 388, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Independent Auditor's Report

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Classification of financial assets	
We identified classifications of financial assets as a key audit matter as approximately 94% of assets of the Group are financial assets and a new financial reporting standard on financial instruments, International Financial Reporting Standard 9 ("IFRS 9"), was adopted for the current year. Under IFRS 9, classification of a financial asset depends on whether its characteristics of contractual cash flows represent solely payments of principal and interest on principal amount outstanding; and whether it is held within the business model to collect contractual cash flows or selling, or both purposes. The Group holds a wide range of financial assets and these financial assets are managed by different business units. Therefore, examination of cash flow characteristics and business models requires significant judgement. Classification determines whether subsequent measurement of a financial asset should be at amortised cost or fair value, and if it is measured at fair value, whether the fair value changes are recorded in profit or loss, or other comprehensive income. The results of classifications of financial assets on 1 January 2018 on adoption of the new financial reporting standard on financial instruments are set out in notes II.1 and II.3. Classification of financial assets as at 31 December 2018 were presented on the statement of financial position and respective notes.	Our procedures in relation to classification of financial assets included: • Understanding the management's methodology in determining the classification of financial assets and evaluate whether it is in compliance with IFRS 9; • Understanding and assessing management process, control design and operations over classification of financial assets under IFRS 9; and • Selecting samples of financial assets and analysing if classification was performed in accordance with client's methodology.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") for loans and advances to customers, finance lease receivables, debt instruments at amortised cost and debt instruments at fair value through other comprehensive income ("FVTOCI")	
We identified ECL for loans and advances to customers, finance lease receivables, debt instruments at amortised cost and debt instruments at FVTOCI as a key audit matter because of its significance on the consolidated financial statements of the Group. The impairment of financial assets under IFRS 9 was measured by the application of ECL. The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9, mainly including loans and advances to customers (note V.24), finance lease receivables (note V.25), debt instruments at fair value through other comprehensive income "FVTOCI" (note V.26) and debt instruments at amortised cost (note V.32). These financial assets are together accounted for approximately 61% of the total assets of the Group and subject to credit risk. The use of ECL model involves significant estimates and judgements, including determination of whether there is significant increase in credit risk since initial recognition, use of models and assumptions in determination of probability of default and loss given default, incorporation of forward-looking information.	Our procedures in relation to ECL for loans and advances to customers, finance lease receivables, debt instruments at fair value through other comprehensive income and debt instruments at amortised cost and debt instruments at FVTOCI included: • Evaluating methodology, models and assumptions used by management in determining ECL; • Understanding and assessing management process, control design and operations over ECL; • Examining, on a sample basis, the completeness and accuracy of the data that has been used to arrive at ECL; and • For allowances for impairment made for credit-impaired financial assets, on a sample basis, assessing the management bias on the estimates in the amount and timing future of cash flows made by the management including the operating performances of the borrowers and realisation of collateral.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments measured at Level 3 fair value	
We identified valuation of financial instruments measured at Level 3 fair value as a key audit matter because the carrying balances of these financial assets are material to the Group and the determination of Level 3 fair value involves significant judgements and estimation. The Group's financial instruments measured at Level 3 fair value with unobservable inputs mainly included financial assets at fair value through profit or loss ("FVTPL", note V. 22), debt instruments at FVTOCI (note V.26), equity instruments at FVTOCI (note V.27). In aggregate, carrying balances of these financial assets accounted for approximately 27% of the total assets of the Group. Valuations of these financial instruments involves significant management judgement and estimation.	Our procedures in relation to valuation of financial instruments measured at Level 3 fair value included: • Understanding and assessing management process, control design and operations over financial instrument valuation process; • Examining, on a sample basis, on whether the valuation methods have been consistently applied and assessing the management bias on the assumptions used; • Recalculating fair value estimates and comparing the results to the Group's valuations and investigated significant differences, if any; and • For financial instruments with significant unobservable inputs in valuations, involving our own internal valuation experts to review and assess the valuation assumptions used, including considering alternative valuation methodologies used by other market participants, and the appropriateness of the data inputs used.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
The structure of certain fund investments and loan arrangements, and their valuation and related recoverability	
We identified the above matter which is described in note V.71 to the consolidated financial statements as a key audit matter due to its potential impact on the consolidated financial statements.	In relation to this matter, we obtained audit evidence to support our conclusions including by reviewing the procedures and the results of the internal investigation, assessing the Company's protective measures and evaluating the Company's assessment of the impact of this matter on the consolidated financial statements.
Consolidation of structured entities We identified the consolidation of structured entities as key audit matter due to the significance of these structured entities to the Group and the judgment involved. Details of interests in structured entities are disclosed in note V.34 to the consolidated financial statements. The management of the Group has to assess whether the Group is exposed to significant variable returns and has power to affect its returns from these structured entities. This assessment determines whether the Group has controls over these structured entities and, accordingly, whether to consolidate these structured entities. The Group acts as a manager or investor of these structured entities, it exercises significant judgement when determining it has controls over these structured entities and its assessment is based on decision-making authorities as a manager or investor, power held by other parties, remuneration as mangers, exposures to variable returns and risks.	Our procedures in relation to consolidation of structured entities included: • Understanding and assessing management process, control design and operations over consolidation of structured entities; • Reviewing, on a sample basis, the terms of the relevant contracts and considering the facts and arrangements to determine if the Group has control over these structured entities; and • Assessing the adequacy of the disclosures in the consolidated financial statements.

Independent Auditor's Report

Other Information

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2018	2017
Income from distressed debt assets classified as receivables		—	30,753,417
Fair value changes on financial assets and liabilities	2	8,271,499	12,770,754
Interest income	3	79,258,809	14,833,827
Finance lease income		6,784,372	6,181,136
Investment income, gains and losses	4	—	44,179,688
Gain from derecognition of financial assets at amortised cost	32	76,863	—
Loss from derecognition of debt instruments at fair value through other comprehensive income		(79,249)	—
Commission and fee income	5	4,693,308	13,039,077
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		228,033	917,609
Dividend income	6	2,392,206	—
Other income and other net gains or losses	7	5,627,306	5,395,042
Total		107,253,147	128,070,550
Interest expenses	8	(64,098,128)	(50,691,073)
Commission and fee expenses	9	(2,079,896)	(1,296,167)
Operating expenses	10	(14,549,995)	(15,140,925)
Impairment losses on financial assets	11	(17,297,797)	(16,550,501)
Impairment losses on other assets	12	(2,769,014)	(913,142)
Total		(100,794,830)	(84,591,808)
Change in net assets attributable to other holders of consolidated structured entities	34	(1,928,194)	(7,823,672)
Share of results of associates and joint ventures		1,481,742	946,624
Profit before tax		6,011,865	36,601,694
Income tax expense	13	(4,502,860)	(10,013,982)
Profit for the year		1,509,005	26,587,712
Profit attributable to:			
Equity holders of the Company		1,575,501	21,992,590
Holders of perpetual capital instruments		976,844	1,140,525
Non-controlling interests		(1,043,340)	3,454,597
		1,509,005	26,587,712
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)			
— Basic	14	0.04	0.56

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

		Year ended 31 December,	
	Note V	2018	2017
Profit for the year		**1,509,005**	26,587,712
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial losses on defined benefit obligations		**(2,317)**	(10,621)
Fair value losses on investments in equity instruments at fair value through other comprehensive income		**(589,480)**	—
Income tax effect	38	**143,991**	—
		(447,806)	(10,621)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**564,057**	(895,282)
Fair value changes on:			
— available-for-sale financial assets		**—**	(4,396,944)
— hedging instruments designated in cash flow hedges	22, 56	**(35,861)**	280,665
Debt instruments at fair value through other comprehensive income			
— fair value changes		**218,868**	—
— reclassification of losses to profit or loss on disposals		**79,249**	—
— impairment reversals		**(105,815)**	—
Income tax effect	38	**(213,074)**	808,414
Share of other comprehensive expense of associates and joint ventures		**(56,605)**	(8,111)
		450,819	(4,211,258)
Other comprehensive income/(expense) for the year, net of income tax		**3,013**	(4,221,879)
Total comprehensive income for the year		**1,512,018**	22,365,833
Total comprehensive income attributable to:			
Equity holders of the Company		**1,947,217**	18,121,224
Holders of perpetual capital instruments		**976,844**	1,140,525
Non-controlling interests		**(1,412,043)**	3,104,084
		1,512,018	22,365,833

Consolidated Statement of Financial Position

As at 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	As at 31 December, 2018	2017
Assets			
Cash and balances with central bank	18	**29,909,098**	33,207,112
Deposits with financial institutions	19	**107,500,242**	162,881,077
Placements with financial institutions	20	**843,638**	9,822,736
Financial assets held for trading	21	**—**	67,257,709
Financial assets at fair value through profit or loss	22	**391,180,975**	—
Financial assets designated as at fair value through profit or loss	22	**—**	230,045,342
Financial assets held under resale agreements	23	**20,126,943**	41,238,105
Loans and advances to customers	24	**190,654,038**	158,221,948
Finance lease receivables	25	**99,002,940**	95,703,929
Debt instruments at fair value through other comprehensive income	26	**147,387,307**	—
Equity instruments at fair value through other comprehensive income	27	**3,244,308**	—
Inventories	28	**19,243,035**	16,640,824
Available-for-sale financial assets	29	**—**	195,520,697
Held-to-maturity investments	30	**—**	64,451,200
Financial assets classified as receivables	31	**—**	701,192,438
Debt instruments at amortised cost	32	**612,133,108**	—
Interests in associates and joint ventures	33	**36,975,454**	42,097,082
Investment properties	36	**5,326,055**	2,135,383
Property and equipment	37	**10,684,499**	8,645,191
Deferred tax assets	38	**15,018,661**	13,400,222
Contract assets	39	**114,715**	—
Other assets	40	**20,478,316**	27,457,236
Goodwill	41	**263,357**	342,051
Total assets		**1,710,086,689**	1,870,260,282

Consolidated Statement of Financial Position

As at 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	As at 31 December, 2018	2017
Liabilities			
Borrowings from central bank	42	**2,402,169**	4,647,000
Deposits from financial institutions	43	**7,307,583**	10,158,354
Placements from financial institutions	44	**300,153**	2,101,560
Financial assets sold under repurchase agreements	45	**24,410,016**	60,316,970
Borrowings	46	**760,995,510**	773,057,262
Financial liabilities designated as at fair value through profit or loss	22	**4,728,291**	2,547,383
Due to customers	47	**209,116,484**	202,349,949
Tax payable	48	**3,731,887**	6,025,835
Deferred tax liabilities	38	**605,835**	1,380,333
Bonds and notes issued	49	**353,305,299**	331,962,869
Contract liabilities	50	**954,376**	—
Other liabilities	51	**173,624,117**	293,077,905
Total liabilities		**1,541,481,720**	1,687,625,420
Equity			
Share capital	52	**39,070,208**	39,070,208
Capital reserve	53	**19,107,353**	19,015,028
Surplus reserve	54	**6,971,780**	5,299,688
General reserve	55	**15,872,819**	12,882,925
Other reserves	56	**987,763**	(799,550)
Retained earnings		**38,630,165**	52,706,296
Equity attributable to equity holders of the Company		**120,640,088**	128,174,595
Perpetual capital instruments	57	**20,258,532**	23,185,421
Non-controlling interests		**27,706,349**	31,274,846
Total equity		**168,604,969**	182,634,862
Total equity and liabilities		**1,710,086,689**	1,870,260,282

The consolidated financial statements on page 171 to 388 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

CHAIRMAN	EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

		Equity attributable to equity holders of the Company										Non-controlling interests		
						Other Reserves								
	Note V	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings	Subtotal	Perpetual capital instruments	Other non-controlling interests	Total
As at 31 December 2017		39,070,208	19,015,028	5,299,688	12,882,925	(164,741)	(848,366)	234,355	(20,798)	52,706,296	128,174,595	23,185,421	31,274,846	182,634,862
Adjustment on initial application of IFRS 9 (note II.3)		–	–	–	–	1,415,597	–	–	–	(4,390,692)	(2,975,095)	–	(327,608)	(3,302,703)
As at 1 January 2018 (Restated)		39,070,208	19,015,028	5,299,688	12,882,925	1,250,856	(848,366)	234,355	(20,798)	48,315,604	125,199,500	23,185,421	30,947,238	179,332,159
Profit for the year		–	–	–	–	–	–	–	–	1,575,501	1,575,501	976,844	(1,043,340)	1,509,005
Other comprehensive (expense) / income for the year		–	–	–	–	(82,757)	539,776	(26,381)	(58,922)	–	371,716	–	(368,703)	3,013
Total comprehensive (expense)/ income for the year		–	–	–	–	(82,757)	539,776	(26,381)	(58,922)	1,575,501	1,947,217	976,844	(1,412,043)	1,512,018
Dividends declared		–	–	–	–	–	–	–	–	(6,598,954)	(6,598,954)	–	(1,337,444)	(7,936,398)
Appropriation to surplus reserve	54	–	–	1,672,092	–	–	–	–	–	(1,672,092)	–	–	–	–
Appropriation to general reserve	55	–	–	–	2,989,894	–	–	–	–	(2,989,894)	–	–	–	–
Issuance of perpetual capital instruments	57	–	–	–	–	–	–	–	–	–	–	200,000	–	200,000
Buy back of perpetual capital instruments	57	–	–	–	–	–	–	–	–	–	–	(3,150,000)	–	(3,150,000)
Distribution relating to perpetual capital instruments	57	–	–	–	–	–	–	–	–	–	–	(953,733)	–	(953,733)
Disposals of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(14,956)	(14,956)
Effect of acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	82,692	82,692
Change in ownership interest in subsidiaries		–	96,009	–	–	–	–	–	–	–	96,009	–	(556,693)	(460,684)
Others		–	(3,684)	–	–	–	–	–	–	–	(3,684)	–	(2,445)	(6,129)
As at 31 December 2018		39,070,208	19,107,353	6,971,780	15,872,819	1,168,099	(308,590)	207,974	(79,720)	38,630,165	120,640,088	20,258,532	27,706,349	168,604,969
As at 1 January 2017		39,070,208	18,320,682	3,615,201	10,304,363	3,882,983	(114,844)	–	(696,323)	40,860,728	115,242,998	15,030,256	19,807,746	150,081,000
Profit for the year		–	–	–	–	–	–	–	–	21,992,590	21,992,590	1,140,525	3,454,597	26,587,712
Other comprehensive (expense) / income for the year		–	–	–	–	(4,047,724)	(733,522)	234,355	675,525	–	(3,871,366)	–	(350,513)	(4,221,879)
Total comprehensive (expense)/ income for the year		–	–	–	–	(4,047,724)	(733,522)	234,355	675,525	21,992,590	18,121,224	1,140,525	3,104,084	22,365,833
Dividends declared		–	–	–	–	–	–	–	–	(5,883,973)	(5,883,973)		(946,477)	(6,830,450)
Appropriation to surplus reserve	54	–	–	1,684,487	–	–	–	–	–	(1,684,487)	–	–	–	–
Appropriation to general reserve	55	–	–	–	2,578,562	–	–	–	–	(2,578,562)	–	–	–	–
Issuance of perpetual capital instruments	57	–	–	–	–	–	–	–	–	–	–	19,246,542	–	19,246,542
Buy back of perpetual capital instruments	57	–	–	–	–	–	–	–	–	–	–	(11,307,658)	–	(11,307,658)
Distribution relating to perpetual capital instruments	57	–	–	–	–	–	–	–	–	–	–	(924,244)	–	(924,244)
Capital contribution from non-controlling interests	69	–	567,789	–	–	–	–	–	–	–	567,789	–	8,950,334	9,518,123
Disposals of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(21,168)	(21,168)
Effect of acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	424,202	424,202
Change in ownership interest in subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(12,172)	(12,172)
Others		–	126,557	–	–	–	–	–	–	–	126,557	–	(31,703)	94,854
As at 31 December 2017		39,070,208	19,015,028	5,299,688	12,882,925	(164,741)	(848,366)	234,355	(20,798)	52,706,296	128,174,595	23,185,421	31,274,846	182,634,862

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2018	2017
OPERATING ACTIVITIES			
Profit before tax		**6,011,865**	36,601,694
Adjustments for:			
Impairment losses on financial assets		**17,297,797**	16,550,501
Impairment losses on other assets		**2,769,014**	913,142
Depreciation of property and equipment and investment properties		**979,051**	590,180
Amortisation of intangible assets and other assets		**406,518**	291,741
Share of results of associates and joint ventures		**(1,481,742)**	(946,624)
Fair value changes on financial assets and liabilities		**5,951,957**	(424,217)
Interest income arising from impaired financial assets		**—**	(414,311)
Interest income arising from investment hold not for trading		**(28,791,800)**	—
Dividend income		**(867,582)**	—
Gain from derecognition of financial assets measured at amortised cost		**(21,775)**	—
Loss from derecognition of debt instruments at fair value through other comprehensive income		**79,249**	—
Investment income		**—**	(35,985,775)
Interest expenses of bonds and notes issued and other borrowings	65	**29,349,216**	28,917,756
Change in net assets attributable to other holders of consolidated structured entities		**1,928,194**	7,823,672
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**(228,033)**	(917,609)
Net (gains)/losses on disposal of property and equipment		**(86,146)**	12,999
Net foreign exchange losses		**109,360**	235,863
Net reversal/(provided) of contingent liabilities		**89,082**	(521)
Operating cash flows before movements in working capital		**33,494,225**	53,248,491
Net increase in loans and advances to customers		**(41,257,084)**	(42,117,899)
Net increase in finance lease receivables		**(4,011,093)**	(10,986,738)
Net decrease in balances with central bank and deposits with financial institutions		**7,841,719**	2,531,923
Net decrease/(increase) in financial assets at fair value through profit or loss		**7,949,334**	(88,546,708)
Net decrease/(increase) in placements with financial institutions		**521,904**	(522,736)
Net decrease in financial assets held under resale agreements		**14,481,080**	605,151
Net increase in financial assets classified as receivables		**—**	(79,888,221)
Net increase in debt instruments at amortised cost		**(21,603,823)**	—

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2018	2017
Net decrease in available-for-sale financial assets		—	3,209,335
Net increase in debt instruments at fair value through other comprehensive income		**(1,601,920)**	—
Net increase in due to customers		**6,766,535**	29,944,081
Net (decrease)/increase in borrowings from central bank		**(2,244,831)**	2,660,000
Net (decrease)/increase in placements and deposits from financial institutions		**(4,652,178)**	1,018,873
Net (decrease)/increase in financial assets sold under repurchase agreements		**(35,906,954)**	691,375
Net increase in borrowings of financial institution subsidiaries		**61,147,564**	164,807,294
Other changes in operating receivables		**4,347,578**	(3,779,625)
Other changes in operating payables		**(45,644,020)**	6,137,879
Cash (used in)/from operations		**(20,371,964)**	39,012,475
Income tax paid		**(8,803,312)**	(11,276,247)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		**(29,175,276)**	27,736,228
INVESTING ACTIVITIES			
Cash receipts from disposals of financial assets		**218,063,569**	402,980,372
Cash receipts from interest income arising from investment hold not for trading		**36,049,815**	36,472,794
Cash receipts from dividend income		**2,490,474**	1,869,760
Cash receipts from disposals/liquidation of associates and joint ventures		**8,499,279**	4,812,559
Cash receipts from disposals of property and equipment, and other assets		**245,492**	130,887
Cash payments for purchases of financial assets		**(125,805,308)**	(571,825,244)
Cash payments for investment in associates and joint ventures		**(5,546,350)**	(34,662,944)
Cash (payments for)/receipts from pledge deposits in bank		**(2,455,694)**	3,331,341
Cash payments for purchases of property and equipment, investment properties and other assets		**(3,692,079)**	(3,260,664)
Net cash outflow on acquisitions of subsidiaries		**(105,059)**	—
Net cash inflow on acquisitions of subsidiaries		—	1,119,946
Net cash inflow on disposals of subsidiaries		**778,341**	899,965
NET CASH USED IN INVESTING ACTIVITIES		**128,522,480**	(158,131,228)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended 31 December, 2018	2017
FINANCING ACTIVITIES			
Contribution from non-controlling interests of subsidiaries		—	9,518,123
Cash payments for consolidated structured entities	65	(57,964,700)	(11,987,311)
Cash payments for acquisition of additional interests in subsidiaries		(101,120)	(12,172)
Issue of perpetual capital instruments		200,000	19,246,542
Buy back of perpetual capital instruments		(3,150,000)	(8,300,000)
Proceeds of borrowings of non-financial institution subsidiaries	65	152,900,022	252,708,202
Repayments of borrowings of non-financial institution subsidiaries	65	(238,461,360)	(159,755,281)
Cash receipts from bonds and notes issued	65	149,987,279	183,033,045
Cash payments for transaction cost of bonds and notes issued	65	(103,096)	(278,880)
Cash repayments for bonds and notes redeemed	65	(139,915,365)	(92,794,634)
Interest paid for bonds and notes issued and other borrowings	65	(25,759,812)	(22,486,578)
Dividends paid	65	(3,749,759)	(6,761,781)
Cash payments for distribution to holders of perpetual capital instruments		(953,733)	(924,244)
NET CASH FROM FINANCING ACTIVITIES		(167,071,644)	161,205,031
NET INCREASE IN CASH AND CASH EQUIVALENTS		(67,724,440)	30,810,031
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		169,120,081	138,854,990
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(76,318)	(544,940)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	58	101,319,323	169,120,081
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		84,222,931	50,303,353
Interest paid		(32,405,843)	(27,750,491)
		51,817,088	22,552,862

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

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

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

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date 1 January 2019.

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

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

1. IFRS 9 *Financial Instruments* and the related amendments

In the current year, the Group has applied IFRS 9 *Financial Instruments,* amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement.*

In addition, the Group applied the hedge accounting prospectively.

Accounting policies resulting from application of IFRS 9 are disclosed in note III.

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

1. IFRS 9 *Financial Instruments* and the related amendments *(continued)*

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 at the date of initial application, 1 January 2018.

	Notes	Deposits with financial institutions	Placements with financial institutions	Available for-sale	Financial assets classified as receivables	Held-to-maturity	Financial assets held for trading	Financial assets designated at FVTPL	Financial assets at FVTPL required by IFRS 9	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Debt instruments at amortised cost	Loans and advances to customers	Finance lease receivables	Deferred tax assets / liabilities	Interests in associates and joint ventures	Other assets	Other liabilities	Other reserves	Retained earnings	Non-controlling interests
Closing balance at 31 December 2017 — IAS 39		162,881,077	9,822,736	195,520,697	701,192,438	64,451,200	67,257,709	230,045,342	—	—	—	—	158,221,948	95,703,929	12,019,889	42,097,082	27,457,236	293,077,905	(799,550)	52,706,296	31,274,846
Effect arising from initial application of IFRS 9																					
Reclassification																					
From available-for-sale	i	—	—	(195,520,697)	—	—	—	—	132,834,196	1,755,458	42,579,943	18,351,100	—	—	—	—	—	—	37,731	(37,731)	—
From held-to-maturity	ii	—	—	—	—	(64,451,200)	—	—	499,421	—	—	63,951,779	—	—	—	—	—	—	—	—	—
From financial assets held for trading	iii	—	—	—	—	—	(67,257,709)	—	67,246,706	—	—	11,003	—	—	—	—	—	—	—	—	—
From designated at FVTPL	iii	—	—	—	—	—	—	(230,045,342)	230,045,342	—	—	—	—	—	—	—	—	—	—	—	—
From loans and advances to customers	iv	—	—	—	—	—	—	—	—	—	5,689,485	—	(5,689,485)	—	—	—	—	—	—	—	—
From financial assets classified as receivables	v	—	—	—	(701,192,438)	—	—	—	30,337,262	—	108,138,541	562,716,635	—	—	—	—	—	—	—	—	—
Remeasurement																					
From cost less impairment to fair value	i	—	—	—	—	—	—	—	(117,006)	(99,501)	—	—	—	—	54,127	—	—	—	(74,625)	(87,755)	—
From amortised cost to fair value	ii, iv, v	—	—	—	—	—	—	—	656,682	—	1,345,474	—	—	—	(614,568)	92,316	—	127,158	713,184	844,178	(204,616)
Impairment under ECL model	vi	(293)	(354)	—	—	—	—	—	—	—	—	(5,067,372)	(14,404)	(471,831)	1,015,957	—	(54,657)	(251,853)	843,890	(5,123,850)	(61,141)
From fair value to amortised cost		—	—	—	—	—	—	—	—	—	—	(181,983)	—	—	—	30,015	—	—	(104,583)	14,466	(61,851)
Opening balance at 1 January 2018		162,880,784	9,822,382	—	—	—	—	—	461,502,603	1,655,957	157,753,443	639,781,162	152,518,059	95,232,098	12,475,405	42,219,413	27,402,579	292,953,210	616,047	48,315,604	30,947,238

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

1. IFRS 9 *Financial Instruments* and the related amendments *(continued)*

Summary of effects arising from initial application of IFRS 9 *(continued)*

(i) Available-for-sale ("AFS") investments

From AFS investments to fair value through other comprehensive income

The Group elected to present in OCI for the fair value changes of certain equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, equity investment of RMB1,755 million were reclassified from available-for-sale investments to equity instruments at FVTOCI. Related fair value changes of RMB100 million were adjusted to equity instruments at FVTOCI and investment revaluation reserve as at 1 January 2018. In addition, impairment losses previously recognised were transferred from retained earnings to investment revaluation reserve as at 1 January 2018.

Debt instruments with a fair value of RMB42,580 million were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding ("SPPI"). Related fair value changes continued to accumulate in the investment revaluation reserve as at 1 January 2018.

From AFS investments to fair value through profit or loss

At the date of initial application of IFRS 9, the Group's equity investments were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value changes were transferred from investment revaluation reserve to retained earnings. Certain part of equity instruments were previously measured at cost less any identified impairment losses prior to application of IFRS 9. The fair value of such equity instruments were remeasured by the Group. Related fair value changes of RMB117 million were adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018.

Certain part of debt instruments were reclassified from available-for-sale investments to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Related fair value changes were transferred from the investment revaluation reserve to retained earnings as at 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

1. IFRS 9 *Financial Instruments* and the related amendments *(continued)*

Summary of effects arising from initial application of IFRS 9 *(continued)*

(i) Available-for-sale ("AFS") investments *(continued)*

From AFS investments to fair value through profit or loss (continued)

At the date of initial application of IFRS 9, the aggregate amount of equity and debt instruments of RMB132,834 million were reclassified from available-for-sale investments to financial assets at FVTPL.

From AFS debt investments to amortised cost

At the date of initial application of IFRS 9, debt investments of RMB18,351 million were reclassified from AFS to debt instruments at amortised cost since the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows are solely payments of principal and interest on the principal amount outstanding. Related fair value changes of RMB182 million were adjusted to financial assets at amortised cost and retained earnings as at 1 January 2018.

(ii) Held-to-maturity investments/financial assets held for trading

Bonds of RMB63,952 million previously classified as held-to-maturity investments are reclassified to debt instruments at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Certain bonds of RMB499 million were reclassified from held-to-maturity investments to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Related fair value changes were adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018.

(iii) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group classified financial assets held for trading of RMB67,247 million and financial assets designated at FVTPL of RMB230,045 million to financial assets at FVTPL under IFRS 9, as the portfolios of these financial assets are managed their performance is evaluated on a fair value basis, or the cash flows of these financial assets do not represent solely payment of principal and interest on the principal amount outstanding.

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

1. IFRS 9 *Financial Instruments* and the related amendments *(continued)*

Summary of effects arising from initial application of IFRS 9 *(continued)*

(iv) Loans and advances to customers

Certain loans and advances to customers were considered to be held within a business model of both to collect contractual cash flows and to be sold. Accordingly, loans and advances to customers of RMB5,689 million were measured at FVTOCI upon the application of IFRS 9. Related fair value changes were adjusted to loans and advance to customers at FVTOCI and investment revaluation reserve as at 1 January 2018.

