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

2017

INTERIM REPORT

PROFESSIONAL ASSET MANAGER AND PROMINENT PROVIDER OF INTEGRATED FINANCIAL SERVICES

专业的资产经营管理者

优秀的综合金融服务商

Contents

1. Definitions

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

"A Share(s)"	ordinary share(s) proposed to be issued by the Company under the A Share Offering, with a nominal value of RMB1.00 each, which will be listed on the Shanghai Stock Exchange and traded in RMB
"A Share Offering"	the proposed initial public offering in the PRC and listing on the Shanghai Stock Exchange of no more than 6,894,742,669 A Shares of the Company
"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 China Huarong Asset Management Co., Ltd. as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會)
"Offshore Preference Shares Issuance Plan"	has the meaning as defined in the circular of the Company dated June 23, 2017
"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
"China" or "PRC"	the People's Republic of China, for the purpose of this interim report, excluding 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

1. Definitions

"DES Assets"	(1) the equity assets that the Company acquired as a result of equity swaps of distressed debt assets of a number of medium and large state-owned enterprises according to national policy prior to its restructuring; (2) additional equities of the aforementioned enterprises the Company subsequently acquired as part of asset packages it purchased; (3) additional investments by the Company in the aforementioned companies; (4) equities the Company received in satisfaction of debt and assets the Company acquired through distressed asset management; and (5) the equity portfolio the Company received as part of its share capital when it was established in 1999
"DES Companies"	the companies and enterprises whose distressed indebtedness held by the AMCs were swapped for equity
"Director(s)"	director(s) of the Company
"Domestic Share(s)"	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
"Excluded DES Companies"	has the meaning as defined in the Prospectus
"Group" or "our Group" or "China Huarong"	China Huarong Asset Management Co., Ltd. and its subsidiaries
"H Share(s)"	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"HK$" or "HK dollar"	Hong Kong dollars, 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.
"Huarong Financial Leasing"	China Huarong Financial Leasing Co., Ltd.

1. Definitions

"Huarong Futures"	Huarong Futures Co., Ltd.
"Huarong International"	China Huarong International Holdings Limited
"Huarong Real Estate"	Huarong Real Estate Co., Ltd.
"Huarong Rongde"	Huarong Rongde Asset Management Co., Ltd.
"Huarong Securities"	Huarong Securities Co., Ltd.
"Huarong Trust"	Huarong International Trust Co., Ltd.
"Huarong Xiangjiang Bank"	Huarong Xiangjiang Bank Corporation Limited
"IFRS"	the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"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 U.S.
"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

1. Definitions

"Protection of State Secret Laws"	Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法》), Implementation Measures for the Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法實施條例》) and related laws and regulations
"Relevant Persons"	has the meaning as defined in the Prospectus
"Reporting Period"	the six months ended June 30, 2017
"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
"S$" or "Singapore dollar"	the lawful currency of Singapore
"Share(s)"	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares
"Shareholder(s)"	holder(s) of the Share(s)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Subject Companies"	has the meaning as defined in the Prospectus
"Supervisor(s)"	supervisor(s) of the Company
"U.S." or "United States"	the United States of America
"US$" or "U.S. dollar"	United States dollars, the lawful currency of the United States
"Value Calculation"	has the meaning as defined in the Prospectus

2. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Lai Xiaomin
Authorized representatives	Wang Lihua, Hu Jianjun
Secretary to the Board	Li Yingchun (whose qualification is in the process of approval by the CBRC)
Joint company secretaries	Hu Jianjun, Ngai Wai Fung
Registration 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	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares interim report	www.hkexnews.hk
Place for maintaining interim reports available for inspection	Board office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock code	2799

2. 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	Kirkland & Ellis 26/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong
International accounting firm and office address	Deloitte Touche Tohmatsu 35/F, One Pacific Place, 88 Queensway, Hong Kong
Domestic accounting firm and office address	Deloitte Touche Tohmatsu Certified Public Accountants LLP 30/F, Bund Center, 222 Yan An Road East, Shanghai, China

3. Financial Summary

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

	For the six months ended June 30,	
	2017 (unaudited)	2016 (unaudited)
	(in millions of RMB)	
Income from distressed debt assets classified as receivables	14,629.0	11,688.5
Fair value changes on distressed debt assets	2,293.7	1,432.4
Fair value changes on other financial assets	2,893.5	2,718.9
Interest income	10,103.8	7,191.1
Investment income, gains and losses	20,591.8	9,581.2
Commission and fee income	6,860.5	5,745.9
Net gains on disposals of subsidiaries, associates and joint ventures	641.4	21.3
Other income and other net gains or losses	2,792.7	1,631.3
Total income	60,806.4	40,010.6
Interest expenses	(22,030.8)	(14,027.6)
Commission and fee expenses	(495.2)	(481.6)
Operating expenses	(6,857.4)	(5,358.8)
Impairment losses on assets	(5,849.7)	(1,969.1)
Total expenses	(35,233.1)	(21,837.1)
Change in net assets attributable to other holders of consolidated structured entities	(3,887.5)	(1,306.5)
Share of results of associates and joint ventures	188.9	78.0
Profit before tax	21,874.7	16,945.0
Income tax expense	(5,472.7)	(4,099.3)
Profit for the period	16,402.0	12,845.7
Profit attributable to:		
Equity holders of the Company	13,360.5	11,123.0
Holders of perpetual capital instruments	601.9	256.9
Non-controlling interests	2,439.6	1,465.8

3. Financial Summary

	As of June 30, 2017 (unaudited)	As of December 31, 2016 (audited)
	(in millions of RMB)	
Assets		
Cash and balances with the central bank	**32,495.5**	27,259.8
Deposits with financial institutions	**175,612.0**	154,329.9
Financial assets designated as at fair value through profit or loss	**122,282.6**	95,167.3
Financial assets held under resale agreements	**48,742.9**	36,347.7
Available-for-sale financial assets	**186,838.0**	140,292.6
Financial assets classified as receivables	**643,916.9**	549,478.0
Loans and advances to customers	**142,520.8**	118,406.0
Finance lease receivables	**90,759.2**	84,991.3
Other assets	**214,986.7**	205,696.7
Total assets	**1,658,154.6**	1,411,969.3
Liabilities		
Deposits from financial institutions	**6,725.7**	6,962.5
Borrowings	**623,160.8**	511,308.6
Financial assets sold under repurchase agreements	**52,655.8**	56,390.6
Due to customers	**205,137.7**	172,405.9
Bonds and notes issued	**298,123.7**	243,075.2
Other liabilities	**302,289.2**	271,745.5
Total liabilities	**1,488,092.9**	1,261,888.3
Equity		
Equity attributable to equity holders of the Company	**120,787.5**	115,243.0
Perpetual capital instruments	**26,887.8**	15,030.3
Non-controlling interests	**22,386.4**	19,807.7
Total equity	**170,061.7**	150,081.0
Total equity and liabilities	**1,658,154.6**	1,411,969.3

3. Financial Summary

	As of June 30, 2017 (unaudited)	As of December 31, 2016 (audited)
Financial Ratios		
Liability to total assets ratio(1)	89.7%	89.4 %

	For the six months ended June 30,	
	2017 (unaudited)	2016 (unaudited)
Annualized ROAE(2)	22.6%	21.6%
Annualized ROAA(3)	2.1%	2.6%
Cost-to-income ratio(4)	15.0%	19.3%
Basic earnings per share (RMB yuan)(5)	0.34	0.28
Diluted earnings per share (RMB yuan)(6)	N/A	0.28

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

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

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

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

(5) Represents the net profit attributable to equity holders of the Company during the 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.

4. Management Discussion and Analysis

4.1 Economic, financial and regulatory environment

In the first half of 2017, the global manufacturing and international trade picked up slightly, and the global economic recovery remained weak despite the cyclical recovery of the U.S. economy and the moderate improvement in prospects for Europe's and Japan's economic growth. However, the Federal Reserve raised interest rate in March 2017 and June 2017, respectively, and planned to shrink its balance sheet while prices for bulk commodities remained sluggish, leading to uncertainty in the global economic recovery.

In the first half of 2017, China's overall economy maintained the momentum of steady and sound development. GDP grew 6.9% on a year-on-year basis, and the economy performed within a proper range with key indicators better than expected. Employment was stable and showed a positive trend, prices in general remained stable, and consumptions increasingly drove the economic growth. Further deepening the structural reform of the supply side contributed to continuous optimization of the economic structure and quality improvement of the economic development. Industries adapted to consumption upgrade and strategic emerging industries developed rapidly and internal organizational structure of various industries continually improved. China attaches great importance to the security and development of the financial system, and the PBOC guides finance to better serve the real economy by continuously sticking to the prudent monetary policy. Effectiveness of new development concept and a series of deployment of reform decisions have gradually boosted market confidence.

In a highly complex and ever-changing international environment and faced with certain conflicts and problems in domestic economy, the Chinese government accurately grasped the periodic characteristic in economic development, and firmly promoted various reform measures from the perspective of economic long cycle and structure optimization and upgrading, to constantly accelerate the adjustment of industrial structure and continue to resolve excess capacity, and thus ensured the healthy and steady development of economy. In this context, the AMCs play an active role in supporting "cutting overcapacity, destocking, deleveraging, reducing cost and shoring up weak growth areas", exit of "zombie companies" and implementation of market-based debt-to-equity swaps by closely centering on structural reform of the supply side and making full use of advantages in the distressed assets management business, as their core business, and their integrated financial services, and effectively bumped up the real economic development.

In the first half of 2017, the regulatory authorities intensively introduced a series of policies that strengthen supervision, and promoted leverage reduction in the financial system in a steady and orderly manner. Meanwhile, financial institutions have been encouraged to return to the origin and focus on the core business, with a view to serving structural reform of the supply side and improving quality and efficiency of serving the real economy. Regarding supervision of the distressed assets industry, efforts were made to the following aspects: first, to encourage AMCs to prevent and dissolve systematic financial risks by speeding up disposal of distressed assets; second, to carry out special governance addressing problems including "three violations" (violation of financial laws, violation of regulatory rules and violation of internal compliance policies), "three arbitrages" (regulatory arbitrage, idle funds arbitrage and related-entity arbitrage) and "four improprieties" (impropriety of innovations, impropriety of transactions, impropriety of incentives and impropriety of charges) to regulate procedures and standards for transfer of distressed assets; and third, to encourage innovation in distressed asset business, to continue to promote the securitization of distressed assets, the pilot of transferring the right to profit from distressed assets and the market-based debt-to-equity swaps. The introduction of a series of policies provided a benign external policy environment for AMCs' carrying out distressed asset management business, as their core business, in a regulated and orderly manner.

4. Management Discussion and Analysis

4.2 Analysis of Financial Statements

4.2.1 Operating Results of the Group

In the first half of 2017, the net profit amounted to RMB16,402.0 million, representing an increase of RMB3,556.3 million, or 27.7%, compared to the same period in 2016. The annualized ROAE and annualized ROAA of the Group were 22.6% and 2.1%, respectively.

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	**14,629.0**	11,688.5	2,940.5	25.2%
Fair value changes on distressed debt assets	**2,293.7**	1,432.4	861.3	60.1%
Fair value changes on other financial assets	**2,893.5**	2,718.9	174.6	6.4%
Interest income	**10,103.8**	7,191.1	2,912.7	40.5%
Investment income, gains and losses	**20,591.8**	9,581.2	11,010.6	114.9%
Commission and fee income	**6,860.5**	5,745.9	1,114.6	19.4%
Net gains on disposals of subsidiaries, associates and joint ventures	**641.4**	21.3	620.1	2,911.3%
Other income and other net gains or losses	**2,792.7**	1,631.3	1,161.4	71.2%
Total income	**60,806.4**	40,010.6	20,795.8	52.0 %
Interest expenses	**(22,030.8)**	(14,027.6)	(8,003.2)	57.1%
Commission and fee expenses	**(495.2)**	(481.6)	(13.6)	2.8%
Operating expenses	**(6,857.4)**	(5,358.8)	(1,498.6)	28.0%
Impairment losses on assets	**(5,849.7)**	(1,969.1)	(3,880.6)	197.1%
Total expenses	**(35,233.1)**	(21,837.1)	(13,396.0)	61.3%
Change in net assets attributable to other holders of consolidated structured entities	**(3,887.5)**	(1,306.5)	(2,581.0)	197.6%
Share of results of associates and joint ventures	**188.9**	78.0	110.9	142.2%
Profit before tax	**21,874.7**	16,945.0	4,929.7	29.1%
Income tax expense	**(5,472.7)**	(4,099.3)	(1,373.4)	33.5%
Profit for the period	**16,402.0**	12,845.7	3,556.3	27.7%
Profit attributable to:				
Equity holders of the Company	**13,360.5**	11,123.0	2,237.5	20.1%
Holders of perpetual capital instruments	**601.9**	256.9	345.0	134.3%
Non-controlling interests	**2,439.6**	1,465.8	973.8	66.4%

4. Management Discussion and Analysis

Total income

Total income of the Group increased by 52.0% from RMB40,010.6 million in the first half of 2016 to RMB60,806.4 million in the first half of 2017, mainly due to the increases in income from distressed debt assets classified as receivables, fair value changes on distressed debt assets, interest income, investment income, and commission and fee income.

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	**14,629.0**	11,688.5	2,940.5	25.2%
Fair value changes on distressed debt assets	**2,293.7**	1,432.4	861.3	60.1%
Fair value changes on other financial assets	**2,893.5**	2,718.9	174.6	6.4%
Interest income	**10,103.8**	7,191.1	2,912.7	40.5%
Investment income, gains and losses	**20,591.8**	9,581.2	11,010.6	114.9%
Commission and fee income	**6,860.5**	5,745.9	1,114.6	19.4%
Net gains on disposals of subsidiaries, associates and joint ventures	**641.4**	21.3	620.1	2,911.3%
Other income and other net gains or losses	**2,792.7**	1,631.3	1,161.4	71.2%
Total income	**60,806.4**	40,010.6	20,795.8	52.0%

Income from distressed debt assets classified as receivables

Income from distressed debt assets classified as receivables represents acquisition-and-restructuring income of the Group generated from loans and distressed debts acquired from financial institutions and distressed debt acquired from non-financial enterprises. Income from distressed debt assets classified as receivables of the Group increased by 25.2% from RMB11,688.5 million in the first half of 2016 to RMB14,629.0 million in the first half of 2017, primarily because the Group continued to maintain its leading position in the industry and its competitive advantages in the market regarding acquisition and restructuring business, and strengthened its efforts in customer expansion and product innovation. The gross amount of and the income from distressed debt assets classified as receivables have set a new record and developed better than expected.

4. Management Discussion and Analysis

The annualized return on monthly average gross amount of distressed debt assets classified as receivables of the Group decreased from 11.9% in the first half of 2016 to 9.8 % in the first half of 2017. The decrease was partly due to the decrease in return on part of the new-added projects affected by the continuously loose liquidity of the market during the second half of last year and earlier this year; and partly due to the Group's adaptation to the replacement of momentum of real economy to accelerate the adjustment of customer structure and thus drive the transition of business structure and profit model. The Group dedicated its competitive resources to strongly support enterprises that are consistent with national industrial policy and loan policy.

Fair value changes on distressed debt assets

Fair value changes on distressed debt assets consist of the Group's (i) net gain or loss generated from the disposal of distressed debt assets which are designated as at fair value through profit or loss in consolidated statements of financial position, and (ii) unrealized fair value changes on such distressed debt assets. Such income is derived from the acquisition-and-disposal business of the Group.

Fair value changes on distressed debt assets of the Group increased by 60.1% from RMB1,432.4 million in the first half of 2016 to RMB2,293.7 million in the first half of 2017, mainly because the Group returned to its origin, highlighted and deeply developed its core business, i.e. distressed asset management business, took serving real economy as its starting point and ultimate goal, and enhanced the acquisition and disposal of assets, so as to achieve the preservation and increment of value of assets through various measures of asset management and operations.

Fair value changes on other financial assets

Changes in fair value of other financial assets include (i) changes in fair value of financial assets held for trading, and (ii) changes in fair value of other financial assets designated at fair value through profit or loss of the Company and relevant subsidiaries. Fair value changes on other financial assets of the Group increased by 6.4% from RMB2,718.9 million in the first half of 2016 to RMB2,893.5 million in the first half of 2017, primarily due to an increase in fair value of financial assets, including shares and bonds held by certain subsidiaries.

4. Management Discussion and Analysis

Interest income

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers	**4,444.2**	3,112.1	1,332.1	42.8%
Finance lease receivables	**2,995.2**	2,654.3	340.9	12.8%
Financial assets held under resale agreements	**1,118.8**	293.7	825.1	280.9%
Deposits with financial institutions	**1,067.2**	834.9	232.3	27.8%
Balances with the central bank	**290.2**	194.9	95.3	48.9%
Placements with financial institutions	**188.2**	101.2	87.0	86.0%
Total interest income	**10,103.8**	7,191.1	2,912.7	40.5%

The interest income of the Group increased by 40.5% from RMB7,191.1 million in the first half of 2016 to RMB10,103.8 million in the first half of 2017, mainly due to increases in interest income from loans and advances to customers, financial assets held under resale agreements and finance lease receivables.

Interest income from loans and advances to customers of the Group increased by 42.8% from RMB3,112.1 million in the first half of 2016 to RMB4,444.2 million in the first half of 2017, primarily due to Huarong Xiangjiang Bank's active support to real economy, booming credit demand from customers, sufficient reserves of projects and increase in placement scale.

Interest income from financial assets held under resale agreements of the Group increased by 280.9% from RMB293.7 million in the first half of 2016 to RMB1,118.8 million in the first half of 2017, primarily due to the increase in the scale of financial assets held under resale agreements resulting from the active adjustment of business strategies by some subsidiaries.

The interest income of the Group from finance lease receivables increased by 12.8% from RMB2,654.3 million in the first half of 2016 to RMB2,995.2 million in the first half of 2017. The increase was mainly due to the steady increase in business scale resulting from the active response to changes in market situations, early inputs and early returns of Huarong Financial Leasing.

4. Management Discussion and Analysis

Investment income, gains and losses

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest income from other financial assets classified as receivables	**12,913.5**	6,841.0	6,072.5	88.8%
Interest income from available-for-sale debt securities	**3,649.0**	857.9	2,791.1	325.3%
Net realized gains from disposal of available-for-sale financial assets	**2,598.4**	690.0	1,908.4	276.6%
Interest income from held-to-maturity debt securities	**872.9**	655.5	217.4	33.2%
Dividend income from available-for-sale financial assets	**558.0**	536.8	21.2	3.9%
Total investment income	**20,591.8**	9,581.2	11,010.6	114.9%

Investment income of the Group increased by 114.9 % from RMB9,581.2 million in the first half of 2016 to RMB20,591.8 million in the first half of 2017, mainly due to the increase in interest income from other financial assets classified as receivables, interest income from available-for-sale debt securities and disposal income from available-for-sale financial assets.

Interest income from other financial assets classified as receivables of the Group increased by 88.8% from RMB6,841.0 million in the first half of 2016 to RMB12,913.5 million in the first half of 2017. The increase was mainly due to the rapid growth in other financial assets classified as receivables of the Group resulting from the Group's support for national development strategies and meeting the financial demand in key fields.

Interest income from available-for-sale debt securities of the Group increased by 325.3% from RMB857.9 million in the first half of 2016 to RMB3,649.0 million in the first half of 2017, mainly due to the increase in interest income resulting from the increased debt securities invested by the Group.

Disposal income from available-for-sale financial assets of the Group increased by 276.6% from RMB690.0 million in the first half of 2016 to RMB2,598.4 million in the first half of 2017, mainly because the Group seized market opportunities and actively promoted the disposal of the DES Assets, which achieved remarkable success.

4. Management Discussion and Analysis

Commission and fee income

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Asset management business	**4,730.8**	3,142.6	1,588.2	50.5%
Securities and futures business	**1,100.5**	1,128.8	(28.3)	(2.5%)
Trust business	**737.4**	1,038.6	(301.2)	(29.0%)
Banking and consumer finance business	**235.4**	408.7	(173.3)	(42.4%)
Fund management business	**56.4**	27.2	29.2	107.4%
Total commission and fee income	**6,860.5**	5,745.9	1,114.6	19.4%

Commission and fee income of the Group increased by 19.4% from RMB5,745.9 million in the first half of 2016 to RMB6,860.5 million in the first half of 2017, mainly due to the increase in commission and fee income from asset management business, which was partially offset by the decrease in the commission and fee income from trust business and banking business.

Commission and fee income from asset management business of the Group increased by 50.5% from RMB3,142.6 million in the first half of 2016 to RMB4,730.8 million in the first half of 2017, primarily due to the increase in the income resulting from active expansion of asset management business by the Group.

Commission and fee income from trust business of the Group decreased by 29.0% from RMB1,038.6 million in the first half of 2016 to RMB737.4 million in the first half of 2017, mainly due to the decrease in income of trust business affected by the domestic capital market.

4. Management Discussion and Analysis

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 periods indicated.

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	**2,192.7**	1,074.9	1,117.8	104.0%
Net (losses)/gains on exchange differences	**(335.9)**	105.9	(441.8)	(417.2%)
Rental income	**194.8**	142.2	52.6	37.0%
Others	**741.1**	308.3	432.8	140.4%
Total other income and other net gains or losses	**2,792.7**	1,631.3	1,161.4	71.2%

Other income and other net gains or losses of the Group increased by 71.2% from RMB1,631.3 million in the first half of 2016 to RMB2,792.7 million in the first half of 2017, mainly due to the increase in revenue from properties development which was partially offset by net losses on exchange differences.

Total expenses

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except percentages)			
Interest expenses	**(22,030.8)**	(14,027.6)	(8,003.2)	57.1%
Commission and fee expenses	**(495.2)**	(481.6)	(13.6)	2.8%
Operating expenses	**(6,857.4)**	(5,358.8)	(1,498.6)	28.0%
Impairment losses on assets	**(5,849.7)**	(1,969.1)	(3,880.6)	197.1%
Total expenses	**(35,233.1)**	(21,837.1)	(13,396.0)	61.3%

Total expenses of the Group increased by 61.3% from RMB21,837.1 million in the first half of 2016 to RMB35,233.1 million in the first half of 2017, mainly due to the increase in interest expense, impairment losses on assets and operating expenses.

4. Management Discussion and Analysis

Interest expenses

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	**(14,059.1)**	(8,174.1)	(5,885.0)	72.0%
Bonds and notes issued	**(5,270.3)**	(3,641.6)	(1,628.7)	44.7%
Due to customers	**(1,434.6)**	(1,509.6)	75.0	(5.0%)
Financial assets sold under repurchase agreements	**(765.4)**	(307.6)	(457.8)	148.8%
Deposits from financial institutions	**(185.0)**	(219.8)	34.8	(15.8%)
Placements from financial institutions	**(105.4)**	(33.3)	(72.1)	216.5%
Amount due to the MOF	**(47.0)**	(82.6)	35.6	(43.1%)
Borrowings from central bank	**(34.2)**	(2.6)	(31.6)	1,215.4%
Other liabilities	**(129.8)**	(56.4)	(73.4)	130.1%
Total interest expenses	**(22,030.8)**	(14,027.6)	(8,003.2)	57.1%

Interest expenses of the Group increased by 57.1% from RMB14,027.6 million in the first half of 2016 to RMB22,030.8 million in the first half of 2017, mainly due to increase in the interest expenses of borrowings and bonds and notes issued.