(v) Financial assets classified as receivables

Financial assets previously classified as receivables of RMB562,717 million are reclassified and measured at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at 1 January 2018.

Certain financial assets previously classified as receivables were considered as within the hold to collect contractual cash flows and to sell business model. Accordingly, financial assets classified as receivables of RMB108,139 million were measured at FVTOCI upon the application of IFRS 9. The related fair value changes were adjusted to financial assets at FVTOCI and investment revaluation reserve as at 1 January 2018.

Debt instruments of RMB30,337 million were reclassified from receivables to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, but the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. The related fair value changes were adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

1. IFRS 9 *Financial Instruments* and the related amendments *(continued)*

Summary of effects arising from initial application of IFRS 9 *(continued)*

(vi) Impairment under ECL model

For loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and financial assets at amortised cost, 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 is transferred to stage 2 when its credit risk has increased significantly since initial recognition, and it is transferred 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. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on aging analysis.

As at 1 January 2018, additional credit loss allowance of RMB5,124 million, net of deferred tax, for financial assets at amortised cost, debt instruments at FVTOCI, loans and advances to customers and finance lease receivables, has been recognised against retained earnings. The additional loss allowance is charged against the respective asset or provision for financial guarantee contracts, except for the debt instruments which is measured at fair value through other comprehensive income, the loss allowance for which is recognised against the investment revaluation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

1. IFRS 9 *Financial Instruments* and the related amendments *(continued)*

Summary of effects arising from initial application of IFRS 9 *(continued)*

(vi) Impairment under ECL model *(continued)*

All loss allowances for financial assets including deposits with financial institution, placements with financial institutions, debt instruments at amortised cost, loans and advances to customers, finance lease receivables and debt instruments at FVTOCI as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Deposits with financial institutions	Placements with financial institutions	Debt instruments at amortised cost	Loans and advances to customers	Finance lease receivables	Debt instruments at FVTOCI	Other asset
At 31 December 2017 — IAS 39	—	—	—	3,789,251	2,023,481	—	1,296,439
Reclassification	—	—	33,263,502	(1,412)	—	2,459,346	—
Amounts remeasured through opening retained earnings	293	354	5,067,372	14,404	471,831	—	54,657
Investment revaluation reserve	—	—	—	—	—	843,890	—
At 1 January 2018	**293**	**354**	**38,330,874**	**3,802,243**	**2,495,312**	**3,303,236**	**1,351,096**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

2. IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue,* IAS 11 *Construction Contracts* and the related interpretations, but its application has had no material impact on the timing and amounts of revenue recognised in the reporting periods.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Asset management services fee income
- Securities and futures commission fee income
- Revenue from banking and consumer finance
- Revenue from properties development

Contract assets and liabilities are separately presented after initial application of IFRS 15. Contract assets were reclassified from other assets and contract liabilities were reclassified from other liabilities. As at 1 January 2018, the carrying amount of contract assets and liabilities amounted to RMB75 million and RMB2,534 million, respectively. As at 31 December 2018, under IAS 11 and IAS 18, contract assets of RMB115 million would be recorded in other assets and contract liabilities of RMB954 million would be recorded in other liabilities.

Information about the Group's the accounting policies and performance obligations resulting from application of IFRS 15 are disclosed in notes III, V.5 and V.7, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

3. Impacts on opening consolidated statement of financial position and consolidated statement of profit or loss arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position and consolidated statement of profit or loss for the year ended 31 December 2017 had to be restated. The following table show the adjustments recognised for each of the line items affected.

Consolidated statement of profit or loss

	Year ended 31 December 2017	
	(Audited)	(Restated)
Fair value changes on distressed debt assets	4,661,251	—
Fair value changes on other financial assets and liabilities	8,109,503	—
Fair value changes on financial assets and liabilities	—	12,770,754
Interest income	21,014,963	14,833,827
Finance lease income	—	6,181,136
Total	33,785,717	33,785,717
Impairment losses on assets	(17,463,643)	—
Impairment losses on financial assets	—	(16,550,501)
Impairment losses on other assets	—	(913,142)
Total	(17,463,643)	(17,463,643)

These restatements were made to align with the presentation of certain line items of consolidated statement of profit or loss for the current year.

However, other than these restatements, the current year presentation of consolidated statement of profit or loss was prepared according to revised IAS 1 in responses to initial adoption of IFRS 9. Therefore, certain items of the prior year consolidated statement of profit or loss may not be comparable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

3. Impacts on opening consolidated statement of financial position and consolidated statement of profit or loss arising from the application of all new standards, amendments and interpretation *(continued)*

Consolidated statement of financial position

	31 December, 2017 (Audited)	IFRS9	IFRS15	1 January, 2018 (Restated)
Assets				
Cash and balances with central bank	33,207,112	—	—	33,207,112
Deposits with financial institutions	162,881,077	(293)	—	162,880,784
Placements with financial institutions	9,822,736	(354)	—	9,822,382
Financial assets held for trading	67,257,709	(67,257,709)	—	—
Financial assets at fair value through profit or loss	—	461,502,603	—	461,502,603
Financial assets designated as at fair value through profit or loss	230,045,342	(230,045,342)	—	—
Financial assets held under resale agreements	41,238,105	—	—	41,238,105
Loans and advances to customers	158,221,948	(5,703,889)	—	152,518,059
Finance lease receivables	95,703,929	(471,831)	—	95,232,098
Debt instruments at fair value through other comprehensive income	—	157,753,443	—	157,753,443
Equity instruments at fair value through other comprehensive income	—	1,655,957	—	1,655,957
Inventories	16,640,824	—	—	16,640,824
Available-for-sale financial assets	195,520,697	(195,520,697)	—	—
Held-to-maturity investments	64,451,200	(64,451,200)	—	—
Financial assets classified as receivables	701,192,438	(701,192,438)	—	—
Debt instruments at amortised cost	—	639,781,162	—	639,781,162
Interests in associates and joint ventures	42,097,082	122,331	—	42,219,413
Investment properties	2,135,383	—	—	2,135,383
Property and equipment	8,645,191	—	—	8,645,191
Deferred tax assets	13,400,222	454,720	—	13,854,942
Contract assets	—	—	75,144	75,144
Other assets	27,457,236	(54,657)	(75,144)	27,327,435
Goodwill	342,051	—	—	342,051
Total assets	1,870,260,282	(3,428,194)	—	1,866,832,088

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

3. Impacts on opening consolidated statement of financial position and consolidated statement of profit or loss arising from the application of all new standards, amendments and interpretation *(continued)*

Consolidated statement of financial position *(continued)*

	31 December, 2017 (Audited)	IFRS9	IFRS15	1 January, 2018 (Restated)
Liabilities				
Borrowings from central bank	4,647,000	—	—	4,647,000
Deposits from financial institutions	10,158,354	—	—	10,158,354
Placements from financial institutions	2,101,560	—	—	2,101,560
Financial assets sold under repurchase agreements	60,316,970	—	—	60,316,970
Borrowings	773,057,262	—	—	773,057,262
Financial liabilities at fair value through profit or loss	2,547,383	—	—	2,547,383
Due to customers	202,349,949	—	—	202,349,949
Tax payable	6,025,835	—	—	6,025,835
Deferred tax liabilities	1,380,333	(796)	—	1,379,537
Bonds and notes issued	331,962,869	—	—	331,962,869
Contract liabilities	—	—	2,533,675	2,533,675
Other liabilities	293,077,905	(124,695)	(2,533,675)	290,419,535
Total liabilities	1,687,625,420	(125,491)	—	1,687,499,929
Equity				
Share capital	39,070,208	—	—	39,070,208
Capital reserve	19,015,028	—	—	19,015,028
Surplus reserve	5,299,688	—	—	5,299,688
General reserve	12,882,925	—	—	12,882,925
Other reserves	(799,550)	1,415,597	—	616,047
Retained earnings	52,706,296	(4,390,692)	—	48,315,604
Equity attributable to equity holders of the Company	128,174,595	(2,975,095)	—	125,199,500
Perpetual capital instruments	23,185,421	—	—	23,185,421
Non-controlling interests	31,274,846	(327,608)	—	30,947,238
Total equity	182,634,862	(3,302,703)	—	179,332,159

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised IFRSs is issued but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs Standards 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

II. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

IFRS 16 Leases *(continued)*

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB2,142 million as disclosed in note V.60.(1). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposit paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Upon application of IFRS 16, the Group will apply the requirements of IFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of IFRS 9. In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The Group intends to select the modified retrospective approach for the application of IFRS 16 as lessees and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information. Certain practical expedients permitted by this modified retrospective approach will also be applied on a lease-by-lease basis.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elects the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group does not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elects the modified retrospective approach for the application of IFRS 16 as lessee and recognises the cumulative effect of initial application to opening retained earnings without restating comparative information.

III. SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

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

2. Basis of preparation

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3. Basis of consolidation

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3. Basis of consolidation *(continued)*

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

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

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

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

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/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4. Business combinations

Acquisitions of businesses 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.

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/IAS 39 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

6. Interests in associates and joint ventures *(continued)*

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 and IFRS 15 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. 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

6. Interests in associates and joint ventures *(continued)*

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/IAS 39, 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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).

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.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

9.1 Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note II)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.1 Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note II) *(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 collecting contractual cash flows and selling; 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 application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.1 Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note II) *(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 FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

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

(ii) Debt instruments/receivables classified as at FVTOCI

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.1 Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note II) *(continued)*

(iii) Equity instruments designated as at FVTOCI

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

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

(iv) Financial assets at FVTPL

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

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

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II)

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

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II) *(continued)*

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

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

(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;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II) *(continued)*

(i) Significant increase in credit risk *(continued)*

- 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.

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 the financial instrument for 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II) *(continued)*

(i) Significant increase in credit risk *(continued)*

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;

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II) *(continued)*

(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 lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

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

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

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II) *(continued)*

(v) Measurement and recognition of ECL *(continued)*

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note II) *(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 FVTOCI, loan commitments and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments/receivables.

(vi) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve (see note V.26);
- 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.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.3 Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling 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 other than a financial asset held for trading 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 asset 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 IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.3 Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) *(continued)*

(i) Financial assets at FVTPL *(continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "fair value changes on financial assets" line item. Fair value is determined in the manner described in note IV.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that are quoted in an active market and that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including balances with central bank, deposits with financial institutions, placements with financial institutions, financial assets held under resale agreements, financial assets classified as receivables, loans and advances to customers, finance lease receivables and other receivables) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Debt instruments with fixed or determinable payments but have no quoted price in an active market are accounted for as financial assets classified as receivables.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.3 Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) *(continued)*

(iv) Avaliable-for-sale financial assets

Avaliable-for-sale ("AFS") financial assets are non-derivatives that are either designated or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated in equity.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

9.4 Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Objective evidence that other financial asset is impaired includes the following observable events:

(1) significant financial difficulty of the issuer or obligor;

(2) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.4 Impairment of financial assets (before application of IFRS 9 on 1 January 2018) *(continued)*

(3) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(4) it becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) the disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

— adverse changes in the payment status of borrowers in the portfolio; or

— national or local economic conditions that correlate with defaults on the assets in the portfolio;

(7) significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) other objective evidence indicating there is an impairment of a financial asset.

Impairment of financial assets measured at amortised cost

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.4 Impairment of financial assets (before application of IFRS 9 on 1 January 2018) *(continued)*

Impairment of financial assets measured at amortised cost *(continued)*

The calculation of present value of the estimated future cash flows of a collateralised financial asset includes the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The carrying amount of a financial asset is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognised in the profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and accumulated in equity and there is objective evidence that asset is impaired, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment loss on available-for-sale equity investment at fair value is not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in equity. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. Such impairment loss on such financial asset is not reversed once it is recognised.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.5 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, 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.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

9.6 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.6 Financial liabilities and equity instruments *(continued)*

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.

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 classified as 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.6 Financial liabilities and equity instruments *(continued)*

Financial liabilities at FVTPL *(continued)*

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/IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Upon application of IFRS 9, 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 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.

Prior to application of IFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.6 Financial liabilities and equity instruments *(continued)*

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 (since 1 January 2018)/IAS 37 provisions, contingent liabilities and contingent assets (before application of IFRS 9 on 1 January 2018); and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

9.7 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.7 Derivative financial instruments *(continued)*

Embedded derivatives (under IFRS 9 since 1 January 2018)

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.

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.

Embedded derivatives (before application of IFRS 9 since 1 January 2018)

Derivatives embedded in non-derivative host contracts 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 contract and the host contracts are not measured at FVTPL.

9.8 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when both of the following conditions are satisfied: (i) the Group currently has a legal enforceable right to set off the recognised amounts; and (ii) the Group 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

10. Hedge accounting *(continued)*

Assessment of hedging relationship and effectiveness (under IFRS 9 since 1 January 2018)

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.

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.

Assessment of hedging relationship and effectiveness (before application of IFRS 9 on 1 January 2018)

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

10. Hedge accounting *(continued)*

Discontinuation of hedge accounting (under IFRS 9 since 1 January 2018)

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.

Discontinuation of hedge accounting (before application of IFRS 9 on 1 January 2018)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. 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 transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

11. Inventories

Properties under development and properties held for sale

Properties under development and properties held for sale are stated at the lower of cost and net realisable value on an individual basis. Cost comprises the acquisition cost and other costs directly attributable to such properties as well as borrowing costs capitalised in accordance with the Group's accounting policy.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

12. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are initially measured at cost, including any directly attributable expenditure.

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.

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.

13. Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purposes are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

13. Property and equipment *(continued)*

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment other than construction in progress are as follows:

Category	Depreciation	Residual value rates	Annual depreciation rates
Leasehold land and buildings	5–35 years	3%–5%	2.71%–19.40%
Machinery equipment	5–20 years	3%–5%	4.75%–19.40%
Electronic equipment, furniture and fixtures	3–10 years	3%–5%	9.50%–32.33%
Motor vehicles	5–10 years	3%–5%	9.50%–19.40%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purpose, the amortisation of prepaid lease payment provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

14. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

15. Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

16. Impairment on tangible, 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 its tangible 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 tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, 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. 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. 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. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

17. Resale and repurchase agreements

17.1 Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statements of financial position. The cost (including interests) of purchasing such assets is presented under "financial assets held under resale agreements" in the consolidated statements of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

17.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the statements of financial position. The proceeds (including interests) from selling such assets are presented under "financial assets sold under repurchase agreements" in the consolidated statements of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

18. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

19. Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note II)

Under IFRS 15, 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 a contract are accounted for an presented on a net basis.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

19. Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note II) *(continued)*

19.1 Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

19.2 Variable consideration

For contracts that contain variable consideration (including floating management fee), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

19.3 Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

19. Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note II) *(continued)*

19.3 Principal versus agent *(continued)*

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

19.4 Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (commission expenses) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

19.5 Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its construction contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

20. Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

20.1 Income from distressed debt assets classified as receivables

Income from distressed debt assets includes interest income and disposal income arising on distressed debt assets classified as receivables. Interest income is recognised in profit or loss using the effective interest method.

20.2 Interest income

Interest income for all interest-bearing financial instruments, except for interest income from distressed debt assets and investment securities, are recognised within "interest income" in profit or loss using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income arising from distressed debt assets designated as at FVTPL is included in "fair value changes on distressed debt assets".

Interest income from the debt assets and equity instruments that are classified as available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables are included in "investment income, gains and losses".

20.3 Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive the payment has been established and is recognised provided that the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

20. Revenue recognition (prior to 1 January 2018) *(continued)*

20.4 Commission and fee income

The Group earns commission and fee income from a diverse range of services it provides to its customers. For those services that are over a period of time, commission and fee income are accrued over that period when the services are rendered. For other services, commission and fee income are recognised when the transactions are completed.

The income from securities trading brokerage business is recognised as commission and fee income on trade date basis.

The income from securities underwriting services is recognised according to the underwriting agreements as commission and fee income when the securities are allotted.

Funds and asset management fee, futures business fee and consultancy and financial advisory fee are recognised on accrual basis when services are provided.

Fees from leasing business are recognised on accrual basis when services are provided.

Commission and fee income from trustee services is recognised on accrual basis and calculated in accordance with the terms of the trust contract.

20.5 Other income

Revenue from sale of goods

Revenue from sale of goods is recognised when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

Property rental income

The property rental income is recognised when the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group, and is recognised on accrued basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

20. Revenue recognition (prior to 1 January 2018) *(continued)*

20.5 Other income *(continued)*

Property management fee

The property management fee is recognised when the services are provided and it is probable that the associated economic benefits will flow to the Group and relevant income and cost can be measured reliably.

Hotel operation income

Revenue from hotel operation is recognised upon provision of services.

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/loss 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

21. Taxation *(continued)*

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.

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 by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

22. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

22.1 The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

22. Leases *(continued)*

22.2 The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

22.3 Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land (i.e. land use rights) are accounted for as operating leases and amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

24. Employee benefits *(continued)*

Retirement benefit costs and termination benefits *(continued)*

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Interest expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES (continued)

25. Government grants *(continued)*

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.

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)*

Critical judgements in applying accounting policies *(continued)*

1. Classification of financial assets

Business model assessment: Classification and measurement of financial assets depends on the results of the "SPPI" test of cash flow and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

2. Impairment of financial assets

Significant increase of credit risk: As explained in note II.1, 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 it is not purchased original credit impaired assets). IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note V.63.1 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.63.1 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)*

Critical judgements in applying accounting policies *(continued)*

2. Impairment of financial assets *(continued)*

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note V.63.1 for more details on ECL.

3. 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 judgments to determine whether control exists in a structured entity: the scope of decision-making as a manager or trustee, the power held by other parties, the remuneration and the exposure to variability of returns. The Group reassesses whether or not it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in note III.3. The judgments the Group used in determining whether or not it has control over the structured entities are detailed in note V.34.

Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

1. Impairment of financial assets

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. More details of forward looking information are set out in note V.63.1.(iii).

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

1. Impairment of financial assets *(continued)*

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.63.1.(iv).

2. Fair value of financial instruments

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. As at 31 December 2018, the total fair value of Level 2 and Level 3 financial assets that are measured at fair value on a recurring basis amounted to RMB506,437 million (31 December 2017: RMB416,010 million). Details of Level 2 and Level 3 fair value measurements are set out in note V.64.1.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

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.

Year ended 31 December 2018	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Fair value changes on financial assets and liabilities	12,424,194	(207,379)	(3,929,879)	(15,437)	8,271,499
Interest income	43,420,152	21,363,342	17,988,546	(3,513,231)	79,258,809
Finance lease income	—	6,673,585	110,787	—	6,784,372
Gains from derecognition of financial assets at amortised cost	41,175	2,565	33,123	—	76,863
Losses from derecognition of debt instruments at fair value through other comprehensive income	—	(25,032)	(54,217)	—	(79,249)
Commission and fee income	1,714,184	1,495,914	1,677,413	(194,203)	4,693,308
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	203,321	—	24,712	—	228,033
Dividend income	2,847,518	108,078	1,019,874	(1,583,264)	2,392,206
Other income and other net gains or losses	4,120,199	863,579	938,201	(294,673)	5,627,306
Total	64,770,743	30,274,652	17,808,560	(5,600,808)	107,253,147
Interest expenses	(37,110,205)	(14,088,278)	(16,335,879)	3,436,234	(64,098,128)
Commission and fee expenses	(588,801)	(1,365,745)	(301,973)	176,623	(2,079,896)
Operating expenses	(7,058,493)	(4,836,670)	(2,954,884)	300,052	(14,549,995)
Impairment losses on financial assets	(5,380,547)	(6,246,342)	(5,678,122)	32,070	(17,272,941)
Impairment losses on other assets	(370,320)	(214,706)	(2,208,844)	—	(2,793,870)
Total	(50,508,366)	(26,751,741)	(27,479,702)	3,944,979	(100,794,830)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

Year ended 31 December 2018	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Change in net assets attributable to other holders of consolidated structured entities	(1,821,022)	976,146	(1,083,318)	—	(1,928,194)
Share of results of associates and joint ventures	462,924	79	1,018,739	—	1,481,742
Profit before tax	12,904,279	4,499,136	(9,735,721)	(1,655,829)	6,011,865
Income tax expense					(4,502,860)
Profit for the year					1,509,005
Capital expenditure	137,463	2,714,150	871,315	—	3,722,928
Depreciation and amortisation	286,952	728,241	370,376	—	1,385,569
As at 31 December 2018					
Segment assets	866,250,051	545,778,885	355,404,796	(72,365,704)	1,695,068,028
Including: Interests in associates and joint ventures	7,768,968	6,449	29,200,037	—	36,975,454
Deferred tax assets					15,018,661
Total assets					1,710,086,689
Segment liabilities	752,223,753	497,956,323	348,971,694	(62,007,772)	1,537,143,998
Deferred tax liabilities					605,835
Tax payable					3,731,887
Total liabilities					1,541,481,720

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

Year ended 31 December 2017	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	30,753,417	—	—	—	30,753,417
Fair value changes on financial assets and liabilities	7,066,101	3,331,769	2,372,884	—	12,770,754
Interest income	913,739	12,531,019	2,945,185	(1,556,116)	14,833,827
Finance lease income	—	6,181,136	—	—	6,181,136
Investment income, gains and losses	19,919,029	6,361,119	20,193,238	(2,293,698)	44,179,688
Commission and fee income	6,129,300	2,175,467	4,867,756	(133,446)	13,039,077
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	296,353	—	621,256	—	917,609
Other income and other net gains or losses	3,834,941	350,855	1,479,572	(270,326)	5,395,042
Total	68,912,880	30,931,365	32,479,891	(4,253,586)	128,070,550
Interest expenses	(28,088,376)	(12,011,157)	(12,201,861)	1,610,321	(50,691,073)
Commission and fee expenses	(426,094)	(784,786)	(151,463)	66,176	(1,296,167)
Operating expenses	(7,968,697)	(4,617,677)	(2,838,684)	284,133	(15,140,925)
Impairment losses on financial assets	(8,303,854)	(2,778,156)	(5,455,565)	—	(16,537,575)
Impairment losses on other assets	—	(67,076)	(858,992)	—	(926,068)
Total	(44,787,021)	(20,258,852)	(21,506,565)	1,960,630	(84,591,808)
Change in net assets attributable to other holders of consolidated structured entities	(3,790,889)	(3,110,894)	(965,781)	43,892	(7,823,672)
Share of results of associates and joint ventures	(58,857)	70	1,005,411	—	946,624
Profit before tax	20,276,113	7,561,689	11,012,956	(2,249,064)	36,601,694
Income tax expense					(10,013,982)
Profit for the year					26,587,712
Capital expenditure	94,688	2,503,121	271,777	—	2,869,586
Depreciation and amortisation	259,401	477,358	145,162	—	881,921

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

Year ended 31 December 2017	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
As at 31 December 2017					
Segment assets	934,966,367	572,779,725	435,906,899	(86,792,931)	1,856,860,060
Including: Interests in associates and joint ventures	12,336,700	6,370	29,754,012	—	42,097,082
Deferred tax assets					13,400,222
Total assets					1,870,260,282
Segment liabilities	835,238,155	525,159,713	396,366,198	(76,544,814)	1,680,219,252
Deferred tax liabilities					1,380,333
Tax payable					6,025,835
Total liabilities					1,687,625,420

2. Fair value changes on financial assets and liabilities

	Year ended 31 December, 2018	2017
Fair value changes on distressed debt assets at FVTPL	**8,657,926**	4,661,251
Fair value changes on other financial assets and liabilities	**(386,427)**	8,109,503
Total	**8,271,499**	12,770,754

Fair value changes on financial assets and liabilities includes interest income and disposal gains or losses arising from financial assets at FVTPL held by the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

3. Interest income

For the year ended 31 December 2018, the following interest income arises from debt instruments at amortised cost and FVTOCI. For the year ended 31 December 2017, interest income arising from available-for-sale debt securities, held-to-maturity debt securities and other financial assets classified as receivables were recorded in investment income, gains and losses (note V.4).

	Year ended 31 December,	
	2018	**2017**
Distressed debt assets at amortised cost[1]	**24,847,813**	—
Distressed debt assets at FVTOCI[1]	**9,601,757**	—
Debt instruments at amortised cost other than distressed debt assets	**23,789,289**	—
Debt instruments at FVTOCI other than distressed debt assets	**3,750,955**	—
Loans and advances to customers		
Corporate loans and advances	**7,383,673**	5,991,587
Personal loans and advances	**4,606,933**	2,534,990
Loans to margin clients	**580,517**	558,665
Deposits with financial institutions	**2,301,682**	2,483,324
Financial assets held under resale agreements	**1,518,585**	2,372,683
Balances with central bank	**476,618**	483,779
Placements with financial institutions	**400,987**	408,799
Total	**79,258,809**	14,833,827

(1) For the year ended 31 December 2017, income from distressed debt assets classified as receivables represents interest income and disposal gains arising from distressed debt assets classified as receivables, which include loans acquired from financial institutions and other debt assets acquired from non-financial institutions (note V.31).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

4. Investment income, gains and losses

	Year ended 31 December, 2017
Interest income from	
Other financial assets classified as receivables	26,245,155
Available-for-sale debt securities	6,275,111
Held-to-maturity debt securities	2,352,624
Net realised gains from disposals of available-for-sale financial assets	8,142,403
Dividend income from available-for-sale financial assets	1,164,395
Total	44,179,688
Including: Interest income accrued on impaired other financial assets classified as receivables	33,330

5. Commission and fee income

	Year ended 31 December,	
	2018	2017
Asset management business	**2,303,066**	8,674,390
Securities and futures brokerage business	**975,892**	1,683,680
Trust business	**844,160**	2,027,787
Banking and consumer finance business	**480,882**	530,502
Fund management business	**89,308**	122,718
Total	**4,693,308**	13,039,077

(1) Disaggregation of revenue

	Year ended 31 December, 2018
By geographical markets	
Mainland China	**4,109,689**
Hong Kong	**539,861**
Others	**43,758**
Total	**4,693,308**

V. EXPLANATORY NOTES *(continued)*

5. Commission and fee income *(continued)*

(1) Disaggregation of revenue *(continued)*

	Year ended 31 December, 2018
Timing of revenue recognition	
A point in time	1,456,774
Over time	3,236,534
Total	4,693,308

(2) Performance obligations for contracts with customers

(a) Asset management business, including trust business and fund management business

The Group acts as trustee, manager or general partners to provide asset management services to special purpose entities including trusts, asset management plans and private equity funds.

The Group is titled fixed and variable considerations for its provision of asset management services. The Group deducts and collects fixed considerations from funds under management regularly over the service period and recognise 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 represents clients to perform clearing and settlements of securities, futures and funds according to clients' instructions. The Group collects transaction price as a certain percentage of transaction prices when the instructed transaction is cleared. The Group recognise revenue at a point when the services are completed.

The Group provides underwriting services in respect of equity or debt instruments issued by customers. Transaction price is collected as a certain percentage of funds raised when the securities are successfully issued. The relevant revenue is recognised at one point when the services are completed. Progress payments received by the Group before the issue of the securities are recognised as contract liabilities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

5. 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 2018 and the expected timing of recognising revenue are as follows:

	Asset management business	Trust business
Within one year	120,513	200,027
More than one year but not more than two years	26,257	39,844
More than two years	24,389	127,426
Total	171,159	367,297

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

5. Commission and fee income *(continued)*

(4) Relationship between disaggreation of revenue and revenue information disclosed in segment:

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

6. Dividend income

	Year ended 31 December, 2018
Financial assets at FVTPL	2,392,206

7. Other income and other net gains or losses

	Year ended 31 December,	
	2018	2017
Revenue from properties development[1]	3,192,915	3,640,356
Rental income	698,960	442,863
Government grants[2]	497,129	265,464
Net losses on exchange differences	(112,221)	(151,612)
Others	1,350,523	1,197,971
Total	5,627,306	5,395,042

(1) Revenue from properties development

The Group entered into contracts with customers to sell properties. According to contract terms, in conjunction with external legal factors, the Group is of the view that it does not have enforceable right to payment from customers for performance completed to date. Therefore, the relevant revenue is recognised at one point when properties are transferred.