Interest expenses of borrowings of the Group increased by 72.0% from RMB8,174.1 million in the first half of 2016 to RMB14,059.1 million in the first half of 2017, mainly because the Group increased the scale of borrowings to support business development.

Interest expenses of bonds and notes issued of the Group increased by 44.7% from RMB3,641.6 million in the first half of 2016 to RMB5,270.3 million in the first half of 2017, mainly due to sustained increase in the scale of onshore and offshore bond issuances as the Group is dedicated to developing into a "debt financing based AMC" and maintaining debt financing as a regular funding channel.

Commission and fee expenses

Commission and fee expenses of the Group increased by 2.8% from RMB481.6 million in the first half of 2016 to RMB495.2 million in the first half of 2017, mainly due to the increase in commission and fee expenses from the banking and consumer finance business, which was partially offset by the decrease in commission and fee expenses from the asset management business.

4. Management Discussion and Analysis

Operating expenses

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	**(2,567.8)**	(2,217.7)	(350.1)	15.8%
Cost of properties development	**(1,286.7)**	(528.2)	(758.5)	143.6%
Business tax and surcharges	**(579.5)**	(977.1)	397.6	(40.7%)
Others	**(2,423.4)**	(1,635.8)	(787.6)	48.1%
Including:				
Rental and management fee for leases	**(346.8)**	(363.4)	16.6	(4.6%)
Depreciation of property and equipment	**(259.2)**	(175.9)	(83.3)	47.4%
Amortization	**(115.6)**	(103.6)	(12.0)	11.6%
Depreciation of investment properties	**(22.0)**	(19.6)	(2.4)	12.2%
Total operating expenses	**(6,857.4)**	(5,358.8)	(1,498.6)	28.0%

Operating expenses of the Group increased by 28.0% from RMB5,358.8 million in the first half of 2016 to RMB6,857.4 million in the first half of 2017, mainly due to the increase in cost of properties development, employee benefits and other operating expenses.

Cost of properties development of the Group increased by 143.6% from RMB528.2 million in the first half of 2016 to RMB1,286.7 million in the first half of 2017, mainly due to the increased construction investment in projects of Huarong Real Estate.

Business tax and surcharges of the Group decreased by 40.7% from RMB977.1 million in the first half of 2016 to RMB579.5 million in the first half of 2017, which was mainly due to the decrease in tax expenses presented in this item resulting from the full replacement of business tax by value-added tax.

Other operating expenses of the Group increased by 48.1% from RMB1,635.8 million in the first half of 2016 to RMB2,423.4 million in the first half of 2017, mainly due to the corresponding increase of business and management expenses as a result of the business development of the Group.

4. Management Discussion and Analysis

Impairment losses on assets

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Other financial assets classified as receivables	**(1,461.7)**	(368.9)	(1,092.8)	296.2%
Loans and advances to customers	**(1,265.7)**	(659.8)	(605.9)	91.8%
Interests in associates and joint ventures	**(1,134.1)**	—	(1,134.1)	—
Distressed debt assets classified as receivables	**(1,011.1)**	733.2	(1,744.3)	(237.9%)
Available-for-sale financial assets	**(672.8)**	(1,616.0)	943.2	(58.4%)
Finance lease receivables	**(226.3)**	(81.0)	(145.3)	179.4%
Other assets	**(78.0)**	23.4	(101.4)	(433.3%)
Total	**(5,849.7)**	(1,969.1)	(3,880.6)	197.1%

Impairment losses on assets of the Group increased by 197.1% from RMB1,969.1 million in the first half of 2016 to RMB5,849.7 million in the first half of 2017, mainly because the Group paid high attention to risk management and always put risk prevention and control in an important position and made provisions according to accounting standards, leading to the increase in impairment losses on distressed debt assets classified as receivables, other financial assets classified as receivables and interests in associates and joint ventures.

Profit before tax

Profit before tax of the Group increased by 29.1% from RMB16,945.0 million in the first half of 2016 to RMB21,874.7 million in the first half of 2017.

4. Management Discussion and Analysis

Income tax expense

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Profit before tax	**21,874.7**	16,945.0	4,929.7	29.1%
Income tax expense	**(5,472.7)**	(4,099.3)	(1,373.4)	33.5%
Effective tax rate	**25.0%**	24.2%	—	—

Income tax expense increased by 33.5% from RMB4,099.3 million in the first half of 2016 to RMB5,472.7 million in the first half of 2017, mainly due to the increase of profit before tax. The effective tax rate of the Group in the first half of 2016 and the first half of 2017 was 24.2% and 25.0%, respectively.

Segment results

Each business segment of the Group is subject to different risks and returns. The Group reports its financial results in three segments: (i) distressed asset management business, which mainly includes distressed debt asset management, DES asset management, custody and agency services for distressed assets, distressed asset-based special situations investments and distressed asset-based property development; (ii) financial services business, which mainly includes securities and futures, financial leasing, banking and consumer finance services; and (iii) asset management and investment business, which mainly includes trust and other asset management business, financial investments, international business and other business.

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**35,277.1**	20,431.2	14,845.9	72.7%
Financial services	**14,684.0**	11,317.1	3,366.9	29.8%
Asset management and investment	**14,241.6**	8,881.4	5,360.2	60.4%
Inter-segment elimination	**(3,396.3)**	(619.1)	(2,777.2)	448.6%
Total	**60,806.4**	40,010.6	20,795.8	52.0%

4. Management Discussion and Analysis

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

	For the six months ended June 30,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**14,565.2**	9,684.6	4,880.6	50.4%
Financial services	**3,938.9**	3,895.5	43.4	1.1%
Asset management and investment	**5,330.6**	3,425.2	1,905.4	55.6%
Inter-segment elimination	**(1,960.0)**	(60.3)	(1,899.7)	3,150.4%
Total	**21,874.7**	16,945.0	4,929.7	29.1%

The table below sets forth the profit margin for each of the Group's business segments for the periods indicated. The profit margin of each segment is based on profit before tax of each segment (before elimination) divided by total income of each segment (before elimination).

	For the six months ended June 30,	
	2017	2016
Distressed asset management	**41.3%**	47.4%
Financial services	**26.8%**	34.4%
Asset management and investment	**37.4%**	38.6%

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

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**807,555.3**	628,712.6	178,842.7	28.4%
Financial services	**554,702.7**	515,150.5	39,552.2	7.7%
Asset management and investment	**346,613.1**	302,715.7	43,897.4	14.5%
Inter-segment elimination	**(61,061.5)**	(43,910.7)	(17,150.8)	39.1%
Total	**1,647,809.6**	1,402,668.1	245,141.5	17.5%

As of June 30, 2017, assets under the management, including bank wealth management, securities, trust and private equity funds, amounted to RMB822,121.5 million.

4. Management Discussion and Analysis

The table below sets forth the annualized pre-tax return on average net assets ("**Pre-tax ROAE**") for each of the Group's business segments for the periods indicated. The annualized Pre-tax ROAE of each segment is based on annualized profit before tax divided by the average balance of the net assets as at the beginning and the end of the period.

	For the six months ended June 30,	
	2017	2016
Distressed asset management	29.6%	25.6%
Financial services	20.7%	23.7%
Asset management and investment	37.2%	40.8%

Distressed asset management is the core business of the Group and an important source of income and profit of the Group. Total income from this segment increased by 72.7% from RMB20,431.2 million in the first half of 2016 to RMB35,277.1 million in the first half of 2017 and the profit before tax increased by 50.4% from RMB9,684.6 million in the first half of 2016 to RMB14,565.2 million in the first half of 2017, mainly because (i) the Group actively developed the acquisition-and-disposal model and the acquisition-and-restructuring model in the first half of 2017, resulting in increases in both the income from distressed debt assets classified as receivables and fair value changes on distressed debt assets; (ii) the Group seized market opportunities and actively promoted the disposal of DES Assets during the first half of 2017, and attained higher investment income; (iii) as the business scale of subsidiaries gradually expanded, the scales of income and profits increased rapidly.

The financial services business is an important and integral part of the Group's integrated asset management business. Total income from this segment increased by 29.8% from RMB11,317.1 million in the first half of 2016 to RMB14,684.0 million in the first half of 2017 and the profit before tax increased by 1.1% from RMB3,895.5 million in the first half of 2016 to RMB3,938.9 million in the first half of 2017, mainly due to the steady business development of Huarong Xiangjiang Bank and Huarong Financial Leasing and thus increases in their total income and profits before tax.

The Group's asset management and investment business is an extension and supplement to 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. Total income from this segment increased by 60.4% from RMB8,881.4 million in the first half of 2016 to RMB14,241.6 million in the first half of 2017 and the profit before tax increased by 55.6% from RMB3,425.2 million in the first half of 2016 to RMB5,330.6 million in the first half of 2017, mainly due to the increase in the total income of financial investment business of the Company and international business of the Group.

4. Management Discussion and Analysis

4.2.2 Financial Positions of Our Group

As of December 31, 2016 and June 30, 2017, the total assets of the Group amounted to RMB1,411,969.3 million and RMB1,658,154.6 million, respectively, representing an increase of 17.4%. Total liabilities amounted to RMB1,261,888.3 million and RMB1,488,092.9 million, respectively, representing an increase of 17.9%. Total equity amounted to RMB150,081.0 million and RMB170,061.7 million, respectively, representing an increase of 13.3%.

The table below sets forth the major items of balance sheet of the Group as of the dates indicated.

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Assets				
Cash and balances with central bank	32,495.5	2.0%	27,259.8	1.9%
Deposits with financial institutions	175,612.0	10.6%	154,329.9	10.9%
Financial assets held for trading	70,789.2	4.3%	87,731.3	6.2%
Financial assets designated as at fair value through profit or loss	122,282.6	7.3%	95,167.3	6.7%
Financial assets held under resale agreements	48,742.9	2.9%	36,347.7	2.6%
Available-for-sale financial assets	186,838.0	11.3%	140,292.6	9.9%
Financial assets classified as receivables	643,916.9	38.8%	549,478.0	38.9%
Loans and advances to customers	142,520.8	8.6%	118,406.0	8.4%
Held-to-maturity investments	53,699.7	3.2%	44,884.2	3.2%
Finance lease receivables	90,759.2	5.5%	84,991.3	6.0%
Other assets	90,497.8	5.5%	73,081.2	5.3%
Total assets	1,658,154.6	100.0%	1,411,969.3	100.0%
Liabilities				
Deposits from financial institutions	6,725.7	0.5%	6,962.5	0.6%
Borrowings	623,160.8	41.9%	511,308.6	40.5%
Financial assets sold under repurchase agreements	52,655.8	3.5%	56,390.6	4.5%
Due to customers	205,137.7	13.8%	172,405.9	13.7%
Bonds and notes issued	298,123.7	20.0%	243,075.2	19.3%
Other liabilities	302,289.2	20.3%	271,745.5	21.4%
Total liabilities	1,488,092.9	100.0%	1,261,888.3	100.0%
Equity				
Equity attributable to equity holders of the Company	120,787.5	71.0%	115,243.0	76.8%
Perpetual capital instruments	26,887.8	15.8%	15,030.3	10.0%
Non-controlling interests	22,386.4	13.2%	19,807.7	13.2%
Total equity	170,061.7	100.0%	150,081.0	100.0%
Total equity and liabilities	1,658,154.6	100.0%	1,411,969.3	100.0%

4. Management Discussion and Analysis

Assets

As of December 31, 2016 and June 30, 2017, the Group's total assets amounted to RMB1,411,969.3 million and RMB1,658,154.6 million, respectively. The Group's major assets consist of: (i) deposits with financial institutions; (ii) financial assets designated as at fair value through profit or loss; (iii) available-for-sale financial assets; (iv) financial assets classified as receivables; (v) loans and advances to customers; and (vi) finance lease receivables.

Deposits with financial institutions

As of December 31, 2016 and June 30, 2017, the Group's deposits with financial institutions amounted to RMB154,329.9 million and RMB175,612.0 million, respectively, representing an increase of 13.8%, mainly because the Group reserved fund in advance for purpose of supporting business development in the circumstance of continuous tightening of capital in the market.

Financial assets designated as at fair value through profit or loss

As of December 31, 2016 and June 30, 2017, the Group's financial assets designated as at fair value through profit or loss amounted to RMB95,167.3 million and RMB122,282.6 million, respectively, representing an increase of 28.5%, mainly due to the continued increase in acquisition-and-disposal assets as the Group returned to its origin, highlighted and deeply developed its core business, i.e. distressed asset management business, took serving real economy as its starting point and ultimate goal, and actively undertook acquisitions of distressed asset portfolios.

4. Management Discussion and Analysis

Available-for-sale financial assets

The following table sets forth the principal components of available-for-sale financial assets of the Group as at the dates indicated.

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Listed investments and debt securities traded in interbank:				
Equity instruments	**21,302.5**	17,908.8	3,393.7	18.9%
Debt securities				
Public sector and quasi-government bonds	**18,082.7**	23,275.6	(5,192.9)	(22.3%)
Corporate bonds	**11,622.7**	7,348.0	4,274.7	58.2%
Financial institution bonds	**4,570.5**	2,834.7	1,735.8	61.2%
Government bonds	**605.6**	638.1	(32.5)	(5.1%)
Funds	**1,855.9**	152.1	1,703.8	1,120.2%
Asset-backed securities	**1,195.1**	1,783.7	(588.6)	(33.0%)
Subtotal	**59,235.0**	53,941.0	5,294.0	9.8%
Unlisted investments:				
Funds	**61,834.7**	34,456.3	27,378.4	79.5%
Equity instruments	**26,296.7**	22,328.0	3,968.7	17.8%
Trust products	**23,044.6**	23,232.7	(188.1)	(0.8%)
Debt instruments	**8,467.2**	—	8,467.2	—
Wealth management products	**4,867.5**	1,161.9	3,705.6	318.9%
Asset management plans	**3,065.3**	3,529.7	(464.4)	(13.2%)
Asset-backed securities	**269.6**	286.8	(17.2)	(6.0%)
Others	**—**	1,603.2	(1,603.2)	(100.0%)
Less: Allowance for impairment losses	**(242.6)**	(247.0)	4.4	(1.8%)
Subtotal	**127,603.0**	86,351.6	41,251.4	47.8%
Total	**186,838.0**	140,292.6	46,545.4	33.2%

As of December 31, 2016 and June 30, 2017, the Group's available-for-sale financial assets amounted to RMB140,292.6 million and RMB186,838.0 million, respectively, representing an increase of 33.2%, which was mainly due to the continuous increase in the scale of available-for-sale financial assets resulting from the Group's strengthening of innovation on products, technology and service, improvement in the effectiveness of supporting and servicing the real economy, active extension of innovative businesses such as securitization and establishment of funds, and establishment of and participation in funds including equity investment funds and industrial investment funds.

4. Management Discussion and Analysis

Financial assets classified as receivables

The following table sets forth the principal components of financial assets classified as receivables of the Group at the dates indicated.

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets				
Loans acquired from financial institutions	39,840.5	54,263.5	(14,423.0)	(26.6%)
Other debt assets acquired from non-financial enterprises	293,075.8	239,475.2	53,600.6	22.4%
Less: allowance for impairment losses	(22,469.8)	(23,666.5)	1,196.7	(5.1%)
Subtotal	310,446.5	270,072.2	40,374.3	14.9%
Other financial assets classified as receivables	342,204.6	287,227.4	54,977.2	19.1%
Less: allowance for impairment losses	(8,734.2)	(7,821.6)	(912.6)	11.7%
Subtotal	333,470.4	279,405.8	54,064.6	19.3%
Total	643,916.9	549,478.0	94,438.9	17.2%

As of December 31, 2016 and June 30, 2017, the Group's financial assets classified as receivables amounted to RMB549,478.0 million and RMB643,916.9 million, respectively, representing an increase of 17.2%, mainly because (i) the Group continued to be in the leading position in the industry and competitive advantages in the market in terms of acquisition-and-restructuring business and increase in its efforts to expand customers and innovate on products, resulting in an increase in the scale of distressed debt assets classified as receivables; (ii) the Group actively supported national development strategy through meeting the financial needs in key fields, and the scale of other financial assets classified as receivables grew rapidly.

4. Management Discussion and Analysis

Loans and advances to customers

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

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Corporate loans and advances				
Loans and advances	**104,049.3**	80,884.7	23,164.6	28.6%
Discounted bills	**2,446.3**	8,796.5	(6,350.2)	(72.2%)
Subtotal	**106,495.6**	89,681.2	16,814.4	18.7%
Personal loans and advances				
Loans for business operations	**10,767.9**	9,816.0	951.9	9.7%
Personal consumption loans	**11,989.5**	6,405.8	5,583.7	87.2%
Mortgage	**9,215.6**	7,087.5	2,128.1	30.0%
Others	**1,476.7**	1,082.3	394.4	36.4%
Subtotal	**33,449.7**	24,391.6	9,058.1	37.1%
Loans to margin clients	**6,293.3**	6,992.6	(699.3)	(10.0%)
Gross loans and advances to customers	**146,238.6**	121,065.4	25,173.2	20.8%
Allowance for impairment losses	**(3,717.8)**	(2,659.4)	(1,058.4)	39.8%
Total	**142,520.8**	118,406.0	24,114.8	20.4%

As of December 31, 2016 and June 30, 2017, the Group's loans and advances to customers amounted to RMB118,406.0 million and RMB142,520.8 million, respectively, representing an increase of 20.4%, mainly due to (i) Huarong Xiangjiang Bank's active support to real economy, which resulted in the strong demand for credit and the expansion of the scale of corporate loans, and the continuous growth of retail business resulting from the promotion of the transformation to big retail business; (ii) the gradual expansion of scale of the personal consumption loans business of Huarong Consumer Finance.

4. Management Discussion and Analysis

Finance lease receivables

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

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	**33,546.7**	31,900.8	1,645.9	5.2%
1 year to 5 years (inclusive)	**66,880.3**	63,850.1	3,030.2	4.7%
Over 5 years	**3,825.8**	1,953.3	1,872.5	95.9%
Subtotal	**104,252.8**	97,704.2	6,548.6	6.7%
Unearned finance income	**(11,620.9)**	(11,074.5)	(546.4)	4.9%
Allowance for impairment losses	**(1,872.7)**	(1,638.4)	(234.3)	14.3%
Net amount of finance lease receivables	**90,759.2**	84,991.3	5,767.9	6.8%

As of December 31, 2016 and June 30, 2017, the Group's finance lease receivables amounted to RMB84,991.3 million and RMB90,759.2 million, respectively, representing an increase of 6.8%, mainly due to the stable increase in financial lease receivables of Huarong Financial Leasing by actively responding to changes in the market situation and innovating lease product model.

Liabilities

The principal components of the Group's liabilities include: (i) borrowings, such as borrowings from banks and other financial institutions; (ii) financial assets sold under repurchase agreements; (iii) due to customers; and (iv) bonds and notes issued.

Borrowings

As of December 31, 2016 and June 30, 2017, the Group's borrowings amounted to RMB511,308.6 million and RMB623,160.8 million, respectively, representing an increase of 21.9%, primarily due to the increase in borrowings to support the business development of the Group.

Financial assets sold under repurchase agreements

As of December 31, 2016 and June 30, 2017, the Group's financial assets sold under repurchase agreements amounted to RMB56,390.6 million and RMB52,655.8 million, respectively, representing a decrease of 6.6%, mainly due to the proper adjustments to business strategy and optimization of asset and liability structure made by the Group based on the liquidity and market condition.

4. Management Discussion and Analysis

Due to customers

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

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate customers	**91,124.4**	71,800.2	19,324.2	26.9%
Individual customers	**19,103.4**	16,545.4	2,558.0	15.5%
Time deposits				
Corporate customers	**43,017.4**	36,845.3	6,172.1	16.8%
Individual customers	**27,750.9**	24,407.5	3,343.4	13.7%
Pledged deposits	**9,073.4**	10,698.9	(1,625.5)	(15.2%)
Others	**15,068.2**	12,108.6	2,959.6	24.4%
Total	**205,137.7**	172,405.9	32,731.8	19.0%

As of December 31, 2016 and June 30, 2017, the amount of due to customers was RMB172,405.9 million and RMB205,137.7 million, respectively, representing an increase of 19.0%. The considerably rapid increase in deposits was mainly attributable to (i) Huarong Xiangjiang Bank's continuing to consolidate its traditional advantages of government finance; (ii) Huarong Xiangjiang Bank's efforts to develop large and medium premium customers.

4. Management Discussion and Analysis

Bonds and notes issued

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

	As of June 30, 2017	As of December 31, 2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
The Company	**104,997.8**	95,008.8	9,989.0	10.5%
Huarong Xiangjiang Bank	**38,992.9**	36,121.9	2,871.0	7.9%
Huarong Securities	**18,342.7**	14,376.9	3,965.8	27.6%
Huarong Financial Leasing	**13,862.5**	9,286.6	4,575.9	49.3%
Huarong Rongde	**4,482.3**	4,477.6	4.7	0.1%
Huarong Real Estate	**1,900.6**	—	1,900.6	—
Huarong International	**3,040.3**	—	3,040.3	—
Huarong Finance Co., Ltd.	**10,299.1**	10,535.4	(236.3)	(2.2%)
Huarong Finance II Co., Ltd.	**71,291.8**	72,968.0	(1,676.2)	(2.3%)
Huarong Finance 2017 Co., Ltd.	**30,613.7**	—	30,613.7	—
Huarong Tianze Investment Limited	**300.0**	300.0	—	—
Total	**298,123.7**	243,075.2	55,048.5	22.6%

As of December 31, 2016 and June 30, 2017, the Group's bonds and notes issued amounted to RMB243,075.2 million and RMB298,123.7 million, respectively, representing an increase of 22.6%, mainly because the Group further expanded financing channels, continued to promote the issuance of onshore and offshore debt securities, and maintained the financing of debt securities as a regular funding channel. In the first half of 2017, the newly issued bonds primarily consist of: (i) additional mid-term U.S. dollar notes of US$4.07 billion, mid-term Singapore dollar notes of S$0.6 billion, private targetted debt financing instruments of RMB3 billion issued by Huarong International; (ii) additional negotiable certificates of deposit of RMB27.74 billion issued by Huarong Xiangjiang Bank; (iii) additional tier II capital bonds of RMB10 billion issued by the Company; (iv) additional subordinated bonds of RMB4.53 billion, beneficiary certificates of RMB1.72 billion issued by Huarong Securities; (v) additional financial bonds of RMB1 billion, leasing asset-backed securities of RMB5.1 billion issued by Huarong Financial Leasing; and (vi) additional corporate bonds of RMB1.9 billion issued by Huarong Real Estate.

4. Management Discussion and Analysis

4.2.3 Contingent Liabilities

Due to the nature of the Group's business, the Group is involved in certain legal proceedings in the ordinary course of business, including litigation and arbitration. The Group makes provision for the probable losses with respect to those claims timely, when senior management can reasonably estimate the outcome of the proceedings, in light of the legal advice the Group has received. 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 impact on the financial positions or business performance of the Group.