Customers have to pay first down payments to the Group according to a certain percentage of transaction prices when they entered into sales and purchases agreements. In additional, the Group collects partial transaction prices in advance from customers for certain properties under progress sold. The Group recognises cumulative amounts received for purchases of properties as contract liabilities initially, and recognises them as revenue from contract liabilities, when customers obtain control over the these properties.

Revenue from property development is recorded in "Distressed asset management" segment as disclosed in note V.1.

(2) Government grants are subsidies granted by local governments for the Group's establishment of operations or subsidiaries in certain cities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

8. Interest expenses

Interest expenses mainly arises from the distressed asset management, banking and financial leasing business of the Group.

	Year ended 31 December,	
	2018	**2017**
Borrowings	**(44,125,461)**	(33,216,640)
Bonds and notes issued	**(14,713,925)**	(11,710,213)
Due to customers	**(3,011,373)**	(2,302,964)
Financial assets sold under repurchase agreements	**(1,194,515)**	(2,373,071)
Deposits from financial institutions	**(529,839)**	(623,393)
Borrowings from central bank	**(87,446)**	(73,738)
Placements from financial institutions	**(87,128)**	(142,435)
Amount due to the MOF	**—**	(47,048)
Other liabilities	**(348,441)**	(201,571)
Total	**(64,098,128)**	(50,691,073)

9. Commission and fee expenses

	Year ended 31 December,	
	2018	**2017**
Banking and consumer finance business	**(1,004,675)**	(321,701)
Asset management business	**(645,472)**	(443,334)
Securities and futures brokerage business	**(372,623)**	(489,552)
Fund management and other business	**(57,126)**	(41,580)
Total	**(2,079,896)**	(1,296,167)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

10. Operating expenses

	Year ended 31 December, 2018	2017
Employee benefits[1]	**(5,311,866)**	(5,607,814)
Turnover tax and surcharges	**(766,561)**	(1,384,318)
Cost of properties development and sales	**(1,938,044)**	(2,043,806)
Others	**(6,533,524)**	(6,104,987)
Including:		
Minimum lease payments under operating leases	**(738,415)**	(717,874)
Depreciation of property and equipment	**(858,458)**	(515,466)
Amortisation	**(406,518)**	(291,741)
Depreciation of investment properties	**(120,593)**	(74,714)
Auditors' remuneration	**(36,570)**	(26,118)
Total	**(14,549,995)**	(15,140,925)

(1) Employee benefits

	Year ended 31 December, 2018	2017
Wages or salaries, bonuses, allowances and subsidies	**(3,382,668)**	(3,962,624)
Defined contribution plans[i]	**(635,474)**	(511,235)
Staff welfare	**(330,399)**	(279,080)
Housing funds	**(287,861)**	(267,060)
Social insurance	**(315,919)**	(221,465)
Labor union and staff education expenses	**(136,710)**	(170,473)
Early retirement benefits	**(109,880)**	(87,103)
Others	**(112,955)**	(108,774)
Total	**(5,311,866)**	(5,607,814)

(i) Defined contribution plans include pension scheme, unemployment insurance and corporate annuity scheme set up by the Company and certain other Group entities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

11. Impairment losses on financial assets

	Year ended 31 December, 2018
Debt instruments at amortised cost (note V.63.1)	**(12,620,382)**
Loans and advances to customers (note V.63.1)	**(3,901,306)**
Financial assets held under resale agreements	**(578,695)**
Debt instrument at FVTOCI (note V.63.1)	**105,815**
Financial lease receivables (note V.63.1)	**(240,251)**
Other financial assets	**(62,978)**
Total	**(17,297,797)**

	Year ended 31 December, 2017
Distressed debt assets classified as receivables	(3,662,540)
Other financial assets classified as receivables	(8,110,476)
Loans and advances to customers	(1,929,517)
Available-for-sale financial assets	(1,502,742)
Finance lease receivables	(425,010)
Other financial assets	(920,216)
Total	(16,550,501)

12. Impairment losses on other assets

	Year ended 31 December,	
	2018	2017
Interests in associates and joint ventures (note V.33)	**(2,316,737)**	(858,992)
Foreclosed assets	**(174,367)**	(54,150)
Property and equipment	**(94,482)**	—
Goodwill (note V.41)	**(89,974)**	—
Others	**(93,454)**	—
Total	**(2,769,014)**	(913,142)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

13. Income tax expense

	Year ended 31 December, 2018	2017
Current income tax		
PRC Enterprise Income tax	**(6,354,622)**	(10,994,904)
Hong Kong profits tax	**(219,705)**	(1,569,509)
Macau profits tax	**—**	(16,992)
Over/(under)-provision in prior years	**64,963**	(40,042)
Deferred income tax (note V.38)	**2,006,504**	2,607,465
Total	**(4,502,860)**	(10,013,982)

The statutory income tax rate applicable to PRC enterprises was 25% for the year of 2018 (2017: 25%).

The preferential income tax rate applicable to PRC enterprises within the scope of the western development area was 15% for the year of 2018 (2017: 15%).

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

Hong Kong profits tax was computed at 16.5% of the estimated assessable profit for the year of 2018 (2017: 16.5%).

Macau profits tax was computed at 12% of the estimated assessable profit for the year of 2018 (2017: 12%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

13. Income tax expense *(continued)*

Reconciliation of consolidated profit before tax to income tax expense is as follows:

	Year ended 31 December, 2018	2017
Profit before tax	**6,011,865**	36,601,694
Income tax calculated at the tax rate of 25%	**(1,502,966)**	(9,150,424)
Tax effect of income not taxable for tax purpose	**540,457**	432,962
Tax effect of expenses not deductible for tax purpose	**(369,334)**	(384,558)
Tax effect of different tax rate of subsidiaries	**240,711**	99,589
Over/(under)-provisions in prior years	**64,963**	(40,042)
Effect of unused tax losses and deductible temporary differences not recognised as deferred tax assets	**(3,492,941)**	(980,621)
Utilisation of deductible temporary differences previously not recognised	**16,250**	9,112
Income tax expense	**(4,502,860)**	(10,013,982)

14. Earnings per share

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

	Year ended 31 December, 2018	2017
Earnings:		
Profit attributable to equity holders of the Company	**1,575,501**	21,992,590
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**39,070,208**	39,070,208
Basic earnings per share (RMB Yuan)	**0.04**	0.56

No diluted earnings per share has been presented for the years ended 31 December 2018 and 2017 as the Group had no potential ordinary shares in issue during the periods.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

15. Dividends

	Year ended 31 December, 2018	2017
Dividends for ordinary shareholders of the company recognised as distribution during the year:		
Final dividend for 2017[1]	**6,598,954**	—
Final dividend for 2016	—	5,883,973

(1) Distribution of final dividend for 2017

On 21 March 2018, the Company declared dividends of RMB1.689 yuan per 10 shares (tax inclusive), in an aggregate amount of RMB6,599 million for the year ended 31 December 2017.

(2) Subsequent to the end of the reporting period, a cash dividend in respect of the year ended 31 December 2018 of RMB0.121 yuan per 10 shares (tax inclusive), in an aggregate amount of RMB473 million, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors

	Year ended 31 December 2018				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
WANG Zhanfeng[(1)]	—	291	148	10	449
LI Xin[(2)]	—	291	148	10	449
WANG Lihua[(3)]	—	366	182	22	570
Non-executive directors					
WANG Cong[(4)]	—	—	—	—	—
DAI Lijia[(4)]	—	—	—	—	—
LI Yi[(4)(5)]	—	—	—	—	—
ZHOU Langlang[(4)(6)]	—	—	—	—	—
Independent non-executive directors					
SONG Fengming[(7)]	250	—	—	—	250
TSE Hau Yin	250	—	—	—	250
LIU Junmin	250	—	—	—	250
SHAO Jingchun	250	—	—	—	250
Supervisors					
MA Zhongfu	—	432	222	15	669
DONG Juan[(8)]	—	—	—	—	—
XU Li[(9)]	200	—	—	—	200
ZHENG Shengqin	20	423	961	39	1,443
CHEN Jin[(10)]	20	333	952	35	1,340
Total	1,240	2,136	2,613	131	6,120

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors *(continued)*

	Year ended 31 December 2017				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
KE Kasheng[11]	—	262	138	17	417
WANG Lihua[3]	—	366	185	25	576
Non-executive directors					
WANG Keyue[12]	—	284	156	24	464
TIAN Yuming[4][13]	—	—	—	—	—
WANG Cong[4]	—	—	—	—	—
DAI Lijia[4]	—	—	—	—	—
LI Yi[4][5]	—	—	—	—	—
ZHOU Langlang[4][6]	—	—	—	—	—
WANG Sidong[4][14]	—	—	—	—	—
Independent non-executive directors					
SONG Fengming[7]	250	—	—	—	250
TSE Hau Yin	250	—	—	—	250
LIU Junmin	250	—	—	—	250
SHAO Jingchun	250	—	—	—	250
Supervisors					
MA Zhongfu	—	397	208	14	619
WANG Qi[15]	—	—	—	—	—
DONG Juan[8]	—	—	—	—	—
XU Li[9]	183	—	—	—	183
ZHENG Shengqin	20	440	1,069	36	1,565
CHEN Jin[10]	7	269	1,133	23	1,432
MAO Biaoyong[16]	12	276	309	26	623
XU Dong[17]	2	423	1,681	29	2,135
Total	1,224	2,717	4,879	194	9,014

(1) WANG Zhanfeng was appointed Executive Director and Chairman in September 2018.

(2) LI Xin was appointed Executive Director and President in September 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors *(continued)*

(3) WANG Lihua was appointed as an executive director in April 2017 and resigned in November 2018.

(4) The above-mentioned non-executive directors have not received any remuneration from the Group in this year.

(5) LI Yi was appointed as a non-executive director in January 2017.

(6) ZHOU Langlang was appointed as a non-executive director in April 2017.

(7) SONG Fengming resigned in September 2018.

(8) In accordance with the regulations of the relevant state departments and upon her own application, DONG Juan waived all remuneration from the Group in 2018 and 2017.

(9) XU Li was appointed as a supervisor in February 2017.

(10) CHEN Jin was appointed as a supervisor in September 2017.

(11) KE Kasheng resigned as an executive director in August 2017.

(12) WANG Keyue resigned in October 2017.

(13) TIAN Yuming resigned in January 2017.

(14) WANG Sidong resigned as a non-executive director in February 2017.

(15) WANG Qi resigned as a supervisor in February 2017 and in accordance with the relevant requirements, WANG Qi waived her emoluments from the Group in 2017.

(16) MAO Biaoyong was appointed as a supervisor in February 2017 and resigned in September 2017.

(17) XU Dong resigned as a supervisor in February 2017.

The executive directors' 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. Wang Zhanfeng has acted as the Chairman of the Board of the Company since September 2018.

The total compensation packages for these directors and supervisors for the years ended 31 December 2018 and 2017 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.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors *(continued)*

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.17 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.

17. Five highest paid individuals

The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 and 2017 were as follows:

	Year ended 31 December, 2018	2017
Salaries and other benefits	**3,491**	2,904
Employer's contribution to pension scheme	**497**	285
Discretionary and performance related incentive payments	**9,272**	15,422
Total	**13,260**	18,611

Among the five individuals with the highest emoluments in the Group, none of them was a director nor supervisor during the year of 2018 and 2017. The number of these five individuals whose emoluments fall within the following bands is as follows:

	Year ended 31 December, 2018	2017
HKD2,500,001 to HKD3,000,000	**4**	—
HKD3,500,001 to HKD4,000,000	**1**	—
HKD4,000,001 to HKD4,500,000	**—**	4
HKD4,500,001 to HKD5,000,000	**—**	1
	5	5

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

18. Cash and balances with central bank

	As at 31 December,	
	2018	2017
Cash	604,188	497,304
Mandatory reserve deposits with central bank(1)	24,602,756	29,392,184
Surplus reserve deposits with central bank(2)	4,319,320	3,011,766
Other deposits with central bank	382,834	305,858
Total	29,909,098	33,207,112

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 2018, the RMB and foreign currency mandatory reserve deposits placed with the PBOC were mainly based on 12% (31 December 2017: 14.5%) and 5% (31 December 2017: 5%) of eligible RMB and foreign currency deposits of Huarong Xiangjiang Bank Corporation Limited ("Huarong Xiangjiang Bank"), a subsidiary of the Company. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

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

19. Deposits with financial institutions

	As at 31 December,	
	2018	2017
Banks(1)	104,644,547	158,190,292
Clearing settlement funds(1)(2)	2,202,533	3,579,401
Other financial institutions	653,162	1,111,384
Total	107,500,242	162,881,077

(1) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at 31 December 2018, the bank balances and clearing settlement funds held on behalf of customers by the Group amounted to RMB4,746 million (31 December 2017: RMB6,602 million). The Group has recognised the corresponding amount in accounts payable to brokerage clients and margin deposit received from securities customers (see note V.51).

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

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

20. Placements with financial institutions

The Group's placements as at 31 December 2018 and 2017 were conducted with commercial banks and other financial institutions.

21. Financial assets held for trading

	As at 31 December, 2017
Debt securities	
— Corporate bonds	28,071,002
— Financial institution bonds	2,401,265
— Public sector and quasi-government bonds	903,100
— Government bonds	346,547
Funds	9,837,509
Wealth management products	10,386,791
Shares	7,575,268
Negotiable certificates of deposit	7,290,694
Asset-backed securities	445,533
Total	67,257,709

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

22. Financial assets and financial liabilities at FVTPL and/or designated as at FVTPL

	As at 31 December, 2018
Financial assets mandatorily measured at FVTPL	
Distressed debt assets	**166,370,280**
Funds	**59,361,725**
Trust products	**42,867,043**
Equity instruments	
— Listed	**23,149,465**
— Unlisted	**28,001,634**
Debt securities	
— Corporate bonds	**15,797,463**
— Financial institution bonds	**648,469**
— Public sector and quasi-government bonds	**413,469**
Wealth management products[3]	**13,347,104**
Convertible bonds	**12,819,736**
Asset management plans	**10,307,930**
Structured products[1][2]	**8,580,833**
Other debt assets	**5,179,572**
Negotiable certificates of deposit	**2,668,343**
Entrusted Loans	**742,526**
Asset-backed securities	**264,559**
Others	**660,824**
Total	**391,180,975**

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

22. Financial assets and financial liabilities at FVTPL and/or designated as at FVTPL *(continued)*

	As at 31 December, 2017
Financial assets designated as at FVTPL	
Distressed debt assets	150,807,178
Equity instruments	20,836,769
Trust products	18,492,657
Structured products(1)(2)	14,202,645
Convertible bonds	13,010,094
Wealth management products(3)	7,670,492
Asset management plans	3,509,948
Debt instruments with embedded derivatives	1,515,559
Total	230,045,342

	As at 31 December, 2018	2017
Financial liabilities designated as at fair value through profit or loss		
Interest of other holders of consolidated structured entities(4)	4,728,291	2,012,075
Structured products	—	535,308
Total	4,728,291	2,547,383

(1) The Group entered into a series of structured transactions that are managed on the fair value basis. Such structured products are accounted for as financial assets mandatorily measured at fair value through profit or loss for the year ended 31 December 2018, and financial assets designated as at fair value through profit or loss for the year ended 31 December 2017 according to their investment management strategy.

As at 31 December 2018, included in structured products were credit linked notes of RMB2,279 million (31 December 2017: RMB2,128 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 2018, the fair value and nominal value of these total return swaps amounted to RMB660 million (31 December 2017: RMB1,247 million) and RMB2,171 million (31 December 2017: RMB3,182 million), respectively.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

22. Financial assets and financial liabilities at FVTPL and/or designated as at FVTPL *(continued)*

(2) The Group had the following 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. The major terms of these contracts are as follows:

31 December 2018 and 2017

Cross-currency swap

Notional amount	Maturity	Exchange rates
USD430 million/	27 April 2021	Pays USD fixed rate 3.577%
SGD600 million		Receives SGD fixed rate 3.2%
USD294 million/	7 November 2025	Pays USD fixed 4.355%
SGD400 million		Receives SGD fixed 3.8%

31 December 2018

Interest rate swap

Notional amount	Maturity	Interest rates
USD500 million	27 April 2020	Pays fixed rate 3.327%
		Receives LIBOR + 1.65%
USD200 million	3 July 2021	Pay 3.9890% fixed rate
		Receive LIBOR + 1.175%
USD200 million	3 July 2021	Pays fixed rate 3.971%
		Receives LIBOR + 1.175%
USD1000 million	27 April 2022	Pays fixed rate 3.725%
		Receives LIBOR + 1.85%
USD200 million	7 November 2022	Pays fixed rate 3.22%
		Receives LIBOR + 1.15%
USD400 million	7 November 2022	Pays fixed rate 3.22%
		Receives LIBOR + 1.15%
USD100 million	3 July 2023	Pays fixed rate 4.147%
		Receives LIBOR + 1.325%
USD200 million	3 July 2023	Pays fixed rate 4.147%
		Receives LIBOR + 1.325%
USD250 million	3 July 2023	Pays fixed rate 4.145%
		Receives LIBOR + 1.325%

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

22. Financial assets and financial liabilities at FVTPL and/or designated as at FVTPL *(continued)*

(2) *(continued)*
31 December 2017

Interest rate swap

Notional amount	Maturity	Interest rates
USD500 million	27 April 2020	Pays fixed rate 3.327% Receives LIBOR + 1.65%
USD1,000 million	27 April 2022	Pays fixed rate 3.725% Receives LIBOR + 1.85%
USD200 million	7 November 2022	Pays fixed rate 3.22% Receives LIBOR + 1.15%
USD400 million	7 November 2022	Pays fixed rate 3.22% Receives LIBOR + 1.15%
USD800 million	27 July 2019	Pays fixed rate 2.695% Receives LIBOR + 1%

As at 31 December 2018, the fair value of these cash flow hedges amounted to RMB415 million (31 December 2017: RMB419 million).

(3) This mainly represents wealth management products issued by banking institutions outside the Group.

(4) In respect of these liabilities designated at fair value through profit or loss, the Group is required at maturities to pay amounts according to other investors' share in the underlying assets of special structure entities consolidated. The amount ultimately paid by the Group depends on the fair values of these assets as maturities and may be different from the carrying amounts as at 31 December 2018.

23. Financial assets held under resale agreements

	As at 31 December, 2018	2017
By collateral type:		
Securities	20,004,868	40,013,618
Bills	—	494,812
Others	746,095	775,000
Subtotal	20,750,963	41,283,430
Less: Allowance for impairment losses		
— 12-month ECL	(27,760)	—
— Lifetime ECL	(596,260)	—
— Individually assessed	—	(5,645)
— Collectively assessed	—	(39,680)
Subtotal	(624,020)	(45,325)
Net Financial assets held under resale agreements	20,126,943	41,238,105

The majority of these financial assets held under resale agreements arises from its securities business and banking business.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

23. Financial assets held under resale agreements *(continued)*

As at 31 December 2018, the Group received pledged securities with a fair value of approximately RMB21,427 million (31 December 2017: RMB64,713 million). None (31 December 2017: RMB500 million) of them could be resold or repledged by the Group in the absence of default by their owners. For the years ended 31 December 2018 and 2017, 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. Loans and advances to customers

	As at 31 December,	
	2018	**2017**
Loans and advances measured at amortised cost		
— Loans and advances	**119,311,190**	108,863,712
— Discounted bills	**—**	5,689,485
Subtotal	**119,311,190**	114,553,197
Personal loans and advances		
— Loans for business operations	**12,740,825**	10,556,064
— Mortgages	**18,511,719**	11,390,788
— Personal consumption loans	**27,562,917**	15,483,236
— Others	**2,802,609**	2,504,521
Subtotal	**61,618,070**	39,934,609
Loans to margin clients	**6,282,373**	7,523,393
Gross loans and advances to customers measured at amortised cost	**187,211,633**	162,011,199
Less: Allowance for impairment losses		
— 12-month ECL	**(1,967,655)**	—
— Lifetime ECL	**(3,158,610)**	—
— Individually assessed	**—**	(1,082,706)
— Collectively assessed	**—**	(2,706,545)
Subtotal	**(5,126,265)**	(3,789,251)
Net loans and advances to customers measured at amortised cost	**182,085,368**	158,221,948
Loans and advances measured at fair value through other comprehensive income		
— Discounted bills	**8,568,670**	—
Subtotal	**8,568,670**	—
Net loans and advances to customers	**190,654,038**	158,221,948

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

24. Loans and advances to customers *(continued)*

Loans and advances analysed by carrying amount and loss allowance are as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
At 31 December 2018				
Gross loans and advances	175,658,790	7,134,588	4,418,255	187,211,633
Allowances for impairment loss	(1,967,655)	(818,263)	(2,340,347)	(5,126,265)
Net loans and advances to customers measured at amortised cost	173,691,135	6,316,325	2,077,908	182,085,368
Net loans and advances to customers measured at fair value through other comprehensive income	8,568,670	—	—	8,568,670
Net loans and advances to customers	182,259,805	6,316,325	2,077,908	190,654,038

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances: for which allowance is collectively assessed	Identified impaired loans and advances: for which allowance is individually assessed	Identified impaired loans and advances: subtotal	Total	Identified impaired loans and advances to customers as a % of total loans and advances
At 31 December 2017						
Gross loans and advances	159,726,600	435,241	1,849,358	2,284,599	162,011,199	1.41%
Allowances for impairment loss	(2,529,782)	(176,763)	(1,082,706)	(1,259,469)	(3,789,251)	
Net loans and advances to customers	157,196,818	258,478	766,652	1,025,130	158,221,948	

The movements of provision for impairment loss on loans and advances during the current year are detailed in note V.63.1.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

24. Loans and advances to customers *(continued)*

The movement of provision for impairment loss during the prior year are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January 2017	614,538	2,044,859	2,659,397
Provided for the year	1,495,099	1,699,386	3,194,485
Reversal for the year	(282,459)	(982,509)	(1,264,968)
Recovery of loans and advances written off in previous years	141,943	24,604	166,547
Write-offs	(823,213)	(62,881)	(886,094)
Unwinding of discount on allowance	(63,202)	(16,914)	(80,116)
As at 31 December 2017	1,082,706	2,706,545	3,789,251

25. Finance lease receivables

	As at 31 December, 2018	2017
Minimum finance lease receivables:		
Within 1 year (inclusive)	**39,607,536**	34,965,022
1–5 years (inclusive)	**66,137,849**	70,832,369
Over 5 years	**8,942,512**	3,782,800
Gross amount of finance lease receivables	**114,687,897**	109,580,191
Less: Unearned finance income	**(13,232,839)**	(11,852,781)
Net amount of finance lease receivables	**101,455,058**	97,727,410
Less: Allowance for impairment losses	**(2,452,118)**	(2,023,481)
Carrying amount of finance lease receivables	**99,002,940**	95,703,929
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	**34,044,015**	29,913,503
1–5 years (inclusive)	**58,967,138**	64,215,768
Over 5 years	**8,443,905**	3,598,139
Total	**101,455,058**	97,727,410

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

25. Finance lease receivables *(continued)*

The movements of provision for impairment loss on finance lease receivables during the current year are detailed in note V.63.1.

The movement of provision for impairment loss during the prior year are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January 2017	491,926	1,146,482	1,638,408
Provided for the year	264,678	160,332	425,010
Write-offs/Transfer out	(46,712)	—	(46,712)
Recovery of finance lease receivables written off in previous years	8,000	—	8,000
Foreign exchange effect	—	(1,225)	(1,225)
As at 31 December 2017	717,892	1,305,589	2,023,481

26. Debt instruments at FVTOCI

	As at 31 December, 2018
Distressed debt assets	100,445,929
Debt securities	
— Corporate bonds	26,494,833
— Public sector and quasi-government bonds	6,144,591
— Financial institution bonds	319,240
— Government bonds	284,500
Entrust loans[1]	4,421,136
Asset management plans	4,255,391
Trust products	2,490,562
Debt instruments	1,902,184
Asset-backed securities	628,941
Total	147,387,307

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

The movements of provision for impairment loss on debt instruments at FVTOCI during the current year are detailed in note V.63.1.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

27. Equity instruments at FVTOCI

	As at 31 December, 2018
Listed investments[1]	**31,770**
Unlisted investments[2]	**3,212,538**
Total	**3,244,308**

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

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

The Group did not receive any dividend from equity instruments at FVTOCI. It did not dispose of any of these instruments either.

28. Inventories

	As at 31 December,	
	2018	2017
Property development costs	**16,726,555**	12,443,281
Properties held for sale	**1,899,710**	3,467,908
Land development costs	**616,770**	729,635
Total	**19,243,035**	16,640,824

During the year, borrowing costs of RMB870 million (2017: RMB861 million) were capitalised in the costs of inventory.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

29. Available-for-sale financial assets

	As at 31 December, 2017
Shares[1]	27,612,554
Debt securities	
— Government bonds	599,150
— Public sector and quasi-government bonds	15,999,165
— Financial institution bonds	6,735,082
— Corporate bonds	33,601,429
Asset-backed securities	3,346,249
Funds	73,483,419
Trust products	23,932,018
Asset management plans	6,237,674
Wealth management products	4,885,716
Less: Allowance for impairment losses	(911,759)
Total	195,520,697

(1) Included in the balance is equity instruments of RMB8,278 million as at 31 December 2017 that were measured at cost because their fair values cannot be reliably measured. These equity instruments contain policy debt-to-equity swaps bought from MOF when the Company was restructured. According to the regulation of the MOF on strengthening the financial and risk management of the financial asset management company, the Company will not participate in daily business decision-making and financial management in these enterprises. At the same time, the Company will develop an exit plan from these investments. For the year ended 31 December 2017, net gains of RMB3,397 million arose from disposals of shares with carrying values of RMB3,210 million measured at cost less impairment. These gains were included in "investment income, gains and losses" in these consolidated financial statement. As at 31 December 2017, accumulative impairment of RMB912 million was made against these securities measured at cost. Impairment of RMB665 million was made during the prior year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

30. Held-to-maturity investments

	As at 31 December, 2017
Government bonds	19,988,506
Public sector and quasi-government bonds	31,756,394
Financial institution bonds	10,197,297
Corporate bonds	2,509,003
Total	64,451,200

31. Financial assets classified as receivables

	As at 31 December, 2017
Distressed debt assets	
Loans acquired from financial institutions	51,186,322
Other debt assets acquired from non-financial institutions	317,242,065
Subtotal	368,428,387
Less: Allowance for impairment losses	
— Individually assessed	(4,907,664)
— Collectively assessed	(18,836,403)
	(23,744,067)
Subtotal	344,684,320

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

31. Financial assets classified as receivables *(continued)*

	As at 31 December, 2017
Other financial assets classified as receivables	
Trust products	159,514,273
Debt instruments	97,977,262
Entrust loans[1]	85,139,955
Asset management plans	15,873,245
Wealth management products	13,219,119
Subtotal	371,723,854
Less: Allowance for impairment losses	
— Individually assessed	(3,655,588)
— Collectively assessed	(11,560,148)
	(15,215,736)
Subtotal	356,508,118
Total	701,192,438

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

Movements of allowance for impairment losses during the prior year are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January 2017	5,049,611	26,438,484	31,488,095
Provided for the year	4,364,933	20,387,296	24,752,229
Reversal for the year	(517,097)	(12,462,116)	(12,979,213)
Unwinding of discount on allowance	(334,195)	—	(334,195)
Transfer-out	—	(3,873,741)	(3,873,741)
Exchange difference	—	(93,372)	(93,372)
As at 31 December, 2017	8,563,252	30,396,551	38,959,803

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

32. Debt instruments at amortised cost

	As at 31 December, 2018
Distressed debt assets	
Loans acquired from financial institutions	24,042,643
Other debt assets acquired from non-financial institutions	265,041,671
Subtotal	289,084,314
Less: Allowance for impairment losses	
— 12-month ECL	(2,748,284)
— Lifetime ECL	(20,178,201)
Subtotal	(22,926,485)
Carrying amount of distressed debt assets	266,157,829
Other debt assets	
Trust products	114,321,352
Debt securities	86,699,355
Debt instruments	84,360,813
Entrust loans[(1)]	78,871,297
Asset management plans	7,076,241
Others	2,649,200
Subtotal	373,978,258
Less: Allowance for impairment losses	
— 12-month ECL	(3,970,302)
— Lifetime ECL	(24,032,677)
Subtotal	(28,002,979)
Carrying amount of other debt assets	345,975,279
Total	612,133,108

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

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

32. Debt instruments at amortised cost *(continued)*

During the year ended 31 December 2018, the Group sold some financial assets measured at amortised cost due to the demand of liquidity.