As of December 31, 2016 and June 30, 2017, the provisions made by the Group for the relevant litigations were both RMB110.1 million. The Board believes that the results of these lawsuits will not have a material impact on the financial position or operations of the Group.

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

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

4. Management Discussion and Analysis

4.3 Business Overview

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

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

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Total income				
Distressed asset management	**35,277.1**	**58.0%**	20,431.2	51.1%
Financial services	**14,684.0**	**24.1%**	11,317.1	28.3%
Asset management and investment	**14,241.6**	**23.4%**	8,881.4	22.2%
Inter-segment elimination	**(3,396.3)**	**(5.5%)**	(619.1)	(1.6%)
Total	**60,806.4**	**100.0%**	40,010.6	100.0%

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Profit before tax				
Distressed asset management	**14,565.2**	**66.6%**	9,684.6	57.2%
Financial services	**3,938.9**	**18.0%**	3,895.5	23.0%
Asset management and investment	**5,330.6**	**24.4%**	3,425.2	20.2%
Inter-segment elimination	**(1,960.0)**	**(9.0%)**	(60.3)	(0.4%)
Total	**21,874.7**	**100.0%**	16,945.0	100.0%

4. Management Discussion and Analysis

4.3.1 Distressed Asset Management Business

Distressed asset management business is the core business of the Group and is the primary source of income and profit. In the first half of 2016 and the first half of 2017, total income from the Group's distressed asset management business was RMB20,431.2 million and RMB35,277.1 million, respectively, accounting for 51.1% and 58.0% of total income, respectively. Profit before tax from the Group's distressed asset management business was RMB9,684.6 million and RMB14,565.2 million, respectively, accounting for 57.2% and 66.6% of total profit before tax, respectively.

The Group's distressed asset management business is mainly comprised of (i) distressed debt asset management; (ii) DES asset management; (iii) custody and agency services for distressed assets; (iv) distressed asset-based special situations investments; and (v) distressed asset-based property development.

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

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB)	
Distressed debt asset management business[1]		
Gross amount of distressed debt assets[2]	**393,959.9**	328,202.4
Less: Allowance for impairment of distressed debt assets[3]	**(22,219.6)**	(23,649.9)
Carrying amount of distressed debt assets	**371,740.3**	304,552.5

	For the six months ended June 30, 2017	2016
	(in millions of RMB)	
Acquisition cost of newly added distressed debt assets	**194,687.9**	174,911.8
Total income from distressed debt assets		
Operating income from distressed debt assets[4]	**16,132.9**	13,065.5
Financial advisory income from acquisition-and-restructuring business	**1,246.3**	1,863.4
Total	**17,379.2**	14,928.9

4. Management Discussion and Analysis

	For the six months ended June 30,	
	2017	2016
	(in millions of RMB)	
DES asset management business		
Dividend income from DES Assets	**13.4**	40.4
Acquisition cost of DES Assets disposed	**284.2**	114.9
Net gain from the disposal of DES Assets	**1,175.6**	310.0
Custody and agency services for distressed asset business		
Income from asset management business	**382.4**	121.5
Distressed asset-based special situations investments business(5)		
Huarong Rongde	**1,681.4**	1,355.2
Huarong Huitong	**3,663.3**	803.2
China Huarong Western	**468.4**	265.2
Huarong Tianjin Investment	**344.3**	45.6
Huarong Guangdong Holdings	**524.7**	88.0
Huarong Fujian	**529.4**	—
Distressed asset-based property development business		
Income	**2,192.7**	1,074.9

(1) Represents the distressed debt asset management business of the Company.

(2) Gross amount of distressed debt assets equals the sum of the Company's (i) distressed debt assets designated at fair value through profit or loss, (ii) distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(3) Allowance for impairment of distressed debt assets equals the Company's allowance for impairment of distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(4) Operating income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets, (ii) income from distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(5) Distressed asset-based special situations investments are mainly conducted by subsidiaries including Huarong Rongde, Huarong Huitong Asset Management Ltd.（華融匯通資產管理有限公司）("**Huarong Huitong**"), China Huarong Western Development Investment Co., Ltd.（華融西部開發投資股份有限公司）("**Huarong Western**"), Huarong (Tianjin Free Trade Zone) Investment Co., Ltd.（華融（天津自貿區）投資股份有限公司）("**Huarong TianJin Investment**"), Huarong Guangdong Free Trade Zone Investment Holdings Co., Ltd.（華融廣東自貿區投融資控股有限公司）("**Huarong Guangdong Holdings**"), Huarong (Fujian Free Trade Test Zone) Investment Co., Ltd. （華融（福建自貿試驗區）投資股份有限公司） ("**Huarong Fujian**").

Distressed debt asset management business

The Company acquires distressed debt assets from financial institutions and non-financial enterprises primarily 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 flexible disposal or restructuring, and obtains cash proceeds or assets with operational value. The Company finances its acquisition of distressed debt assets primarily through its own capital, commercial bank borrowings and bond and share issuances.

4. Management Discussion and Analysis

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) accounts receivable and other 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 acquisition sources as at the dates and for the periods indicated.

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	**48,851.2**	**25.1%**	79,649.7	45.5%
NFE Distressed Assets	**145,836.7**	**74.9%**	95,262.1	54.5%
Total	**194,687.9**	**100.0%**	174,911.8	100.0%
Operating income from distressed debt assets in the current period(1)				
FI Distressed Assets	**3,114.4**	**19.3%**	3,355.9	25.7%
NFE Distressed Assets	**13,018.5**	**80.7%**	9,709.6	74.3%
Total	**16,132.9**	**100.0%**	13,065.5	100.0%

	As of June 30, 2017		As of December 31, 2016	
	(in millions of RMB, except for percentages)			
Gross amount of distressed debt assets at the end of the period(2)				
FI Distressed Assets	**96,431.1**	**24.5%**	82,493.8	25.1%
NFE Distressed Assets	**297,528.8**	**75.5%**	245,708.6	74.9%
Total	**393,959.9**	**100.0%**	328,202.4	100.0%

(1) Operating income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets, and (ii) income from distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(2) Gross amount of distressed debt assets equals the sum of the Company's (i) distressed debt assets designated at fair value through profit or loss, and (ii) distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

4. Management Discussion and Analysis

FI Distressed Assets

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

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

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Banks				
Large Commercial Banks	31,973.7	65.5%	27,167.2	34.2%
Joint Stock Commercial Banks	7,489.5	15.3%	26,951.8	33.8%
City and rural commercial banks	5,452.3	11.2%	1,283.1	1.6%
Other banks	160.4	0.3%	—	—
Subtotal	45,075.9	92.3%	55,402.1	69.6%
Non-bank financial institutions	3,775.3	7.7%	24,247.6	30.4%
Total	48,851.2	100.0%	79,649.7	100.0%

NFE Distressed Assets

The NFE Distressed Assets the Company acquired so far mainly include accounts receivable and other distressed debts of non-financial enterprises. These distressed debts assets include: (i) overdue receivables, (ii) receivables expected to be overdue, and (iii) receivables from debtors with liquidity issues.

4. Management Discussion and Analysis

Business models of distressed debt asset management

The Company employs two business models in the Company's distressed debt asset management business, the acquisition-and-disposal model and the acquisition-and-restructuring model.

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

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	**46,724.6**	**24.0%**	76,256.2	43.6%
Acquisition-and-restructuring	**147,963.3**	**76.0%**	98,655.6	56.4%
Total	**194,687.9**	**100.0%**	174,911.8	100.0%
Income from distressed debt assets				
Acquisition-and-disposal(1)	**2,248.2**	**12.9%**	1,377.0	9.2%
Acquisition-and-restructuring	**15,131.0**	**87.1%**	13,551.9	90.8%
Total	**17,379.2**	**100.0%**	14,928.9	100.0%

	As of June 30, 2017		As of December 31, 2016	
	(in millions of RMB, except for percentages)			
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal(2)	**82,652.5**	**21.0%**	59,595.0	18.2%
Acquisition-and-restructuring(3)	**311,307.4**	**79.0%**	268,607.4	81.8%
Total	**393,959.9**	**100.0%**	328,202.4	100.0%

(1) Total income from acquisition-and-disposal distressed debt assets equals the Company's fair value changes on distressed debt assets as shown in the consolidated financial statements in this interim report.

(2) Gross amount of acquisition-and-disposal distressed debt assets equals the Company's distressed debt assets designated as at fair value through profit or loss as shown in the consolidated financial statements in this interim report.

(3) Gross amount of acquisition-and-restructuring distressed debt assets equals the Company's distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

4. Management Discussion and Analysis

Acquisition-and-disposal model

As a major participant of the primary market for distressed debt assets, the Company acquires packages of distressed assets in batches from financial institutions through public bidding or negotiated transfers. To maximize the recovery value of distressed debt assets, the Company chooses the disposal methods for these assets based on the major objective factors including 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. The Company's core competitive advantage under the acquisition-and-disposal model is its 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 periods indicated.

	For the six months ended June 30,	
	2017	**2016**
	(in millions of RMB, except for percentages)	
Gross amount of distressed debt assets at the beginning of the period	**59,595.0**	48,735.5
Acquisition cost of newly added distressed debt assets	**46,724.6**	76,256.2
Gross amount of distressed debt assets disposed	**24,009.9**	37,208.3
Gross amount of distressed debt assets at the end of the period[1]	**82,652.5**	87,981.1
Net gain or loss from disposal of distressed assets[2]		
Realized gain	**1,905.4**	1,179.3
Unrealized fair value changes	**342.8**	197.7
Total	**2,248.2**	1,377.0
IRR on completed projects[3]	**19.2%**	16.2%

(1) Gross amount of distressed debt assets at the end of the period equals the Company's acquisition of distressed debt assets designated at fair value through profit or loss as shown in the consolidated financial statements in this interim report.

(2) Net gain or loss from disposal of distressed debt assets equals the Company's fair value changes on distressed debt assets as shown in the consolidated financial statements in this interim report.

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

4. Management Discussion and Analysis

The table below sets forth, as of the dates indicated, 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 of the Company.

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**23,622.4**	**28.6%**	21,305.3	35.8%
Pearl River Delta[2]	**11,156.0**	**13.5%**	9,350.4	15.7%
Bohai Rim Region[3]	**18,977.1**	**23.0%**	10,862.6	18.2%
Central Region[4]	**9,361.1**	**11.3%**	5,682.6	9.5%
Western Region[5]	**13,894.8**	**16.8%**	9,580.8	16.1%
Northeastern Region[6]	**5,641.1**	**6.8%**	2,813.3	4.7%
Total	**82,652.5**	**100.0%**	59,595.0	100.0%

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

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

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

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

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

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

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

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. The Company carried 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 distressed assets.

4. Management Discussion and Analysis

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

	For the six months ended June 30, 2017	2016
	(in millions of RMB, except for percentages and number of projects)	
Number of new projects	**478**	399
Acquisition cost of newly added distressed debt assets	**147,963.3**	98,655.6
Income from distressed debt assets		
Operating income from distressed debt assets[1]	**13,884.7**	11,688.5
Financial advisory income	**1,246.3**	1,863.4
Total	**15,131.0**	13,551.9
Annualized return on monthly average gross amount of distressed debt assets[2]	**9.8%**	11.9%

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB, except for percentages and number of projects)	
Number of existing projects at the end of the period	**1,377**	1,250
Gross amount of distressed debt assets[3]	**311,307.4**	268,607.4
Allowance for impairment losses[4]	**(22,219.6)**	(23,649.9)
Carrying amount of distressed debt assets[5]	**289,087.8**	244,957.5
Impaired distressed debt assets[6]	**5,824.6**	5,322.3
Impaired distressed debt assets ratio[7]	**1.87%**	1.98%
Allowance to distressed debt assets ratio[8]	**7.1%**	8.8%
Impaired distressed debt assets coverage ratio[9]	**381.48%**	444.35%
Distressed debt assets collateral ratio[10]	**35.7%**	36.0%

(1) Operating income from distressed debt assets equals to the Company's income from distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(2) Annualized return on monthly average gross amount of distressed debt assets equals the percentage of annualized income from distressed debt assets to the average gross amount of distressed debt assets at the end of each month.

(3) Gross amount of distressed debt assets equals the Company's distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(4) Allowance for impairment losses equals to the Company's allowance for impairment for distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

4. Management Discussion and Analysis

(5) Carrying amount of distressed debt assets equals the Company's distressed debt assets classified as receivables minus allowance for impairment losses for distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(6) Impaired distressed debt assets equals to the Company's impaired distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

(7) Impaired distressed debt assets ratio equals the percentage of impaired distressed debt assets to the gross amount of distressed debt assets.

(8) Allowance to distressed debt assets ratio equals the percentage of allowance for impairment losses to the gross amount of distressed debt assets.

(9) Impaired distressed debt assets coverage ratio equals the percentage of allowance for impairment losses to the impaired distressed debt assets.

(10) 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, as of the dates indicated, a breakdown of the gross amount of distressed debt assets under the acquisition-and-disposal model by the geographic location of debtors.

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	65,805.0	21.1%	52,364.6	19.5%
Pearl River Delta[2]	41,930.7	13.5%	37,257.6	13.9%
Bohai Rim Region[3]	38,493.8	12.4%	29,214.2	10.9%
Central Region[4]	62,117.4	20.0%	52,549.9	19.6%
Western Region[5]	85,826.5	27.6%	80,232.6	29.9%
Northeastern Region[6]	17,134.0	5.4%	16,988.5	6.2%
Total	311,307.4	100.0%	268,607.4	100.0%

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

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

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

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

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

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

4. Management Discussion and Analysis

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

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
Industry	(in millions of RMB, except for percentages)			
Real estate	**176,968.2**	**56.8%**	152,634.2	56.8%
Manufacturing	**38,007.4**	**12.2%**	35,830.9	13.3%
Construction	**16,491.6**	**5.3%**	12,271.0	4.6%
Mining	**6,191.5**	**2.0%**	6,121.0	2.3%
Leasing and commercial services	**13,304.9**	**4.3%**	12,264.4	4.6%
Water, environment and public utilities management	**14,245.0**	**4.6%**	13,701.0	5.1%
Transportation, warehousing and postal services	**4,220.3**	**1.4%**	3,116.4	1.2%
Others	**41,878.5**	**13.4%**	32,668.5	12.1%
Total	**311,307.4**	**100.0%**	268,607.4	100.0%

DES asset management business

The Company obtains DES Assets primarily through debt-to-equity swaps, receipt of equity interests in satisfaction of debts and follow-on equity investments. The Company enhances the value of DES Assets by improving the business operations of the DES Companies. The Company exits and realizes appreciation of DES Assets primarily through asset swaps, mergers and acquisitions, restructuring and listing of DES Companies. 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 June 30, 2017, the Company held Unlisted DES Assets in 165 DES Companies, with carrying amount of RMB9,549.1 million, and Listed DES Assets in 25 DES Companies, with carrying amount of RMB7,948.4 million.

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

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB, except for numbers of companies)	
Number of DES companies	**190**	200
Unlisted	**165**	173
Listed	**25**	27
Carrying amount	**17,497.5**	19,128.8
Unlisted	**9,549.1**	9,862.6
Listed	**7,948.4**	9,266.2

4. Management Discussion and Analysis

Income from DES asset management business

The Company derives the following income from its DES asset management business: (i) disposal income, which is the income from transfer of the 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 from follow-on investments, which is the income from transfer of additional equities acquired through private placements of DES Companies. 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.

The table below sets forth certain details of the Company's disposal of DES Assets by asset types for the periods indicated.

	For the six months ended June 30,	
	2017	2016
	(in millions of RMB, except for numbers of companies and multiples)	
Number of DES Companies disposed	10	6
Acquisition cost of DES Assets disposed	284.2	114.9
Net gain on DES Assets disposed	1,175.6	310.0
Exit multiple of DES Assets disposed(1)	5.1x	3.7x
Dividend income from DES Companies	13.4	40.4

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

In the first half of 2017, the Company's net gain on DES Assets disposed was RMB1,175.6 million and the exit multiple was 5.1 times.

4. Management Discussion and Analysis

Custody and agency services for distressed assets

Through the Company's custody and agency services for distressed assets, the Company acts on behalf of principals to operate, manage, dispose, liquidate or restructure distressed assets or distressed companies. The Company also provides agency, consulting and advisory services related to distressed asset management. In the first half of 2016 and the first half of 2017, the income from custody and agency services for distressed assets of the Company amounted to RMB121.5 million and RMB382.4 million, respectively. As of December 31, 2016 and June 30, 2017, the distressed assets from custody under the management of the Company amounted to RMB113,856.1 million and RMB120,602.8 million, respectively.

Distressed asset-based special situations investment

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 methods including debt restructuring, asset restructuring, business restructuring and management restructuring, the Group then improves the capital structure, management and operation of the investee enterprises. It exits and realizes asset appreciation through debt collection, share transfers, share repurchases, listing and mergers and acquisitions.

The Group primarily conducts its distressed asset-based special situations investment business through its subsidiaries such as Huarong Rongde and Huarong Huitong.

4. Management Discussion and Analysis

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

	For the six months ended June 30, 2017	2016
	(in millions of RMB, except for percentages and multiples)	
Income	**1,681.4**	1,355.2
Net profit	**726.9**	695.2
Annualized ROAA	**3.5%**	5.8%
Annualized ROAE	**15.0%**	29.4%
Cost-to-income ratio	**13.1%**	12.3%

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB, except for multiples)	
Total assets	**41,486.8**	41,930.4
Assets under management	**3,416.5**	5,464.5
Total assets to total equity multiple	**3.8x**	4.4x

In the first half of 2016 and the first half of 2017, Huarong Huitong's income was RMB803.2 million and RMB3,663.3 million, respectively, and net profit was RMB325.2 million and RMB732.3 million, respectively.

Distressed assets-based property development business

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

The Group conducts distressed assets-based property development business through Huarong Real Estate.

In the first half of 2016 and the first half of 2017, income from the property development business of Huarong Real Estate amounted to RMB1,074.9 million and RMB2,192.7 million, respectively.

4.3.2 Financial Services Business

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 different business life cycles and the entire industry value chain. In the first half of 2016 and the first half of 2017, the total income from financial services business amounted to RMB11,317.1 million and RMB14,684.0 million, respectively, accounting for 28.3% and 24.1% of the total income of the Group, respectively. The profit before tax of financial services business amounted to RMB3,895.5 million and RMB3,938.9 million, respectively, accounting for 23.0% and 18.0% of the total profit before tax of the Group, respectively.

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

	For the six months ended June 30,							
	2017		2016		As of June 30, 2017		As of December 31, 2016	
	Total income	Profit before tax	Total income	Profit before tax	Total assets	Total equity	Total assets	Total equity
	(in millions of RMB)							
Securities and futures	3,889.5	1,102.1	2,748.3	1,230.5	129,677.4	11,040.1	135,750.3	10,800.0
Financial leasing	3,541.8	1,096.3	2,789.8	1,036.8	124,566.5	13,465.1	118,467.1	11,124.7
Banking	7,009.3	1,724.4	5,762.0	1,639.1	296,195.3	14,992.7	260,185.6	14,445.2
Consumer finance	250.1	16.2	17.0	(10.9)	5,824.5	584.5	1,862.3	563.2

Securities and futures

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 Group also conducts futures and direct investment businesses through Huarong Futures and Huarong Ruize Investment Management Co., Ltd. (華融瑞澤投資管理有限公司) ("**Huarong Ruize**"), subsidiaries of Huarong Securities, respectively. The financial information for Huarong Securities disclosed in this section is consolidated financial information that includes the financial condition and results of operation of Huarong Futures and Huarong Ruize. In the first half of 2016 and the first half of 2017, total income from securities and futures business was RMB2,748.3 million and RMB3,889.5 million, respectively, and the profit before tax was RMB1,230.5 million and RMB1,102.1 million, respectively. Due to the changes in the equity relationship of subsidiaries of Huarong Securities, profit before tax in 2017 increased by 8.0% compared to the same period in 2016.

4. Management Discussion and Analysis

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

	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Profitability indicators[1]		
Net profit margin[2]	**21.2%**	33.3%
Annualized ROAE[3]	**15.2%**	19.8%
Annualized ROAA[4]	**1.2%**	2.3%
Cost-to-income ratio	**21.1%**	38.3%

	As of June 30, 2017	As of December 31, 2016
Risk control indicators [5]		
Net capital to total risks ratio	**226.7%**	231.9%
Net capital to net assets ratio	**133.4%**	131.3%
Net capital to liabilities ratio	**55.7%**	63.8%
Net assets to liabilities ratio	**41.8%**	48.6%
Equity securities and derivatives of proprietary trading to net capital ratio	**13.9%**	24.6%
Fixed income securities of proprietary trading to net capital ratio	**120.6%**	101.5%

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

(2) Net profit margin equals percentage of net profit for the period to total income.

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

(4) Annualized ROAA equals percentage of annualized net profit to the average balance of total assets as of the beginning and the end of the period.

(5) Risk control indicators are calculated based on the unconsolidated financial information of Huarong Securities.

4. Management Discussion and Analysis

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

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Proprietary trading	**1,775.2**	**45.6%**	1,267.1	46.1%
Securities brokerage and wealth management	**1,273.7**	**32.7%**	662.2	24.1%
Investment banking	**435.1**	**11.2%**	383.3	13.9%
Asset management	**200.2**	**5.1%**	145.2	5.3%
Others	**205.3**	**5.4%**	290.5	10.6%
Total	**3,889.5**	**100.0%**	2,748.3	100.0%

Proprietary trading: The income of Huarong Securities from proprietary trading increased by 40.1% from RMB1,267.1 million in the first half of 2016 to RMB1,775.2 million in the first half of 2017. The increase of the income of Huarong Securities from proprietary trading was partially due to the significant increase of investment income which has been included in the consolidated debt investment asset management plans. As of December 31, 2016 and June 30, 2017, the investment in proprietary trading amounted to RMB12,318.9 million and RMB13,438.1 million, respectively.

Securities brokerage and wealth management: The income of Huarong Securities from its securities brokerage and wealth management business increased by 92.3% from RMB662.2 million in the first half of 2016 to RMB1,273.7 million in the first half of 2017. The significant increase of the income of securities brokerage and wealth management business was primarily due to the significant increase of interest income of stock-pledged repurchase business compared to the same period last year.

Investment banking: The income of Huarong Securities from its investment banking business increased by 13.5% from RMB383.3 million in the first half of 2016 to RMB435.1 million in the first half of 2017. According to the operating data on securities companies published by the Securities Association of China in June 2017, the net income from financial advisory services of Huarong Securities ranked 6th.

Asset management: The income of Huarong Securities from its asset management business increased by 37.9% from RMB145.2 million in the first half of 2016 to RMB200.2 million in the first half of 2017. The asset under management decreased by 1.0% from RMB306,138.7 million as of December 31, 2016 to RMB303,234.7 million as of June 30, 2017.

4. Management Discussion and Analysis

Financial leasing

The Group operates financial leasing business through Huarong Financial Leasing. Huarong Financial Leasing mainly engages in financial leasing of equipment and provides customized financial solutions to clients, including sale and leaseback, direct leasing and operating leasing. As of June 30, 2017, the financial leasing business of Huarong Financial Leasing has expanded its coverage to 31 provinces, autonomous regions and municipalities in China.