The movements of provision for impairment loss on debt instruments at amortised cost during current year are detailed in note V.63.1.

33. Interests in associates and joint ventures

	As at 31 December,	
	2018	**2017**
Interests in associates		
Cost of investments in associates	**19,506,224**	18,265,232
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**510,846**	569,319
Less: Allowance for impairment losses[1]	**(2,975,724)**	(871,461)
Subtotal	**17,041,346**	17,963,090
Interests in joint ventures		
Cost of investments in joint ventures	**20,391,904**	24,230,642
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**(245,322)**	(96,650)
Less: Allowance for impairment losses[1]	**(212,474)**	—
Subtotal	**19,934,108**	24,133,992
Total	**36,975,454**	42,097,082
Fair value of listed companies	**3,575,497**	5,634,971

During the year, the Group received an aggregate of dividend of RMB1,621 million (the year ended 31 December 2017, RMB836 million) from associates and joint ventures.

(1) The Group performed an impairment test on the interests in associates and joint ventures at the end of the period and assessed recoverable amounts, being the higher of the fair value of the related investments and the fair value of the investee's identifiable net assets. Provision was made for the items with recoverable amounts being lower than the carrying amounts and the impairment losses were recognised in profit or loss. The fair value of these associates and joint ventures were mainly the unadjusted quotation in the active market. As at 31 December 2018, the Group provided a provision of RMB2,317 million for the interests in associates and joint ventures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

33. Interests in associates and joint ventures *(continued)*

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 At 31 December, 2018	2017	Proportion of ownership held by the Group At 31 December, 2018 %	2017 %	Proportion of voting rights held by the Group At 31 December, 2018 %	2017 %	Principal activities
Associates									
Ruikong (Holdings) Ltd.	Hong Kong	Hong Kong/ Netherlands	2,048,991	1,894,421	22.59	22.59	22.59	22.59	Investment holding
Panda Green Energy Group Ltd.	Bermuda	Hong Kong	1,822,371	1,909,375	21.74	21.74	21.74	21.74	Energy Industry
IDG Magic V Fund L.P.(1)(3)	Cayman Islands	Mainland China	994,625	983,308	36.25	36.25	33.33	33.33	Fund
Hangzhou Hangyang Co., Ltd(2)	Hangzhou China	Mainland China	989,430	965,301	10.83	11.26	10.83	11.26	Manufacturing Industry
Harbin Hatou Investment Co., Ltd(2)	Harbin China	Mainland China	979,653	1,885,049	11.24	11.24	11.24	11.24	Power, thermal production and supply industry
Joint ventures									
Sacred Heart Healthcare L.P.(3)	Cayman Islands	Mainland China	2,637,528	2,511,093	83.33	83.33	50.00	50.00	Fund
Wuhu Penghua No. 3 Investment Center (Limited Partnership)	Anhui China	Mainland China	1,000,000	964,957	65.36	65.36	33.33	33.33	Investment holding
Huarong Core Win Fund L.P.	Cayman Islands	Hong Kong	951,548	638,208	45.00	45.00	45.00	45.00	Manufacturing Industry
Wuhu Rongpuming Investment Center (Limited Partnership)	Anhui China	Mainland China	905,472	966,100	28.59	28.59	33.33	33.33	Investment holding
Longstar Development Limited(3)(4)	Hong Kong	Mainland China	891,317	850,933	—	81.25	33.33	33.33	Fund

(1) The Group appoints members to the advisory committee of IDG Magic V Fund L.P. As a result, the group is able to exercise significant influence over the relevant investments and is therefore a associate.

(2) The Group has representations in the board of directors of Harbin Hatou Investment Co., Ltd. and Hangzhou Hangyang Co., Ltd. Therefore, the Group is able to exercise significant influence over these investees and account for them as associates.

V. EXPLANATORY NOTES *(continued)*

33. Interests in associates and joint ventures *(continued)*

(3) Longstar Development Ltd., IDG Magic V Fund L.P., Sacred Heart Healthcare L.P. (Sacred Heart Health Partnership, hereinafter referred to as "Sacred Heart Fund") have a variety of equity structure, the proportion of shareholding is determined according to the proportion of the group's contribution amount to the total equity of the invested unit.

(4) The Group owns 100% preference shares issued by Longstar Development Limited and appoint a director to the board of directors. Therefore, it is accounted for as a joint venture.

The above individually material associates and joint ventures only have significant impacts to the statement of financial positions, but their impacts to profit or loss and other comprehensive income are not significant. Therefore, only the individual carrying amounts recorded in these consolidated financial statements are disclosed and these carrying amounts mainly reflect the Group's share of net assets of these investees.

34. Interests in consolidated structured entities

To determine whether control exists in a structured entity, the Group uses the following judgments:

(1) For a structured entity that the Group sponsors and provides financial guarantee, the Group therefore has an obligation to fund the losses beyond its investment, if any, in accordance with the guarantee agreements. The Group then concludes that its exposure to variability of returns is of such significance that the structured entity will be consolidated.

(2) For private equity funds where the Group involves as both general partner and limited partner, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The fund will be consolidated if the Group acts in the role of principal.

(3) For trust products or asset management plans where the Group involves as trustee/manager and/or as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the trust products or asset management plans that is of such significance that it indicates that the Group is a principal. The trust products or asset management plans will be consolidated if the Group acts in the role of principal.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

34. Interests in consolidated structured entities *(continued)*

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 2018, interests in these consolidated structured entities held by the Group amounted to RMB96,054 million (31 December 2017: RMB147,540 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 2018 and 2017, 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 designated as at fair value through profit or loss in the consolidated statement of financial position as disclosed in notes V.22 and V.51. The change in net assets attributable to other holders of consolidated structured entities amounted to RMB1,928 million for the year ended 31 December 2018 (the year ended 31 December 2017: RMB7,824 million) as disclosed in the consolidated statement of profit or loss.

35. Interests in unconsolidated structured entities

Apart from the structured entities the Group has consolidated as detailed in note V.34, 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 fair value through profit or loss, debt instruments at FVTOCI, debt instruments at amortised cost or interests in associates and joint ventures as appropriate.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

35. Interests in unconsolidated structured entities *(continued)*

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 2018				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	180,423,744	3,896,522	3,896,522	536,437	
				432,963	Commission and fee income
				89,207	Interest income
				14,267	Fair value changes on financial assets and liabilities
Private equity funds	73,660,661	18,171,983	18,171,983	324,977	
				22,455	Commission and fee income
				10,042	Interest income
				292,480	Fair value changes on financial assets and liabilities
Asset management plans	220,372,977	5,131,202	5,131,202	560,025	
				374,043	Commission and fee income
				107,982	Interest income
				78,000	Fair value changes on financial assets and liabilities
Total	474,457,382	27,199,707	27,199,707	1,421,439	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

35. Interests in unconsolidated structured entities *(continued)*

	31 December 2017				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	324,291,262	4,834,750	4,834,750	2,440,482	
				1,341,000	Commission and fee income
				1,099,482	Investment income
Private equity funds	131,177,611	13,845,754	13,845,754	762,664	
				39,564	Commission and fee income
				723,100	Investment income
Asset management plans	238,852,198	4,092,770	4,092,770	441,106	
				392,544	Commission and fee income
				48,562	Investment income
Total	694,321,071	22,773,274	22,773,274	3,644,252	

Meanwhile, the Group also holds interests in the unconsolidated structured entities sponsored by independent third parties through investments. As at 31 December 2018, the carrying amount and maximum exposure to loss amounted to RMB233,601 million (31 December 2017: RMB328,061 million). As at 31 December 2018, these investments are accounted for in financial assets at FVTPL, debt instruments at FVTOCI and at amortised cost (As at 31 December 2017, these investments are accounted for in financial assets held for trading, finance assets designated as at fair value through profit or loss, available-for-sale finance assets and financial assets classified as receivables).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

36. Investment properties

	As at 31 December,	
	2018	**2017**
Cost		
At beginning of the year	**2,480,508**	2,099,741
Purchases	**212,520**	382,133
Transfer in	**3,099,087**	4,480
Transfer out	**(478)**	(5,846)
At end of the year	**5,791,637**	2,480,508
Accumulated depreciation		
At beginning of the year	**345,125**	271,333
Charge for the year	**120,593**	74,714
Transfer out	**(136)**	(922)
At end of the year	**465,582**	345,125
Net book value		
At beginning of the year	**2,135,383**	1,828,408
At end of the year	**5,326,055**	2,135,383

As at 31 December 2018, the fair value of the Group's investment properties amounted to RMB9,310 million (31 December 2017: RMB4,265 million).

During the year, the Group transferred inventories of RMB3,099 million to investment properties.

The Group's investment properties are located in active real estate markets, and the internal appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market. The estimation is taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the property. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value measurement is classified as Level 3.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

37. Property and equipment

	Leasehold land and buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Costs						
As at 1 January 2018	5,535,916	3,289,012	1,353,100	243,413	715,292	11,136,733
Purchases	130,459	149,459	94,868	2,378,626	531,229	3,284,641
Disposals	(8,227)	(71,370)	(31,178)	(19,372)	(68,845)	(198,992)
Acquisition of subsidiaries	4,392	—	1,652	259	—	6,303
Transfer in	85,990	—	18,025	—	14,456	118,471
Transfer out	—	—	—	—	(265,311)	(265,311)
As at 31 December 2018	5,748,530	3,367,101	1,436,467	2,602,926	926,821	14,081,845
Accumulated depreciation						
As at 1 January 2018	1,073,948	349,862	848,062	178,961	—	2,450,833
Charge for the year	189,859	142,314	225,829	300,456	—	858,458
Disposals	(2,421)	(7,092)	(22,174)	(15,449)	—	(47,136)
As at 31 December 2018	1,261,386	485,084	1,051,717	463,968	—	3,262,155
Allowance for impairment losses						
As at 1 January 2018	—	40,709	—	—	—	40,709
Provided for the year	76,792	17,690	—	—	—	94,482
As at 31 December 2018	76,792	58,399	—	—	—	135,191
Net book values						
As at 1 January 2018	4,461,968	2,898,441	505,038	64,452	715,292	8,645,191
As at 31 December 2018	4,410,352	2,823,618	384,750	2,138,958	926,821	10,684,499
Including:						
Net book value of assets pledged for borrowings as at 31 December 2018	18	—	4,432	1,031	—	5,481

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

37. Property and equipment *(continued)*

	Leasehold Land and Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Costs						
As at 1 January 2017	5,604,039	1,266,994	1,160,599	228,502	889,498	9,149,632
Purchases	7,780	1,958,122	209,167	16,607	536,494	2,728,170
Disposals	(135,454)	(323)	(33,037)	(12,054)	—	(180,868)
Acquisition of subsidiaries	6,935	64,219	11,238	6,937	—	89,329
Transfer in	52,616	—	5,133	3,421	43,832	105,002
Transfer out	—	—	—	—	(754,532)	(754,532)
As at 31 December 2017	5,535,916	3,289,012	1,353,100	243,413	715,292	11,136,733
Accumulated depreciation						
As at 1 January 2017	891,861	222,251	695,579	166,337	—	1,976,028
Charge for the year	194,607	127,859	169,732	23,268	—	515,466
Disposals	(12,520)	(248)	(17,249)	(10,644)	—	(40,661)
As at 31 December 2017	1,073,948	349,862	848,062	178,961	—	2,450,833
Allowance for impairment losses						
As at 1 January 2017	—	27,783	—	—	—	27,783
Provided for the year	—	12,926	—	—	—	12,926
As at 31 December 2017	—	40,709	—	—	—	40,709
Net book values						
As at 1 January 2017	4,712,178	1,016,960	465,020	62,165	889,498	7,145,821
As at 31 December 2017	4,461,968	2,898,441	505,038	64,452	715,292	8,645,191
Including:						
Net book value of assets pledged for borrowings as at 31 December 2017	2,834	—	—	—	—	2,834

As at 31 December 2018, properties that the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB181 million (31 December 2017: RMB154 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 2018, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB675 million (31 December 2017: RMB585 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

38. 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,	
	2018	2017
Deferred tax assets	15,018,661	13,400,222
Deferred tax liabilities	(605,835)	(1,380,333)
Total	14,412,826	12,019,889

	Changes in fair value of financial assets at FVTOCI	Changes in fair value of available-for-sale financial assets	Changes in fair value of financial assets at FVTPL	Accrued but not paid staff costs	Accrued Interests	Allowance for impairment losses	Others	Total
As at 31 December 2017	—	77,161	(455,573)	439,645	(541,878)	13,531,087	(1,030,553)	12,019,889
Adjustment on initial application of IFRS 9	(368,215)	(77,161)	1,035,370	—	18,230	(152,708)	—	455,516
As at 1 January 2018 (Restated)	(368,215)	—	579,797	439,645	(523,648)	13,378,379	(1,030,553)	12,475,405
Credit/(charge) to profit or loss (note V.13)	—	—	1,358,849	(33,834)	70,401	(235,900)	846,988	2,006,504
Credit to other comprehensive income	(75,000)	—	—		—	—	5,917	(69,083)
As at 31 December 2018	(443,215)	—	1,938,646	405,811	(453,247)	13,142,479	(177,648)	14,412,826
As at 1 January 2017	—	(779,787)	(609,034)	380,446	(634,568)	10,219,526	24,229	8,600,812
Credit/(charge) to profit or loss (note V.13)	—	—	153,461	59,199	92,690	3,308,352	(1,006,237)	2,607,465
Credit to other comprehensive income	—	854,724	—	—	—	—	(46,310)	808,414
Disposals of subsidiaries	—	2,224	—	—	—	3,209	(2,235)	3,198
As at 31 December 2017	—	77,161	(455,573)	439,645	(541,878)	13,531,087	(1,030,553)	12,019,889

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

38. Deferred taxation *(continued)*

As at 31 December 2018, the Group's unused tax losses and deductible temporary differences not recognised as deferred tax assets amounted to RMB3,867 million and RMB18,908 million respectively (31 December 2017: RMB1,380 million and RMB3,587 million respectively).

The expiry dates of unused tax losses are as follows:

	As at 31 December,	
	2018	**2017**
31 December 2019	**30,785**	30,785
31 December 2020	**62,869**	62,869
31 December 2021	**352,129**	352,129
31 December 2022	**564,783**	564,783
31 December 2023	**780,132**	—
Undated	**2,076,236**	321,770
Total	**3,866,934**	1,332,336

39. Contract assets

	As at 31 December, 2018
Construction contracts	**114,715**

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

40. Other assets

	As at 31 December,	
	2018	**2017**
Other receivables	**6,229,302**	8,629,719
Other lease prepayment	**3,682,082**	845,916
Foreclosed assets[(1)]	**3,009,072**	1,957,108
Payments in advance	**2,588,698**	5,026,483
Land use rights	**1,792,431**	1,845,021
Clearing and settlement receivables	**580,254**	294,436
Prepaid expenses	**550,487**	1,330,616
Deductible value-added tax	**517,297**	357,010
Receivable from disposals of investments	**251,664**	1,711,123
Dividends receivable	**64,480**	66,524
Interest receivable[(2)]	**—**	5,027,606
Others	**1,212,549**	365,674
Total	**20,478,316**	27,457,236

(1) The Group disposes foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

(2) As at 31 December 2018, the interests accrued on debt instruments of the Group are included in the carrying amounts of the corresponding financial assets.

41. Goodwill

	2018	**2017**
Cost		
At 1 January	**342,051**	108,037
Arising on acquisition of a subsidiary	**—**	234,014
Exchange difference	**11,280**	—
At 31 December	**353,331**	342,051
Impairment		
At 1 January	**—**	—
Impairment loss recognised in the year	**(89,974)**	—
At 31 December	**(89,974)**	—
Net goodwill at 31 December	**263,357**	342,051

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

41. Goodwill *(continued)*

Impairment testing on goodwill

The gross balance was mainly comprised of goodwill of RMB245 million and RMB90 million arising from acquisitions of Huarong Investment Stock Corporation Ltd. ("HISC") and Huarong International Financial Holdings Limited ("HIFH") respectively.

As at 31 December 2018, the recoverable amounts of the goodwill arising from these two acquisitions were determined to be.

- for HISC, its value in use, which is calculated using cash flow projection based on financial budget approved by management covering a five-year period, terminal growth rate of 3.2% (31 December 2017: 2.5%) for cash flows beyond the five-year period, and a discount rate of 12.3% (31 December 2017: 13.6%). No impairment was recognised for goodwill arising from acquisition of HISC;

- for HIFH, its fair value less costs of disposals. The fair value of HIFH was determined by quoted prices of its shares and therefore it is catergorised as Level 1. An impairment of RMB90 million was recognised during the year.

42. Borrowings from central bank

	As at 31 December,	
	2018	2017
Due within 1 year	2,402,169	4,647,000

As at 31 December 2018, borrowings from central bank carry interest at market rates which range from 2.75% to 3.90% (31 December 2017: 2.75% to 3.85%) per annum.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

43. Deposits from financial institutions

	As at 31 December,	
	2018	**2017**
Banks	**4,751,353**	7,971,760
Other financial institutions	**2,556,230**	2,186,594
Total	**7,307,583**	10,158,354

Deposits from financial institutions carry interest at market rates which range from 0.35% to 5.23% (31 December 2017: 0.35% to 7.50%) per annum.

44. Placements from financial institutions

	As at 31 December,	
	2018	**2017**
Other financial institutions	**300,153**	—
Banks	**—**	2,101,560
Total	**300,153**	2,101,560

Placements from financial institutions carry interest at market rates which range from 0.30% to 4.60% (31 December 2017: 0.30% to 4.30%) per annum.

45. Financial assets sold under repurchase agreements

	As at 31 December,	
	2018	**2017**
Bonds	**19,056,095**	47,620,734
Loans and advances to customers	**3,953,787**	6,516,482
Beneficial rights of debt instruments	**1,400,134**	5,922,254
Beneficial rights of trust products	**—**	257,500
Total	**24,410,016**	60,316,970

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

46. Borrowings

	As at 31 December,	
	2018	**2017**
Unsecured loans	**649,429,694**	636,602,087
Guaranteed loans	**71,769,892**	90,101,884
Pledged loans	**32,976,544**	40,458,244
Loans secured by properties	**6,819,380**	5,895,047
Total	**760,995,510**	773,057,262

The carrying amounts of assets pledged for borrowings are listed as follows:

	As at 31 December,	
	2018	**2017**
Finance lease receivables	**38,049,400**	39,326,979
Inventories	**9,564,985**	6,908,344
Deposits with financial institutions	**4,681,824**	2,226,130
Investment properties	**4,004,111**	1,019,822
Debt instruments at amortised cost	**1,737,000**	—
Interests in associates and joint ventures	**500,000**	—
Property and equipment	**5,481**	2,834
Financial assets held for trading	**—**	3,209,270
Financial assets classified as receivables	**—**	2,702,798
Held-to-maturity investments	**—**	2,479,543
Available-for-sale financial assets	**—**	746,321
Total	**58,542,801**	58,622,041

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

46. Borrowings *(continued)*

	As at 31 December, 2018	2017
Carrying amount repayable[1]:		
Within one year	**460,746,169**	386,222,411
More than one year, but not exceeding two years	**174,537,531**	193,267,431
More than two years, but not exceeding five years	**57,960,272**	161,815,023
More than five years	**36,215,499**	31,198,449
Subtotal	**729,459,471**	772,503,314
Carrying amount of borrowings that contain a repayment on demand clause repayable[1]:		
Within one year	**16,845,100**	553,948
More than one year, but not exceeding two years	**6,750,934**	—
More than two years, but not exceeding five years	**7,940,005**	—
Subtotal	**31,536,039**	553,948
Total	**760,995,510**	773,057,262

(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, 2018	2017
Within one year	**394,491,886**	324,731,487
More than one year, but not exceeding two years	**174,075,146**	155,585,168
More than two years, but not exceeding five years	**58,664,691**	119,956,687
More than five years	**35,732,674**	23,639,911
Total	**662,964,397**	623,913,253

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

46. 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, 2018	2017
Effective interest rate		
Fixed-rate borrowings	**3.00%–10.00%**	2.18%–9.50%
Variable-rate borrowings	**1.60%–9.80%**	1.65%–7.20%

As at 31 December 2018, the Group failed to comply with certain financial conditions stipulated in certain lending and borrowing agreements, and the relevant amount of these borrowings amounted RMB23,688 million (31 December 2017: Nil). Up to the date of this report, the Group has repaid an aggregate amount of RMB7,120 million (31 December 2017: Nil) and for the remaining balances, terms of balance of RMB5,671 million has been renegotiated, and 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.

47. Due to customers

	As at 31 December, 2018	2017
Demand deposits		
Corporate customers	**82,228,418**	96,481,636
Individual customers	**19,092,892**	19,344,726
Time deposits		
Corporate customers	**55,072,139**	36,435,836
Individual customers	**30,477,840**	26,738,407
Pledged deposits	**7,364,094**	9,340,458
Others	**14,881,101**	14,008,886
Total	**209,116,484**	202,349,949

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

48. Tax payable

	As at 31 December, 2018	2017
Enterprise income tax	**3,157,997**	4,523,501
Hong Kong profits tax	**573,890**	1,485,342
Macau profits tax	**—**	16,992
Total	**3,731,887**	6,025,835

49. Bonds and notes issued

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
The Company							
Financial bonds	**—**	5,594,464	RMB6,000 million	5 years	November 2013	5.66% fixed rate	Interest payable annually
Financial bonds	**9,974,255**	9,928,178	RMB10,000 million	5 years	December 2014	4.80% fixed rate	Interest payable annually
Financial bonds	**—**	17,495,515	RMB17,500 million	3 years	July 2015	4.01% fixed rate	Interest payable annually
Financial bonds	**17,498,498**	17,179,583	RMB17,500 million	5 years	July 2015	4.21% fixed rate	Interest payable annually
Financial bonds	**10,260,889**	9,972,657	RMB10,000 million	5 years	March 2016	3.39% fixed rate	Interest payable annually
Financial bonds	**12,537,715**	12,473,324	RMB12,500 million	3 years	November 2016	3.35% fixed rate	Interest payable annually
Financial bonds	**12,522,528**	12,464,135	RMB12,500 million	5 years	November 2016	3.54% fixed rate	Interest payable annually
Tier II capital bonds	**10,198,699**	9,943,748	RMB10,000 million	10 years	June 2017	4.95% fixed rate	Interest payable annually(1)
Tier II capital bonds	**9,951,113**	—	RMB10,000 million	10 years	December 2018	5.00% fixed rate	Interest payable annually
Subtotal	**82,943,697**	95,051,604	RMB106,000 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Xiangjiang Bank							
Tier II capital bonds	**3,082,270**	2,991,320	RMB3,000 million	10 years	June 2015	6.00% fixed rate	Interest payable annually[2]
Negotiable certificates of deposit	**—**	48,273,093	RMB49,210 million	3–12 months	January–December 2017	2.95%–5.30%	Interest payable on maturity date
Tier II capital bonds	**2,454,858**	2,399,838	RMB2,400 million	10 years	July 2017	5.00% fixed rate	Interest payable annually[3]
Green financial bonds	**1,004,842**	998,616	RMB1,000 million	3 years	November 2017	4.90% fixed rate	Interest payable annually
Green financial bonds	**2,604,824**	—	RMB2,500 million	3 years	March 2018	5.35% fixed rate	Interest payable annually
Negotiable certificates of deposit	**70,980,371**	—	RMB72,230 million	1–12 months	January–December 2018	2.75%–5.20%	Interest payable on maturity date
Subtotal	**80,127,165**	54,662,867	RMB130,340 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities							
Subordinate bonds	–	1,500,000	RMB1,500 million	3 years	March 2015	5.70% fixed rate	Interest payable annually
Corporate bonds	–	2,000,000	RMB2,000 million	3 years	April 2015	4.90% fixed rate	Interest payable annually
Subordinate bonds	–	1,500,000	RMB1,500 million	3 years	May 2015	5.39% fixed rate	Interest payable annually
Subordinate bonds	1,030,750	1,000,000	RMB1,000 million	4 years	April 2016	4.10% fixed rate	Interest payable annually
Subordinate bonds	1,014,583	1,000,000	RMB1,000 million	3 years	August 2016	3.50% fixed rate	Interest payable annually
Subordinate bonds	–	2,000,000	RMB2,000 million	2 years	December 2016	4.20% fixed rate	Interest payable annually
Subordinate bonds	4,684,667	4,516,410	RMB4,530 million	3 years	April 2017	5.30% fixed rate	Interest payable annually
Corporate bonds	1,537,350	1,500,000	RMB1,500 million	3 years	July 2017	4.98% fixed rate	Interest payable annually
Subordinate bonds	1,498,429	1,465,590	RMB1,470 million	3 years	August 2017	5.00% fixed rate	Interest payable annually
Corporate bonds	2,004,802	1,992,000	RMB2,000 million	3 years	November 2017	5.86% fixed rate	Interest payable annually
Beneficiary certificates	–	9,920	RMB10 million	14 days	December 2017	6.00% fixed rate	Interest payable on maturity date
Beneficiary certificates	801,433	1,709,500	RMB1,710 million	2 years	May–June 2017	4.80%–5.50%	Interest payable semi-annually
Subordinate bonds	2,586,115	–	RMB2,500 million	3 years	April 2018	5.80% fixed rate	Interest payable annually
Beneficiary certificates	2,463,900	–	RMB2,390 million	14 days–2 years	April–December 2018	5.10%–6.00%	Interest payable on maturity date
Corporate bonds	2,630,254	–	RMB2,500 million	3 years	February 2018	5.98% fixed rate	Interest payable annually
Beneficiary certificates	1,577,397	–	RMB1,573 million	1–3 years	July–August 2018	5.40%–5.80%	Interest payable semi-annually
Subtotal	21,829,680	20,193,420	RMB29,183 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Financial Leasing							
Financial bonds	—	399,548	RMB400 million	5 years	September 2013	floating rate	Interest payable annually(4)
Financial bonds	—	999,227	RMB1,000 million	3 years	June 2015	floating rate	Interest payable annually(5)
Leasing asset — backed securities	—	640,127	RMB2,855 million	3 years	October 2015	floating rate	Interest payable quarterly(6)
Financial bonds	—	1,997,454	RMB2,000 million	3 years	December 2015	3.76% fixed rate	Interest payable annually
Financial bonds	1,999,453	1,992,030	RMB2,000 million	5 years	December 2015	4.00% fixed rate	Interest payable annually
Leasing asset — backed securities	375,046	1,294,254	RMB4,411 million	6 years	April 2016	floating rate	Interest payable quarterly(7)
Financial bonds	1,037,753	997,670	RMB1,000 million	3 years	February 2017	4.45% fixed rate	Interest payable annually
Financial bonds	1,037,425	995,126	RMB1,000 million	5 years	February 2017	4.70% fixed rate	Interest payable annually
Leasing asset — backed securities	1,730,893	2,671,193	RMB4,990 million	6 years	February 2017	4.40% fixed rate & floating rate	Interest payable quarterly(8)
Leasing asset — backed securities	2,237,509	3,482,608	RMB4,961 million	10 years	November 2017	5.30% fixed rate & floating rate	Interest payable quarterly(9)
Financial bonds	625,710	—	RMB600 million	3 years	March 2018	5.42% fixed rate	Interest payable annually
Financial bonds	2,429,911	—	RMB2,400 million	3 years	August 2018	4.50% fixed rate	Interest payable annually
Subtotal	11,473,700	15,469,237	RMB27,617 million				
Huarong Rongde							
Corporate bonds	—	2,334,638	RMB3,000 million	3 years	September 2015	4.95% fixed rate	Interest payable annually
Corporate bonds	1,528,813	1,488,985	RMB1,500 million	5 years	April 2016	3.80% fixed rate	Interest payable annually
Corporate bonds	1,525,557	1,487,981	RMB1,500 million	5 years	July 2017	5.40% fixed rate	Interest payable annually
Corporate bonds	1,511,324	1,490,894	RMB1,500 million	5 years	October 2017	5.39% fixed rate	Interest payable annually
Interbank bonds	—	998,842	RMB1,000 million	270 days	November 2017	5.00% fixed rate	Interest payable on maturity date
Interbank bonds	1,012,848	—	RMB1,000 million	270 days	August 2018	5.21% fixed rate	Interest payable on maturity date
Subtotal	5,578,542	7,801,340	RMB9,500 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Huitong Asset Management Co., Ltd.							
Corporate bonds	302,992	300,000	RMB300 million	3 years	October 2017	5.60% fixed rate	Interest payable annually
Corporate bonds	528,581	—	RMB500 million	3 years	February 2018	6.40% fixed rate	Interest payable annually
Corporate bonds	683,614	—	RMB650 million	3 years	March 2018	6.40% fixed rate	Interest payable annually
Corporate bonds	1,047,811	—	RMB1,000 million	3 years	March 2018	6.30% fixed rate	Interest payable annually
Corporate bonds	1,036,164	—	RMB1,000 million	3 years	June 2018	6.60% fixed rate	Interest payable annually
Asset-backed securities	110,924	—	RMB110 million	159 days	November 2018	5.50% fixed rate	Interest payable on maturity date
Asset-backed securities	777,647	—	RMB770 million	342 days	November 2018	6.50% fixed rate	Interest payable on maturity date
Asset-backed securities	30,300	—	RMB30 million	434 days	November 2018	6.55% fixed rate	Interest payable on maturity date
Asset-backed securities	505,668	—	RMB500 million	723 days	November 2018	6.70% fixed rate	Interest payable on maturity date
Subtotal	5,023,701	300,000	RMB4,860 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Tianze Investment Co., Ltd., subsidiary of Huarong Zhiyuan Investment & Management Co., Ltd.							
Corporate bonds	–	300,000	RMB300 million	3 years	December 2015	5.25% fixed rate	Interest payable annually
Subtotal	–	300,000	RMB300 million				
Huarong Real Estate Co., Ltd.							
Corporate bonds	1,905,008	1,900,000	RMB1,900 million	5 years	March 2017	5.48% fixed rate	Interest payable annually
Corporate bonds	2,221,002	2,215,448	RMB2,220 million	5 years	December 2017	6.34% fixed rate	Interest payable annually
Corporate bonds	3,094,100	2,995,570	RMB3,000 million	5 years	December 2017	6.35% fixed rate	Interest payable annually
Subtotal	7,220,110	7,111,018	RMB7,120 million				
Huarong Universe Investment Holding Limited, subsidiary of Huarong (HK) Industrial and Financial Investment Limited							
Euro bonds	3,896,788	3,865,508	EUR500 million	5 years	December 2017	1.625% fixed rate	Interest payable annually
Huarong Finance Co., Ltd., subsidiary of Huarong International Holdings Limited							
U.S. Dollar bonds	8,376,163	7,957,206	USD1,200 million	5 years	July 2014	4.00% fixed rate	Interest payable annually