As of June 30, 2017, Huarong Financial Leasing had total assets of RMB124,566.5 million, total equity of RMB13,465.1 million and annualized ROAE of 13.4%. As of December 31, 2016 and June 30, 2017, the balance of finance lease receivables of Huarong Financial Leasing was RMB86,629.7 million and RMB92,086.5 million, respectively, representing an increase of 6.3%. The profit before tax increased by 5.7% from RMB1,036.8 million in the first half of 2016 to RMB1,096.3 million in the first half of 2017.

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

	For the six months ended June 30,	
	2017	2016
Profit indicators		
Annualized ROAA(1)	1.4%	1.7%
Annualized ROAE(2)	13.4%	15.1%
Net interest spread(3)	2.0%	2.4%
Net interest margin(4)	2.6%	3.0%
Cost-to-income ratio(5)	13.4%	17.6%

	As of June 30, 2017	As of December 31, 2016
Asset quality indicators		
Non-performing asset ratio(6)	1.3%	1.2%
Provision coverage ratio(7)	153.9%	155.8%
Capital adequacy indicators		
Core capital adequacy ratio(8)	12.3%	10.5%
Capital adequacy ratio(8)	12.9%	11.1%

4. Management Discussion and Analysis

(1) Annualized ROAA equals the percentage of annualized net profit for the Reporting Period to the average balance of total assets at the beginning and end of the period.

(2) Annualized ROAE equals the percentage of annualized net profit attributable to owners of parent for the Reporting Period to the average balance of owners' equity at the beginning and end of the period.

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

(4) Net interest margin equals the percentage of net interest income to the average balance of total 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 asset ratio equals the percentage of the balance of non-performing assets to the balance finance lease receivables. Non-performing assets are defined as those initially recognized 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 estimated future cash flows of lease receivables that can be reliably estimated.

(7) Provision coverage ratio equals the percentage of the balance of asset impairment provisions to the balance of non-performing assets.

(8) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBRC regulations.

The table below sets forth a breakdown of the business income of Huarong Financial Leasing based on business lines for the periods indicated.

	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Sale and lease-back	**2,714.5**	**76.6%**	2,214.0	79.4%
Direct leasing	**280.8**	**7.9%**	461.8	16.6%
Others	**546.5**	**15.5%**	114.0	4.0%
Total	**3,541.8**	**100.0%**	2,789.8	100.0%

4. Management Discussion and Analysis

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 June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	**17,913.1**	**19.5%**	18,883.9	21.8%
Water resources, environment and public facility management	**44,115.0**	**47.9%**	35,077.7	40.5%
Transportation, warehousing and postal services	**6,199.0**	**6.7%**	7,232.4	8.3%
Construction	**5,468.5**	**5.9%**	4,569.3	5.3%
Mining	**1,526.1**	**1.7%**	2,007.4	2.3%
Leasing and business services	**1,769.6**	**1.9%**	2,329.4	2.7%
Real estate	**148.9**	**0.2%**	179.3	0.2%
Others	**14,946.3**	**16.2%**	16,350.3	18.9%
Total	**92,086.5**	**100.0%**	86,629.7	100.0%

Banking

The Group conducts its banking business in China through Huarong Xiangjiang Bank. As of December 31, 2016 and June 30, 2017, total assets of Huarong Xiangjiang Bank were RMB260,185.6 million and RMB296,195.3 million, respectively, representing an increase of 13.8%; total loans were RMB113,609.5 million and RMB135,798.4 million, respectively, representing an increase of 19.5%; total deposits were RMB172,483.7 million and RMB205,580.5 million, respectively, representing an increase of 19.2%. Profit before tax increased by 5.2% from RMB1,639.1 million in the first half of 2016 to RMB1,724.4 million in the first half of 2017.

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

	For the six months ended June 30,	
	2017	2016
Profit indicators		
Annualized ROAA(1)	**1.0%**	1.1%
Annualized ROAE(2)	**18.0%**	19.7%
Net interest spread(3)	**2.8%**	3.1%
Net interest margin(4)	**2.8%**	2.9%
Cost-to-income ratio(5)	**26.1%**	30.3%

4. Management Discussion and Analysis

	As of June 30, 2017	As of December 31, 2016
Asset quality indicators		
Non-performing loans ratio(6)	**1.56%**	1.48%
Allowance to non-performing loans(7)	**168.8%**	152.7%
Allowance to total loans(8)	**2.6%**	2.3%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio(9)	**8.7%**	8.6%
Capital adequacy ratio(9)	**11.4%**	11.5%
Other indicators		
Loan to deposit ratio(10)	**66.1%**	65.9%
Liquidity ratio(11)	**31.6%**	36.6%

(1) Annualized ROAA equals the percentage of annualized net profit for the Reporting Period to the average balance of total assets at the beginning and end of the period.

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

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

(4) Net interest margin equals net interest income divided by the average balance of total 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 percentage of the balance of non-performing loan to total loans and advances to customers.

(7) Allowance to non-performing loans equals percentage of the balance of loan allowance to the balance of non-performing loans.

(8) Allowance to total loans equals percentage of the balance of loan allowance to total loans and advances to customers.

(9) Core tier-1 capital adequacy ratio and capital adequacy ratio are calculated according to CBRC regulations.

(10) Loan to deposit ratio equals percentage of total loans and advances to customers to total deposits of customers.

(11) Liquidity ratio is calculated according to CBRC regulations.

Corporate banking business: Huarong Xiangjiang Bank provides diversified financial products and services, such as corporate loans, discounted bills, corporate deposits, and commission and fee based services, for corporate clients under the brand of "Cai Zhi Rong" (財智融). As of December 31, 2016 and June 30, 2017, the balance of corporate loans of Huarong Xiangjiang Bank amounted to RMB90,876.4 million and RMB107,730.8 million, respectively, representing an increase of 18.5%. The balance of loans to small and micro enterprises amounted to RMB28,272.1 million and RMB35,475.4 million, respectively, representing an increase of 25.5% and accounting for 31.1% and 32.9% of its total corporate loans, respectively; and the balance of corporate deposits amounted to RMB108,723.3 million and RMB134,584.7 million, respectively, representing an increase of 23.8%.

4. Management Discussion and Analysis

Retail banking business: Huarong Xiangjiang Bank provides diversified products and services to retail clients, such as retail loans, retail deposits, bank cards as well as fee and commission based services. As of December 31, 2016 and June 30, 2017, the balance of retail loans of Huarong Xiangjiang Bank amounted to RMB22,733.0 million and RMB28,067.6 million, respectively, representing an increase of 23.5%. The balance of retail deposits amounted to RMB40,952.9 million and RMB46,854.3 million, representing an increase of 14.4%.

Financial market business: As of December 31, 2016 and June 30, 2017, the balance of placements with banks and financial assets held under resale agreements of Huarong Xiangjiang Bank amounted to RMB5,240.3 million and RMB10,128.1 million, respectively. The balance of placements from financial institutions and financial assets sold under repurchase agreements amounted to RMB22,559.1 million and RMB17,753.5 million, respectively.

Consumer finance

The Group provides consumer finance services through Huarong Consumer Finance. Since its inception, Huarong Consumer Finance has strived to establish its market position by "setting up its base in Anhui to serve small enterprises all over China by leveraging the Huarong platform" (立足安徽、依托華融、服務小微、輻射全國). Huarong Consumer Finance aims to provide financial services to the general public, featuring small-sized loans, based on "big data", and is 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.

The total income of Huarong Consumer Finance increased from RMB17.0 million in the first half of 2016 to RMB250.1 million in the first half of 2017, representing an increase of 1,371.2%.

As at December 31, 2016 and June 30, 2017, the total assets of Huarong Consumer Finance amounted to RMB1,862.3 million and RMB5,824.5 million, respectively, representing an increase of 212.8%, of which the balance of loans was RMB1,658.5 million and RMB5,382.1 million, respectively, representing an increase of 224.5%.

4. Management Discussion and Analysis

4.3.3 Asset Management and Investment Business

Benefiting from advantages on assets, customers and technical knowhow accumulated from the distressed asset management business and financial services business of the Group, the asset management and investment business of the Group includes trust and other asset management business, financial investments, international business and other businesses. It primarily generates commission and fee income, as well as investment income. The Group's asset management and investment business enhances the overall profitability of its distressed asset management business and improves the business and income structure of the Group. Asset management and investment business is a natural extension and supplement of the distressed asset management business of the Group and serves as an important platform by providing the clients of the Group with diversified asset management, investment and financing services. In the first half of 2016 and the first half of 2017, the total income from the Group's asset management and investment business was RMB8,881.4 million and RMB14,241.6 million, respectively, representing 22.2% and 23.4%, respectively, of the total income of the Group. The profit before tax was RMB3,425.2 million and RMB5,330.6 million, respectively, representing 20.2% and 24.4%, respectively, of the total profit before tax of the Group.

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

	For the six months ended June 30,	
	2017	2016
	(in millions of RMB)	
Trust business		
Total income	**1,158.0**	1,081.3
Including: commission and fee income	**737.4**	863.8
Profit before tax	**463.0**	617.9
Private fund business		
Total income	**621.2**	968.1
Financial investments business		
Investment income from financial investments [1]	**2,760.2**	2,170.8
International business		
Total income	**7,481.1**	4,231.8
Profit before tax	**2,916.4**	2,694.4
Other businesses		
Total income	**2,221.1**	429.4

4. Management Discussion and Analysis

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB)	
Trust business		
Outstanding trust assets under management	**315,941.6**	242,592.7
Private fund business		
Total committed capital	**125,204.7**	82,310.2
Financial investments business		
Balance of financial investments(2)	**73,588.8**	70,117.8
International business		
Total assets at the end of the period	**195,253.8**	134,871.2

(1) Investment income from financial investments equals investment income from financial assets classified as receivables, available-for-sale financial assets and held-to-maturity investments, as shown in the consolidated financial statements in this interim report attributable to the asset management and investment segment of the Company.

(2) Balance of financial investments equals financial investments in funds, fixed income products and structured entities, classified under "financial assets held for trading", "financial assets classified as receivables", "held-to-maturity investments" and "interests in consolidated structured entities", and investments in stock and funds, classified under "available-for-sale financial assets", as shown in the consolidated financial statements in this interim report attributable to the asset management and investment segment of the Company.

Trust business

The Group conducts its trust business primarily through Huarong Trust. The trust business of the Group primarily involves: (i) acting as a trustee to manage, operate and dispose of trust assets and receiving trust business income and (ii) 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 controls. 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 of December 31, 2016 and June 30, 2017, the outstanding trust assets under management of Huarong Trust was RMB242,592.7 million and RMB315,941.6 million, respectively, representing an increase of 30.2%; the number of outstanding projects was 384 and 403, respectively. The total income generated from Huarong Trust's trust business increased by 7.1% from RMB1,081.3 million in the first half of 2016 to RMB1,158.0 million in the first half of 2017.

4. Management Discussion and Analysis

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

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB)	
Financial institutions	146,075.9	86,182.4
Securities investment	32,105.9	31,827.8
Industry and commerce	41,915.6	33,078.4
Infrastructure	36,519.2	34,293.6
Real estate	53,913.3	43,567.7
Others	5,411.7	13,642.7
Total	315,941.6	242,592.7

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**").

As of June 30, 2017, Huarong Yufu managed a total of 41 private funds. These funds cover major private fund categories including high yield funds, buyout funds, growth capital funds and industry funds. Principal investors in the funds managed include various types of investment companies, fund companies, banks, insurance companies, industry leading enterprises, real estate companies, trading companies and individuals.

The table below sets forth the basic operational details of the private fund business of the Group as of the dates and for the periods indicated.

	For the six months ended June 30,	
	2017	2016
	(in millions of RMB)	
Total income	621.2	968.1

4. Management Discussion and Analysis

	As of June 30, 2017	As of December 31, 2016
	(in millions of RMB, except for the number of funds managed)	
Number of funds managed[1]	41	40
Total committed capital	125,204.7	82,310.2
Total paid-in capital	71,859.6	47,918.7

(1) Number of funds managed includes private funds that managed third-party capital and in which Huarong Yufu acts as a general partner (or manager).

Financial investment business

Financial investment business of the Group mainly refers to the fixed income investments and equity investments conducted by the Company. As of December 31, 2016 and June 30, 2017, the balance of financial investments was RMB70,117.8 million and RMB73,588.8 million, respectively. In the first half of 2016 and the first half of 2017, income from financial investment business was RMB2,170.8 million and RMB2,760.2 million, respectively.

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

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Fixed income investments	67,055.4	91.1%	63,761.1	91.0%
Equity investments	6,533.4	8.9%	6,356.7	9.0%
Total	73,588.8	100.0%	70,117.8	100.0%

Fixed income investments business: Fixed income investment business of the Company utilizes its own funds and funds from external institutional investors to invest in target enterprises through investment instruments such as funds and trusts, and to recover principal and receive investment income on the relevant due dates for the purpose of gaining fixed return. The Company mainly provides financing to borrowers through trust plans established by independent third parties, limited liability partnerships and dedicated asset management plans. As of December 31, 2016 and June 30, 2017, the balance of fixed income financial investment was RMB63,761.1 million and RMB67,055.4 million, respectively.

4. Management Discussion and Analysis

Equity investments business: The Company utilizes its own funds to invest in stocks of unlisted and listed enterprises and other equity interests. The Company makes equity investments in unlisted enterprises which are qualified for listing and have clear listing plans, or participates in strategic placing of enterprises at offering stage. The Company makes equity investments in listed companies mainly through participating in their placing or private placements. The Company's investment in other equity interests includes investments in wealth management products of securities companies and interests in limited partnership entities. Equity investments of the Company focus on the energy industry and the machinery manufacturing industry. The Company accelerates the consolidation and reorganization of such enterprises through its investment to facilitate the optimization and upgrade of their industrial structures in order to increase their enterprise values and realize investment returns mainly by exits through the capital markets. As of December 31, 2016 and June 30, 2017, the balance of equity financial investments of the Company was RMB6,356.7 million and RMB6,533.4 million, respectively.

International business

The Group conducts its international business mainly through Huarong International. As the overseas investment and financing platform of the Group, Huarong International takes advantage of Hong Kong's developed capital markets and established legal environment, penetrates the multi-level overseas financing channels and broadly conducts equity, debt and mezzanine capital investments and financing businesses. Making use of the geographic advantage and bridging function of Hong Kong, Huarong International uses overseas funds to build cross-border financing channels in order to facilitate movement of domestic and overseas funds and businesses. Major lines of business of Huarong International include:

Fixed income investment (debt investment): Huarong International mainly invests in bonds and notes traded on the Hong Kong Stock Exchange, private bonds issued by listed companies or their controlling shareholders and private bonds issued by premium unlisted companies. The investment made by Huarong International covers a number of industries, including pharmaceutical, real estate, small loan companies and machinery leasing.

Equity investment: Huarong International mainly invests in initial public offerings ("**IPO**") on the Hong Kong Stock Exchange, rights issues and placements by listed companies, pre-IPO equity financing and investment in shares of companies with clearly defined exit channels.

Mezzanine investment: Huarong International mainly invests in structured products with characteristics of both debt and equity, such as convertible bonds and preference shares.

As of December 31, 2016 and June 30, 2017, the total assets of Huarong International was RMB134,871.2 million and RMB189,668.0 million, respectively, representing an increase of 40.6%. In the first half of 2017, total income of Huarong International was RMB6,993.6 million while the profit before tax was RMB2,513.4 million.

4. Management Discussion and Analysis

The table below sets forth the asset distribution of Huarong International as of the dates indicated.

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Deposits with financial institutions	**25,224.8**	**13.3%**	19,049.7	14.1%
Financial assets held for trading	**4,693.4**	**2.5%**	10,337.0	7.7%
Financial assets designated as at fair value through profit or loss	**13,923.3**	**7.3%**	13,945.6	10.3%
Available-for-sale financial assets	**31,543.5**	**16.6%**	11,839.2	8.8%
Financial assets classified as receivables	**42,300.3**	**22.3%**	28,566.4	21.2%
Other assets	**71,982.7**	**38.0%**	51,133.3	37.9%
Total	**189,668.0**	**100.0%**	134,871.2	100.0%

Other businesses

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

In the first half of 2016 and the first half of 2017, the income from the Group's other business was RMB429.4 million and RMB2,221.1 million, respectively.

4.3.4 Business Synergy

The Group established a synergistic mechanism by thoroughly implementing its development strategies of comprehensive financial services and its corporate culture of collaboration and cooperation, refining its synergistic management system and information platform, with the guidelines of its market-oriented profit distribution, incentive and appraisal assessments, which takes its diversified business platforms as its core, utilizing resource sharing as its means and providing excellent client services and the value maximization of the Group as its aims. With synergies of strategies, products, business, business network, clients and internal resources, the Group sets up clear positioning for the Head Office, Company Branches and subsidiaries to enhance effective resource sharing and maintain complementary coordinated development.

In the first half of 2017, the Group strived to encourage business cooperation between the Head Office, Company Branches and subsidiaries. Through the cooperation between (i) Company Branches and subsidiaries; (ii) Company Branches and Company Branches; (iii) Company Branches and the business department of the Head Office; (iv) subsidiaries and subsidiaries; and (v) subsidiaries and the business department of the Head Office, the financing provided by all operation units amounted to RMB76,348.91 million and the total business income of all operation units amounted to RMB3,510.74 million.

4. Management Discussion and Analysis

4.3.5 Human Resources Management

In the first half of 2017, based on Group business and development needs of being market-oriented, professional, diversified, comprehensive and international, the Group continuously reformed its human resources system, optimized the organization structure of its employees and exerted efforts in attracting market-oriented and professional talents. Through improving remuneration incentive and restraint system and orderly implementing employee insurance systems, the Group managed to enhance its employees' sense of belonging and team cohesion. The Group further strengthened the abilities of its employees by establishing a multi-level, diversified and comprehensive training system which covers a wide range of areas and mixed businesses and provides integrated training programs under the strategy of the "talent powers company", to boost the long-term development of the Group.

Employees

The Group had 12,019 employees as of June 30, 2017, including 2,542 employees working for the Company and 9,477 employees working for various subsidiaries. The Company's employees hold over 50 types of professional qualifications, including Certified Public Accountant, Chartered Financial Analyst, sponsor representative, attorney, Financial Risk Manager, Asset Valuer, banking practice qualification and securities practice qualification.

The table below sets forth a breakdown of employees of the Group, by age, as of June 30, 2017.

	Number	Percentage (%)
Aged 35 or below	6,862	57%
Aged 36–45	2,769	23%
Aged 46–55	2,133	18%
Aged above 55	255	2%
Total	12,019	100%

The table below sets forth a breakdown of employees of the Group, by education level, as of June 30, 2017.

	Number	Percentage (%)
Doctoral's degree or doctoral candidate, or above	225	2%
Master's degree or master candidate	3,613	30%
Bachelor degree or undergraduate	6,575	55%
Junior college or below	1,606	13%
Total	12,019	100%

4. Management Discussion and Analysis

Remuneration policy

With the Group's remuneration policy combined with its strategies, business development and talent recruitment, the remuneration management of the Group is formulated to center on the operation efficiency and the "performance-based" remuneration system is adopted to achieve the operation goals of the Group. Salaries are determined according to the duties, competence and contributions of employees under the employee remuneration management system with the principles of "position-based salary and performance-based bonus". The profit-oriented incentive and restraint system are further optimized. Remuneration is determined on the basis of matching profits and risks, balancing of long-term and short-term incentives. The Group has established a healthy and competitive remuneration management system based on its operating results and the principle of fairness.

Training

In the first half of 2017, the Group further enhanced the multi-level, diversified and comprehensive training system which covers a wide range of areas and mixed businesses and provides integrated training programs. Highly practical training programs in respect of different business lines with essential contents were provided to different levels of employees in various forms, including trainings such as Youth Reserve Talent Training Program, system introduction, case studies, seminars, promotion of knowledge and skills and research. Employees were encouraged to take part in online learning through knowledge sharing platforms such as online colleges, providing sufficient human resources for the sound and sustainable development of the Group.

4.3.6 No Material Changes

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

4.4 Risk Management

In the first half of 2017, the Group responded positively to the requirements of the Central Committee and regulatory authorities for strengthening efforts in financial risk prevention and control, continuously optimized the construction of the comprehensive risk management system, strengthened the rigid constraints of the Group's risk appetite, intensified the combination of risk prevention effectiveness and performance appraisal and attached more importance to financial risk prevention and control. Through the activity of "enterprise management year", the Group focused on source governance and process control and attached importance to risk prevention and efficiency improvement to further strengthen the internal control process and consolidate the risk management foundation.

4. Management Discussion and Analysis

4.4.1 Comprehensive Risk Management System

In the first half of 2017, the Group formulated and issued the 2017 Risk Appetite Policy (《2017年風險偏好政策》) to enrich the risk appetite indicator dimension and further strengthen the management of requirement of the risk control of subsidiaries, urging the subsidiaries to seriously take, prudently determine and strictly implement the risk appetite. According to the requirements of the Guidelines for the Overall Risk Management of Banking Financial Institutions (《銀行業金融機構全面風險管理指引》), the Group enriched the five-year plan tasks of comprehensive risk management, researched and formulated the 2017 plan-implementation plan, and promoted the implementation of planned tasks and regulatory requirements. By sorting out the duties of key positions and control requirements of the whole business process, the Group improved the business entry policy, authorization policy and limit policy, strengthened the internal control organization structure and key position management, and improved the pertinence and effectiveness of the risk management. The Group clarified risk prevention objectives and implement the prevention tasks to respective business units, and further combined the risk control effectiveness and performance appraisal to increase the assessment efforts of "cash flow, full caliber, and full cycle". The Group improved the risk data and information system at the group level, and promoted the construction and implementation of the risk data mart, formulated and implemented the big data risk applications work plan, and explored the application of big data for due diligence and risk warning to lay a solid foundation for the Group to enhance the risk management level.

4.4.2 Credit Risk Management

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

In the first half of 2017, the Group further optimized the credit risk management mechanism and management tools of credit risk, and further enhanced the management quality of credit risk. The Group established an internal credit rating system, developed the Interim Measures For The Management Of Internal Rating Of Credit Risk (《信用風險內部評級管理暫行辦法》), and actively completed the establishment of and implemented the internal rating system as an important means of the identification, assessment, monitoring and control of credit risk, to effectively improve quantitative management of customer credit risk. Combined with the requirements of IFRS 9, the Group carried out the improvement of the risk measurement model. The Group strengthened and implemented the management measures of collaterals and pledges, and confirmed the implementation requirements of due diligence investigation, value assessment and dynamic management of collaterals and pledges in the admission stage, and effectively prevented and controlled the credit risk through the enhancement of the risk compensation measures. The Group strengthened the monitoring of early risk signs, improved the management of early-warning projects, and continued to strengthen the supervision of debtor compliance, the dynamic assessment of collaterals and pledges, as well as the regular evaluation of asset quality. The Group stepped up its efforts in risk asset preservation, clarified the objectives of risk assets recovery, assigned and implemented the objectives and risk prevention and mitigation responsibility, and directed, supervised and guided the business units to prevent financial risks in support of the real economic development, which effectively promoted the disposal and mitigation of risk assets.

4.4.3 Market Risk Management

Market risk refers to the situation where Group business may suffer losses due to adverse movements in market prices, such as fluctuations of interest rates, exchange rates and stock and commodity prices. The Group's market risks primarily relate to its equity investment business, acquisition-and-disposal business, stocks, funds, bonds, wealth management and changes in interest rates.

In the first half of 2017, the Group, with the guidance of regulatory requirements, fully implemented the requirements for the management of classifying trading accounts and non-trading accounts, organized the classification of accounts for the parent company's stock investment, and carried out the corresponding management duties in accordance with the account management requirements, which further consolidated the foundation of market risk management. In risk appetite indicators for 2017, the Group strengthened the requirements of the Group's market risk management, urged the business units to establish and improve the market risk entry, limit, post-investment management regulations, effectively controlled the scale of market risk exposure and enhanced the level of market risk management. At the same time, the Group regularly conducted valuation of assets measured at fair value to accurately understand the change in the value of assets.

In respect of interest rate risk, the Group actively focused on adapting to the reform of interest rates liberalization and proactively managed the assets and liabilities, and focused on optimizing the structure of assets and liabilities, in order to reduce the cost of financing. The Group managed risks arising from interest rate fluctuations by strictly controlling the duration of the debt restructuring and strengthening the matching between the term of liabilities, assets and the interest rate structures. The Group also managed interest rate risks through quantitative analyses, including regular interest rate sensitivity analysis. In the first half of 2017, the Group started the construction of asset and liability management system, and further enhanced the level of information management of interest rate risk through the improvement of management tools.

With respect to the risk of exchange rate, the Group closely monitored the changes in exchange rate. The Group mainly operates in China and its accounts are denominated in RMB. The Group has flexibility to remit the proceeds from its listing when the exchange rate is favorable. The balance of the proceeds from listing will be remitted when the exchange rate is favorable and will be used to strengthen the distressed asset management business, to improve the integrated financial services platform and to develop the asset management and investment business. The proceeds from overseas U.S. dollar bonds issued by the overseas subsidiaries and the U.S. dollar borrowings of the overseas subsidiaries were used to invest in the assets denominated in U.S. dollar or HK dollar, which was pegged to the U.S. dollar. The denominated currencies of assets and liabilities are basically the same; therefore exchange rate risk is insignificant.

4. Management Discussion and Analysis

With respect to the price risk of listed stocks, the Group closely monitored the impact of changes in domestic and overseas macro-economic conditions, industry fundamentals, interest rates and liquidity in major economies, operating environment of capital market, changes in regulatory policies on the business development, financing environment and valuation of such listed companies, and formulated and adjusted its market value management strategies accordingly. The Group set different trading portfolios of different classes of assets and monitored the market value and commissioned Huarong Securities to manage portfolio. In line with the relevant policies of regulators including MOF, CSRC and Hong Kong Stock Exchange and the holdings reduction plan, the Group made timely disclosure of policy stock assets, monitored the market value and reduced asset exposure accordingly.

4.4.4 Liquidity Risk Management

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

The Group resolutely implemented the requirements of the regulatory authorities for liquidity management. The Group adopted a centralized liquidity management system, actively promoted information construction of capital management and liquidity risk management and strengthened the liquidity risk control of subsidiaries. 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.

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 efforts were made to enhance financing channels and innovations. The main financing channels of the Group included tier II capital bonds, financial bonds and interbank financing complemented with interbank advances and pledge-style repo. The structure of the Group's liabilities was optimized continuously through the increase the proportion of medium and long-term borrowing and the addition of market financing methods in terms of the maturity and types of borrowings.

4. Management Discussion and Analysis

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 funding and liquidity, enhanced the maturity alert control of assets and liabilities by setting and monitoring indicators in accordance with regulatory requirements and the actual situation of the Group for dynamic supervision, analysis and control of liquidity risk. Management of liquidity risk was also improved on the basis of regular stress testing.

4.4.5 Operational Risk Management

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

In the first half of 2017, the Group continued to strengthen its management of operational risks and actively organized various units to carefully sort out the operational procedures, clarify important risk points and control measures, strengthen daily supervision, guidance and inspection, and integrate operational risk control into the whole process. By organizing trainings on operational risks, the Group strengthened the promotion of operational risk management awareness, and enhanced the awareness and the ability of operational risks prevention among all employees.

The Group attached great importance to the development of prevention and control system of legal risks covering all processes and the compliance risk management system. The Group continuously refined all of its policies relating to legal matters and compliance management, constantly optimized standardized review tools and processes, comprehensively enhanced the contract management, earnestly promoted innovation of the working mechanism of case management, timely studied and effectively dealt with legal compliance issues in the business development so as to fully prevent and control the legal risks and compliance risks in connection with its projects. The Group also continuously conducted trainings on legal compliance and legal education programs to promote the employee's awareness of legal compliance risks and cultivate the culture of legal compliance.

The Group further refined its information technology risks prevention system and based on the information security control measures set forth in ISO 27001 information security management system and requirements of Special Notice on the Implementation of Network Security Management (《關於開展網絡安全治理專項通知》) issued by CBRC, conducted self-inspections and risks valuation of various units on network security such as information technology infrastructure security, effectiveness of technical controls, and personnel safety and risk evaluation. The Group also conducted network safety valuation on network security risk profile, risk controls and next-step net safety risk management. As such, the network security compliance and risk management were further improved. In the first half of 2017, the Group did not have any significant event in relation to information security and technology risk.

4. Management Discussion and Analysis

4.4.6 Reputation Risk Management

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

The Group placed particular importance on reputational risk management. It has incorporated reputational risk management in the corporate governance and completed risk management system, established an advanced reputational risk management system to conduct proactive reputational risk management to ensure timely discovery and handling of incidents in relation to or may lead to reputational risk of the Group and to prevent such incidents from happening.

The Group has worked in accordance with the principles of proactive and prudent management, implemented classified management of reputational risk, and insisted in combining centralized control and classified management, and combining daily management and special management, did crisis prevention well, which achieved management and control with full involvement and division of duties and responsibility, real-time monitoring and standardized process. As such, it further improved the ability of reputational risk management, which all together safeguard and promote the social reputation, brand name and image of the Group. In the first half of 2017, the Group did not have any serious or significantly serious event in relation to reputational risk.

4.4.7 Internal Audit

The Group has adopted an internal audit system and has professional auditors responsible for the independent and objective supervision, examination and evaluation of the Group's conditions such as 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 the first half of 2017, the Group has duly performed its audit duties. To prevent risks and to promote efficiency and benefits, the Group conducted various routine audits and supervisions and continuously improved the internal audit system and management models satisfied the development needs of listed companies. The Group has conducted regular and special audits of its units focusing on major projects, businesses and financial matters, internal control and internal management and other aspects. The Group has also conducted economic responsibility audits of the middle and senior management during their term of office. The Group has continuously strengthened its internal audit team by organizing internal auditors to take training and external business trainings. By enhancing the ability of the internal audit team on performing duties, the Group has given full play to the internal audit and supervision functions.

4. Management Discussion and Analysis

4.4.8 Anti-money Laundering Management

The Group has strictly complied with the anti-money laundering laws and regulations, and duly fulfilled its social responsibility and legal duty of anti-money laundering. Together with audit and risk prevention and identification, the Company ensured the effective enforcement of the relevant laws and regulations and rules of the Company regarding anti-money laundering. In the first half of 2017, in order to further implement the regulatory requirements, the Group continued to improve the internal control system of anti-money laundering, enhanced the organization structure of anti-money laundering and optimized the relevant information system in combination with the anti-money laundering categorization and rating management of corporate institutions.

4.5 Capital Management

In accordance with the external regulatory requirements and the corporate development strategies, the Group has continuously optimized capital measurement, planning, utilizations, monitoring and efficiency assessment mechanisms, and optimized its internal capital allocation to ensure a sound and compliant capital conditions, and to support the steady development of the Group.

As at December 31, 2016 and June 30, 2017, the capital adequacy ratio of the Company was 12.86% and 13.89%, respectively.

As at December 31, 2016 and June 30, 2017, the leverage ratio of the Company was 9.1:1 and 10.1:1, respectively.

The capital-related indicators as of June 30, 2017 were calculated using the methods required under the Notice on the Issuance of Off-site Supervision Information System for Financial Asset Management Companies by the General Office of the CBRC (Yin Jian Ban Fa [2016] No. 38) (《中國銀監會辦公廳關於印發金融資產管理公司非現場監管報表指標體系的通知》(銀監辦發[2016]38號)) issued by the CBRC and effective on March 1, 2016.

4. Management Discussion and Analysis

4.6 Outlook

It is expected that the factors conducive to stable economic growth will increase in the second half of 2017, and the momentum of global economic growth will be strengthened. At the same time due to the uncertainty of U.S. macroeconomic policy, the remaining European political risk, the slow pace of economic recovery in emerging economies, the global economy will continue to be subject to extensive adjustment. From the domestic perspective, the Chinese economy still has the comparative advantages of strong resilience to volatility, great potential and sustainable growth. It is expected that, with the advancing structural reform of the supply side, streamlining administration and delegating power and innovation-driven strategy, positive fiscal policy, prudent monetary policy and further strengthened financial regulation will complement the adjustment of economic structure to make substantive progress, further improve the quality and benefits of economic operation, so as to maintain stable and sound development of economy.

Facing the new situation in the external environment, the Company will capitalize on China's government's demand for financial services in the process of structural reform of the supply side, the implementation of national development strategies, such as the Belt and Road Initiative, collaborative development of Beijing, Tianjin and Hebei Province, Yangtze River Economic Belt development, fully leverage its professional advantages of distressed asset management and comprehensive financial services businesses, and better maintain financial security and promote economic development. Firstly, the Company will, based on the main business of distressed asset management, provide services and safeguards for deepening the structural reform of the supply side around the four major financial functions including asset holding, asset restructuring, asset transfer and financial factoring and sticking to the five tasks of "three eliminations, one reduction and one improvement" ("三去一降一補"), that is, "cutting overcapacity, destocking, deleveraging, reducing cost and shoring up weak growth areas". Secondly, the Company will keep abreast of the national development strategy and market demand, continue to increase product and business innovation, coordinate the development of three business segments including "distressed asset management, financial services, asset management and investment", and strive to enhance the quality and level of service for substantial economy. Thirdly, the Company will target major risks in the current financial market, pay close attention to the impact of environmental changes such as cutting overcapacity in substantial economy, destocking in real estate, deleveraging in economical sector on the Company's business, and actively guard against all types of market and credit risks.

5. Changes in Share Capital and Information on Substantial Shareholders

5.1 Changes in Share Capital

As of June 30, 2017, the share capital of the Company was as follows:

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

5. Changes in Share Capital and Information on Substantial Shareholders

5.2 Substantial Shareholders

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

As of June 30, 2017, the Company received notices from the following persons about their notifiable interests or short positions held in the Company's shares and underlying shares pursuant to Divisions 2 and 3 of Part XV of the SFO, which were recorded in the register pursuant to Section 336 of the SFO as follows:

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

5. Changes in Share Capital and Information on Substantial Shareholders

Note: (L) refers to long position

Notes:

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

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

(3) According to the Corporate Substantial Shareholder Notice from Warburg Pincus & Co. filed with the Hong Kong Stock Exchange on November 13, 2015, 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 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 Financial L.P. and Warburg Pincus International L.P. are deemed to be interested in the long positions held by Warburg Pincus Financial International Ltd.

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

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

(6) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at June 30, 2017.

(7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at June 30, 2017.

5. Changes in Share Capital and Information on Substantial Shareholders

5.2.2 Substantial Shareholders

During the Reporting Period, the substantial shareholders of the Company remained unchanged. Details of the substantial shareholders of the Company are as follows:

MOF

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

China Life Insurance (Group) Company

It is a financial insurance company wholly owned by the MOF. China Life Insurance (Group) Company is a large financial insurance company owned by the state. The business scope of the group and its subsidiaries include various areas, such as life insurance, property insurance, corporate and occupational annuity, banking, funds, asset management, wealth management, industrial investment and overseas business.

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 (CIS) segments, energy, financial services, pharmaceuticals and healthcare, technology, media and telecommunication (TMT) and other industries. Warburg Pincus LLC has established business in China since 1994, being one of the first international private equity investment groups operating in China.

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

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

Sino-Ocean Group Holding Limited, established in 1993, is a leading real estate developer operating in the major economically developed regions in China. Its business scope mainly includes development of mid-to-high end residential buildings, development, investment and operation of urban complex and office buildings, properties service, Community O2O, pension industry, medical industry, sharing of office, real estate funds, equity investment, asset management and overseas investment etc., holding diversified portfolios of development projects and investment properties in various regions.

6. Directors, Supervisors and Senior Management

6.1 Basic Information

6.1.1 Directors

On February 14, 2017, the Company held the first extraordinary general meeting for 2017 to elect the Directors of the second session of the Board of Directors, and the first meeting of the second session of the Board of Directors to elect the chairman and vice chairman of the second session of the Board of Directors, and appoint members of the Special Committees of the second session of the Board of Directors. Please refer to the announcement of the Company dated February 14, 2017 for details. As of June 30, 2017, the Board of Directors comprised Mr. Lai Xiaomin (chairman), Mr. Ke Kasheng (president) and Mr. Wang Lihua as executive Directors; Mr. Wang Keyue (vice chairman), Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and Mr. Zhou Langlang as non-executive Directors; and Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun as independent non-executive Directors.

6.1.2 Supervisors

On January 23, 2017, the Company held the third meeting of the second session of the employee representative meeting to elect employee representative Supervisors of the second session of the Board of Supervisors. On February 14, 2017, the Company held the first extraordinary general meeting for 2017 to elect Shareholder representative Supervisor and external Supervisors of the second session of the Board of Supervisors. On February 15, 2017, the Company held the first meeting of the second session of the Board of Supervisors to elect the chairman of the second session of the Board of Supervisors. Please refer to the announcements of the Company dated January 23, 2017, February 14, 2017 and February 15, 2017 for details. As of June 30, 2017, the members of the Board of Supervisors comprised Mr. Ma Zhongfu (chairman) as a Shareholder representative Supervisor, Ms. Dong Juan and Ms. Xu Li as external Supervisors, and Ms. Zheng Shengqin and Mr. Mao Biaoyong as employee representative Supervisors.

6.1.3 Senior Management

On April 14, 2017, the Company held the third meeting of the second session of the Board of Directors to re-appoint the president, vice president and assistant to president of the Company, and to accept the resignation of the secretary to the Board and appoint the new secretary to the Board. Please refer to the announcement of the Company dated April 17, 2017 for details. As of June 30, 2017, the senior management of the Company comprised Mr. Ke Kasheng, Mr. Li Yuping, Mr. Wang Lihua, Mr. Xiong Qiugu, Mr. Hu Jiliang, Mr. Wang Wenjie, Ms. Hu Ying, Mr. Yang Guobing and Mr. Li Yingchun (whose qualifications of secretary to the Board is in the process of approval by the CBRC).

6. Directors, Supervisors and Senior Management

6.2 Changes

6.2.1 Directors

On October 31, 2016, the Company appointed Mr. Wang Lihua as an executive Director. On April 12, 2017, Mr. Wang Lihua took office upon the approval of the CBRC on his directorship qualification. Please refer to the announcements of the Company dated October 31, 2016 and April 19, 2017 for details.

On October 31, 2016, the Company appointed Mr. Li Yi as a non-executive Director. On January 3, 2017, Mr. Li Yi took office upon the approval of the CBRC on his directorship qualification. Please refer to the announcements of the Company dated October 31, 2016 and January 9, 2017 for details.

On September 13, 2016, the Company appointed Mr. Zhou Langlang as a non-executive Director. On April 12, 2017, Mr. Zhou Langlang took office upon the approval of the CBRC on his directorship qualification. Please refer to the announcements of the Company dated September 13, 2016 and April 19, 2017 for details.

Since January 3, 2017, Mr. Tian Yuming ceased to be a non-executive Director due to change of personal work arrangements. Please refer to the announcement of the Company dated January 9, 2017 for details.

Since February 14, 2017, Mr. Wang Sidong ceased to be a non-executive Director due to the expiration of his term of office. Please refer to the announcement of the Company dated February 14, 2017 for details.

Since August 23, 2017, Mr. Ke Kasheng ceased to be an executive Director due to change of work arrangements. Please refer to the announcement of the Company dated August 23, 2017 for details.

6.2.2 Supervisors

On October 31, 2016, the Company appointed Mr. Ma Zhongfu as a Shareholder representative Supervisor of the first session of the Board of Supervisors and the chairman of the first session of the Board of Supervisors. On February 14, 2017, the Company appointed Mr. Ma Zhongfu as a Shareholder representative Supervisor of the second session of the Board of Supervisors. On February 15, 2017, the Company appointed Mr. Ma Zhongfu as the chairman of the second session of the Board of Supervisors. Please refer to the announcements of the Company dated October 31, 2016, February 14, 2017 and February 15, 2017 for details.

On January 23, 2017, the Company elected Ms. Zheng Shengqin and Mr. Mao Biaoyong as employee representative Supervisors of the second session of the Board of Supervisors. Please refer to the announcement of the Company dated January 23, 2017 for details.

6. Directors, Supervisors and Senior Management

On February 14, 2017, the Company appointed Ms. Dong Juan and Ms. Xu Li as external Supervisors of the second session of the Board of Supervisors. Please refer to the announcement of the Company dated February 14, 2017 for details.

On February 14, 2017, Ms. Wang Qi ceased to be an external Supervisor of the Board of Supervisors of the Company due to the expiration of her term of office. Please refer to the announcement of the Company dated February 14, 2017 for details.

On February 14, 2017, Mr. Xu Dong ceased to be an employee representative Supervisor of the Board of Supervisors of the Company due to change of personal work arrangements. Please refer to the announcement of the Company dated January 23, 2017 for details.

6.2.3 Senior Management

On April 14, 2017, the Board resolved to appoint Mr. Li Yingchun to be the secretary to the Board, subject to the approval of the CBRC. Please refer to the announcement of the Company dated April 17, 2017 for details.

On April 14, 2017, the Board received the resignation of Mr. Hu Jianjun ("**Mr. Hu**"). Due to personal health reasons, Mr. Hu tendered a resignation from the position of the secretary to the Board. Mr. Hu's resignation took effect as of the date of serving the Board. Please refer to the announcement of the Company dated April 17, 2017 for details.

On August 23, 2017, Mr. Ke Kasheng resigned as president of the Company due to change of work arrangements. Before appointment of new president, Mr. Wang Lihua, an executive Director, will temporarily perform the duty of president. Please refer to the announcement of the Company dated August 23, 2017 for details.

6.3 Material Changes during the Reporting Period

During the Reporting Period, the information of the Directors and Supervisors was consistent with what was disclosed in the 2016 annual report of the Company and there were no other changes which were to be disclosed in accordance with Rule 13.51B (1) of the Listing Rules.

7. Significant Events

7.1 Corporate Governance

In strict compliance with the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules and other laws, regulations, regulatory documents and the Articles of Association, and in light of its actual operating conditions, the Company further improved the corporate governance level and governance capacity construction. Efforts were also made to enhance transparency and to ensure healthy and sustainable development with a view to safeguarding the legal interests of domestic and overseas investors as well as other stakeholders.

During the Reporting Period, the Company continuously strived to protect all the rights of its Shareholders, improve information disclosure and consolidate investor relations management. It fully disclosed the information concerning the interests of Shareholders through various channels such as the websites of the Hong Kong Stock Exchange and the Company in strict compliance with the regulatory requirements of its place of listing. Similar disclosure initiatives were taken for its domestic and foreign investors on an equal basis to precisely convey its operation philosophy, maintain a stable market value and protect the interests of all Shareholders.

7.2 Shareholders' General Meeting

On February 14, 2017, the Company held the first extraordinary general meeting for 2017 in Beijing to consider and approve seven resolutions, namely the issuance plan of financial bonds for 2017 and relevant authorization, election of Directors of the second session of the Board of Directors, election of Shareholders' Representative Supervisors and external Supervisors of the second session of the Board of Supervisors, work report of the first session of the Board of Directors, work report of the first session of the Board of Supervisors, Directors' remuneration package for 2015, the annual Supervisors' remuneration package for 2015, with the issuance plan of financial bonds for 2017 and relevant authorization being a special resolution.

On March 21, 2017, the Company held its second extraordinary general meeting for 2017 in Beijing to consider and approve two resolutions, namely, the fixed assets investment budget for 2017 and report on the use of the funds raised previously.

On May 12, 2017, the Company held its annual general meeting for 2016 in Beijing to consider and approve five resolutions, namely the final financial account plan for 2016, the profit distribution plan for 2016, the work report of the Board of Directors for 2016, the work report of the Board of Supervisors for 2016 and the appointment of external auditors for 2017. In addition, the work report of the independent non-executive Directors for 2016 was also considered at the meeting.

7. Significant Events

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

7.3 Board

As of June 30, 2017, the Board comprised 12 members, including three executive Directors, five non-executive Directors and four independent non-executive Directors. The independent non-executive Directors accounted for one-third of the Board members.

During the Reporting Period, the Company held five Board meetings, at which 47 resolutions were considered and passed, including, among others, the final financial account plan for 2016, the profit distribution plan for 2016, the risk appetite policies for 2017 and the fixed assets investment budget for 2017. In addition, six reports were debriefed, which included the work plan of the risk management committee of the Board for 2017 and the risk report of the Company for 2016.

7.4 Board of Supervisors

As of June 30, 2017, the Board of Supervisors comprised five members, including one Shareholder representative Supervisor, two external Supervisors and two employee representative Supervisors.

The Board of Supervisors fulfilled its duties in accordance with the powers conferred by laws, regulations and the Articles of Association, and took the relevant supervision regulations of the CBRC as an important basis for carrying out daily supervision on the basis of performance, finance, risk and internal control to continuously improve the timeliness, pertinence and effectiveness of supervision.

During the Reporting Period, the Board of Supervisors held three meetings, at which 19 resolutions were considered and passed, among others, the work report of the Board of Supervisors for 2016, the work plan of the Board of Supervisors for 2017, the 2016 annual report, and the final financial account plan for 2016. The special committee of the Board of Supervisors held two meetings to discuss 9 resolutions regarding, among others, the performance evaluation recommendations on the directors and senior management of the Company for 2016.

7. Significant Events

7.5 Senior Management

During the Reporting Period, the senior management of the Company organized and implemented the Company's management and operation within the scope of authorities delegated by the Articles of Association and the Board of Directors. The senior management of the Company firmly seized the major opportunities from economic restructuring and industrial transformation and upgrading, fully exploited the advantages of cross-cycle operation, continuously improved the capacity of management of distressed assets and integrated financial services, effectively strengthened the risk control, intensified internal management, and enhanced the transparency of the Company to build a good corporate image and promote steady growth in the operating performance.

7.6 Corporate Governance Code

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

7.7 Internal Control

7.7.1 Development of Internal Control System

The Group earnestly implemented the regulatory requirements, further improved the organization structure of internal control, strengthened the internal control measures, and adopted the "point-and-aspect" approach to promote the establishment of a sound long-term mechanism for internal control.