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance II Co., Ltd., subsidiary of Huarong International Holdings Limited							
Mid-term U.S. dollar notes	–	3,982,630	USD600 million	3 years	January 2015	3.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	8,389,825	7,974,680	USD1,200 million	5 years	January 2015	4.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	9,745,489	9,265,431	USD1,400 million	10 years	January 2015	5.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	–	3,273,074	USD500 million	3 years	November 2015	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,433,698	3,263,265	USD500 million	5 years	November 2015	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	5,482,298	5,215,246	USD800 million	10 years	November 2015	5.00% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,812,197	4,576,433	USD700 million	3 years	June 2016	2.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,167,120	5,862,321	USD900 million	5 years	June 2016	3.25% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,127,212	5,826,203	USD900 million	10 years	June 2016	4.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,874,882	6,535,702	USD1,000 million	3 years	November 2016	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	9,275,333	8,823,166	USD1,350 million	5 years	November 2016	3.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,440,178	4,223,257	USD650 million	10 years	November 2016	4.875% fixed rate	Interest payable semi-annually
Subtotal	64,748,232	68,821,408	USD10,500 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance 2017 Co., Ltd., subsidiary of Huarong International Holdings Limited							
Mid-term U.S. dollar notes	7,641,179	7,258,689	USD1,100 million	3 years	January 2017	3.375% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,926,248	3,735,003	USD570 million	5 years	April 2017	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,818,799	4,585,576	USD700 million	10 years	April 2017	4.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	1,381,530	1,315,292	USD200 million	30 years	April 2017	5.5% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,470,447	3,278,111	USD500 million	3 years	April 2017	3 months LIBOR+ 1.65%	Interest payable quarterly
Mid-term U.S. dollar notes	6,956,643	6,556,976	USD1,000 million	5 years	April 2017	3 months LIBOR+ 1.85%	Interest payable quarterly
Mid-term U.S. dollar notes	4,164,589	3,930,072	USD600 million	5 years	November 2017	3 months LIBOR+ 1.15%	Interest payable quarterly
Mid-term U.S. dollar notes	7,560,940	7,195,596	USD1,100 million	10 years	November 2017	4.25% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,798,572	4,568,111	USD700 million	30 years	November 2017	4.95% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	1,736,979	—	USD250 million	1 years	February 2018	3.40% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	995,277	—	USD150 million	10 years	July 2018	4.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	2,738,036	—	USD400 million	3 years	July 2018	3 months LIBOR+ 1.175%	Interest payable quarterly
Mid-term U.S. dollar notes	3,764,052	—	USD550 million	5 years	July 2018	3 months LIBOR+ 1.325%	Interest payable quarterly
Subtotal	53,953,291	42,423,426	USD7,820 million				
Mid-term SGD notes	3,014,817	2,938,383	SGD600 million	4 years	April 2017	3.20% fixed rate	Interest payable semi-annually
Mid-term SGD notes	2,009,611	1,959,759	SGD400 million	8 years	November 2017	3.80% fixed rate	Interest payable semi-annually
Subtotal	5,024,428	4,898,142	SGD1,000 million				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

49. Bonds and notes issued *(continued)*

	As at 31 December, 2018	2017	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance 2017 Co., Ltd., subsidiary of Huarong International Holdings Limited							
Private Placement Note Instrument	3,109,802	3,107,693	RMB3,000 million	2 years	March 2017	4.70% fixed rate	Interest payable annually
Total	353,305,299	331,962,869					

(1) 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) Huarong Xiangjiang Bank has the right to exercise early redemption partially or fully on 29 June 2020. If no early redemption is exercised, the coupon rate of the bonds will remain at 6.00% per annum.

(3) 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.

(4) Floating rate is determined as PBOC one-year deposit rate plus 2.70% per annum.

(5) Floating rate is determined as PBOC one-year deposit rate plus 3.05% per annum.

(6) Floating rates for Class A-1 and Class B-1 of these asset-backed securities are determined as PBOC one-year deposit rate plus 2.25% and 2.98%, respectively, per annum. As the underlying finance lease receivables have been received, the corresponding liabilities were reduced accordingly.

(7) 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.

(8) 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.

(9) 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

50. Contract liabilities

	As at 31 December, 2018
Properties development contracts	**954,376**

Typical payment terms which impact on the amount of contract liabilities recognised are disclosed in the information about the Group's performance obligation. Please refer to note V.7 for more details.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Properties development
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**2,485,400**

The most significant changes in contract liabilities is related to revenue recognised and cash received in advance during the current year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

51. Other liabilities

	As at 31 December, 2018	2017
Payables to interest holders of consolidated structured entities	**92,869,809**	151,672,943
Other payables	**35,406,407**	55,429,436
Guarantee deposits received from customers	**16,767,821**	13,461,006
Amounts received in advance(1)	**7,312,953**	8,910,599
Dividends payable	**4,364,099**	177,460
Account payable to brokerage clients	**4,152,730**	5,002,905
Employee benefits payable	**4,026,682**	4,349,146
Amounts due to China Trust Protection Fund	**2,800,000**	1,648,000
Account payable to financial institutions	**2,012,096**	38,999,561
Sundry taxes payable	**1,884,439**	2,164,417
Bills payable(2)	**798,136**	1,525,623
Margin deposit received from securities customers	**318,348**	450,628
Provisions(3)	**204,692**	115,610
Interest payable(4)	**—**	8,827,933
Others	**705,905**	342,638
Total	**173,624,117**	293,077,905

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

51. Other liabilities *(continued)*

(3) Movements of provisions

	The movement of the loss allowance during the year in credit enhancement and credit commitment
As at 1 January 2018	6,000
Provided for the year	87,502
As at 31 December 2018	93,502

Provisions are made by the Group relating to litigation claims on the Group's entities as well as credit enhancement business undertaken by the Group. As at 31 December 2018 and 2017, total amount of provisions arising from legal actions of the Group was RMB111 million and RMB110 million, respectively.

(4) As at 31 December 2018, the interests accrued on debt instruments of the Group are included in the carrying amounts of the corresponding financial liabilities.

52. Share capital of the Company

	Year ended 31 December, 2018	2017
Authorised, issued and fully paid		
At beginning and end of the year	39,070,208	39,070,208

	As at 31 December 2017 and 2018 Number of shares (thousands)	Nominal value
Registered, issued and fully paid		
Domestic shares	14,026,355	14,026,355
H shares	25,043,853	25,043,853
Total	39,070,208	39,070,208

V. EXPLANATORY NOTES *(continued)*

53. 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.

54. 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.

55. General reserve

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

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

For the year ended 31 December 2018, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB2,990 million (2017: RMB2,579 million) to general reserve pursuant to the regulatory requirements in the PRC. Among which, the Company transferred RMB2,833 million to general reserve for the year ended 31 December 2018 (2017: RMB1,356 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

56. Other reserves

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of equity instruments at FVTOCI/debt instruments at FVTOCI/AFS investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those equity instruments at FVTOCI/debt instruments at FVTOCI/AFS investments 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 only 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.

57. Perpetual capital instruments

Movement of the perpetual capital instruments is as follows:

	Principal	Distribution	Total
Balance at 1 January 2017	14,973,523	56,733	15,030,256
Increase in perpetual capital instruments	19,246,542	—	19,246,542
Decrease in perpetual capital instruments	(11,307,658)	—	(11,307,658)
Profit attributable to holders of perpetual capital instruments	—	1,140,525	1,140,525
Distribution to holders of perpetual capital instruments	—	(924,244)	(924,244)
Balance at 31 December 2017	22,912,407	273,014	23,185,421
Increase in perpetual capital instruments	**200,000**	**—**	**200,000**
Decrease in perpetual capital instruments	**(3,150,000)**	**—**	**(3,150,000)**
Profit attributable to holders of perpetual capital instruments	**—**	**976,844**	**976,844**
Distribution to holders of perpetual capital instruments	**—**	**(953,733)**	**(953,733)**
Balance at 31 December 2018	**19,962,407**	**296,125**	**20,258,532**

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

57. Perpetual capital instruments *(continued)*

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 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.

58. Cash and cash equivalents

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

	As at 31 December,	
	2018	**2017**
Cash on hand	**604,188**	497,304
Balances with central bank	**4,319,320**	3,011,766
Deposits with financial institutions	**89,250,788**	143,957,757
Placements with financial institutions	**843,160**	9,300,000
Financial assets held under resale agreements	**6,301,867**	12,353,254
Total	**101,319,323**	169,120,081

59. 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 2018, total claim amount of pending litigations was RMB1,796 million (31 December 2017: RMB1,212 million) for the Group, and total provision of RMB112 million (31 December 2017: RMB110 million) for the Group was made based on court judgments or the advice of legal counsels. The directors of the Company believe that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

60. Commitments

(1) Operating lease commitments

At the end of the reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December, 2018	2017
Within one year	**749,013**	876,214
In the second to the fifth year, inclusive	**1,230,234**	1,948,494
Over five years	**162,333**	145,728
Total	**2,141,580**	2,970,436

The operating lease payments represent rentals payable by the Group for office premises and equipment. Leases are negotiated for an average term of 3 years.

(2) Credit enhancement

As at 31 December 2018, the Group provided credit enhancement for counterparties involving in borrowing arrangements in the amount of RMB532 million (31 December 2017: RMB600 million). Impairment allowance of RMB6 million was made for credit enhancement as at 31 December 2018.

(3) Credit commitments

	As at 31 December, 2018	2017
Bank bill acceptance	**11,861,498**	18,027,091
Undrawn credit card commitments	**6,830,089**	5,764,808
Loan commitments	**5,438,779**	8,026,345
Letters of credit issued	**1,747,958**	779,086
Letters of guarantee issued	**733,854**	1,681,561
Total	**26,612,178**	34,278,891

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

Impairment allowance of RMB88 million was made for credit commitments as at 31 December 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

60. Commitments *(continued)*

(4) Other commitments

	As at 31 December,	
	2018	**2017**
Contracted but not provided for — commitments for the acquisition of property and equipment	**201,360**	235,683

61. 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

61. Transfers of financial assets *(continued)*

Repurchase agreements *(continued)*

	Carrying amount of pledged assets As at 31 December,		Related liabilities As at 31 December,	
	2018	2017	2018	2017
Debt instruments at fair value through other comprehensive income	8,665,568	—	8,834,663	—
Debt instruments at amortised cost	9,267,641	—	8,679,962	—
Loans and advances to customers	3,955,012	6,656,799	3,953,787	6,516,482
Financial assets at fair value through profit or loss	6,115,763	—	2,941,604	—
Held-for-trading debt securities	—	16,399,125	—	13,675,132
Held-to-maturity debt securities	—	21,214,318	—	20,153,282
Available-for-sale debt securities	—	14,591,775	—	14,049,820
Financial assets classified as receivables	—	8,643,473	—	5,922,254
Total	28,003,984	67,505,490	24,410,016	60,316,970

Asset-backed securities

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. As the underlying assets, the finance lease receivables and the debt instruments at amortised cost, did not meet the criteria of derecognition, the Group did not derecognise such finance lease receivables and debt instruments at amortised cost, and the consideration received was treated as financial liabilities. As at 31 December 2018, the carrying amount of such transferred but not derecognised finance lease receivables and debt instruments at amortised cost amounted to RMB7,774 million and RMB1,535 million respectively (31 December 2017: RMB16,901 million and nil), the carrying amounts of the corresponding financial liabilities which are recognised as bonds and notes issued amounted to RMB4,343 million and RMB1,425 million respectively (31 December 2017: RMB8,088 million and nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

61. Transfers of financial assets *(continued)*

Asset-backed securities *(continued)*

Meanwhile, 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. For the year ended 31 December 2018, there were no similar transaction (the year ended 31 December 2017: RMB3,010 million). The Group has transferred substantially all the risks and rewards of these credit assets and therefore has derecognised these credit assets. As at 31 December 2018, the carrying amount of the corresponding asset-backed securities held by the Group amounted to RMB63 million (31 December 2017: RMB120 million).

The carrying amount of distressed debt assets transferred to structured entities amounted to RMB808 million (the year ended 31 December 2017: RMB37,469 million) for the year ended 31 December 2018.

62. Related party transactions

(1) The MOF

As at 31 December 2018, the MOF directly owned 63.36% (31 December 2017: 63.36%) of share capital of the Company including domestic shares and H shares.

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

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

62. Related party transactions *(continued)*

(1) The MOF *(continued)*

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

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

	As at 31 December,	
	2018	2017
Financial assets at amortised cost	8,940,096	—
Dividends payable	4,180,733	—
Debt instruments at fair value through other comprehensive income	284,500	—
Other assets	146,229	—
Other payables	12,255	39,696
Held-to-maturity investments	—	7,362,677
Available-for-sale financial assets	—	549,150
Financial assets held for trading	—	330,590
Interest receivable	—	76,474

The Group had the following transactions with the MOF:

	Year ended 31 December,	
	2018	2017
Interest income	333,968	—
Fair value changes on financial assets and liabilities	3,910	—
Investment income	—	249,790
Interest expense	—	47,048

(2) Government related entities

Other than those disclosed above, the Group also entered into transactions with government related entities. These transactions are entered into under normal commercial terms and conditions. None of them was individually significant.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

62. Related party transactions *(continued)*

(3) Associates and joint ventures

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

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

	As at 31 December,	
	2018	2017
Financial assets at amortised cost	6,155,424	—
Financial assets at fair value through profit or loss	68,093	—
Other assets	23,701	150,625
Other liabilities	69	—
Financial assets classified as receivables	—	8,257,799
Available-for-sale financial assets	—	585,137
Interest receivable	—	29,219

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

	Year ended 31 December,	
	2018	2017
Interest income	461,407	—
Commission and fee income	8,227	15,769
Operating expenses	7,501	26,141
Rental income	1,252	—
Other income	56	—
Investment income, gains and losses	—	564,432

Trust asset management:

As at 31 December 2018, associates and joint ventures held a trust of RMB14 million issued by the Group (31 December 2017: RMB30 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

62. Related party transactions *(continued)*

(4) Annuity Scheme

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

	Year ended 31 December,	
	2018	**2017**
Contribution to Annuity Schemes	**181,796**	170,030

(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,	
	2018	**2017**
Emoluments of key management personnel		
— Fees	**240**	223
— Salaries and other benefits	**5,056**	5,716
— Employer's contribution to pension scheme	**368**	437
— Discretionary and performance related incentive payments	**6,533**	10,885
Total (before tax)	**12,197**	17,261

The total compensation packages for the above key management personnel for the years ended 31 December 2018 and 2017 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,	
	2018	**2017**
HKD nil to HKD1,000,000	**19**	13
HKD1,000,001 to HKD1,500,000	**1**	—
HKD1,500,001 to HKD2,000,000	**3**	2
HKD2,000,001 to HKD2,500,000	**1**	4
	24	19

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. 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.

63.1 Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. Credit risk mainly arises from loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes. The nature of credit risk of distressed debt assets classified as debt instruments at amortised cost, debt instrument at FVTOCI and financial assets at FVTPL is similar to those mentioned above. Risk management of the distressed assets is detailed in note V.63.4 together with other types of distressed assets.

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ii) ***Significant increase in credit risk*** *(continued)*

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.

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.

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ii) Significant increase in credit risk *(continued)*

Internal credit risk ratings *(continued)*

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.

The Group considers credit risk has significantly increased if there is:

- Overdue principal or interests by more than 30 days; or
- Significant downgrade in internal rating or external rating; or
- Significant adverse changes in the operation or financial situation of the issuer or debtor.

(iii) Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs external and internal information to generate different scenarios of future forecast of relevant economic variables. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. ECL measurement is partially determined by these forecasts according to statistical analysis.

The major economic variables used in the "base case" scenario forecasts were GDP growth (5.8%–6.5% for the year ending 31 December 2019), consumer price index (1.9%–2.5% for the year ending 31 December 2019), and producer price index (3.4% for the year ending 31 December 2019).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(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).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modeling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(iv) Measurement of ECL (continued)

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.

(v) Grouping based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- industry;
- geographic location of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

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

	As at 31 December,	
	2018	2017
Distressed debt assets classified as receivables	—	368,428,387
Distressed debt assets at amortised cost	289,084,314	—
Distressed debt assets at FVTOCI	100,445,929	—
Loans and advances to customers	195,780,303	162,011,199
Finance lease receivables	101,455,058	97,727,410
Subtotal	686,765,604	628,166,996
Allowance for impairment losses		
Distressed debt assets classified as receivables	—	(23,744,067)
Distressed debt assets at amortised cost	(22,926,485)	—
Loans and advances to customers	(5,126,265)	(3,789,251)
Finance lease receivables	(2,452,118)	(2,023,481)
Subtotal	(30,504,868)	(29,556,799)
Net carrying amount		
Distressed debt assets classified as receivables	—	344,684,320
Distressed debt assets at amortised cost	266,157,829	—
Distressed debt assets at FVTOCI	100,445,929	—
Loans and advances to customers	190,654,038	158,221,948
Finance lease receivables	99,002,940	95,703,929
Total	656,260,736	598,610,197

For financial assets at FVTOCI (including distressed debt assets and loans and advances to customers) disclosed above, no loss allowance is recognised as the carrying amount is measured at fair value. The loss allowances from those financial assets were recognised in impairment losses on financial assets and OCI. As at 31 December 2018, the loss allowance of distressed debt assets at FVTOCI and the loans and advances to customers at FVTOCI were RMB2,920 million and RMB1 million, respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

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

Analysed by geographical area

	As at 31 December,			
	2018		2017	
Area	Gross amount	%	Gross amount	%
Central Region	289,093,120	42.1	242,321,422	38.6
Western Region	139,971,281	20.4	132,890,359	21.2
Yangtze River Delta	102,714,783	15.0	107,950,391	17.2
Bohai Rim	66,925,966	9.7	57,873,435	9.2
Pearl River Delta	60,092,574	8.8	59,506,307	9.5
Northeastern Region	21,160,755	3.1	22,544,372	3.6
Overseas	6,807,125	0.9	5,080,710	0.7
Total	686,765,604	100.0	628,166,996	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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

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

Analysed by industry

	As at 31 December,			
	2018		2017	
Industry	Gross amount	%	Gross amount	%
Corporate business				
Real estate	213,414,460	31.0	219,035,352	34.9
Water, environment and public utilities management	91,771,586	13.4	91,918,236	14.6
Manufacturing	78,486,192	11.4	71,026,579	11.3
Construction	50,671,834	7.4	39,571,693	6.3
Leasing and commercial services	43,910,328	6.4	36,547,676	5.8
Transportation, logistics and postal services	18,397,281	2.7	14,069,885	2.2
Mining	9,894,981	1.4	10,937,093	1.7
Others	112,318,499	16.4	97,602,480	15.5
Subtotal	618,865,161	90.1	580,708,994	92.3
Personal business				
Personal consumption loans	27,562,917	4.0	15,483,236	2.5
Mortgages	18,511,719	2.7	11,390,788	1.8
Loans for business operations	12,740,825	1.9	10,556,064	1.7
Others	2,802,609	0.4	2,504,521	0.4
Subtotal	61,618,070	9.0	39,934,609	6.4
Loans to margin clients	6,282,373	0.9	7,523,393	1.3
Total	686,765,604	100.0	628,166,996	100.0

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

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

By contractual maturity and security type

	Gross amount as at 31 December 2018				Gross amount as at 31 December 2017			
	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	23,384,291	23,204,912	14,314,780	60,903,983	16,274,741	20,864,969	11,189,113	48,328,823
Guaranteed	42,106,508	77,013,483	7,693,816	126,813,807	40,816,438	90,242,191	7,251,507	138,310,136
Collateralised	37,150,419	343,091,707	43,509,455	423,751,581	45,082,863	296,105,909	27,024,995	368,213,767
Pledged	21,093,724	49,116,461	5,086,048	75,296,233	21,370,496	48,813,229	3,130,545	73,314,270
Total	123,734,942	492,426,563	70,604,099	686,765,604	123,544,538	456,026,298	48,596,160	628,166,996

(vii) Past due distressed debt assets at amortised cost and at FVTOCI, loans and advances to customers and finance lease receivables

	Gross amount as at 31 December 2018						Gross amount as at 31 December 2017					
	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 classified as receivables	—	—	—	—	—	—	1,904,741	4,839,450	1,888,092	2,191,331	10,823,614	2.9
Distressed debt assets at amortised cost	8,471,222	19,599,614	6,303,744	3,319,838	37,694,418	13.0	—	—	—	—	—	—
Distressed debt assets at FVTOCI	3,441,856	914,124	188,704	—	4,544,684	4.5	—	—	—	—	—	—
Loans and advances to customers	1,508,805	2,396,745	957,456	12,903	4,875,909	2.5	819,043	2,343,651	934,877	538,277	4,635,848	2.9
Finance lease receivables	66,848	451,357	1,332,287	241,360	2,091,852	2.1	591,873	892,303	1,274,437	238,788	2,997,401	3.1
Total	13,488,731	23,361,840	8,782,191	3,574,101	49,206,863	7.2	3,315,657	8,075,404	4,097,406	2,968,396	18,456,863	2.9

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(viii) Maximum credit risk exposure without taking into account any collateral or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure per class of financial assets to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk mainly arises from distressed debt assets acquired from financial institutions and non-financial institutions, loans and advances to customers, finance lease receivables, investment securities, and treasury operations of its banking activities. For loan commitments and financial guarantee contracts, the amounts represent the amounts committed or guaranteed, respectively.