In the first half of 2017, the Group organized various units to strengthen the management of the system, process, organization structure of the internal control and key position management, and the internal control supervision accountability to continuously optimize the internal control system. Combined with changes in external regulatory requirements and the development of business, the Group examined and adjusted the main business and management processes, revised the Group's Internal Control Process Framework (《內部控制流程框架》) and strengthened the management and control of internal control process. Through training, research, inspection, rectification, assessment and other measures, the Group continuously promoted the internal control culture construction to enhance the level of internal control.

7. Significant Events

7.7.2 Internal Control Measures for Sanctions Risks and Excluded DES Companies

Internal Control Measures for Sanctions Risks

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

1. The Group has revised the Administrative Measures on Compliance Risk (《合規風險管理辦法》) 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 regulate operating procedures 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 (《關於投資對象受制裁及出口管制情況的盡職調查問卷》) 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 (《制裁風險控制承諾函》) and issued it to all units within the Group as a basic tool for the control of sanctions risks.

5. The Group reviewed sanctions risks for every potential investment opportunity including the DES Companies. Through reviewing the publicly available 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 and strictly complied with the Company's requirements on the prevention of OFAC sanctions risks when establishing and conducting new equity investment businesses. Since the listing of the Group, new equity investment projects managed by the Group have not been identified any issues related to OFAC sanction risks.

6. The Group has conducted sanctions risks assessment, and carried out self-assessment of relevant issues in respect of sanctions risks. The Group has not identified any issues related to sanctions risks.

7. The proceeds of the Group from the global offering have been deposited into a bank account separated from other funds of the Group, and such proceeds have not been provided to the Subject Companies. In the future, the Group will manage all other funds raised through the Hong Kong Stock Exchange in the same manner as mentioned above.

7. Significant Events

8. The Group has no present intention to undertake in any future business that would cause the Group or Relevant Persons to violate or become a target of sanctions laws of the United States, European Union, the United Kingdom or the United Nations. If the Group identifies any sanctions risks, the Group will comply with its undertaking to the Hong Kong Stock Exchange as disclosed in the Prospectus, that the Group will not expose itself or Relevant Persons to the risk of being sanctioned, and will disclose relevant information on the website of the Hong Kong Stock Exchange and the website of the Company.

9. The Company has engaged Kirkland & Ellis as its annual international legal advisor after the listing, to provide assistance to the Company in evaluating sanctions risks of the Group every six months. The Group has engaged Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) as its compliance advisors after the listing.

Internal Control Measures for Excluded DES Companies

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

1. For the Excluded DES Companies, the Group has the corresponding business groups and project managers responsible for the daily management of the enterprise. The Group obtained the daily management information of the enterprises through attending the shareholders' general meetings, the board of directors and the board of supervisors of the interested enterprises and conducting regular visits. Based on the daily management information obtained by the Group, the Group currently did not find any relevant sanctions matters of such enterprises, or any matters affecting the production and operation due to sanctions risks and material legal disputes and compliance risks.

2. The Group will regularly evaluate the risks that may be brought by the Excluded DES Companies based on the information obtained. If any potential risks is identified, the Company will seek specific advice from reputable external legal counsel with relevant professional expertise and experience and take appropriate action accordingly.

3. The Group has fully commenced the disposal plan for the Excluded DES Companies. For details of the disposal of the Excluded DES Companies, please see "7. Significant Events — 7.10 Disposal of Equity in Excluded DES Companies".

4. The Group will not increase its investments in the Excluded DES Companies or increase the portfolio of DES Assets for which the Group cannot obtain sufficient information for the value estimation due to restrictions from the Protection of State Secret Laws.

5. The Group will regularly review new laws and regulations on protection of state secrets.

6. The Group will regularly review and update the internal control measures and policies for the Excluded DES Companies.

7. Significant Events

Future Businesses of DES Companies and Investment Plans Involving DES Companies

The DES Assets currently held by the Group are mainly assets acquired as a result of equity swaps of distressed debt assets of a number of medium or large state-owned enterprises according to the national policies prior to the restructuring of the Company. According to the operating plans of the Group for such assets, the Group proactively captured restructuring, mergers and acquisitions opportunities to realize asset liquidity and achieve gains from equity restructuring and disinvest from highly competitive industries or such companies with limited potential for asset appreciation. The Group also placed emphasis on taking advantage of its strengths in integrated financial services of the Group, enhancing internal business collaboration, improving the level and return of market value management and enhancing the management of equity assets. These efforts were made to increase the overall gain from equity assets management and seek greater social benefits.

In the future, the Group will actively follow up the national strategy of Belt and Road Initiative, the Collaborative Development of Beijing, Tianjin and Hebei Province and the Yangtze River Economic Belt development. The Group will pay close attention to the reform of the deepening multi-level capital market, lead the transformation and upgrading of the entity enterprises through innovation, and promote the diversification of equity of state-owned enterprises. To be in line with the policy environment and development condition for implementing the marketization and legalization of DES, it will strengthen market research and industry analysis to explore the investment opportunities in DES enterprises and other market, strengthen the equity assets investment project reserves on the basis of comprehensive due diligence, carefully assess the possible risks of the projects including the sanctions risks and actively and steadily expand the equity investment business in compliance with laws.

In its pursuit of the healthy development of the DES business, the Group will prudently prevent risks and strictly implement control procedures in order to avoid any investments in DES Companies which may expose itself or the Relevant Persons to sanctions risks.

7.8 Distribution of Profit and Dividends

On May 12, 2017, the profit distribution plan for 2016 was considered and approved at the annual general meeting of the Company for 2016. As approved at the 2016 annual general meeting, total cash dividends of approximately RMB5,880 million based on the net profit for the financial year as of December 31, 2016 (after deducting the appropriations to statutory surplus reserve and general reserve according to the applicable regulations) has been distributed to Shareholders whose names appeared on the Company's register of members after the market closing on May 23, 2017, representing RMB1.506 for every 10 shares (tax inclusive). The Company does not declare any interim dividend for 2017.

7. Significant Events

7.9 Use of Proceeds

On October 30, 2015, the Group was listed on the Main Board of the Hong Kong Stock Exchange and the proceeds from the listing amounted to HK$19,696.7 million. As of June 30, 2017, the Group has used HK$16,223.9 million (equivalent to RMB13,700.0 million) of the proceeds from the listing, of which RMB9,600.0 million was used to develop the distressed asset management business of the Group, RMB2,5000.0 million was used to develop the financial services of the Group; and RMB1,600.0 million was used to develop the asset management and investment business of the Group. The actual use of proceeds was consistent with the committed use of proceeds set out in the Prospectus. As of June 30, 2017, the balance of proceeds was equivalent to RMB2,627.6 million (interest included). The unused proceeds will be used to increase the capital of the subsidiaries under the financial services segment of the Group, in order to develop the financial services business.

7.10 Disposal of Equity in Excluded DES Companies

The Group has comprehensively carried out the disposal plan of the Excluded DES Companies. As of June 30, 2017, the Group has continued the negotiations with all of the six Excluded DES Companies, their respective de-facto controllers and controlling shareholders regarding the disposal of the Group's shareholdings in the relevant Excluded DES Companies. The disposal processes of three Excluded DES Companies have commenced, two of which have completed disposal to achieve equity exit and the other one of which has completed the approval procedures of the relevant departments inside and outside the Group. Asset transfer and industrial and commercial change procedures will be fulfilled in the next step. The remaining three Excluded DES Companies have entered into the principle program of equity exit with the enterprises and their de-facto controllers, and actively seeking for qualified investors. During the Reporting Period, Ke Kasheng, an executive Director, was responsible for the disposal process and monitoring the disposal progress, and the independent non-executive Directors supervised the relevant actions of Ke Kasheng. In August 2017, Ke Kasheng discussed and reported the relevant disposal plan and progress to the independent non-executive Directors, and the independent non-executive Directors made enquires accordingly. Ke Kasheng also reported the relevant disposal plan and progress to the Audit Committee under the Board in August 2017. After the resignation of Mr. Ke Kasheng as executive Director, Mr. Wang Lihua, an executive Director, will take charge of the follow-up work relating to disposal of equity in Excluded DES Companies.

The Group will continue to use its best efforts to complete the disposal of the Excluded DES Companies as soon as practicable in accordance with the arrangements as disclosed in the Prospectus.

The Group will retain Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) as its compliance advisers until all of its equity interests in the Excluded DES Companies have been disposed of.

7. Significant Events

7.11 Material Financing

7.11.1 Insurance of Bonds

In January 2017, Huarong Finance 2017 Co., Ltd., a wholly-owned subsidiary of Huarong International issued unsubordinated guaranteed perpetual securities with aggregate principal amount of US$1,500 million and fixed rate U.S. dollar denominated guaranteed notes with aggregate principal amount of US$1,100 million due in 2020, at distribution rates of 4.50% and 3.375%, respectively in Hong Kong. For details, please refer to relevant announcements regarding the guaranteed notes dated January 13, 2017, January 19, 2017, and January 24, 2017.

In April 2017, Huarong Finance 2017 Co., Ltd, a wholly-owned subsidiary of Huarong International issued U.S. dollar floating rate guaranteed notes with aggregate principal amount of US$500 million due 2020, U.S. dollar floating rate guaranteed notes with aggregate principal amount of US$1,000 million due 2022, U.S. dollar fixed rate guaranteed notes with aggregate principal amount of US$570 million due 2022, U.S. dollar fixed rate guaranteed notes with aggregate principal amount of US$700 million due 2027, U.S. dollar fixed rate guaranteed notes with aggregate principal amount of US$200 million due 2047 and Singapore dollar fixed rate guaranteed notes with aggregate principal amount of S$600 million due 2021, at coupon rates of 3 months LIBOR + 1.65%, 3 months LIBOR + 1.85%, 3.75%, 4.75%, 5.50% and 3.20%, respectively, in Hong Kong. For details, please refer to relevant announcements regarding the guaranteed notes dated April 18, 2017, April 21, 2017, and April 27, 2017.

On June 28, 2017, the Company issued ten-year fixed rate tier II capital bonds with principal total issuing scale of RMB10 billion with coupon rate of 4.95% in the national inter-bank bond market in the PRC. For details, please refer to relevant announcements of the Company regarding the tier II capital bonds dated June 21, 2017 and June 29, 2017.

7.11.2 Proposed A Share Offering

The Company has submitted an application to the CSRC for the A share Offering and received the Notice of Acceptance (No. 163770) issued by the CSRC on the A share Offering on December 23, 2016. The Company will duly disclose other details and development of the A Share Offering. The resolutions relating to A Share Offering were considered and approved by the Board on the Board meetings held on July 19, 2017, which include: (i) extension of validity period of the plan for A Share Offering of the Company; and (ii) extension of authorization to the Board granted by the general meeting of Shareholders to deal with matters relating to the A Share Offering. The Company will convene the fourth extraordinary general meeting for 2017, the second domestic shareholders' class meeting for 2017 and the second H Shareholders' class meeting for 2017 on September 12, 2017 for considering aforementioned matters. The Company has dispatched the meeting notices and circular to Shareholders on July 28, 2017. For details, please refer to the announcement and circular published on July 19, 2017 and July 28, 2017, respectively. The Company will duly disclose further details and development on the A Share Offering.

7. Significant Events

7.11.3 Proposed Issuance of Preference Shares

On August 7, 2017, the Company convened the third extraordinary general meeting for 2017, the first domestic Shareholders' class meeting for 2017 and the first H Shareholders' class meeting for 2017, and considered and approved by item the proposed non-public issuance of Offshore Preference Shares. For details, please refer to the announcement, circular and poll results announcement published by the Company on June 12, 2017, June 23, 2017 and August 7, 2017. The Company will duly disclose further details and development on the issuance of preference shares.

7.12 Material Litigation and Arbitration

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

During the Reporting Period, the Company was involved in various unresolved litigation matters. For example, as of June 30, 2017, 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 RMB1,028 million and unresolved legal proceedings of which the amount in dispute exceeded RMB10 million and in which the Company was a plaintiff had an aggregate alleged amount of approximately RMB25,829 million. The Company believes that it has made full accrual allowance for the potential losses arising from unresolved legal proceedings and that none of such legal proceedings, individually or in aggregate, would have a material adverse impact on the business, financial condition and results of operations of the Company.

7.13 Major Acquisition and Disposal of Assets and Merger

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

7.14 Implementation of Share Incentive Scheme

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

7.15 Major Connected Transactions

During the Reporting Period, the Company did not disclose any connected transaction(s) or continuing connected transaction(s) or subject to approval of independent shareholders according to Chapter 14A of the Listing Rules.

7.16 Major Contracts and Their Implementation

7.16.1 Major Custodies, Underwriting and Leasing

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

7.16.2 Material Guarantees

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

7.17 Penalty Imposed on the Company and Directors, Supervisors and Senior Management of the Company during the Reporting Period

During the Reporting Period, none of the Company or any of the Directors, Supervisors and senior management of the Company was subject to any investigation or administrative punishment by securities regulatory authorities, reprimand by any stock exchange, as well as punishment by other regulatory authorities with any material impact on operations, or prosecuted for criminal liabilities by the judicial authority.

7.18 Events after the Reporting Period

For details of subsequent events after the Reporting Period, please refer to "8. Review Report and Condensed Consolidated Financial Statements — V. Events after the Reporting Period".

7.19 Purchase, Sale and Redemption of Listed Securities

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

7. Significant Events

7.20 Securities Transactions by Directors, Supervisors and Senior Management

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

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

As at June 30, 2017, 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 its 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.

7.22 Review of the Interim Report

The interim financial statements for the six months ended June 30, 2017 prepared by the Company according to the IFRSs were reviewed by Deloitte Touche Tohmatsu.

This interim report has been reviewed and approved by the Board and the audit committee of the Board.

8. Review Report and Condensed Consolidated Financial Statements

REVIEW REPORT AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

CONTENTS PAGE(S)

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of China Huarong Asset Management Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 92 to 180, which comprise the condensed consolidated statement of financial position as of June 30, 2017 and the related condensed consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Report on Review of Condensed Consolidated Financial Statements

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
August 23, 2017

Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	For the six months ended June 30 2017 (Unaudited)	 2016 (Unaudited)
Income from distressed debt assets classified as receivables	1	**14,628,993**	11,688,521
Fair value changes on distressed debt assets	2	**2,293,671**	1,432,354
Fair value changes on other financial assets	3	**2,893,495**	2,718,928
Interest income	4	**10,103,790**	7,191,127
Investment income, gains and losses	5	**20,591,797**	9,581,229
Commission and fee income	6	**6,860,493**	5,745,857
Net gains on disposals of subsidiaries, associates and joint ventures		**641,354**	21,275
Other income and other net gains or losses	7	**2,792,804**	1,631,304
Total		**60,806,397**	40,010,595
Interest expenses	8	**(22,030,846)**	(14,027,628)
Commission and fee expenses		**(495,221)**	(481,593)
Operating expenses	9	**(6,857,351)**	(5,358,765)
Impairment losses on assets	10	**(5,849,709)**	(1,969,159)
Total		**(35,233,127)**	(21,837,145)
Change in net assets attributable to other holders of consolidated structured entities	25	**(3,887,550)**	(1,306,513)
Share of results of associates and joint ventures		**188,949**	78,097
Profit before tax		**21,874,669**	16,945,034
Income tax expense	11	**(5,472,705)**	(4,099,325)
Profit for the period		**16,401,964**	12,845,709
Profit attributable to:			
Equity holders of the Company		**13,360,471**	11,122,978
Holders of perpetual capital instruments		**601,881**	256,899
Non-controlling interests		**2,439,612**	1,465,832
		16,401,964	12,845,709
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)			
— Basic	12	**0.34**	0.28
— Diluted	12	**N/A**	0.28

Condensed Consolidated Statement of Other Comprehensive Income

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2017 (Unaudited)	2016 (Unaudited)
Profit for the period	**16,401,964**	12,845,709
Other comprehensive expense		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit obligations	**(6,410)**	(676)
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	**(2,239,674)**	(1,969,378)
Income tax effect	**358,444**	817,286
	(1,881,230)	(1,152,092)
Share of other comprehensive expense of associates and joint ventures	**(3,007)**	(31,432)
Exchange differences arising on translation of foreign operations	**3,713**	(42,054)
Cumulative gains arising on the effective portion of changes in fair value of cash flow hedges	**7,092**	—
Other comprehensive expense for the period, net of income tax	**(1,879,842)**	(1,226,254)
Total comprehensive income for the period	**14,522,122**	11,619,455
Total comprehensive income attributable to:		
Equity holders of the Company	**11,404,092**	9,946,430
Holders of perpetual capital instruments	**601,881**	256,899
Non-controlling interests	**2,516,149**	1,416,126
	14,522,122	11,619,455

Condensed Consolidated Statement of Financial Position

As at June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Assets			
Cash and balances with central bank	14	**32,495,499**	27,259,805
Deposits with financial institutions	15	**175,611,951**	154,329,885
Placements with financial institutions		**3,641,952**	4,902,346
Financial assets held for trading	16	**70,789,186**	87,731,296
Financial assets designated as at fair value through profit or loss	17	**122,282,615**	95,167,253
Financial assets held under resale agreements	18	**48,742,920**	36,347,736
Loans and advances to customers	19	**142,520,818**	118,405,979
Finance lease receivables	20	**90,759,193**	84,991,341
Available-for-sale financial assets	21	**186,838,005**	140,292,637
Held-to-maturity investments	22	**53,699,674**	44,884,175
Financial assets classified as receivables	23	**643,916,885**	549,477,957
Interests in associates and joint ventures	24	**20,421,856**	9,564,011
Investment properties	27	**1,812,975**	1,828,408
Property and equipment	28	**8,552,586**	7,145,821
Deferred tax assets	29	**10,344,993**	9,301,184
Other assets	30	**45,723,508**	40,339,463
Total assets		**1,658,154,616**	1,411,969,297
Liabilities			
Borrowings from central bank		**6,150,000**	1,987,000
Deposits from financial institutions	31	**6,725,737**	6,962,544
Placements from financial institutions	32	**2,081,345**	4,278,497
Financial assets sold under repurchase agreements	33	**52,655,846**	56,390,595
Borrowings	34	**623,160,788**	511,308,643
Due to customers	35	**205,137,694**	172,405,868
Tax payable		**3,170,965**	4,680,635
Deferred tax liabilities	29	**975,078**	700,372
Bonds and notes issued	36	**298,123,732**	243,075,227
Other liabilities	37	**289,911,701**	260,098,916
Total liabilities		**1,488,092,886**	1,261,888,297

Condensed Consolidated Statement of Financial Position

As at June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Equity			
Share capital	38	**39,070,208**	39,070,208
Capital reserve	39	**18,345,110**	18,320,682
Surplus reserve		**3,615,201**	3,615,201
General reserve	40	**12,426,255**	10,304,363
Other reserves	41	**1,115,437**	3,071,816
Retained earnings		**46,215,334**	40,860,728
Equity attributable to equity holders of the Company		**120,787,545**	115,242,998
Perpetual capital instruments	42	**26,887,765**	15,030,256
Non-controlling interests		**22,386,420**	19,807,746
Total equity		**170,061,730**	150,081,000
Total equity and liabilities		**1,658,154,616**	1,411,969,297

The condensed consolidated financial statements on page 92 to 180 were approved and authorized for issue by the Board of Directors and are signed on its behalf by:

CHAIRMAN

EXECUTIVE DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

		Equity attributable to equity holders of the Company									
	Note IV	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Subtotal	Perpetual capital instruments	Non-controlling interests	Total
As at January 1, 2017 (Audited)		39,070,208	18,320,682	3,615,201	10,304,363	3,071,816	40,860,728	115,242,998	15,030,256	19,807,746	150,081,000
Profit for the period		–	–	–	–	–	13,360,471	13,360,471	601,881	2,439,612	16,401,964
Other comprehensive expense		–	–	–	–	(1,956,379)	–	(1,956,379)	–	76,537	(1,879,842)
Total comprehensive (expense)/ income for the period		–	–	–	–	(1,956,379)	13,360,471	11,404,092	601,881	2,516,149	14,522,122
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	750,758	750,758
Dividends declared to non-controlling interests		–	–	–	–	–	–	–	–	(1,107,404)	(1,107,404)
Issuance of perpetual capital instruments	42	–	–	–	–	–	–	–	13,630,748	–	13,630,748
Buy back of perpetual capital instruments	42	–	–	–	–	–	–	–	(1,970,000)	–	(1,970,000)
Distribution relating to perpetual capital instruments	42	–	–	–	–	–	–	–	(405,120)	–	(405,120)
Appropriation to general reserve	40	–	–	–	2,121,892	–	(2,121,892)	–	–	–	–
Disposals of subsidiaries		–	–	–	–	–	–	–	–	2,568	2,568
Effect of acquisition of subsidiaries		–	(174)	–	–	–	–	(174)	–	416,603	416,429
Dividends		–	–	–	–	–	(5,883,973)	(5,883,973)	–	–	(5,883,973)
Others		–	24,602	–	–	–	–	24,602	–	–	24,602
As at June 30, 2017 (Unaudited)		39,070,208	18,345,110	3,615,201	12,426,255	1,115,437	46,215,334	120,787,545	26,887,765	22,386,420	170,061,730
As at January 1, 2016 (Audited)		39,070,208	18,404,795	2,441,087	8,571,665	5,475,513	24,154,082	98,117,350	6,454,112	14,229,140	118,800,602
Profit for the period		–	–	–	–	–	11,122,978	11,122,978	256,899	1,465,832	12,845,709
Other comprehensive expense		–	–	–	–	(1,176,548)	–	(1,176,548)	–	(49,706)	(1,226,254)
Total comprehensive (expense)/ income for the period		–	–	–	–	(1,176,548)	11,122,978	9,946,430	256,899	1,416,126	11,619,455
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	2,535,070	2,535,070
Dividends declared to non-controlling interests		–	–	–	–	–	–	–	–	(675,968)	(675,968)
Issuance of perpetual capital instruments		–	–	–	–	–	–	–	900,000	–	900,000
Buy back of perpetual capital instruments		–	–	–	–	–	–	–	(1,000,000)	–	(1,000,000)
Distribution relating to perpetual capital instruments		–	–	–	–	–	–	–	(211,228)	–	(211,228)
Appropriation to general reserve	40	–	–	–	734,166	–	(734,166)	–	–	–	–
Disposals of subsidiaries		–	–	–	–	–	–	–	–	(101,052)	(101,052)
Acquisition of additional interests in subsidiaries		–	(82,207)	–	–	–	–	(82,207)	–	(194,037)	(276,244)
Others		–	62,360	–	–	–	–	62,360	–	–	62,360
As at June 30, 2016 (Unaudited)		39,070,208	18,384,948	2,441,087	9,305,831	4,298,965	34,542,894	108,043,933	6,399,783	17,209,279	131,652,995