At the end of the reporting period, maximum exposure to credit risk is as follows:

	As at December 31,	
	2018	2017
Balances with central bank	29,304,910	32,709,808
Deposits with financial institutions	107,500,242	162,881,077
Placements with financial institutions	843,638	9,822,736
Financial assets held for trading	—	49,844,932
Financial assets at fair value through profit or loss (excluding distressed debt assets)	157,394,478	—
Financial assets designated as at fair value through profit or loss	—	58,401,395
Financial assets held under resale agreements	20,126,943	41,238,105
Loans and advances to customers	190,654,038	158,221,948
Finance lease receivables	99,002,940	95,703,929
Debt instruments at FVTOCI	147,387,307	—
Available-for-sale financial assets	—	66,670,097
Held-to-maturity investments	—	64,451,200
Financial assets classified as receivables	—	701,192,438
Debt instruments at amortised cost	612,133,108	—
Other assets	6,709,124	15,315,333
Subtotal	1,371,056,728	1,456,452,998
Credit enhancements	532,000	600,000
Credit commitments	26,612,178	34,278,891
Subtotal	27,144,178	34,878,891
Total	1,398,200,906	1,491,331,889

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(viii) Maximum credit risk exposure without taking into account any collateral or other credit enhancements (continued)

Distressed debt assets at fair value through profit or loss may contain certain elements of credit risk. The risks that such assets are exposed to are detailed in note V. 63.4. The carrying amount of distressed debt assets at fair value through profit or loss amounted to RMB166,370 million for the Group as at 31 December 2018 (31 December 2017: RMB150,807 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, 2018
Financial assets held under resale agreements	624,020
Loans and advances to customers	5,127,167
Finance lease receivables	2,452,118
Debt instruments at FVTOCI	3,259,432
Debt instruments at amortised cost	50,929,464
Credit enhancement and commitments	93,502
	62,485,703

No loss allowance is recognised in the statement of financial position for debt instruments at FVTOCI as the carrying amount is at fair value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(2) Movement of loss allowance

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

Loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	1,860,927	667,773	1,273,543	3,802,243
Changes in the loss allowance				
— Transfer to stage 1	47,288	(47,046)	(242)	—
— Transfer to stage 2	(439,683)	470,307	(30,624)	—
— Transfer to stage 3	(251,418)	(155,678)	407,096	—
— Provided for the year	1,951,746	356,654	3,708,225	6,016,625
— Reversal for the year	(1,199,660)	(473,747)	(441,912)	(2,115,319)
— Write-offs	—	—	(2,677,007)	(2,677,007)
— Others	(643)	—	101,268	100,625
As at 31 December 2018	1,968,557	818,263	2,340,347	5,127,167

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(2) Movement of loss allowance *(continued)*

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	501,255	1,107,623	886,434	2,495,312
Changes in the loss allowance				
— Transfer to stage 1	189	(189)	—	—
— Transfer to stage 2	(48,223)	76,162	(27,939)	—
— Transfer to stage 3	(8,316)	(197,502)	205,818	—
— Provided for the year	252,434	260,614	960,457	1,473,505
— Reversal for the year	(214,378)	(637,808)	(381,068)	(1,233,254)
— Write-offs	—	—	(369,694)	(369,694)
— Others	1,854	—	84,395	86,249
As at 31 December 2018	484,815	608,900	1,358,403	2,452,118

Debt instruments at FVTOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	2,560,071	591,273	151,892	3,303,236
Changes in the loss allowance				
— Transfer to stage 1	72,149	(72,149)	—	—
— Transfer to stage 2	(305,296)	305,296	—	—
— Transfer to stage 3	(84,918)	(460,110)	545,028	—
— Provided for the year	428,563	347,130	1,211,061	1,986,754
— Reversal for the year	(1,948,343)	(106,942)	(37,284)	(2,092,569)
— Others	117,148	(1,837)	(53,300)	62,011
As at 31 December 2018	839,374	602,661	1,817,397	3,259,432

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(2) Movement of loss allowance *(continued)*

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	16,618,671	10,228,888	11,483,315	38,330,874
Changes in the loss allowance				
— Transfer to stage 1	698,528	(698,528)	—	—
— Transfer to stage 2	(2,629,464)	3,005,273	(375,809)	—
— Transfer to stage 3	(2,716,286)	(4,042,562)	6,758,848	—
— Provided for the year	5,766,738	5,627,258	20,464,820	31,858,816
— Reversal for the year	(11,130,427)	(3,337,015)	(4,770,992)	(19,238,434)
— Others	110,826	86,277	(218,895)	(21,792)
As at 31 December 2018	6,718,586	10,869,591	33,341,287	50,929,464

The most significant movements of loss allowance during the year in respect of loan and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost, arose from transition of financial assets to Stage 2 or 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 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 period that contributed to movement of the loss allowance, is provided at the table below:

Loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	146,592,431	7,383,541	2,344,330	156,320,302
Changes in the gross amount				
— Transfer to stage 1	519,602	(519,135)	(467)	—
— Transfer to stage 2	(5,118,991)	5,189,593	(70,602)	—
— Transfer to stage 3	(3,112,192)	(2,428,758)	5,540,950	—
— New financial assets originated or purchased	105,695,514	—	—	105,695,514
— Financial assets that have been derecognised	(60,399,783)	(2,493,320)	(665,403)	(63,558,506)
— Write-offs	—	—	(2,677,007)	(2,677,007)
As at 31 December 2018	184,176,581	7,131,921	4,471,801	195,780,303
Allowances for impairment loss as at 31 December 2018	1,968,557	818,263	2,340,347	5,127,167

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance *(continued)*

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	93,109,966	3,348,494	1,268,950	97,727,410
Changes in the gross amount				
— Transfer to stage 1	3,973	(3,973)	—	—
— Transfer to stage 2	(3,345,781)	3,452,613	(106,832)	—
— Transfer to stage 3	(600,347)	(781,090)	1,381,437	—
— New assets originated or purchased	10,846,586	—	—	10,846,586
— Assets that have been derecognised	(5,456,614)	(745,780)	(546,850)	(6,749,244)
— Write-offs	—	—	(369,694)	(369,694)
As at 31 December 2018	94,557,783	5,270,264	1,627,011	101,455,058
Allowances for impairment loss as at 31 December 2018	484,815	608,900	1,358,403	2,452,118

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance *(continued)*

Debt instruments at FVTOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	154,329,550	3,235,509	188,384	157,753,443
Changes in the gross amount				
— Transfer to stage 1	741,035	(741,035)	—	—
— Transfer to stage 2	(11,413,495)	11,413,495	—	—
— Transfer to stage 3	(2,361,672)	(1,170,675)	3,532,347	—
— New financial assets originated or purchased	45,371,027	—	—	45,371,027
— Financial assets that have been derecognised	(53,648,685)	(1,553,259)	(535,219)	(55,737,163)
As at 31 December 2018	133,017,760	11,184,035	3,185,512	147,387,307
Allowances for impairment loss as at 31 December 2018	839,374	602,661	1,817,397	3,259,432

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(3) Changes in gross carry amount of financial assets that contributed to movement of the loss allowance *(continued)*

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	594,423,830	62,743,007	20,945,199	678,112,036
Changes in the gross amount				
— Transfer to stage 1	4,397,189	(4,397,189)	—	—
— Transfer to stage 2	(67,494,262)	67,870,071	(375,809)	—
— Transfer to stage 3	(39,521,439)	(15,622,401)	55,143,840	—
— New financial assets originated or purchased	248,796,115	—	—	248,796,115
— Financial assets that have been derecognised	(243,882,402)	(13,003,477)	(6,959,700)	(263,845,579)
As at 31 December 2018	496,719,031	97,590,011	68,753,530	663,062,572
Allowances for impairment loss as at 31 December 2018	6,718,586	10,869,591	33,341,287	50,929,464

(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.

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(4) Modified financial assets *(continued)*

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 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

(5) Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with loans and advances to customers, finance lease receivables, debt instruments at FVTOCI and debt instruments at amortised cost. The main types of collateral include leasehold land and buildings, machinery and equipment, shares, accounts receivable and bank deposits.

In addition to the financial assets held under resale agreements as set out in note V.23, the fair value of collateral held by the Group amounted to RMB1,876,661 million as at 31 December 2018. Assets foreclosed by the group was disclosed in note V.40. The Group did not repledge any collateral held. The Group has to return the collateral when the relevant borrowers repay the balances.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral as at 31 December 2018. There was no change in the Group's collateral policy during the year.

The Group requests collateral and guarantees for financial assets including loans and advances to customers, finance lease receivables and debt instruments at amortised cost and FVTOCI. 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(5) Collateral held as security and other credit enhancements *(continued)*

For credit-impaired of financial assets including loans and advances to customers, finance lease receivables and debt instruments at amortised cost and FVTOCI, the Group obtains appraisals of collateral to inform its credit risk management actions. As at 31 December 2018 the net carrying amount of such financial assets was RMB38,913 million (2017: RMB15,733 million) and the value of the respective collateral was RMB123,320 million (2017: RMB24,700 million).

The Group has lease receivables at a carrying amount of RMB7,247 million which are secured by the property and equipment leased to the lessee.

(6) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables

	As at 31 December, 2017
Neither past due nor impaired	609,401,143
Past due but not impaired[(1)]	7,689,546
Impaired[(2)]	11,076,307
Subtotal	628,166,996
Allowance for impairment losses	(29,556,799)
Net carrying amount	598,610,197

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(6) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

Past due but not impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables (before application of IFRS 9)

	Gross amount as at 31 December 2017				
	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
Distressed debt assets classified as receivables	1,904,741	1,587,666	—	—	3,492,407
Loans and advances to customers	796,105	1,565,793	173,683	—	2,535,581
Finance lease receivables	589,998	606,983	464,577	—	1,661,558
Total	3,290,844	3,760,442	638,260	—	7,689,546

	As at 31 December 2017		
	Gross amount	Allowance for impairment losses	Net carrying value
Distressed debt assets classified as receivables			
— Individually assessed	7,381,111	(4,907,664)	2,473,447
Loans and advances to customers			
— Individually assessed	1,849,358	(1,082,706)	766,652
— Collectively assessed	435,241	(176,763)	258,478
Finance lease receivables			
— Individually assessed	1,177,307	(717,892)	459,415
— Collectively assessed	233,290	(123,401)	109,889
Total	11,076,307	(7,008,426)	4,067,881

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(6) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

Impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables (before application of IFRS 9)

	As at 31 December, 2017
Distressed debt assets classified as receivables	
Individually assessed and impaired	7,381,111
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	2.0
Fair value of collateral	11,700,594
Loans and advances to customers	
Individually assessed and impaired	1,849,358
Individually assessed and impaired as a % of total loans and advances to customers (%)	1.1
Collectively assessed and impaired	435,241
Collectively assessed and impaired as a % of total loans and advances to customers (%)	0.3
Fair value of collateral	4,710,352
Finance lease receivables	
Individually assessed and impaired	1,177,307
Individually assessed and impaired as a % of total finance lease receivables (%)	1.2
Collectively assessed and impaired	233,290
Collectively assessed and impaired as a % of total finance lease receivables (%)	0.2
Fair value of collateral[1]	25,600

(1) It represents the fair value of collaterals obtained by the Group in addition to assets under finance lease business.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(6) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

Impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables (before application of IFRS 9) (continued)

Analysed by geographical area

	As at 31 December 2017		
Area	Gross amount	%	Impairment ratio %
Central Region	4,792,135	43.3	2.0
Western Region	1,955,944	17.7	1.5
Yangtze River Delta	2,007,159	18.1	1.9
Pearl River Delta	19,832	0.2	0.0
Bohai Rim	285,014	2.6	0.5
Northeastern Region	2,016,223	18.1	8.9
Total	11,076,307	100.0	1.8

(7) Credit quality of investment securities

The tables below set forth the credit quality of investment securities.

	As at 31 December, 2017
Neither past due nor impaired[1]	601,942,924
Past due but not impaired[2]	836,671
Impaired[3]	8,311,883
Subtotal	611,091,478
Allowance for impairment losses	
— Individually assessed	(3,655,588)
— Collectively assessed	(11,560,148)
Net carrying amount	595,875,742

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(7) Credit quality of investment securities *(continued)*

Neither past due nor impaired investment securities

	As at 31 December 2017					
	Financial assets trading	Financial assets designated as at profit or loss	Available-for-sale assets	Held-to-investments	Financial assets receivables	Total
Government bonds	346,547	—	599,150	19,988,506	—	20,934,203
Public sector and quasi-government bonds	903,100	—	15,999,165	31,756,394	—	48,658,659
Financial institution bonds	2,401,265	—	6,735,082	10,197,297	—	19,333,644
Corporate bonds	28,071,002	—	33,601,429	2,509,003	—	64,181,434
Trust products	—	18,492,657	1,811,043	—	156,023,750	176,327,450
Wealth management products	10,386,791	7,670,492	4,885,716	—	13,219,119	36,162,118
Entrust loans	—	—	—	—	84,201,955	84,201,955
Debt instruments	—	1,515,559	—	—	93,503,897	95,019,456
Asset management plans	—	3,509,948	—	—	15,626,579	19,136,527
Convertible bonds	—	13,010,094	—	—	—	13,010,094
Structured products	—	14,202,645	—	—	—	14,202,645
Negotiable certificates of deposit	7,290,694	—	—	—	—	7,290,694
Asset-backed securities	445,533	—	3,038,512	—	—	3,484,045
Total	49,844,932	58,401,395	66,670,097	64,451,200	362,575,300	601,942,924

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(7) Credit quality of investment securities *(continued)*

Past due but not impaired investment securities

	As at 31 December 2017					
	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Financial assets classified as receivables	Total
Trust products	—	—	—	—	786,671	786,671
Debt instruments	—	—	—	—	50,000	50,000
Total	—	—	—	—	836,671	836,671

Impaired investment securities

	As at 31 December 2017					
	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Financial assets classified as receivables	Total
Trust products	—	—	—	—	2,703,852	2,703,852
Entrust loans	—	—	—	—	938,000	938,000
Debt instruments	—	—	—	—	4,423,365	4,423,365
Asset management plans	—	—	—	—	246,666	246,666
Total	—	—	—	—	8,311,883	8,311,883

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) ***Credit quality*** *(continued)*

(8) Investment securities analysed by credit rating from reputable rating agencies

	As at 31 December 2018					
	AAA	AA	A	Below A	Unrated	Total
Government bonds	6,872,464	—	—	—	14,802,669	21,675,133
Public sector and quasi-government bonds	194,930	—	20,634,247	—	33,371,367	54,200,544
Financial institution bonds	2,770,291	1,644,599	—	—	4,493,880	8,908,770
Corporate bonds	13,556,364	12,490,887	823,069	7,261,321	17,885,832	52,017,473
Convertible bonds	75,455	—	—	—	12,744,281	12,819,736
Asset-backed securities	381,717	359,215	—	—	152,568	893,500
Total	23,851,221	14,494,701	21,457,316	7,261,321	83,450,597	150,515,156

	As at 31 December 2017					
	AAA	AA	A	Below A	Unrated	Total
Government bonds	5,959,838	—	—	—	14,974,365	20,934,203
Public sector and quasi-government bonds	—	—	—	—	48,658,659	48,658,659
Financial institution bonds	9,583,102	2,158,718	577,098	98,210	6,916,516	19,333,644
Corporate bonds	7,753,074	25,944,634	5,903,760	6,096,386	18,483,580	64,181,434
Trust products	—	—	—	—	179,817,973	179,817,973
Wealth management products	—	—	—	—	36,162,118	36,162,118
Entrust loans	—	—	—	—	85,139,955	85,139,955
Debt instruments	—	—	—	—	99,492,821	99,492,821
Asset management plans	—	—	—	—	19,383,193	19,383,193
Convertible bonds	111,887	19,023	22,383	20,187	12,836,614	13,010,094
Structured products	—	—	—	—	14,202,645	14,202,645
Negotiable certificates of deposit	—	—	—	—	7,290,694	7,290,694
Asset-backed securities	2,840,992	643,053	—	—	—	3,484,045
Total	26,248,893	28,765,428	6,503,241	6,214,783	543,359,133	611,091,478

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.1 Credit risk *(continued)*

(ix) Credit quality *(continued)*

(8) Investment securities analysed by credit rating from reputable rating agencies *(continued)*

Among debt securities held by the Group, debt securities issued within Mainland China amounted to RMB127,043 million, and their credit ratings are assessed by domestic credit agents, debt securities issued outside Mainland China amounted to RMB23,472 million and their credit ratings are assessed by international credit agents.

(x) Other financial assets

Other financial assets include deposits and placement with financial institutions, financial assets held under resale agreements and balances with central bank. The directors of the Company consider that their credit risks are not significant.

63.2 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:

- minimizing 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 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 2018						
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central bank	28,981,556	—	—	—	—	927,542	29,909,098
Deposits with financial institutions	95,298,852	5,522,918	6,576,474	100,000	—	1,998	107,500,242
Placements with financial institutions	500,345	343,160	—	—	—	133	843,638
Financial assets at fair value through profit or loss	20,983,202	10,195,991	22,099,082	31,994,094	14,319,505	291,589,101	391,180,975
Financial assets held under resale agreements	12,137,904	587,217	5,573,995	1,476,185	—	351,642	20,126,943
Loans and advances to customers	36,155,720	14,740,223	78,515,320	45,505,857	14,742,164	994,754	190,654,038
Finance lease receivables	5,674,583	5,424,514	25,484,105	56,922,351	5,497,387	—	99,002,940
Debt instruments at fair value through other comprehensive income	3,547,702	7,063,964	50,631,541	84,051,749	1,197,717	894,634	147,387,307
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	3,244,308	3,244,308
Debt instruments at amortised cost	54,206,529	35,218,001	180,646,695	309,909,662	30,467,305	1,684,916	612,133,108
Other financial assets	—	—	—	—	—	6,709,124	6,709,124
Total financial assets	257,486,393	79,095,988	369,527,212	529,959,898	66,224,078	306,398,152	1,608,691,721
Borrowings from central bank	—	(520,000)	(1,880,000)	—	—	(2,169)	(2,402,169)
Deposits from financial institutions	(176,843)	—	(6,800,000)	(240,000)	—	(90,740)	(7,307,583)
Placements from financial institutions	(300,000)	—	—	—	—	(153)	(300,153)
Financial assets sold under repurchase agreements	(19,269,578)	(3,566,879)	(1,564,859)	—	—	(8,700)	(24,410,016)
Borrowings	(44,075,738)	(89,415,813)	(333,507,865)	(263,455,216)	(27,456,418)	(3,084,460)	(760,995,510)
Financial liabilities designated as at fair value through profit or loss	—	—	(1,600,755)	(3,127,536)	—	—	(4,728,291)
Due to customers	(122,776,274)	(9,502,013)	(29,183,761)	(40,268,414)	(4,055,010)	(3,331,012)	(209,116,484)
Bonds and notes issued	(2,700,042)	(17,769,749)	(99,233,559)	(164,352,373)	(67,206,702)	(2,042,874)	(353,305,299)
Other financial liabilities	(5,759,360)	(137,769)	(3,950,974)	(8,262,404)	(33,149,985)	(72,368,678)	(123,629,170)
Total financial liabilities	(195,057,835)	(120,912,223)	(477,721,773)	(479,705,943)	(131,868,115)	(80,928,786)	(1,486,194,675)
Interest rate gap	62,428,558	(41,816,235)	(108,194,561)	50,253,955	(65,644,037)	225,469,366	122,497,046

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 Market risk *(continued)*

Interest rate risk *(continued)*

	As at 31 December 2017						
	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	32,386,357	—	—	—	—	820,755	33,207,112
Deposits with financial institutions	134,243,736	22,978,132	4,379,079	1,280,130	—	—	162,881,077
Placements with financial institutions	7,593,752	2,111,368	117,616	—	—	—	9,822,736
Financial assets held for trading	11,338,028	937,998	5,293,231	23,775,791	8,499,884	17,412,777	67,257,709
Financial assets designated as at fair value through profit or loss	5,229,977	911,489	8,441,989	31,019,486	8,043,697	176,398,704	230,045,342
Financial assets held under resale agreements	17,730,464	1,953,385	7,490,908	14,063,348	—	—	41,238,105
Loans and advances to customers	30,386,439	9,777,978	58,869,896	42,656,424	16,531,211	—	158,221,948
Finance lease receivables	28,393,745	14,008,301	48,172,505	4,853,651	275,727	—	95,703,929
Available-for-sale financial assets	2,518,991	1,755,025	18,020,023	54,672,624	11,698,872	106,855,162	195,520,697
Held-to-maturity investments	6,303,675	7,106,682	11,380,953	22,063,275	17,596,615	—	64,451,200
Financial assets classified as receivables	16,670,522	26,757,032	181,333,199	462,107,434	14,324,251	—	701,192,438
Other financial assets	—	—	—	—	—	15,315,333	15,315,333
Total financial assets	292,795,686	88,297,390	343,499,399	656,492,163	76,970,257	316,802,731	1,774,857,626
Borrowings from central bank	(3,597,000)	—	(1,050,000)	—	—	—	(4,647,000)
Deposits from financial institutions	(2,902,963)	—	(5,735,391)	(1,520,000)	—	—	(10,158,354)
Placements from financial institutions	(2,101,560)	—	—	—	—	—	(2,101,560)
Financial assets sold under repurchase agreements	(41,180,284)	(11,014,972)	(6,337,654)	(1,784,060)	—	—	(60,316,970)
Borrowings	(41,312,187)	(86,227,175)	(262,526,635)	(355,505,895)	(27,485,370)	—	(773,057,262)
Financial liabilities designated as at fair value through profit or loss	—	—	(68,444)	(1,560,000)	—	(918,939)	(2,547,383)
Due to customers	(137,609,094)	(12,450,190)	(27,170,082)	(24,540,234)	—	(580,349)	(202,349,949)
Bonds and notes issued	(19,017,275)	(12,155,784)	(69,520,529)	(178,128,647)	(53,140,634)	—	(331,962,869)
Other financial liabilities	(287,373)	(4,891)	(6,611,307)	(9,896,004)	(33,130,741)	(174,504,928)	(224,435,244)
Total financial liabilities	(248,007,736)	(121,853,012)	(379,020,042)	(572,934,840)	(113,756,745)	(176,004,216)	(1,611,576,591)
Interest rate gap	44,787,950	(33,555,622)	(35,520,643)	83,557,323	(36,786,488)	140,798,515	163,281,035

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 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 fair value to profit or loss.

- The fair value of financial instruments at FVTOCI and available-for-sale financial assets are changes in respond to this change of 100 basis points.

Interest rate sensitivity analysis

	Year ended 31 December,			
	2018		2017	
	Profit before tax	Other comprehensive income before tax	Profit before tax	Other comprehensive income before tax
+ 100 basis points	(155,925)	(1,754,986)	16,385	(1,092,867)
- 100 basis points	155,925	1,788,511	(16,385)	1,135,006

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 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 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	29,903,867	5,089	141	1	29,909,098
Deposits with financial institutions	89,944,853	9,937,777	7,340,143	277,469	107,500,242
Placements with financial institutions	500,345	343,293	—	—	843,638
Financial assets at fair value through profit or loss	282,619,521	12,853,737	92,161,069	3,546,648	391,180,975
Financial assets held under resale agreements	20,120,035	—	6,908	—	20,126,943
Loans and advances to customers	186,966,037	77,967	3,604,660	5,374	190,654,038
Finance lease receivables	96,034,186	2,968,754	—	—	99,002,940
Debt instruments at fair value through other comprehensive income	140,063,187	7,324,120	—	—	147,387,307
Equity instruments at fair value through other comprehensive income	794,465	2,449,843	—	—	3,244,308
Debt instruments at amortised cost	540,708,960	27,873,642	43,550,506	—	612,133,108
Other financial assets	6,080,039	25,998	603,087	—	6,709,124
Total financial assets	1,393,735,495	63,860,220	147,266,514	3,829,492	1,608,691,721
Borrowings from central bank	(2,402,169)	—	—	—	(2,402,169)
Deposits from financial institutions	(7,307,583)	—	—	—	(7,307,583)
Placements from financial institutions	(300,153)	—	—	—	(300,153)
Financial assets sold under repurchase agreements	(19,078,287)	(5,028,402)	(303,327)	—	(24,410,016)
Borrowings	(701,453,793)	(44,987,894)	(10,060,064)	(4,493,759)	(760,995,510)
Financial liabilities designated as at fair value through profit or loss	(4,728,291)	—	—	—	(4,728,291)
Due to customers	(208,801,975)	(269,322)	(732)	(44,455)	(209,116,484)
Bonds and notes issued	(217,306,395)	(127,077,686)	—	(8,921,218)	(353,305,299)
Other financial liabilities	(122,879,509)	(82,146)	(667,515)	—	(123,629,170)
Total financial liabilities	(1,284,258,155)	(177,445,450)	(11,031,638)	(13,459,432)	(1,486,194,675)
Net exposure	109,477,340	(113,585,230)	136,234,876	(9,629,940)	122,497,046

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 Market risk *(continued)*

Foreign exchange risk *(continued)*

	As at 31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	33,187,874	19,180	57	1	33,207,112
Deposits with financial institutions	132,192,971	14,193,078	12,716,517	3,778,511	162,881,077
Placements with financial institutions	9,300,000	522,736	—	—	9,822,736
Financial assets held for trading	54,658,801	9,768,600	2,602,817	227,491	67,257,709
Financial assets designated as at fair value through profit or loss	202,309,255	12,598,033	15,138,054	—	230,045,342
Financial assets held under resale agreements	41,238,105	—	—	—	41,238,105
Loans and advances to customers	153,819,249	143,327	4,259,372	—	158,221,948
Finance lease receivables	94,537,258	1,166,671	—	—	95,703,929
Available-for-sale financial assets	153,288,840	28,769,421	13,151,492	310,944	195,520,697
Held-to-maturity investments	64,451,200	—	—	—	64,451,200
Financial assets classified as receivables	651,096,380	32,119,010	17,977,048	—	701,192,438
Other financial assets	11,459,182	774,809	2,979,017	102,325	15,315,333
Total financial assets	1,601,539,115	100,074,865	68,824,374	4,419,272	1,774,857,626
Borrowings from central bank	(4,647,000)	—	—	—	(4,647,000)
Deposits from financial institutions	(10,158,354)	—	—	—	(10,158,354)
Placements from financial institutions	(2,100,000)	—	—	(1,560)	(2,101,560)
Financial assets sold under repurchase agreements	(56,574,698)	(3,742,272)	—	—	(60,316,970)
Borrowings	(704,632,252)	(47,865,403)	(20,550,388)	(9,219)	(773,057,262)
Financial liabilities designated as at fair value through profit or loss	(2,012,075)	(522,736)	(12,572)	—	(2,547,383)
Due to customers	(201,959,728)	(389,646)	(575)	—	(202,349,949)
Bonds and notes issued	(203,997,179)	(119,202,040)	—	(8,763,650)	(331,962,869)
Other financial liabilities	(219,882,021)	(940,052)	(3,613,171)	—	(224,435,244)
Total financial liabilities	(1,405,963,307)	(172,662,149)	(24,176,706)	(8,774,429)	(1,611,576,591)
Net exposure	195,575,808	(72,587,284)	44,647,668	(4,355,157)	163,281,035

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 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,			
	2018		2017	
	Profit before tax	Other comprehensive income before tax	Profit before tax	Other comprehensive income before tax
5% appreciation	(696,770)	(488,698)	4,009,932	(758,725)
5% depreciation	696,770	488,698	(4,009,932)	758,725

Price risk

Certain equity financial assets included in financial assets at FVTPL and financial assets at FVTOCI (year ended 31 December 2017: financial assets held for trading and the available-for-sale financial assets) 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.2 Market risk *(continued)*

Price risk *(continued)*

The following table illustrates the potential impact of an increase or decrease of 10 percent in price on these equity financial assets at FVTPL, financial assets at FVTOCI and available-for-sale financial assets measured at fair value on the Group's profit before tax and other comprehensive income before tax.

	Year ended 31 December,			
	2018		2017	
	Profit before tax	Other comprehensive income before tax	Profit before tax	Other comprehensive income before tax
+10 percent	**2,509,963**	**1,884,500**	3,844,818	3,008,751
-10 percent	**(2,509,963)**	**(1,884,500)**	(3,844,818)	(3,008,751)

63.3 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:

- optimizing 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.3 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 2018							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central bank	24,972,359	6,071,056	63,060	13,444	—	—	—	31,119,919
Deposits with financial institutions	32,854,569	56,927,862	10,704,168	5,560,347	6,581,687	411,383	—	113,040,016
Placements with financial institutions	—	—	500,434	346,163	—	—	—	846,597
Financial assets at fair value through profit or loss	242,374,462	26,113,474	15,995,439	21,116,108	31,842,941	37,165,667	16,930,020	391,538,111
Financial assets held under resale agreements	5,900,240	—	6,582,826	660,678	5,884,764	1,651,710	—	20,680,218
Loans and advances to customers	3,026,986	—	20,565,040	17,529,559	62,881,468	86,406,076	41,105,026	231,514,155
Finance lease receivables	2,523,187	—	3,649,699	6,278,960	29,534,346	66,282,381	6,419,324	114,687,897
Debt instruments at fair value through other comprehensive income	1,404,062	—	4,806,544	13,738,752	72,796,614	86,724,699	1,406,622	180,877,293
Equity instruments at fair value through other comprehensive income	3,244,308	—	—	—	—	—	—	3,244,308
Debt instruments at amortised cost	27,929,500	—	33,190,154	53,739,519	238,908,672	325,374,854	30,568,914	709,711,613
Other financial assets	712,067	575,956	28,637	3,574	4,262,073	1,125,747	1,070	6,709,124
Total financial assets	344,941,740	89,688,348	96,086,001	118,987,104	452,692,565	605,142,517	96,430,976	1,803,969,251
Borrowings from central bank	—	—	—	(537,133)	(1,906,465)	—	—	(2,443,598)
Deposits from financial institutions	—	(176,918)	—	(15,643)	(7,057,614)	(252,097)	—	(7,502,272)
Placements from financial institutions	—	—	(300,383)	—	—	—	—	(300,383)
Financial assets sold under repurchase agreements	—	(620,544)	(18,675,147)	(3,897,536)	(1,610,349)	—	—	(24,803,576)
Borrowings	—	(39,024,795)	(40,918,416)	(80,982,648)	(352,734,708)	(272,562,110)	(33,752,269)	(819,974,946)
Financial liabilities designated as at fair value through profit or loss	—	—	—	—	(1,600,755)	(3,127,536)	—	(4,728,291)
Due to customers	—	(114,304,592)	(9,255,003)	(9,797,145)	(30,408,166)	(47,703,928)	(5,155,119)	(216,623,953)
Bonds and notes issued	—	—	(4,507,933)	(18,562,166)	(116,664,972)	(182,278,739)	(73,941,709)	(395,955,519)
Other financial liabilities	(13,910,327)	(49,293,705)	(634,555)	(783,144)	(12,179,993)	(24,761,978)	(38,582,762)	(140,146,464)
Total financial liabilities	(13,910,327)	(203,420,554)	(74,291,437)	(114,575,415)	(524,163,022)	(530,686,388)	(151,431,859)	(1,612,479,002)
Net position	331,031,413	(113,732,206)	21,794,564	4,411,689	(71,470,457)	74,456,129	(55,000,883)	191,490,249

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.3 Liquidity risk *(continued)*

Maturity analysis for derivative financial assets and liabilities are not presented separately as the amount is insignificant.