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2017	**2016**
	(Unaudited)	**(Unaudited)**
OPERATING ACTIVITIES		
Profit before tax	**21,874,669**	16,945,034
Adjustments for:		
Impairment losses on assets	**5,849,709**	1,969,159
Depreciation and amortization	**396,823**	299,155
Share of results of associates and joint ventures	**(188,949)**	(78,097)
Fair value changes on financial assets	**262,984**	(1,178,082)
Investment income	**(17,160,904)**	(9,463,191)
Net gains on disposals of subsidiaries, associates and joint ventures	**(641,354)**	—
Interest expenses of bonds and notes issued and other borrowings	**13,030,951**	4,835,011
Net (gains)/losses on disposal of property and equipment	**(219)**	138
Interest income arising from impaired financial assets	**(293,956)**	(176,713)
Change in net assets attributable to other holders of consolidated structured entities	**3,887,550**	1,306,513
Net foreign exchange losses/(gains)	**276,968**	(105,898)
Operating cash flows before movements in working capital	**27,294,272**	14,353,029
Net increase in loans and advances to customers	**(25,347,673)**	(23,459,482)
Net increase in finance lease receivables	**(5,843,247)**	(7,325,409)
Net decrease/(increase) in balances with central bank and deposits with financial institutions	**6,548,626**	(2,979,471)
Net increase in financial assets at fair value through profit or loss	**(13,344,125)**	(10,092,634)
Net (increase)/decrease in placements with banks	**(270,976)**	959,983
Net (increase)/decrease in financial assets held under resale agreements	**(2,460,221)**	5,993,877
Net increase in financial assets classified as receivables	**(43,893,128)**	(22,099,630)
Net decrease in available-for-sale financial assets	**284,234**	102,579
Net increase in due to customers	**32,731,826**	35,920,493
Net increase in borrowings from central bank	**4,163,000**	780,000
Net (decrease)/increase in placements and deposits from financial institutions	**(2,433,959)**	3,036,380
Net (decrease)/increase in financial assets sold under repurchase agreements	**(3,734,749)**	4,671,695
Net increase in borrowings relating to financial institutions	**88,132,389**	76,061,607
Net increase in operating receivables	**(3,197,744)**	(15,470,641)
Net decrease in operating payables	**(9,211,913)**	(4,418,072)
Cash generated from operations	**49,416,612**	56,034,304
Income tax paid	**(7,393,034)**	(5,225,121)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**42,023,578**	50,809,183

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2017	**2016**
	(Unaudited)	**(Unaudited)**
INVESTING ACTIVITIES		
Cash receipts from disposals and redemptions of investment securities	**193,431,537**	74,596,247
Cash receipts from interest income arising from investment securities	**17,010,366**	10,479,186
Cash receipts from dividend income	**551,852**	425,760
Cash receipts from disposals of associates, joint ventures and consolidated structured entities	**1,783,699**	355,880
Cash receipts from disposals of property and equipment, and other assets	**75,088**	90,994
Cash receipts from release of pledge deposits in bank	**3,635,124**	—
Cash payments for purchases of investment securities	**(304,777,451)**	(157,654,304)
Cash payments for purchases of property and equipment, investment properties and other assets	**(1,729,757)**	(700,534)
Cash payments for investments in associates and joint ventures	**(13,217,091)**	—
Cash payments for acquisitions of additional interests in subsidiaries	**—**	(194,037)
Net cash inflow on acquisitions of subsidiaries	**1,119,946**	—
Net cash inflow/(outflow) on disposals of subsidiaries	**728,468**	(115,284)
NET CASH USED IN INVESTING ACTIVITIES	**(101,388,219)**	(72,716,092)

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	For the six months ended June 30 2017 (Unaudited)	2016 (Unaudited)
FINANCING ACTIVITIES			
Capital contribution from non-controlling interests of subsidiaries of the Company and consolidated structured entities		**13,458,137**	(183,137)
Issue of perpetual capital instruments		**13,630,748**	900,000
Buy back of perpetual capital instruments		**(1,970,000)**	(1,000,000)
Proceeds of borrowings relating to non-financial institution subsidiaries		**108,671,619**	40,985,673
Repayment of borrowings relating to non-financial institution subsidiaries		**(73,609,873)**	(24,981,424)
Cash receipts from bonds and notes issued		**90,737,663**	58,324,309
Cash payments for transaction cost of bonds and notes issued		**(191,997)**	(224,935)
Cash repayments for bonds and notes redeemed		**(36,117,371)**	(12,543,836)
Interest paid for bonds and notes issued and borrowings relating to non-financial institution subsidiaries		**(8,723,211)**	(2,509,908)
Dividends paid		**(717,423)**	(394,158)
Cash payments for distribution to holders of perpetual capital instruments		**(405,120)**	(211,228)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**104,763,172**	58,161,356
NET INCREASE IN CASH AND CASH EQUIVALENTS		**45,398,531**	36,254,447
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**138,854,990**	86,728,444
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(279,553)**	91,863
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	43	**183,973,968**	123,074,754
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**23,280,519**	18,237,301
Interest paid		**(12,074,159)**	(9,194,260)
		11,206,360	9,043,041

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(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 November 1, 1999 as approved by the State Council of the PRC (the "State Council"). On September 28, 2012, the Company was established after the completion of the financial restructuring of the Former Huarong as approved by the State Council.

The Company has financial services certificate No. J0001H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), 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 October 30, 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 and securities dealing; financial bonds issuance, inter-bank borrowing and lending, commercial financing for other financial institutions; approved asset securitization business, financial institutions custody, closing and liquidation of business; consulting and advisory business on finance, investment, legal and risk management; assets and project evaluation; deposits taking from customers; lending to corporates and individuals; clearing and settlement services; financial leasing service; securities and future services; fund management and asset management services; trust services; real estate and industrial investments and other businesses approved by the CBRC or other regulatory bodies.

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

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

(Amounts in thousands of Renminbi, unless otherwise stated)

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

1. Basis of preparation *(continued)*

The condensed consolidated financial statements of the Group should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2016.

2. Principal accounting policies

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

Except as described in note II.3 below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2017 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2016.

3. Application of amendments to International Financial Reporting Standards ("IFRS")

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS 2014–2016 Cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statement and disclosures set out in these condensed consolidated financial statements.

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS7 will be provided in the Group's consolidated financial statements for the year ending 31 December 2017.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

III. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

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

The types of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the preparation of the Group's consolidated financial statements for the year ended December 31, 2016.

IV. EXPLANATORY NOTES

1. Income from distressed debt assets classified as receivables

The amount represents interest income arising from distressed debt assets classified as receivables, which include loans acquired from financial institutions and other debt assets acquired from non-financial institutions (see note IV.23).

Interest income accrued on impaired financial assets included in income from distressed debt assets classified as receivables amounted to RMB253 million for the period (Six months ended June 30, 2016: RMB144 million).

2. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets designated by the Group as financial assets at fair value through profit or loss ("FVTPL") during the period (see note IV.17).

The fair value changes comprise both realized gains or losses from disposal of distressed debt assets designated as at FVTPL and unrealized fair value changes on such assets. Any interest income arising from such assets are included in fair value changes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

3. Fair value changes on other financial assets

	For the six months ended June 30, 2017	2016
Fair value changes on financial assets held for trading	**977,720**	947,921
Fair value changes on financial assets designated as at FVTPL	**1,915,775**	1,771,007
Total	**2,893,495**	2,718,928

4. Interest income

The following interest income arises from financial assets other than distressed debt assets and investment securities classified as available-for-sale debt securities, held-to-maturity debt securities and other financial assets classified as receivables, and is mainly generated by the banking, financial leasing and securities operations of the Group:

	For the six months ended June 30, 2017	2016
Loans and advances to customers		
Corporate loans and advances	**3,141,839**	2,437,027
Personal loans and advances	**1,028,621**	531,128
Loans to margin clients	**273,714**	143,932
Finance lease receivables	**2,995,178**	2,654,275
Deposits with financial institutions	**1,067,223**	834,939
Financial assets held under resale agreements	**1,118,822**	293,658
Balances with central bank	**290,172**	194,907
Placements with banks	**188,221**	101,261
Total	**10,103,790**	7,191,127
Including: Interest income accrued on impaired financial assets	**32,890**	24,163

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

5. Investment income, gains and losses

	For the six months ended June 30,	
	2017	2016
Interest income from		
Available-for-sale debt securities	**3,648,956**	857,860
Held-to-maturity debt securities	**872,945**	655,517
Other financial assets classified as receivables	**12,913,451**	6,841,058
Net realized gains from disposal of available-for-sale financial assets	**2,598,415**	690,020
Dividend income from available-for-sale financial assets	**558,030**	536,774
Total	**20,591,797**	9,581,229

6. Commission and fee income

	For the six months ended June 30,	
	2017	2016
Asset management business	**4,730,743**	3,142,639
Securities and futures business	**1,100,543**	1,128,777
Trust business	**737,373**	1,038,580
Banking and consumer finance business	**235,395**	408,729
Fund management business	**56,439**	27,132
Total	**6,860,493**	5,745,857

7. Other income and other net gains or losses

	For the six months ended June 30,	
	2017	2016
Revenue from properties development	**2,192,725**	1,074,895
Net (losses)/gains on exchange differences	**(335,897)**	105,898
Rental income	**194,762**	142,178
Others	**741,214**	308,333
Total	**2,792,804**	1,631,304

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

8. Interest expenses

Interest expenses mainly arise from the distressed asset management, banking and financial leasing business of the Group.

	For the six months ended June 30,	
	2017	**2016**
Borrowings	**(14,059,127)**	(8,174,141)
Bonds and notes issued	**(5,270,295)**	(3,641,618)
Due to customers	**(1,434,619)**	(1,509,624)
Financial assets sold under repurchase agreements	**(765,405)**	(307,559)
Deposits from financial institutions	**(184,992)**	(219,763)
Placements from financial institutions	**(105,441)**	(33,275)
Amount due to the MOF	**(47,048)**	(82,627)
Borrowings from central bank	**(34,198)**	(2,576)
Other liabilities	**(129,721)**	(56,445)
Total	**(22,030,846)**	(14,027,628)

9. Operating expenses

	For the six months ended June 30,	
	2017	**2016**
Employee benefits	**(2,567,763)**	(2,217,739)
Business tax and surcharges	**(579,453)**	(977,086)
Others	**(3,710,135)**	(2,163,940)
Including:		
Cost of properties development	**(1,286,664)**	(528,171)
Rental and management fee for leases	**(346,798)**	(363,446)
Depreciation of property and equipment	**(259,212)**	(175,941)
Amortization	**(115,579)**	(103,623)
Depreciation of investment properties	**(22,032)**	(19,591)
Total	**(6,857,351)**	(5,358,765)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

10. Impairment losses on assets

	For the six months ended June 30, 2017	2016
Other financial assets classified as receivables	**(1,461,733)**	(368,933)
Loans and advances to customers	**(1,265,724)**	(659,773)
Interests in associates and joint ventures	**(1,134,133)**	—
Distressed debt assets classified as receivables	**(1,011,058)**	733,243
Available-for-sale financial assets	**(672,773)**	(1,615,958)
Finance lease receivables	**(226,255)**	(81,062)
Other assets	**(78,033)**	23,324
Total	**(5,849,709)**	(1,969,159)

11. Income tax expense

	For the six months ended June 30, 2017	2016
Current tax		
PRC Enterprise Income tax	**(5,262,945)**	(3,685,199)
Hong Kong Profits Tax	**(596,953)**	(302,775)
Macau Profits Tax	**(23,466)**	—
Deferred tax	**410,659**	(111,351)
Total	**(5,472,705)**	(4,099,325)

The statutory income tax rate applicable to PRC enterprise was 25% for the period (Six months ended June 30, 2016: 25%).

Hong Kong Profits Tax was computed at 16.5% of the estimated assessable profit for the period (Six months ended June 30, 2016: 16.5%).

Macau Profits Tax was computed at 12.0% of the estimated assessable profit for the period (Six months ended June 30, 2016: N/A).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

11. Income tax expense *(continued)*

Reconciliation of consolidated profit before tax to income tax expense is as follows:

	For the six months ended June 30, 2017	2016
Profit before tax	**21,874,669**	16,945,034
Income tax calculated at the tax rate of 25%	**(5,468,667)**	(4,236,259)
Tax effect of income not taxable for tax purpose[1]	**76,205**	83,841
Tax effect of expenses not deductible for tax purpose[2]	**(262,876)**	(141,029)
Tax effect of different tax rate of subsidiaries	**350,077**	270,748
Others	**(167,444)**	(76,626)
Income tax expense	**(5,472,705)**	(4,099,325)

(1) Income not taxable for tax purpose mainly includes interest income on treasury bonds and dividend income.

(2) Expenses not deductible for tax purpose mainly include entertainment expenses in excess of the tax deduction limits and impairment loss on interests in an associate.

12. Earnings per share

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

	For the six months ended June 30, 2017	2016
Earnings:		
Profit attributable to equity holders of the Company	**13,360,471**	11,122,978
Number of shares:		
Weighted average number of shares in issue (in thousand)	**39,070,208**	39,070,208
Basic earnings per share (RMB Yuan)	**0.34**	0.28
Diluted earnings per share (RMB Yuan)	**N/A**	0.28

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

12. Earnings per share *(continued)*

No diluted earnings per share has been presented for the six months ended June 30, 2017 as the Group had no potential ordinary shares in issue during the period. The calculation of diluted earnings per share for the six months ended June 30, 2016 considered the impact of convertible bonds issued by a subsidiary before they were fully converted in January, 2016.

13. Dividends

On May 12, 2017, the Company declared dividends of RMB5,884 million for the year ended December 31, 2016. The Company does not declare any interim dividend for the period ended June 30, 2017 (Six months ended June 30, 2016: Nil).

14. Cash and balances with central bank

	As at June 30, 2017	As at December 31, 2016
Cash	**451,481**	428,735
Mandatory reserve deposits with central bank[1]	**28,939,495**	22,964,487
Surplus reserve deposits with central bank[2]	**2,922,195**	3,675,129
Other deposits with central bank	**182,328**	191,454
Total	**32,495,499**	27,259,805

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 June 30, 2017, the RMB mandatory reserve deposits placed with the PBOC were mainly based on 14.5% (December 31, 2016: 13.5%) of eligible RMB deposits of Huarong Xiangjiang Bank Corporation Limited; foreign currency mandatory reserve deposits were mainly based on 5% (December 31, 2016: 5%) of eligible foreign currency deposits of Huarong Xiangjiang Bank Corporation Limited. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

15. Deposits with financial institutions

	As at June 30, 2017	As at December 31, 2016
Banks	**171,029,004**	145,636,190
Clearing settlement funds(1)	**4,419,260**	4,736,006
Other financial institutions	**163,687**	3,957,689
Total(2)(3)	**175,611,951**	154,329,885

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

(2) The Group had deposits with financial institutions as at June 30, 2017 amounting to RMB1,922 million (December 31, 2016: RMB5,557 million) that were pledged for borrowings.

(3) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at 30 June 2017, the bank balances and clearing settlement fund held on behalf of customers by the Group amounted to RMB8,377 million (31 December 2016: RMB12,189 million). The Group recognized corresponding amount in accounts payable to brokerage clients and margin deposit received from securities customers (IV.37).

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

16. Financial assets held for trading

	As at June 30, 2017	As at December 31, 2016
Listed investments:		
Debt securities		
— Government bonds	**654,422**	4,549,186
— Public sector and quasi-government bonds	**579,749**	757,610
— Financial institution bonds	**1,151,292**	684,287
— Corporate bonds	**36,990,758**	48,041,854
Equity instruments	**5,976,780**	6,418,254
Funds	**3,215,826**	1,126,865
Negotiable certificates of deposit	**9,241,911**	11,456,817
Asset-backed securities	**419,686**	792,909
Subtotal	**58,230,424**	73,827,782
Unlisted investments:		
Wealth management products	**10,220,486**	10,413,218
Debt securities	**1,195,597**	287,890
Funds	**885,833**	2,989,317
Equity instruments	**256,846**	213,089
Subtotal	**12,558,762**	13,903,514
Total	**70,789,186**	87,731,296

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

17. Financial assets designated as at fair value through profit or loss

	As at June 30, 2017	As at December 31, 2016
Listed investments:		
Equity instruments	**3,854,006**	4,573,622
Convertible bonds	**80,145**	—
Subtotal	**3,934,151**	4,573,622
Unlisted investments:		
Distressed debt assets	**90,552,500**	68,436,032
Convertible bonds	**9,930,494**	9,954,520
Structured products(1)	**9,170,815**	5,094,059
Asset management plans	**3,832,988**	3,398,947
Wealth management products	**2,408,537**	2,129,900
Equity instruments	**1,768,966**	930,460
Trust products	**684,164**	649,713
Subtotal	**118,348,464**	90,593,631
Total	**122,282,615**	95,167,253

(1) A Group entity entered into a series of structured transactions that are managed by the entity on fair value basis. Such structured products are accounted for as financial assets designated as at FVTPL according to the entity's investment management strategy.

On June 30, 2017, included in structured products were credit linked notes of RMB1,496 million (December 31, 2016: RMB659 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 arrangements under which the Group pays counterparties a reference interest rate with a spread adjustments and receives from counterparties total returns of reference assets. The Group therefore is exposed to default risks of the reference assets. On June 30, 2017, the carrying amounts and nominal values of these total return swaps amounted to RMB1,295 million (December 31, 2016: RMB897 million) and RMB3,299 million (December 31, 2016: RMB2,360 million), respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

18. Financial assets held under resale agreements

	As at June 30, 2017	As at December 31, 2016
By collateral type:		
Securities	**42,458,726**	36,287,736
Bills	**6,224,194**	—
Others	**60,000**	60,000
Total	**48,742,920**	36,347,736

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

As at June 30, 2017, the Group had received pledged securities with a fair value of approximately RMB78,263 million (December 31, 2016: RMB76,427 million), of which RMB6,276 million (December 31, 2016: Nil) can be resold or repledged by the Group in the absence of default by their owners. As at June 30, 2017, the Group did not repledge the securities (December 31, 2016: Nil). The Group has an obligation to return the securities to their counterparties on the maturity dates of the resale agreements.

19. Loans and advances to customers

	As at June 30, 2017	As at December 31, 2016
Corporate loans and advances		
— Loans and advances	**104,049,344**	80,884,667
— Discounted bills	**2,446,304**	8,796,542
Subtotal	**106,495,648**	89,681,209
Personal loans and advances		
— Loans for business operations	**10,767,942**	9,816,041
— Mortgage	**9,215,582**	7,087,467
— Personal consumption loans	**11,989,520**	6,405,757
— Others	**1,476,608**	1,082,292
Subtotal	**33,449,652**	24,391,557
Loans to margin clients	**6,293,327**	6,992,610
Gross loans and advances	**146,238,627**	121,065,376
Less: Allowance for impairment losses		
— Individually assessed	**(952,005)**	(614,538)
— Collectively assessed	**(2,765,804)**	(2,044,859)
Subtotal	**(3,717,809)**	(2,659,397)
Net loans and advances to customers	**142,520,818**	118,405,979

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

19. Loans and advances to customers *(continued)*

Loans and advances analyzed by collective and individual assessment methods are as follows:

	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 June 30, 2017						
Gross loans and advances	**144,116,929**	**353,221**	**1,768,477**	**2,121,698**	**146,238,627**	**1.45%**
Allowances for impairment loss	**(2,619,197)**	**(146,607)**	**(952,005)**	**(1,098,612)**	**(3,717,809)**	
Net loans and advances to customers	**141,497,732**	**206,614**	**816,472**	**1,023,086**	**142,520,818**	
At December 31, 2016						
Gross loans and advances	119,375,337	304,550	1,385,489	1,690,039	121,065,376	1.40%
Allowances for impairment loss	(1,943,552)	(101,307)	(614,538)	(715,845)	(2,659,397)	
Net loans and advances to customers	117,431,785	203,243	770,951	974,194	118,405,979	

Movements of provision for impairment loss on loans and advances during the period/year are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
At January 1, 2017	**614,538**	**2,044,859**	**2,659,397**
Provided for the period	**655,098**	**1,302,307**	**1,957,405**
Reversal for the period	**(142,843)**	**(548,838)**	**(691,681)**
Recovery of amounts written off in previous years	**54,485**	**2,789**	**57,274**
Write-offs	**(202,297)**	**(29,399)**	**(231,696)**
Unwinding of discount on allowance	**(26,976)**	**(5,914)**	**(32,890)**
At June 30, 2017	**952,005**	**2,765,804**	**3,717,809**
At January 1, 2016	289,333	1,540,884	1,830,217
Provided for the year	918,033	1,361,719	2,279,752
Reversal for the year	(179,130)	(829,239)	(1,008,369)
Recovery of amounts written off in previous years	883	3,447	4,330
Write-offs	(379,548)	(23,483)	(403,031)
Unwinding of discount on allowance	(35,033)	(8,469)	(43,502)
At December 31, 2016	614,538	2,044,859	2,659,397

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

20. Finance lease receivables

	As at June 30, 2017	As at December 31, 2016
Minimum finance lease receivables:		
Within 1 year (inclusive)	**33,546,671**	31,900,780
1–5 years (inclusive)	**66,880,290**	63,850,148
Over 5 years	**3,825,784**	1,953,318
Gross amount of finance lease receivables	**104,252,745**	97,704,246
Less: Unearned finance income	**(11,620,889)**	(11,074,497)
Net amount of finance lease receivables	**92,631,856**	86,629,749
Less: Allowance for impairment losses	**(1,872,663)**	(1,638,408)
Carrying amount of finance lease receivables	**90,759,193**	84,991,341

Certain amount of finance lease receivables were pledged by the Group as security for borrowings and financial assets sold under repurchase agreements as at the end of the period/year.

Movements of provision for impairment losses on finance lease receivables during the period/year are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
At January 1, 2017	**491,926**	**1,146,482**	**1,638,408**
Provided for the period	**174,495**	**51,760**	**226,255**
Recovery of amounts written off in previous years	**8,000**	**—**	**8,000**
At June 30, 2017	**674,421**	**1,198,242**	**1,872,663**
At January 1, 2016	376,433	823,717	1,200,150
Provided for the year	123,039	322,765	445,804
Write-offs	(8,146)	—	(8,146)
Recovery of amounts written off in previous years	600	—	600
At December 31, 2016	491,926	1,146,482	1,638,408

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

21. Available-for-sale financial assets

	As at June 30, 2017	As at December 31, 2016
Listed investments and debt securities traded in interbank:		
Equity instruments	**21,302,423**	17,908,839
Debt securities		
— Government bonds	**605,609**	638,106
— Public sector and quasi-government bonds	**18,082,712**	23,275,592
— Financial institution bonds	**4,570,529**	2,834,686
— Corporate bonds	**11,622,659**	7,347,996
Asset-backed securities	**1,195,110**	1,783,739
Funds	**1,855,945**	152,051
Subtotal	**59,234,987**	53,941,009
Unlisted investments:		
Funds	**61,834,695**	34,456,320
Equity instruments(1)	**26,296,770**	22,327,994
Trust products	**23,044,567**	23,232,734
Debt instruments	**8,467,206**	—
Wealth management products	**4,867,507**	1,161,872
Asset management plans	**3,065,306**	3,529,761
Asset-backed securities	**269,565**	286,789
Others(2)	**—**	1,603,176
Subtotal	**127,845,616**	86,598,646
Less: Allowance for impairment losses	**(242,598)**	(247,018)
Subtotal	**127,603,018**	86,351,628
Total	**186,838,005**	140,292,637

(1) Included in the balance is equity instruments of RMB9,315 million as at June 30, 2017 (December 31, 2016: RMB9,507 million) 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

21. Available-for-sale financial assets *(continued)*

(2) This included an investment in designated accounts established and managed by China Securities Finance Corporation Limited ("CSFC") for a collective investment together with other securities companies for the purpose of maintaining stability in the PRC stock markets according to relevant contracts signed with CSFC. Risks and income arising from the investment shall be shared by the participating securities companies in proportion to their respective contribution. Huarong Securities Co., Ltd., a Group entity, contributed RMB1,590 million into the designated account during 2015. The designated account was fully terminated during this period.