As disclosed in note V.49, there are early redemption options for certain bonds and notes issued. If these options are exercised, the maturity profile can be earlier than presented above.

In respect of financial liabilities designated as at fair value through profit or loss, the ultimate cash outflow depends on the corresponding underlying assets, and the actual amount can be different from those presented above.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.3 Liquidity risk *(continued)*

	As at 31 December, 2017							
	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	29,698,071	3,509,071	—	—	—	—	—	33,207,142
Deposits with financial institutions	3,937,433	122,413,216	23,842,907	7,413,173	4,441,714	1,405,117	—	163,453,560
Placements with financial institutions	—	—	7,628,457	2,119,082	120,539	—	—	9,868,078
Financial assets held for trading	19,031,428	9,811,222	2,172,060	1,135,116	6,272,059	27,117,105	5,724,660	71,263,650
Financial assets designated as at fair value through profit or loss	176,192,869	3,729,253	144,234	1,711,400	10,575,703	43,587,206	1,790,023	237,730,688
Financial assets held under resale agreements	551,518	—	17,366,704	2,189,103	8,316,347	14,855,465	—	43,279,137
Loans and advances to customers	3,586,056	—	12,351,987	11,727,502	53,228,746	74,670,753	37,755,834	193,320,878
Finance lease receivables	1,742,850	—	3,486,960	5,795,863	25,516,199	70,497,814	2,540,505	109,580,191
Available-for-sale financial assets	95,265,324	—	4,000,557	1,519,493	31,088,872	63,242,892	12,349,744	207,466,882
Held-to-maturity investments	—	—	5,557,950	6,200,816	15,226,585	27,093,241	19,806,678	73,885,270
Financial assets classified as receivables	6,304,744	—	16,853,863	48,933,092	264,884,779	499,858,942	16,188,999	853,024,419
Other financial assets	725,401	3,211,453	128,711	633,052	5,617,380	3,095,242	35,235	13,446,474
Total financial assets	337,035,694	142,674,215	93,534,390	89,377,692	425,288,923	825,423,777	96,191,678	2,009,526,369
Borrowings from central bank	—	—	(3,609,044)	(8,465)	(1,057,344)	—	—	(4,674,853)
Deposits from financial institutions	—	(403,012)	(2,505,532)	(81,648)	(6,017,197)	(1,629,359)	—	(10,636,748)
Placements from financial institutions	—	—	(2,145,723)	—	—	—	—	(2,145,723)
Financial assets sold under repurchase agreements	—	—	(41,389,415)	(11,196,133)	(6,547,429)	(1,796,044)	—	(60,929,021)
Borrowings	—	(25,713,262)	(12,070,664)	(85,855,302)	(296,740,209)	(395,185,849)	(32,826,940)	(848,392,226)
Financial liabilities designated as at fair value through profit or loss	(918,939)	—	(7,287)	(13,869)	(133,088)	(1,583,977)	—	(2,657,160)
Due to customers	—	(129,939,469)	(8,437,156)	(12,841,051)	(28,509,595)	(27,544,320)	—	(207,271,591)
Bonds and notes issued	—	—	(9,476,732)	(10,796,727)	(45,673,223)	(220,764,441)	(56,412,478)	(343,123,601)
Other financial liabilities	(13,540,722)	(18,694,107)	(11,104,385)	(1,302,849)	(44,096,974)	(121,234,499)	(40,807,948)	(250,781,484)
Total financial liabilities	(14,459,661)	(174,749,850)	(90,745,938)	(122,096,044)	(428,775,059)	(769,738,489)	(130,047,366)	(1,730,612,407)
Net position	322,576,033	(32,075,635)	2,788,452	(32,718,352)	(3,486,136)	55,685,288	(33,855,688)	278,913,962

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.4 Risk management of distressed assets

63.4.1 Overview

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

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

63.4.2 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 initially designated as financial assets at FVTPL mainly comprise valuation risk, legal title risk and to certain extent credit risk; while the risks to which distressed debts initially classified as debt instruments at amortised cost and at FVTOCI mainly comprise credit risk.

(i) Valuation risk

Valuation risk is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed debt assets designated as at fair value through profit or loss, due to variance in factors including future cash flows, collection period, discount rate, disposal cost and etc. Measures the Group takes to minimise the valuation risk include:

- Perform investigation strictly on the parties involved in the transaction (including the debtors and the guarantors), collateral provided, repayment sources and etc.; and

- Adopt conservative estimation on incurrence rate, discount rate, and disposal cost when performing valuation and review the difference between actual results and estimation after the completion of the disposal of distressed assets to improve the accuracy of future estimations.

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.4 Risk management of distressed assets *(continued)*

63.4.2 Risk management of distressed debt assets *(continued)*

(i) Valuation risk *(continued)*

The Group has established an independent valuation process for financial assets and financial liabilities. The Operation Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Finance Department records these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

(ii) Legal title risk

Legal title risk is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. Measures the Group takes to minimise the legal title risk include:

- Set up alert management system to ensure the expiry of legal claim periods related to distressed assets are managed effectively;

- Set up periodic revisiting mechanism to interview debtors and monitor the conditions of collateral. Maintain regular investigation report properly to ensure the Group has access to the most updated information; and

- Set up reporting mechanism of significant event to ensure immediate recovery action be taken when certain risk elements emerge.

(iii) Credit risk

In addition to distressed debt assets classified as debt instruments at amortised cost and at FVTOCI, certain distressed debt assets designated as at fair value through profit or loss may also be subject to credit risk. Depending on the status of the obligor of distressed debt assets that are designated as at fair value through profit or loss, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management *(continued)*

63.4 Risk management of distressed assets *(continued)*

63.4.2 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.

63.4.3 Risk management of assets obtained through debt-to-equity swap

Certain equity classified as equity instruments at FVTPL and at FVTOCI were obtained through debt-to-equity swap. Risk related to these equity instruments is the risk of loss arising from movements in the value of equity shares due to price changes or decline in value of the investees.

Measures the Group takes to minimise the risk related to these equity instruments include:

- Strengthen continuous monitoring, analysis and management of equity values;

- Gain better understanding of macro-economic policies reinforced by the government and assess their impact on the equity investments; and

- Track the value changes dynamically and identify the appropriate timing for disposal to realise the maximum value of equity shares.

63.4.4 Determination of fair value

The Group determines the fair value of distressed debt assets, which are classified as financial assets at fair value through profit or loss as at 31 December 2018 and financial assets designated as at fair value through profit or loss as at 31 December 2017, 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. The average discount rate used by the Group as at 31 December 2017 was 11%. As at 31 December 2018, the discount rates used ranged from 2.48% to 13.80%.

V. EXPLANATORY NOTES *(continued)*

63. Financial risk management (continued)

63.4 Risk management of distressed assets (continued)

63.4.5 Impairment assessment

The Group performs impairment assessment on distressed debt assets at amortised cost and debt instruments at FVTOCI. Assessment procedures for distressed debt assets at amortised cost are similar to those set out in note V.63.1.

63.5 Capital management

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

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

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

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

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Yinjianfa [2016] No. 38) and Capital Rules for Financial Asset Management Companies (Provisional) (Yinjianfa [2017] No. 56), issued by the CBRC in 2016 and 2017 respectively, the Company is required to maintain a minimum core Tier II Capital Adequacy Ratio ("CAR") at 12.5% respectively. CAR is calculated by dividing the corresponding qualified capital of the Company by its risk-weighted assets. As at 31 December 2018 and 2017, the Company complied with the regulatory requirements on the minimum CAR.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments

64.1 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 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	25,099,633	18,988,377	347,092,965	391,180,975
Debt instruments at FVTOCI	18,813,233	15,066,331	113,507,743	147,387,307
Equity instruments at FVTOCI	31,770	—	3,212,538	3,244,308
Loans and advances to customers at FVTOCI	—	8,568,670	—	8,568,670
Total assets	43,944,636	42,623,378	463,813,246	550,381,260

	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities designated as at FVTPL	—	(4,150,203)	(578,088)	(4,728,291)

	As at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	36,192,769	29,458,977	1,605,963	67,257,709
Financial assets designated as at fair value through profit or loss	2,255,406	10,919,926	216,870,010	230,045,342
Available-for-sale financial assets	30,087,513	36,160,070	120,995,507	187,243,090
Total assets	68,535,688	76,538,973	339,471,480	484,546,141

	As at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial liabilities designated as at fair value through profit or loss	—	—	(2,547,383)	(2,547,383)

There were no significant transfers between level 1 and level 2 within the Group for the years ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.1 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, 2018	Fair value hierarchy
1) Financial assets at FVTPL		
Distressed debt assets	166,370,280	Level 3
Funds		
— Listed	813,748	Level 1
— Investing in the underlying assets with open or active quotations	4,841,038	Level 2
— Investing in the underlying assets without open or active quotations	53,706,939	Level 3
Trust products issued by financial institutions		
— Investing in the underlying assets with open or active quotations	860,976	Level 2
— Investing in the underlying assets without open or active quotations	42,006,067	Level 3
Equity instruments		
— Listed Shares		
— Unrestricted Shares	21,094,983	Level 1
— Restricted Shares	2,054,482	Level 3
— Unlisted Shares	28,001,634	Level 3
Debt securities		
— Traded in stock exchanges	3,190,902	Level 1
— Traded in inter-bank markets	6,060,440	Level 2
— Traded over the counter	7,608,059	Level 3
Wealth management products	13,347,104	Level 3
Convertible bonds		
— Unlisted	12,819,736	Level 3
Asset management plans		
— Investing in the underlying assets with open or active quotations	4,405,012	Level 2
— Investing in the underlying assets without open or active quotations	5,902,918	Level 3

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.1 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, 2018	Fair value hierarchy
1) Financial assets at FVTPL *(continued)*		
Structured products	**8,580,833**	Level 3
Other debt assets	**5,179,572**	Level 3
Negotiable certificates of deposit	**2,668,343**	Level 2
Entrusted Loans	**742,526**	Level 3
Asset-backed securities		
— Investing in the underlying assets with open or active quotations	**152,568**	Level 2
— Investing in the underlying assets without open or active quotations	**111,991**	Level 3
Others	**660,824**	Level 3
Subtotal	**391,180,975**	
2) Debt instruments at FVTOCI		
Distressed debt assets	**100,445,929**	Level 3
Debt securities		
— Traded in stock exchanges	**18,569,868**	Level 1
— Traded in inter-bank markets	**14,282,697**	Level 2
— Traded over the counter	**390,599**	Level 3
Trust products issued by financial institutions	**2,490,562**	Level 3
Entrust loans	**4,421,136**	Level 3
Debt instruments	**1,902,184**	Level 3
Asset management plans		
— Investing in the underlying assets with open or active quotations	**398,058**	Level 2
— Investing in the underlying assets without open or active quotations	**3,857,333**	Level 3
Asset-backed securities	**243,365**	Level 1
Asset-backed securities	**385,576**	Level 2
Subtotal	**147,387,307**	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.1 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, 2018	Fair value hierarchy
3) Equity instruments at FVTOCI		
Shares		
— Listed Shares	31,770	Level 1
— Unlisted Shares	3,212,538	Level 3
Subtotal	3,244,308	
4) Loans and advances to customers at FVTOCI		
Discounted bills	8,568,670	Level 2
Total	550,381,260	
Financial liabilities		
Financial liabilities designated as at FVTPL		
Interests of other holders in consolidated structured entities	(4,150,203)	Level 2
Interests of other holders in consolidated structured entities	(578,088)	Level 3
Total	(4,728,291)	

Financial assets	Fair value as at 31 December, 2017	Fair value hierarchy
1) Financial assets held for trading		
Debt securities		
— Traded in stock exchanges	25,869,138	Level 1
— Traded in inter-bank markets	5,852,776	Level 2
Shares		
— Listed Shares	7,280,806	Level 1
— Unlisted Shares	294,462	Level 3
Funds		
— Listed	3,042,825	Level 1
— Investing in the underlying assets with open or active quotations	5,483,183	Level 2
— Investing in the underlying assets without open or active quotations	1,311,501	Level 3
Wealth management products	10,386,791	Level 2
Negotiable certificates of deposit	7,290,694	Level 2
Asset-backed securities	445,533	Level 2
Subtotal	67,257,709	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.1 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, 2017	Fair value hierarchy
2) Financial assets designated as at fair value through profit or loss		
Shares		
— Listed Shares		
— Unrestricted Shares	2,255,406	Level 1
— Restricted Shares	1,118,630	Level 3
— Unlisted Shares	17,462,733	Level 3
Distressed debt assets	150,807,178	Level 3
Convertible bonds	13,010,094	Level 3
Structured products		
— Investing in the underlying assets with open or active quotations	418,947	Level 2
— Investing in the underlying assets without open or active quotations	13,783,698	Level 3
Asset management plans		
— Investing in the underlying assets with open or active quotations	2,830,487	Level 2
— Investing in the underlying assets without open or active quotations	679,461	Level 3
Wealth management products	7,670,492	Level 2
Trust products issued by financial institutions	18,492,657	Level 3
Debt instruments with embedded derivatives	1,515,559	Level 3
Subtotal	230,045,342	
3) Available-for-sale financial assets		
Debt securities		
— Traded in stock exchanges	25,232,791	Level 1
— Traded in inter-bank markets	26,755,159	Level 2
— Traded over the counter	4,946,876	Level 3
Shares		
— Listed Shares		
— Unrestricted shares	4,797,295	Level 1
— Restricted shares	4,155,631	Level 3
— Unlisted Shares	9,470,262	Level 3

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.1 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, 2017	Fair value hierarchy
3) Available-for-sale financial assets *(continued)*		
Funds		
— Listed	57,427	Level 1
— Investing in the underlying assets with open or active quotations	1,480,683	Level 2
— Investing in the underlying assets without open or active quotations	71,945,309	Level 3
Wealth management products	4,885,716	Level 2
Asset management plans		
— Investing in the underlying assets without open or active quotations	6,237,674	Level 3
Trust products issued by financial institutions	23,932,018	Level 3
Asset-backed securities		
— Investing in the underlying assets with open or active quotations	3,038,512	Level 2
— Investing in the underlying assets without open or active quotations	307,737	Level 3
Subtotal	187,243,090	
Total	484,546,141	

Financial liabilities		
Financial liabilities designated as at fair value through profit or loss		
Interests of other holders in consolidated structured entities	(2,012,075)	Level 3
Structured products	(535,308)	Level 3
Total	(2,547,383)	

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

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

Valuation methods for financial instruments

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

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

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

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.2 Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL	Debt instruments at FVTOCI	Equity instruments at FVTOCI	Financial liabilities designated at FVTPL
As at 1 January 2018	354,922,400	112,922,923	1,411,764	(2,547,383)
Recognised in profit or loss	(4,542,903)	314,026	—	585,720
Recognised in other comprehensive income	—	576,034	531,593	—
Additions	139,575,212	49,999,419	1,341,987	(205,410)
Settlements/disposals	(142,381,012)	(50,304,659)	(72,806)	571,374
Transferred-in to Level 3	664,253	—	—	—
Transferred-out of Level 3	(1,144,985)	—	—	1,017,611
As at 31 December 2018	347,092,965	113,507,743	3,212,538	(578,088)
Changes in unrealised losses /(gains) for the year included in profit or loss for assets and liabilities held at the end of the year	(4,675,730)	668,438	—	602,656

	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Financial liabilities designated at FVTPL
As at 1 January 2017	213,089	89,638,406	79,053,342	—
Recognised in profit or loss	38,385	1,661,573	(7,183)	(19,130)
Recognised in other comprehensive income	—	—	287,970	—
Additions	1,465,793	232,703,322	75,376,813	(2,528,253)
Settlements/disposals	(111,304)	(107,133,291)	(32,462,897)	—
Transferred-out of Level 3	—	—	(1,252,538)	—
As at 31 December 2017	1,605,963	216,870,010	120,995,507	(2,547,383)
Changes in unrealised gains/(losses) for the year included in profit or loss for assets and liabilities held at the end of the year	13,919	1,152,275	(429,184)	(19,130)

For the years ended 31 December 2018 and 2017, certain restricted shares were transferred out from Level 3 fair value measurement as they became unrestricted during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.3 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.

	Year ended 31 December,			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Debt instruments at amortised cost	**612,133,108**	**639,570,808**	—	—
Loans and advances to customers	**182,085,368**	**184,594,330**	158,221,948	160,731,326
Held-to-maturity investments	**—**	**—**	64,451,200	63,171,064
Financial assets classified as receivables	**—**	**—**	701,192,438	737,354,462
Total	**794,218,476**	**824,165,138**	923,865,586	961,256,852
Financial liabilities				
Borrowings	**(760,995,510)**	**(800,673,225)**	(773,057,262)	(776,084,854)
Bonds and notes issued	**(353,305,299)**	**(352,417,556)**	(331,962,869)	(329,977,905)
Total	**(1,114,300,809)**	**(1,153,090,781)**	(1,105,020,131)	(1,106,062,759)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.3 Fair value of financial assets and financial liabilities that are not measured on a recurring basis *(continued)*

	As at 31 December, 2018	2017	Fair value Hierarchy	Valuation Technique
Financial assets				
Loans and advances to customers	**184,594,330**	160,731,326	Level 3	Discounted cash flows
Held-to-maturity investments	**—**	63,171,064	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Debt instruments at amortised cost	**37,742,114**	—	Level 1	Quoted ask prices in an active market
Debt instruments at amortised cost	**91,645,594**	—	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Debt instruments at amortised cost	**510,183,100**	—	Level 3	Discounted cash flows
Financial assets classified as receivables	**—**	737,354,462	Level 3	Discounted cash flows
Total	**824,165,138**	961,256,852		
Financial liabilities				
Borrowings	**(800,673,225)**	(776,084,854)	Level 3	Discounted cash flows
Bonds and notes issued	**(33,088,598)**	(157,389,217)	Level 1	Quoted ask prices in an active market
Bonds and notes issued	**(297,499,278)**	(163,105,218)	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Bonds and notes issued	**(21,829,680)**	(9,483,470)	Level 3	Discounted cash flows
Total	**(1,153,090,781)**	(1,106,062,759)		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Fair value of financial instruments *(continued)*

64.4 Fair value sensitivity analysis

As at 31 December 2018, for the significant unobserved inputs of Level 3 financial instruments, a slight increase in the discount rate used in isolation would result in a significant decrease in the fair value measurement of the financial instruments that are measured at fair value, and vice versa. A 100 basis point increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the financial instruments that are measured at fair value by RMB11,112 million and RMB11,190 million.

65. 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 note V.49	Financial liabilities designated as at FVTPL note V.22	Interests payable	Payables to interest holders of consolidated structured entities note V.51	Dividends payable note V.51	Total
As at 1 January 2018	232,528,846	331,962,869	2,547,383	3,097,832	151,672,943	177,460	721,987,333
Financing cash flows	(85,561,338)	9,968,818	2,766,628	(25,759,812)	(60,731,328)	(3,749,759)	(163,066,791)
Non-cash changes							
Fair value adjustments	—	—	(585,720)	—	—	—	(585,720)
Foreign exchange translation	6,419,342	5,317,402	—	—	—	—	11,736,744
Interest expenses	1,501,083	6,056,210	—	21,791,923	—	—	29,349,216
Interest capitalisation	—	—	—	870,057	—	—	870,057
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	1,928,194	—	1,928,194
Dividends declared	—	—	—	—	—	7,936,398	7,936,398
As at 31 December 2018	154,887,933	353,305,299	4,728,291	—	92,869,809	4,364,099	610,155,431

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

65. Reconciliation of liabilities arising from financing activities *(continued)*

	Borrowings	Bonds and notes issued note V.49	Financial liabilities designated as at fair value through profit or loss note V.22	Interests payable	Payables to interest holders of consolidated structured entities note V.51	Dividends payable note V.51	Total
As at 1 January 2017	140,593,519	243,075,227	—	1,890,346	158,364,835	108,791	544,032,718
Financing cash flows	92,952,921	89,959,531	2,528,253	(22,486,578)	(14,515,564)	(6,761,781)	141,676,782
Non-cash changes							
Fair value adjustments	—	—	19,130	—	—	—	19,130
Foreign exchange translation	(1,017,594)	(7,156,802)	—	—	—	—	(8,174,396)
Interest expenses	—	6,084,913	—	22,832,843	—	—	28,917,756
Interest capitalisation	—	—	—	861,221	—	—	861,221
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	7,823,672	—	7,823,672
Dividends declared	—	—	—	—	—	6,830,450	6,830,450
As at 31 December 2017	232,528,846	331,962,869	2,547,383	3,097,832	151,672,943	177,460	721,987,333

Only cash flows of borrowings of non-financial institution subsidiaries are considered as financing activities in the presentation of consolidated statement of cash flows.

66. Acquisition of subsidiaries

During the year ended 31 December 2018, the Group acquired several subsidiaries, but its impacts on the financial position, performance and cash flows of the consolidated financial statements are considered insignificant and therefore the details are not disclosed.

Huarong Investment Stock Corporation Ltd.

Pursuant to the subscription agreement between Huarong Investment Stock Corporation Ltd. (the "HISC") (stock code: 2277, formerly known as Chun Sing Engineering Holdings Limited), and Right Select International Limited, a subsidiary of the Group, the latter subscribed for additional 580 million ordinary shares of HISC for a consideration of HKD232 million (equivalent to RMB206 million) on 28 February 2017. After the completion of this subscription, the equity interest of the Group in HISC increased from 27.99% to 50.99% and accordingly HISC was reclassified from an associate to a subsidiary and consolidated in these financial statements thereafter.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

66. Acquisition of subsidiaries *(continued)*

Huarong Investment Stock Corporation Ltd. *(continued)*

Consideration paid

Cash	205,506

Assets acquired and liabilities recognised at the date of acquisition are as follows:

Cash and deposits with financial institutions	1,324,217
Property and equipment	78,516
Other assets	2,088,154
Other liabilities	(2,792,811)
Net assets	698,076

Goodwill arising on the acquisition:

Consideration paid	205,506
Plus: Fair value of previously held 27.99% equity interests in HISC	398,433
Plus: Non-controlling interests	342,127
Less: Net assets acquired	(698,076)
Goodwill arising on acquisition	247,990
Foreign currency exchange difference	(13,975)
Goodwill as at 31 December 2017	234,015

The non-controlling interests at the acquisition date was measured at the proportionate share of the fair value of identifiable net assets of HISC. This fair value was estimated by an independent valuer applying an asset-based approach.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

66. Acquisition of subsidiaries *(continued)*

Huarong Investment Stock Corporation Ltd. *(continued)*

At the acquisition date, the Group's 27.99% equity interest in HISC was re-measured at fair value based on the quoted closing stock price on Hong Kong Stock Exchange of that day, the difference between the carrying value and fair value of this associate was recognised as a gain of RMB299 million on deemed disposal of an associate.

The fair value of trade and other receivables of HISC at the date of acquisition amounted to RMB335 million. The gross contractual amounts of those trade and other receivables acquired amounted to RMB335 million at the date of acquisition.

Net cash inflow on acquisition of HISC

Cash consideration paid	**(205,506)**
Less: cash and cash equivalent balances acquired	**1,324,217**
	1,118,711

Included in the profit for the year ended 31 December 2017 is RMB195 million attributable to the additional business generated by HISC. Revenue for the year ended 31 December 2017 includes RMB701 million generated from HISC.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been RMB128,157 million, and profit for the year would have been RMB26,626 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

67. Disposals of subsidiaries

During the year ended 31 December 2018, the Group disposed of several subsidiaries, but its impacts on the financial position, performance and cash flows of the consolidated financial statements are considered insignificant and therefore the details are not disclosed.

On 29 June 2017, the Group disposed of Lord Summit Limited at a consideration of RMB745 million for its 100% equity interest. The principal activity of Lord Summit Limited is investment holding.

Assets and liabilities derecognised at the date of disposal are as follows:

Investments	677,440
Other assets	16,911
Other liabilities	(13,456)
Net assets disposed of	680,895

Gain on disposal of a subsidiary

Consideration received	745,184
Net assets disposed of	(680,895)
Gain on disposal	64,289

Net cash inflow on disposal of a subsidiary

Consideration received in cash and cash equivalents	745,184
Less: cash and cash equivalent balances disposed of	—
	745,184

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

68. Particulars of principal subsidiaries

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December, 2018 (In '000)	Proportion of ownership held by the Group At 31 December, 2018	2017	Proportion of voting rights held by the Group At 31 December, 2018	2017	Principal activities
				%	%	%	%	
Subsidiaries of the Company								
Huarong Xiangjiang Bank Corporation Limited (華融湘江銀行股份有限公司)(1) (2)	Changsha, PRC	October 2010	7,750,432	40.53	40.53	50.67	50.67	Bank
Huarong Securities Co., Ltd. (華融證券股份有限公司)(1)	Beijing, PRC	September 2007	5,840,703	71.99	71.99	71.99	71.99	Securities
China Huarong Financial Leasing Co., Ltd. (華融金融租賃股份有限公司)(1)	Hangzhou, PRC	December 2001	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)	Beijing, PRC	June 2006	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)(1)	Urumqi, PRC	August 2002	3,035,653	76.79	76.79	76.79	76.79	Trust
Huarong Real Estate Co., Ltd. (華融置業有限責任公司)	Zhuhai, PRC	May 1994	1,850,000	100.00	100.00	100.00	100.00	Real Estate Industry
Huarong Huitong Asset Management Co., Ltd. (華融匯通資產管理有限公司)	Beijing, PRC	September 2010	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)	Beijing, PRC	November 2009	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)(1)	Hefei, PRC	January 2016	600,000	55.00	55.00	55.00	55.00	Personal Consumption Loan

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

68. Particulars of principal subsidiaries *(continued)*

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December, 2018 (In '000)	Proportion of ownership held by the Group At 31 December, 2018	2017	Proportion of voting rights held by the Group At 31 December, 2018	2017	Principal activities
				%	%	%	%	
Other Group's entities								
Huarong Futures Co., Ltd. (華融期貨有限責任公司)[1]	Haikou, PRC	September 1993	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)	Shanghai, PRC	November 2012	420,000	100.00	100.00	100.00	100.00	Investment Holding
Huarong Yufu Equity Investment Fund Management Co., Ltd. (華融渝富股權投資基金管理有限公司)	Chongqing, PRC	July 2010	557,883	72.80	72.80	72.80	72.80	Investment Holding
Huarong Qianhai Wealth Management Co., Ltd. (華融前海財富管理股份有限公司)	Shenzhen, PRC	September 2014	481,618	68.00	68.00	68.00	68.00	Wealth Management
China Huarong International Holdings Limited (華融國際控股有限公司)	Hong Kong, PRC	January 2013	422,949	100.00	100.00	100.00	100.00	Investment Holding
China Huarong Western Development Investment Co., Ltd. (華融西部開發投資股份有限公司)	Yinchuan, PRC	December 2014	540,000	100.00	60.00	100.00	60.00	Asset Management
HIFH (華融國際金融控股有限公司)[1]	Bermuda, UK	November 1993	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	18,160	50.99	50.99	50.99	50.99	Investment Management
Huarong Guangdong FTA Investment Holdings Limited (華融廣東自貿區投融資控股有限公司)	Guangdong, PRC	November 2015	500,000	51.00	51.00	51.00	51.00	Investment Management
Huarong (Tianjin FTA) Investment Co., Ltd. (華融（天津自貿區）投資股份有限公司)	Tianjin, PRC	November 2015	500,000	51.00	51.00	51.00	51.00	Investment Management
Huarong Gannan Finance Investment Limited (華融贛南產融投資有限責任公司)	Ganzhou, PRC	November 2015	200,000	100.00	75.00	100.00	75.00	Investment Management

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

68. Particulars of principal subsidiaries *(continued)*

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 31 December, 2018 (In '000)	Proportion of ownership held by the Group At 31 December, 2018	2017	Proportion of voting rights held by the Group At 31 December, 2018	2017	Principal activities
				%	%	%	%	
Other Group's entities *(continued)*								
Huarong Huaqiao Asset Management Co., Ltd. (華融華僑資產管理股份有限公司)	Shantou, PRC	December 2015	500,000	51.00	51.00	51.00	51.00	Investment Management
Huarong Capital Management Co., Ltd (華融資本管理有限公司)	Beijing, PRC	March 2016	300,000	100.00	100.00	100.00	100.00	Investment Management
Huarong Jinshang Asset Management Co., Ltd (華融晉商資產管理股份有限公司)(1)	Taiyuan, PRC	February 2016	3,000,000	51.00	51.00	51.00	51.00	Investment Management
Huarong Kunlun Qinghai Asset Management Co., Ltd (華融昆侖青海資產管理股份有限公司)(1)	Xining, PRC	June 2016	1,000,000	75.00	75.00	75.00	75.00	Investment Management
Huarong Emerging Industry Investment Management Co., Ltd (華融新興產業投資管理股份有限公司)	Beijing, PRC	November 2016	1,000,000	51.00	51.00	51.00	51.00	Investment Management
Huarong Innovation Investment Co., Ltd (華融創新投資股份有限公司)	Beijing, PRC	January 2016	500,000	51.00	51.00	51.00	51.00	Investment Management
Huarong (Fujian Free Trade Test Area) Investment Co., Ltd. (華融（福建自貿試驗區）投資股份有限公司)	Xiamen, PRC	June 2016	455,000	56.04	51.00	56.04	51.00	Investment Management
China Huarong (Macao) International Co., Ltd (中國華融（澳門）國際股份有限公司)	Macau, PRC	November 2016	233,000	51.00	51.00	51.00	51.00	Investment Management
Huarong Zhong Guancun Financial Assets Exchange Center Co., Ltd (華融中關村金融資產交易中心股份有限公司)	Beijing, PRC	January 2017	500,000	79.60	74.00	79.60	74.00	Investment Management
Huarong Ruitong Equity Investment Co., Ltd (華融瑞通股權投資管理有限公司)	Beijing, PRC	January 2017	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)	Hong Kong	November 2015	267,000	100.00	100.00	100.00	100.00	Investment Management

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

The English names of these subsidiaries are for identification purpose only.

68. Particulars of principal subsidiaries *(continued)*

The above table lists the principal subsidiaries of the Company. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

(1) These subsidiaries are regulated financial institutions, therefore, they have to comply with regulatory requirements on related party transactions or capital requirements. As a result, the ability of the Group to access assets held by these subsidiaries to settle liabilities is restricted. As at 31 December 2018, the aggregate balance of total assets of these subsidiaries before consolidation eliminations amounted to RMB626,549 million (31 December 2017: RMB665,219 million).

(2) Subsequent to capital injections made by shareholders other than the Group during the year ended 31 December 2017, the paid-in capital of Huarong Xiangjiang Bank increased to RMB7,750 million and accordingly the equity interests held by the Company decreased from 50.98% to 40.53%. Based on a resolution on capital injection to Huarong Xiangjiang Bank (《華融湘江銀行股份有限公司2017年增資擴股方案》) approved in the first extraordinary general meeting of shareholders during the year and agreements signed among the shareholders, the Company has the right to decide significant matters such as financial policies and business plan of Huarong Xiangjiang Bank.

Although the Group only has 40.53% of ownership in Huarong Xiangjiang Bank, according to the articles of association and the agreements, 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.

Apart from information of bonds and notes issued by certain subsidiaries in Note V.49, no other debt securities had been issued by other subsidiaries at the end of the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

69. Non-controlling interests in the subsidiaries of the Group

The subsidiaries that have significant non-controlling interests to the Group are set out below. They include Huarong Xiangjiang Bank, Huarong Rongde Asset Management Co., Ltd ("Huarong Rongde"), China Huarong Financial Leasing Co., Ltd ("Huarong Financial Leasing"), Huarong Securities, and Huarong International Trust Co., Ltd ("Huarong Trust").

General information about these subsidiaries has been set out in note V.68. 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,	
	2018	2017
Total assets	335,451,910	314,525,569
Total liabilities	313,490,918	294,575,463
Equity attributable to equity holders of the subsidiary	21,890,658	19,884,629
Non-controlling interests	70,334	65,477
Total equity	21,960,992	19,950,106
Non-controlling interests of the subsidiary	13,018,374	11,825,389

	Year ended 31 December,	
	2018	2017
Total revenue	17,684,205	13,999,624
Profit before tax	3,382,672	3,156,221
Total comprehensive income	2,740,717	2,310,207
Profit attributable to non-controlling interests of the subsidiary	1,617,900	1,226,514
Dividend distribution to non-controlling interests	454,614	301,988

	Year ended 31 December,	
	2018	2017
Net cash flow used in operating activities	(21,239,881)	(6,213,476)
Net cash flow used in investing activities	(2,214,242)	(12,563,076)
Net cash flow from financing activities	21,169,894	19,909,012
Net cash (outflow)/inflow	(2,284,229)	1,132,460

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

69. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Securities

	As at 31 December,	
	2018	2017
Current assets	59,223,570	100,526,134
Non-current assets	20,394,844	20,334,744
Total assets	79,618,414	120,860,878
Current liabilities	45,903,798	86,766,480
Non-current liabilities	21,829,680	20,313,420
Total liabilities	67,733,478	107,079,900
Equity attributable to equity holders of the subsidiary	11,840,845	13,700,885
Non-controlling interests	44,091	80,093
Total equity	11,884,936	13,780,978
Non-controlling interests of the subsidiary	3,316,621	3,837,618

	Year ended 31 December,	
	2018	2017
Total revenue	3,578,342	8,811,726
(Loss)/profit before tax	(1,066,867)	2,096,710
Total comprehensive (expense)/income	(887,397)	1,516,173
(Loss)/profit attributable to non-controlling interests of the subsidiary	(251,921)	286,289
Dividend distribution to non-controlling interests	184,515	106,403

	Year ended 31 December,	
	2018	2017
Net cash flow used in operating activities	(9,527,018)	(900,332)
Net cash flow from/(used in) investing activities	8,474,367	(9,088,865)
Net cash flow (used in)/from financing activities	(1,158,175)	6,517,813
Net cash outflow	(2,210,826)	(3,471,384)

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

69. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Financial Leasing

	As at 31 December,	
	2018	2017
Current assets	53,039,381	59,251,629
Non-current assets	71,419,033	72,763,209
Total assets	124,458,414	132,014,838
Current liabilities	55,698,116	50,811,104
Non-current liabilities	53,900,150	66,964,044
Total liabilities	109,598,266	117,775,148
Total equity	14,860,148	14,239,690
Non-controlling interests of the subsidiary	2,983,812	2,859,228

	Year ended 31 December,	
	2018	2017
Total revenue	7,812,341	7,354,918
Profit before tax	2,167,701	2,180,745
Total comprehensive income	1,561,065	1,574,894
Profit attributable to non-controlling interests of the subsidiary	327,625	327,001
Dividend distribution to non-controlling interests	101,751	67,620

	Year ended 31 December,	
	2018	2017
Net cash flow used in operating activities	(12,742,421)	(8,927,944)
Net cash flow from/(used in) investing activities	6,046,829	(891,413)
Net cash flow (used in)/from financing activities	(5,050,835)	5,266,983
Net cash outflow	(11,746,427)	(4,552,374)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

69. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Rongde

	As at 31 December, 2018	2017
Current assets	**30,200,407**	38,035,168
Non-current assets	**10,945,706**	14,578,027
Total assets	**41,146,113**	52,613,195
Current liabilities	**13,371,754**	26,357,396
Non-current liabilities	**19,528,436**	15,232,185
Total liabilities	**32,900,190**	41,589,581
Equity attributable to the equity holders of the subsidiary	**6,078,342**	5,515,454
Perpetual capital instruments	**2,167,581**	5,508,160
Total equity	**8,245,923**	11,023,614
Non-controlling interests of the subsidiary	**2,473,885**	2,244,790
Equity attributable to holders of perpetual capital instruments	**1,000,000**	3,350,000

	Year ended 31 December, 2018	2017
Total revenue	**2,329,243**	3,647,754
Profit before tax	**772,981**	1,472,416
Total comprehensive income	**137,908**	1,026,121
Profit attributable to		
non-controlling interests of the subsidiary	**132,052**	439,576
holders of perpetual capital instruments	**149,035**	213,278
Dividend distribution to non-controlling interests	**126,984**	187,220

	Year ended 31 December, 2018	2017
Net cash flow from operating activities	**12,889,941**	6,227,837
Net cash flow used in investing activities	**(2,157,169)**	(15,151,508)
Net cash flow (used in)/from financing activities	**(13,566,772)**	8,103,094
Net cash outflow	**(2,834,000)**	(820,577)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

69. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Trust

	As at 31 December,	
	2018	2017
Current assets	5,029,298	5,541,851
Non-current assets	15,013,988	16,638,563
Total assets	20,043,286	22,180,414
Total liabilities	11,372,481	12,579,303
Total equity	8,670,805	9,601,111
Non-controlling interests of the subsidiary	2,012,640	2,228,580

	Year ended 31 December,	
	2018	2017
Total revenue	1,419,150	2,556,129
Profit before tax	201,869	1,129,589
Total comprehensive income	60,794	778,298
Profit attributable to non-controlling interests of the subsidiary	37,866	114,169
Dividend distribution to non-controlling interests	41,109	6,257

	Year ended 31 December,	
	2018	2017
Net cash flow (used in)/from operating activities	(658,108)	649,347
Net cash flow from investing activities	810,342	324,154
Net cash flow used in financing activities	(841,779)	(199,177)
Net cash (outflow)/inflow	(689,545)	774,324

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

70. Statement of financial position and changes in equity of the Company

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	As at 31 December, 2018	2017
Assets		
Cash and balances with central bank	**1,271**	1,426
Deposits with financial institutions	**42,164,956**	50,764,072
Placements with financial institutions	**—**	5,330,000
Financial assets held for trading	**—**	95,356
Financial assets at fair value through profit or loss	**199,029,813**	—
Financial assets designated as at fair value through profit or loss	**—**	140,902,467
Financial assets held under resale agreements	**500,263**	2,788,750
Debt instruments at fair value through other comprehensive income	**107,039,301**	—
Equity instruments at fair value through other comprehensive income	**577,332**	—
Available-for-sale financial assets	**—**	44,298,832
Held-to-maturity investments	**—**	18,313,559
Financial assets classified as receivables	**—**	326,359,860
Debt instruments at amortised cost	**276,863,700**	—
Amounts due from subsidiaries	**64,170,648**	52,410,187
Interests in consolidated structured entities	**6,662,795**	11,504,570
Investment properties	**526,753**	550,694
Property and equipment	**699,646**	774,466
Deferred tax assets	**7,626,798**	8,942,712
Other assets	**2,879,886**	4,652,379
Interests in associates	**2,034,457**	2,886,729
Interests in subsidiaries	**24,989,837**	24,989,837
Total assets	**735,767,456**	695,565,896

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

70. Statement of financial position and changes in equity of the Company *(continued)*

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 *(continued)*

	As at 31 December,	
	2018	2017
Liabilities		
Financial assets sold under repurchase agreements	—	19,803,889
Borrowings	507,265,100	440,545,310
Tax payable	1,969,490	2,633,945
Bonds and notes issued	83,259,477	95,749,099
Other liabilities	32,887,696	36,455,773
Total liabilities	625,381,763	595,188,016
Equity		
Share capital	39,070,208	39,070,208
Capital reserve	17,371,028	17,374,712
Surplus reserve	6,971,780	5,299,688
General reserve	9,515,689	6,682,665
Other reserves	1,518,282	341,879
Retained earnings	35,938,706	31,608,728
Total equity	110,385,693	100,377,880
Total equity and liabilities	735,767,456	695,565,896

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

70. Statement of financial position and changes in equity of the Company *(continued)*

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

					Other reserves					
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings	Total
As at 31 December 2017	39,070,208	17,374,712	5,299,688	6,682,665	358,268	—	—	(16,389)	31,608,728	100,377,880
Adjustment on initial application of IFRS 9	—	—	—	—	892,213	—	—	—	(1,286,876)	(394,663)
As at 1 January 2018 (Restated)	39,070,208	17,374,712	5,299,688	6,682,665	1,250,481	—	—	(16,389)	30,321,852	99,983,217
Profit for the year	—	—	—	—	—	—	—	—	16,720,924	16,720,924
Other comprehensive income/(expense) for the year	—	—	—	—	343,112	—	—	(58,922)	—	284,190
Total comprehensive income/(expense) for the year	—	—	—	—	343,112	—	—	(58,922)	16,720,924	17,005,114
Dividends declared	—	—	—	—	—	—	—	—	(6,598,954)	(6,598,954)
Appropriation to surplus reserve	—	—	1,672,092	—	—	—	—	—	(1,672,092)	—
Appropriation to general reserve	—	—	—	2,833,024	—	—	—	—	(2,833,024)	—
Others	—	(3,684)	—	—	—	—	—	—	—	(3,684)
As at 31 December 2018	39,070,208	17,371,028	6,971,780	9,515,689	1,593,593	—	—	(75,311)	35,938,706	110,385,693

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

70. Statement of financial position and changes in equity of the Company *(continued)*

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

					Other reserves					
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Hedging reserve	Others	Retained earnings	Total
As at 1 January 2017	39,070,208	17,247,077	3,615,201	5,326,415	2,231,713	—	—	(8,221)	23,688,570	91,170,963
Profit for the year	—	—	—	—	—	—	—	—	16,844,868	16,844,868
Other comprehensive expense for the year	—	—	—	—	(1,873,445)	—	—	(8,168)	—	(1,881,613)
Total comprehensive (expense)/income for the year	—	—	—	—	(1,873,445)	—	—	(8,168)	16,844,868	14,963,255
Dividends declared	—	—	—	—	—	—	—	—	(5,883,973)	(5,883,973)
Appropriation to surplus reserve	—	—	1,684,487	—	—	—	—	—	(1,684,487)	—
Appropriation to general reserve	—	—	—	1,356,250	—	—	—	—	(1,356,250)	—
Others	—	127,635	—	—	—	—	—	—	—	127,635
As at 31 December 2017	39,070,208	17,374,712	5,299,688	6,682,665	358,268	—	—	(16,389)	31,608,728	100,377,880

71. Other significant matters

As was disclosed in the notes to the interim financial report for the six months ended 30 June 2018, in light of the disciplinary investigation instigated by certain authorities in Mainland China against the former Chairman of the Company, the Company was taking proactive measures to protect the interests of the Group and, also, initiated an internal investigation, including into the structure of certain fund investments and loan arrangements, and their valuation and related recoverability. The internal investigation has been completed and the implications were taken into account in preparing the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

VI. EVENTS AFTER THE REPORTING PERIOD

1. On 28 March 2019, the Board of Directors of the Company resolved to make the following profit appropriations of the Company for the year ended 31 December 2018:

   (i) An appropriation of RMB1,672 million to the statutory surplus reserve;

   (ii) An appropriation of RMB752 million to the general reserve; and

   (iii) cash dividend distribution of RMB473 million in aggregate.

2. The appropriation of statutory surplus reserve has already been recognised in these consolidated financial statements, while the appropriation to the general reserve and dividend distribution was subject to Shareholders' approval.

3. Huarong Xiangjiang Bank Co., Ltd., a subsidiary of the Company, issued financial bonds of RMB3,500 million on 5 March 2019. These bonds carry interests of 3.6% per annum and will mature in 2022.

4. Huarong Real Estate, a subsidiary of the Company, issued a debt financing plan of RMB1,500 million on 31 January 2019. The debt financing plan carries interests of 6.92% per annum and will mature in 2020.

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 March 2019.

19. Confirmation from Directors and Senior Management regarding the Annual Report

Pursuant to the regulations and requirements such as the Securities Law of the People's Republic of China, the Articles of Association of China Huarong Asset Management Co., Ltd. and the Administrative Rules for the Information Disclosure of China Huarong Asset Management Co., Ltd., the Board, Audit Committee of the Board and senior management have arrived at the following opinions upon thorough consideration and review of the annual report for 2018 of the Company:

1. The Company strictly complied with China Accounting Standards for Business Enterprises and the 2018 annual report of the Company fairly reflected the financial conditions and operating results of the Company during the year.

2. The 2018 financial report of the Company prepared in accordance with PRC GAAP and IFRS have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with China Auditing Standards and International Standards on Auditing. Standard auditors' reports with unqualified opinions were issued.

3. The Company believes that there is no false information, misleading statements or material omission in the 2018 annual report of the Company, and individually and collectively accept responsibility for the truthfulness, accuracy and completeness of the information contained herein.

Directors and senior management:

Name	**Position**
Wang Zhanfeng	Chairman of the Board and Executive Director
Li Xin	Executive Director and President
Li Yi	Non-executive Director
Wang Cong	Non-executive Director
Dai Lijia	Non-executive Director
Zhou Langlang	Non-executive Director
Song Fengming	Independent Non-executive Director
Tse Hau Yin	Independent Non-executive Director
Liu Junmin	Independent Non-executive Director
Shao Jingchun	Independent Non-executive Director
Wu Jinglong	Member of senior management
Hu Jiliang	Vice President
Wang Wenjie	Vice President
Chen Yanqing	Vice President
Hu Ying	Assistant to President

20. List of Domestic and Overseas Entities

20.1 Head Office

China Huarong Asset Management Co., Ltd.
Address: No. 8 Financial Street, Xicheng District, Beijing
Postal code: 100033
Tel: 010-59619088
Fax: 010-59618000

20.2 Branches

China Huarong Asset Management Co., Ltd. — Beijing Branch
Address: No. 293 Fuchengmennei Main Street, Xicheng District, Beijing
Postal code: 100034
Tel: 010-66511186
Fax: 010-66511257

China Huarong Asset Management Co., Ltd. — Tianjin Branch
Address: No. 2–3 Jianshan Road, Hexi District, Tianjin
Postal code: 300211
Tel: 022-28310023
Fax: 022-28310013

China Huarong Asset Management Co., Ltd. — Hebei Branch
Address: No. 368 Zhongshan East Road, Shijiazhuang, Hebei Province
Postal code: 050011
Tel: 0311-89291700
Fax: 0311-89291706

China Huarong Asset Management Co., Ltd. — Shanxi Branch
Address: No. 52 Kangle Street, Yingze District, Taiyuan, Shanxi Province
Postal code: 030001
Tel: 0351-4603076
Fax: 0351-4602761

20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Inner Mongolia Branch
Address: No. 54 Xinhua Street, Hohhot, Inner Mongolia Autonomous Region
Postal code: 010020
Tel: 0471-6981022
Fax: 0471-6967697

China Huarong Asset Management Co., Ltd. — Liaoning Branch
Address: No. 142 Ningshan Middle Road, Huanggu District, Shenyang, Liaoning Province
Postal code: 110036
Tel: 024-86284760
Fax: 024-86284760

China Huarong Asset Management Co., Ltd. — Jilin Branch
Address: No. 917 Tongzhi Street, Changchun, Jilin Province
Postal code: 130061
Tel: 0431-88962708
Fax: 0431-88948454

China Huarong Asset Management Co., Ltd. — Heilongjiang Branch
Address: No. 55 Pinghuai Street, Nangang District, Harbin, Heilongjiang Province
Postal code: 150008
Tel: 0451-82737577
Fax: 0451-82718507

China Huarong Asset Management Co., Ltd. — Shanghai Branch
Address: 10/F, No. 15 Zhongshan Dong Er Road, Huangpu District, Shanghai
Postal code: 200002
Tel: 021-63282459
Fax: 021-63280161

China Huarong Asset Management Co., Ltd. — Jiangsu Branch
Address: No. 42 Beijing East Road, Xuanwu District, Nanjing, Jiangsu Province
Postal code: 210008
Tel: 025-57710736
Fax: 025-83612051

20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Zhejiang Branch
Address: No. 19-1, 19-2 Kaiyuan Road, Shangcheng District, Hangzhou, Zhejiang Province
Postal code: 310001
Tel: 0571-87836736
Fax: 0571-87689535

China Huarong Asset Management Co., Ltd. — Anhui Branch
Address: No. 211 Shouchun Road, Hefei, Anhui Province
Postal code: 230001
Tel: 0551-62662555
Fax: 0551-62662566

China Huarong Asset Management Co., Ltd. — Jiangxi Branch
Address: No. 2 Tie Street, Donghu District, Nanchang, Jiangxi Province
Postal code: 330008
Tel: 0791-86648968
Fax: 0791-86648929

China Huarong Asset Management Co., Ltd. — Fujian Branch
Address: No. 112 Gutian Road, Gulou District, Fuzhou, Fujian Province
Postal code: 350005
Tel: 0591-83309373
Fax: 0591-83320266

China Huarong Asset Management Co., Ltd. — Shandong Branch
Address: No. 89 Jingsan Road, Jinan, Shandong Province
Postal code: 250001
Tel: 0531-86059702
Fax: 0531-86059731

China Huarong Asset Management Co., Ltd. — Henan Branch
Address: No. 136 West Main Street, Zhengzhou, Henan Province
Postal code: 450000
Tel: 0371-55619115
Fax: 0371-55619110

20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Hubei Branch
Address: Te No. 1 Tiyu Street, Yuemachang, Wuchang District, Wuhan, Hubei Province
Postal code: 430060
Tel: 027-88318257
Fax: 027-88318257

China Huarong Asset Management Co., Ltd. — Hunan Branch
Address: No. 976 Wuyi Avenue, Changsha, Hunan Province
Postal code: 410005
Tel: 0731-84845000
Fax: 0731-84845008

China Huarong Asset Management Co., Ltd. — Guangdong Branch
Address: 10/F, Block B, Zhuguang International Business Center, No. 3 Qingyi Street, Machang Road, Tianhe District, Guangzhou, Guangdong Province
Postal code: 510627
Tel: 020-83283153
Fax: 020-83287052

China Huarong Asset Management Co., Ltd. — Guangxi Branch
Address: No. 38-3 Minzu Avenue, Qingxiu District, Nanning, Guangxi Zhuang Autonomous Region
Postal code: 530022
Tel: 0771-5858778
Fax: 0771-5871108

China Huarong Asset Management Co., Ltd. — Hainan Branch
Address: No. 53-1 Longkun North Road, Haikou, Hainan Province
Postal code: 570105
Tel: 0898-66700041
Fax: 0898-66700042

China Huarong Asset Management Co., Ltd. — Sichuan Branch
Address: 20/F, Zongfu Building, No. 35 Zongfu Road, Chengdu, Sichuan Province
Postal code: 610016
Tel: 028-86516577
Fax: 028-82903333

20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Chongqing Branch
Address: Block A1, Meiquan 22nd Century Office Building, No. 178 Haier Road, Jiangbei District, Chongqing
Postal code: 400025
Tel: 023-67719890
Fax: 023-67719840

China Huarong Asset Management Co., Ltd. — Yunnan Branch
Address: No. 1 Jinjiang Road, Jinxing Community, Beishi District, Kunming, Yunnan Province
Postal code: 650224
Tel: 0871-65700939
Fax: 0871-65700888

China Huarong Asset Management Co., Ltd. — Guizhou Branch
Address: 20–23F, Fuzhong Business Building, No. 102 Xinhua Road, Nanming District, Guiyang, Guizhou Province
Postal code: 550002
Tel: 0851-85512971
Fax: 0851-85502443

China Huarong Asset Management Co., Ltd. — Shaanxi Branch
Address: No. 92 Dongguan Main Street, Xi’an, Shaanxi Province
Postal code: 710048
Tel: 029-89539168
Fax: 029-89539168

China Huarong Asset Management Co., Ltd. — Gansu Branch
Address: No. 225 Wudu Road, Chengguan District, Lanzhou, Gansu Province
Postal code: 730030
Tel: 0931-8508915
Fax: 0931-8500280

China Huarong Asset Management Co., Ltd. — Xinjiang Branch
Address: No. 280 Renmin Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
Postal code: 830004
Tel: 0991-2377077
Fax: 0991-2826694

20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Dalian Branch
Address: No. 51 Gengxin Street, Xigang District, Dalian, Liaoning Province
Postal code: 116011
Tel: 0411-83682878
Fax: 0411-83696111

China Huarong Asset Management Co., Ltd. — Shenzhen Branch
Address: 3/F, Wuyi Building, No. 232 Nanyuan Road, Futian District, Shenzhen, Guangdong Province
Postal code: 518031
Tel: 0755-83620572
Fax: 0755-83630463

China Huarong Asset Management Co., Ltd. — SFTZ Branch
Address: 7/F, No. 15 Zhongshan Dong Er Road, Huangpu District, Shanghai
Postal code: 200002
Tel: 021-63265959
Fax: 021-63265700

20.3 Principal Operating Subsidiaries

Huarong Securities Co., Ltd.
Address: 7/F, 11–18/F, No. 18 Chaoyangmen North Street, Chaoyang District, Beijing
Postal code: 100020
Tel: 010-85556656
Fax: 010-85556690

China Huarong Financial Leasing Co., Ltd.
Address: 6–7/F, Block A, Office Building of the World Trade Center, No. 122 Shuguang Road, Hangzhou, Zhejiang Province
Postal code: 310007
Tel: 0571-87007839
Fax: 0571-87950511

Huarong Xiangjiang Bank Corporation Limited
Address: South Building, Wanjing Financial Intelligence Center, No. 208 Xiangfu East Road, Yuhua District, Changsha, Hunan Province
Postal code: 410007
Tel: 0731-89828801
Fax: 0731-89828801

20. List of Domestic and Overseas Entities

Huarong International Trust Co., Ltd.
Address: 7/F, Block A, CPIC Plaza, No. 28 Fengsheng Lane, Tai Ping Qiao Main Street, Xicheng District, Beijing
Postal code: 100032
Tel: 010-58315975
Fax: 010-58315933

Huarong Futures Co., Ltd.
Address: 3/F, No. 53-1 Longkun North Road, Haikou, Hainan Province
Postal code: 570105
Tel: 0898-66779479
Fax: 0898-66779397

Huarong Rongde Asset Management Co., Ltd.
Address: 9/F, 3/F, 5/F, Excel Center, No. 6 Wudinghou Street, Xicheng District, Beijing
Postal code: 100033
Tel: 010-59400399
Fax: 010-59315388

Huarong Real Estate Co., Ltd.
Address: Jia No. 2, Baiwanzhuang Street, Xicheng District, Beijing
Postal code: 100037
Tel: 010-57649123
Fax: 010-57649178

China Huarong International Holdings Limited
Address: China Huarong Tower, No. 60 Gloucester Road, Wan Chai, Hong Kong
Tel: 00852-31985678
Fax: 00852-31985796

Huarong Consumer Finance Co., Ltd.
Address: 12/F, Block A, Xiangyuan Square, No. 310 Suixi Road, Luyang District, Hefei, Anhui Province
Postal code: 230041
Tel: 0551-62882391
Fax: 0551-62988015

中国华融资产管理股份有限公司
CHINA HUARONG ASSET MANAGEMENT CO., LTD.

Address: No. 8 Financial Street, Xicheng District, Beijing
Postal code: 100033
Tel: 010-59618888
Fax: 010-59618000
Website: http://www.chamc.com.cn