22. Held-to-maturity investments

	As at June 30, 2017	As at December 31, 2016
Government bonds	**16,069,617**	15,738,801
Public sector and quasi-government bonds	**29,555,119**	23,775,474
Financial institution bonds	**6,965,973**	4,954,109
Corporate bonds	**1,108,965**	415,791
Total	**53,699,674**	44,884,175

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

23. Financial assets classified as receivables

	As at June 30, 2017	As at December 31, 2016
Distressed debt assets		
Loans acquired from financial institutions	**39,840,534**	54,263,464
Other debt assets acquired from non-financial institutions	**293,075,725**	239,475,161
Subtotal	**332,916,259**	293,738,625
Less: Allowance for impairment losses		
— Individually assessed	**(3,777,247)**	(3,663,130)
— Collectively assessed	**(18,692,528)**	(20,003,322)
	(22,469,775)	(23,666,452)
Subtotal	**310,446,484**	270,072,173
Other financial assets classified as receivables		
Trust products	**152,747,569**	116,918,154
Debt instruments	**82,158,158**	84,494,021
Entrust loans[1]	**76,331,275**	54,206,892
Asset management plans	**18,291,631**	19,321,402
Wealth management products	**12,676,000**	12,286,958
Subtotal	**342,204,633**	287,227,427
Less: Allowance for impairment losses		
— Individually assessed	**(1,428,334)**	(1,386,481)
— Collectively assessed	**(7,305,898)**	(6,435,162)
	(8,734,232)	(7,821,643)
Subtotal	**333,470,401**	279,405,784
Total	**643,916,885**	549,477,957

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

23. Financial assets classified as receivables *(continued)*

Movements of allowance for impairment losses during the period/year are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
As at January 1, 2017	**5,049,611**	**26,438,484**	**31,488,095**
Provided for the period	**769,366**	**4,965,980**	**5,735,346**
Reversal for the period	**(352,330)**	**(2,910,225)**	**(3,262,555)**
Unwinding of discount on allowance	**(261,066)**	**—**	**(261,066)**
Transfer-out	**—**	**(2,491,892)**	**(2,491,892)**
Exchange difference	**—**	**(3,921)**	**(3,921)**
As at June 30, 2017	**5,205,581**	**25,998,426**	**31,204,007**
As at January 1, 2016	2,866,388	20,255,075	23,121,463
Provided for the year	2,389,378	14,346,465	16,735,843
Reversal for the year	(16,547)	(2,593,530)	(2,610,077)
Unwinding of discount on allowance	(189,608)	—	(189,608)
Transfer-in	—	10,274	10,274
Transfer-out	—	(5,585,278)	(5,585,278)
Exchange difference	—	5,478	5,478
As at December 31, 2016	5,049,611	26,438,484	31,488,095

24. Interests in associates and joint ventures

	As at June 30, 2017	As at December 31, 2016
Interests in associates		
Carrying amount of unlisted companies	**12,721,423**	4,420,852
Carrying amount of listed companies	**2,132,024**	2,173,347
Subtotal	**14,853,447**	6,594,199
Interests in joint ventures		
Carrying amount of unlisted companies	**5,568,409**	2,969,812
Total	**20,421,856**	9,564,011
Fair value of listed companies	**3,559,479**	1,571,157

IV. EXPLANATORY NOTES *(continued)*

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

During the six months ended June 30, 2017, the Group acquired interests in 49 (six months ended June 30, 2016: 17) associates and joint ventures with an aggregate initial costs of RMB13,217 million (six months ended June 30, 2016: RMB2,566 million).

During the six months ended June 30, 2017, the Group disposed of interests in 10 (six months ended June 30, 2016: 4) associates and joint ventures with an aggregate carrying values of RMB1,303 million (six months ended June 30, 2016: RMB530 million) at dates of disposals and recognized a net gain of RMB249 million (six months ended June 30, 2016: RMB21 million).

During the six months ended June 30, 2017, an associate of the Group became a subsidiary and details of this transaction was disclosed in note 50 to these condensed consolidated financial statements.

25. Interests in consolidated structured entities

To determine whether control exists in a structured entity, the judgements used by the Group are the same as those set out in its consolidated financial statements for the year ended December 31, 2016.

The Group had consolidated certain structured entities during the period/year. They mainly include trust products, asset management plans and private equity funds.

As at June 30, 2017, interests in these consolidated structured entities held by the Company amounted to RMB11,350 million (December 31, 2016: RMB8,607 million).

The financial impact of these trust products, asset management plans and private equity funds on the Group's financial position as at June 30, 2017 and December 31, 2016 and results and cash flows for the period/year then ended, though consolidated, are not significant individually and therefore not disclosed separately.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

25. Interests in consolidated structured entities *(continued)*

Interests held by other interest holders are presented as change in net assets attributable to other holders of consolidated structured entities in the consolidated statement of profit or loss and as other liabilities in the consolidated statement of financial position respectively. The payables to interest holders of consolidated structured entities amounted to RMB173,910 million as at June 30, 2017 (December 31, 2016: RMB158,365 million). The change in net assets attributable to other holders of consolidated structured entities for the six months ended June 30, 2017 amounted to RMB3,888 million (Six months ended June 30, 2016: RMB1,307 million).

26. Interests in unconsolidated structured entities

The Group served as general partner, manager or trustee of structured entities, therefore had power over them. Except for the structured entities the Group has consolidated as detailed in note IV.25, in the opinion of the directors of the Company, the variable returns the Group exposed to over the structured entities that the Group has interests in 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 classified as receivables, available-for-sale financial assets or interests in associates and joint ventures as appropriate. The Group's interests in and exposure to these unconsolidated structured entities are not significant.

The size of unconsolidated structured entities managed by the Group is as follows:

	As at June 30, 2017	As at December 31, 2016
Trust products	**294,699,565**	208,808,794
Private equity funds	**118,134,136**	53,390,978
Asset management plans	**21,570,956**	4,224,086
Total	**434,404,657**	266,423,858

The Group also holds interests in structured entities established and managed by third parties through investments. The carrying amount and maximum exposure to credit risk of such structured entities are RMB279,775 million as at June 30, 2017 (December 31, 2016: RMB228,760 million) and they are accounted for as financial assets at FVTPL, available-for-sale financial assets and financial assets classified as receivables.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

27. Investment properties

During the current interim period, the Group acquired certain investment properties with aggregate amounts of RMB6.6 million at cost (Six months ended June 30, 2016: RMB12 million at cost).

As at June 30, 2017, the fair value of the Group's investment properties amounted to RMB4,265 million (December 31, 2016: RMB4,133 million).

The Group had no investment properties pledged for borrowings at the end of the period/year.

28. Property and equipment

For the six months ended June 30, 2017, the Group acquired and disposed of property and equipment with aggregate amounts of RMB1,684 million at cost and RMB74 million at net book value, respectively (Six months ended June 30, 2016: RMB667 million at cost and RMB92 million at net book value, respectively).

For the six months ended June 30, 2017, the Group incurred cost for construction in progress with aggregate amount of RMB85 million (Six months ended June 30, 2016: RMB128 million).

As at June 30, 2017, the Group's property which the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB182 million (December 31, 2016: RMB206 million).

As at June 30, 2017, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB580 million (December 31, 2016: RMB397 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

29. 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 June 30, 2017	As at December 31, 2016
Deferred tax assets	**10,344,993**	9,301,184
Deferred tax liabilities	**(975,078)**	(700,372)
Total	**9,369,915**	8,600,812

	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	Interest receivables	Allowance for impairment losses	Others	Total
January 1, 2017	**(779,787)**	**(609,034)**	**380,446**	**(634,568)**	**10,219,526**	**24,229**	**8,600,812**
Credit/(charge) to profit or loss	**—**	**(181,666)**	**128,482**	**(77,391)**	**968,555**	**(427,321)**	**410,659**
Credit to other comprehensive income	**358,444**	**—**	**—**	**—**	**—**	**—**	**358,444**
June 30, 2017	**(421,343)**	**(790,700)**	**508,928**	**(711,959)**	**11,188,081**	**(403,092)**	**9,369,915**
January 1, 2016	(1,926,767)	(283,696)	367,103	(479,992)	6,666,769	(69,580)	4,273,837
Credit/(charge) to profit or loss	—	(325,338)	13,343	(154,576)	3,552,757	93,809	3,179,995
Credit to other comprehensive income	1,146,980	—	—	—	—	—	1,146,980
December 31, 2016	(779,787)	(609,034)	380,446	(634,568)	10,219,526	24,229	8,600,812

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

30. Other assets

	As at June 30, 2017	As at December 31, 2016
Inventories[1]	**16,200,447**	16,418,914
Other receivables	**12,026,767**	11,644,326
Interests receivable	**5,014,843**	3,562,579
Receivables from disposals of investments[2]	**3,986,173**	2,200,953
Payments in advance	**2,327,344**	1,550,591
Foreclosed asset	**1,347,780**	1,191,633
Land use rights	**1,328,905**	937,708
Prepaid expenses	**960,127**	445,780
Clearing and settlement receivables	**778,567**	620,677
Intangible assets	**603,861**	447,548
Deductible value-added tax	**435,576**	533,412
Dividends receivable	**181,575**	34,747
Others	**531,543**	750,595
Total	**45,723,508**	40,339,463

(1) The Group's inventories represent the property and land development costs from real estate projects of Huarong Real Estate Co., Ltd., a Group entity. Inventories amounting to RMB4,799 million (December 31, 2016: RMB4,399 million) were pledged by the Group for borrowing as at June 30, 2017.

(2) Amount included sale proceeds receivable from disposals of available-for-sale financial assets and of subsidiaries.

31. Deposits from financial institutions

	As at June 30, 2017	As at December 31, 2016
Banks	**2,393,784**	2,275,153
Other financial institutions	**4,331,953**	4,687,391
Total	**6,725,737**	6,962,544

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

32. Placements from financial institutions

	As at June 30, 2017	As at December 31, 2016
Banks	**2,081,345**	3,678,497
Other financial institutions	**—**	600,000
Total	**2,081,345**	4,278,497

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

33. Financial assets sold under repurchase agreements

	As at June 30, 2017	As at December 31, 2016
Bonds	**52,655,846**	53,990,595
Loans and advances to customers	**—**	2,400,000
Total	**52,655,846**	56,390,595

34. Borrowings

	As at June 30, 2017	As at December 31, 2016
Unsecured loans	**530,438,055**	425,073,875
Pledged loans	**36,139,000**	39,807,397
Guaranteed loans	**54,405,433**	44,229,871
Loans secured by properties	**2,178,300**	2,197,500
Total	**623,160,788**	511,308,643

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

34. Borrowings *(continued)*

The carrying amounts of pledged assets for borrowings are listed as follows:

	As at June 30, 2017	As at December 31, 2016
Finance lease receivables	**47,261,953**	40,335,567
Other assets — inventories (IV.30)	**4,798,874**	4,399,492
Financial assets held for trading	**3,962,239**	—
Held-to-maturity investments	**3,487,216**	2,836,974
Deposits with financial institutions (IV.15)	**1,922,347**	5,557,471
Available-for-sale financial assets	**1,639,902**	683,117
Other assets — accounts receivable	**300,000**	—
Total	**63,372,531**	53,812,621

	As at June 30, 2017	As at December 31, 2016
Carrying amount repayable*:		
Within one year	**303,121,996**	252,983,366
More than one year, but not exceeding two years	**105,777,077**	73,714,065
More than two years, but not exceeding five years	**168,953,247**	152,509,206
More than five years	**26,507,532**	26,411,930
Subtotal	**604,359,852**	505,618,567
Carrying amount of borrowings that contain a repayment on demand clause repayable*:		
Within one year	**497,500**	—
More than one year, but not exceeding two years	**4,315,376**	—
More than two years, but not exceeding five years	**13,988,060**	5,690,076
Subtotal	**18,800,936**	5,690,076
Total	**623,160,788**	511,308,643

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

34. Borrowings *(continued)*

The exposure of the Group's fixed-rate borrowings by remaining contractual maturity periods are as follows:

	As at June 30, 2017	As at December 31, 2016
Within one year	**299,382,696**	248,515,982
More than one year, but not exceeding two years	**102,932,791**	73,714,065
More than two years, but not exceeding five years	**163,859,856**	151,669,205
More than five years	**25,925,220**	25,687,031
Total	**592,100,563**	499,586,283

In addition, the Group has variable-rate borrowings which carry interests 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.

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

	As at June 30, 2017	As at December 31, 2016
Effective interest rate		
Fixed-rate borrowings	**2.00%–11.00%**	1.96%–11.75%
Variable-rate borrowings	**2.18%–9.75%**	2.13%–7.40%

35. Due to customers

	As at June 30, 2017	As at December 31, 2016
Demand deposits		
Corporate customers	**91,124,447**	71,800,158
Individual customers	**19,103,399**	16,545,386
Time deposits		
Corporate customers	**43,017,384**	36,845,258
Individual customers	**27,750,910**	24,407,465
Pledged deposits	**9,073,368**	10,698,908
Others	**15,068,186**	12,108,693
Total	**205,137,694**	172,405,868

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
The Company							
Financial bonds	**5,590,598**	5,589,547	RMB6,000 million	5 years	November 2013	5.66% fixed rate	Interest payable annually
Financial bonds	**9,991,570**	9,986,744	RMB10,000 million	3 years	December 2014	4.60% fixed rate	Interest payable annually
Financial bonds	**9,922,248**	9,920,414	RMB10,000 million	5 years	December 2014	4.80% fixed rate	Interest payable annually
Financial bonds	**17,486,164**	17,472,450	RMB17,500 million	3 years	July 2015	4.01% fixed rate	Interest payable annually
Financial bonds	**17,175,598**	17,166,744	RMB17,500 million	5 years	July 2015	4.21% fixed rate	Interest payable annually
Financial bonds	**9,968,417**	9,965,172	RMB10,000 million	5 years	March 2016	3.39% fixed rate	Interest payable annually
Financial bonds	**12,462,626**	12,454,344	RMB12,500 million	3 years	November 2016	3.35% fixed rate	Interest payable annually
Financial bonds	**12,457,537**	12,453,414	RMB12,500 million	5 years	November 2016	3.54% fixed rate	Interest payable annually
Tier II capital bonds	**9,943,045**	—	RMB10,000 million	10 years	June 2017	4.95% fixed rate	Interest payable annually
Subtotal	**104,997,803**	95,008,829	RMB106,000 million				
Huarong Xiangjiang Bank Co., Ltd.							
Subordinate bonds	**1,495,377**	1,495,015	RMB1,500 million	10 years	November 2012	6.30% fixed rate	Interest payable annually
Tier II capital bonds	**2,991,291**	2,990,737	RMB3,000 million	10 years	June 2015	6.00% fixed rate	Interest payable annually
Negotiable certificates of deposit	**7,305,197**	31,636,128	RMB31,970 million	3~12 months	January~ December 2016	2.82%-4.55%	Interest payable on maturity date
Negotiable certificates of deposit	**27,201,014**	—	RMB27,740 million	3~12 months	January~ June 2017	1.98%-5.15%	Interest payable on maturity date
Subtotal	**38,992,879**	36,121,880	RMB64,210 million				

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IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities Co., Ltd.							
Subordinate bonds	1,500,000	1,500,000	RMB1,500 million	4 years	July 2013	6.25% fixed rate	Interest payable annually
Subordinate bonds	600,000	600,000	RMB600 million	3 years	August 2014	6.80% fixed rate	Interest payable annually
Subordinate bonds	1,500,000	1,500,000	RMB1,500 million	3 years	March 2015	5.70% fixed rate	Interest payable annually
Corporation bonds	2,000,000	2,000,000	RMB2,000 million	3 years	April 2015	4.90% fixed rate	Interest payable annually
Subordinate bonds	1,500,000	1,500,000	RMB1,500 million	3 years	May 2015	5.39% fixed rate	Interest payable annually
Subordinate bonds	1,000,000	1,000,000	RMB1,000 million	4 years	April 2016	4.10% fixed rate	Interest payable annually
Beneficiary certificates	160,000	160,000	RMB160 million	2 years	July 2016	3.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	6,940	6,940	RMB7 million	2 years	July 2016	4.80% fixed rate	Interest payable semi-annually
Subordinate bonds	1,000,000	1,000,000	RMB1,000 million	3 years	August 2016	3.50% fixed rate	Interest payable annually
Beneficiary certificates	130,000	130,000	RMB130 million	2 years	August 2016	3.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	1,730,000	RMB1,730 million	184 days	November 2016	3.30% fixed rate	Interest payable on maturity date
Beneficiary certificates	300,000	300,000	RMB300 million	1 year	November 2016	3.30% fixed rate	Interest payable semi-annually
Beneficiary certificates	400,000	400,000	RMB400 million	1 year	November 2016	3.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	100,000	RMB100 million	181 days	November 2016	3.50% fixed rate	Interest payable on maturity date
Beneficiary certificates	–	450,000	RMB450 million	182 days	November 2016	3.35% fixed rate	Interest payable semi-annually
Subordinate bonds	2,000,000	2,000,000	RMB2,000 million	2 years	December 2016	4.20% fixed rate	Interest payable annually

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IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities Co., Ltd.							
Subordinate bonds	**4,530,000**	—	RMB4,530 million	2 years	April 2017	5.30% fixed rate	Interest payable annually
Beneficiary certificates	**400,000**	—	RMB400 million	2 years	May 2017	5.40% fixed rate	Interest payable on maturity date
Beneficiary certificates	**100,000**	—	RMB100 million	2 years	May 2017	4.80% fixed rate	Interest payable on maturity date
Beneficiary certificates	**9,500**	—	RMB9.5 million	2 years	May 2017	5.00% fixed rate	Interest payable on maturity date
Beneficiary certificates	**2,030**	—	RMB2 million	28 days	June 2017	5.00% fixed rate	Interest payable on maturity date
Beneficiary certificates	**4,230**	—	RMB4 million	14 days	June 2017	6.00% fixed rate	Interest payable on maturity date
Beneficiary certificates	**600,000**	—	RMB600 million	2 years	June 2017	5.30% fixed rate	Interest payable on maturity date
Beneficiary certificates	**400,000**	—	RMB400 million	2 years	June 2017	5.50% fixed rate	Interest payable on maturity date
Beneficiary certificates	**200,000**	—	RMB200 million	2 years	June 2017	5.00% fixed rate	Interest payable on maturity date
Subtotal	**18,342,700**	14,376,940	RMB20,623 million				
China Huarong Financial Leasing Co., Ltd.							
Financial bonds	**399,229**	398,922	RMB400 million	5 years	September 2013	floating rate	Interest payable annually
Financial bonds	**998,438**	997,679	RMB1,000 million	3 years	June 2015	floating rate	Interest payable annually
Leasing asset — backed securities	**991,059**	1,324,964	RMB2,855 million	6 years	October 2015	floating rate	Interest payable quarterly
Financial bonds	**1,996,129**	1,994,851	RMB2,000 million	3 years	December 2015	3.76% fixed rate	Interest payable annually
Financial bonds	**1,990,759**	1,989,535	RMB2,000 million	5 years	December 2015	4.00% fixed rate	Interest payable annually
Leasing asset — backed securities	**2,009,635**	2,580,593	RMB4,411 million	6 years	April 2016	floating rate	Interest payable quarterly

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IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
China Huarong Financial Leasing Co., Ltd.							
Financial bonds	996,957	—	RMB1,000 million	3 years	February 2017	4.45% fixed rate	Interest payable annually
Leasing asset — backed securities	994,399	—	RMB1,000 million	5 years	February 2017	4.70% fixed rate	Interest payable annually
Leasing asset — backed securities	3,485,882	—	RMB4,100 million	8 months & 3 years	February 2017	4.40% fixed rate & floating rate	Interest payable quarterly
Subtotal	13,862,487	9,286,544	RMB18,766 million				
Huarong Rongde Asset Management Co., Ltd.							
Corporation bonds	2,993,665	2,991,322	RMB3,000 million	3 years	September 2015	4.95% fixed rate	Interest payable annually
Corporation bonds	1,488,647	1,486,303	RMB1,500 million	5 years	April 2016	3.80% fixed rate	Interest payable annually
Subtotal	4,482,312	4,477,625	RMB4,500 million				
Huarong Finance Co., Ltd., subsidiary of China Huarong International Holdings Limited							
U.S. dollar bonds	2,059,590	2,105,455	USD300 million	3 years	July 2014	3.00% fixed rate	Interest payable annually
U.S. dollar bonds	8,239,556	8,429,981	USD1,200 million	5 years	July 2014	4.00% fixed rate	Interest payable annually
Subtotal	10,299,146	10,535,436	USD1,500 million				

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance II Co., Ltd., subsidiary of China Huarong International Holdings Limited							
Mid-term U.S. dollar notes	**4,123,346**	4,217,868	USD600 million	3 years	January 2015	3.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**8,259,790**	8,453,138	USD1,200 million	5 years	January 2015	4.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**9,597,436**	9,823,661	USD1,400 million	10 years	January 2015	5.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**3,390,233**	3,469,278	USD500 million	3 years	November 2015	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**3,379,741**	3,458,475	USD500 million	5 years	November 2015	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**5,403,703**	5,532,450	USD800 million	10 years	November 2015	5.00% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**4,741,530**	4,853,302	USD700 million	3 years	June 2016	2.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**6,072,340**	6,214,295	USD900 million	5 years	June 2016	3.25% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**6,035,547**	6,177,979	USD900 million	10 years	June 2016	4.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**6,770,238**	6,928,684	USD1,000 million	3 years	November 2016	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**9,142,310**	9,359,358	USD1,350 million	5 years	November 2016	3.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	**4,375,569**	4,479,485	USD650 million	10 years	November 2016	4.875% fixed rate	Interest payable semi-annually
Subtotal	**71,291,783**	72,967,973	USD10,500 million				

Notes to the Condensed Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance 2017 Co., Ltd., subsidiary of China Huarong International Holdings Limited							
Mid-term U.S. dollar notes	7,516,232	—	USD1,100 million	3 years	January 2017	3.375% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,870,167	—	USD570 million	5 years	April 2017	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,752,095	—	USD700 million	10 years	April 2017	4.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	1,363,330	—	USD200 million	30 years	April 2017	5.5% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,396,286	—	USD500 million	3 years	April 2017	3 months LIBOR+1.65%	Interest payable quarterly
Mid-term U.S. dollar notes	6,796,766	—	USD1,000 million	5 years	April 2017	3 months LIBOR+1.85%	Interest payable quarterly
Subtotal	27,694,876	—	USD4,070 million				
Huarong Finance 2017 Co., Ltd., subsidiary of China Huarong International Holdings Limited							
Mid-term Singapore dollar notes	2,918,822	—	SGD600 million	4 years	April 2017	3.2% fixed rate	Interest payable semi-annually

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IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

	June 30, 2017	December 31, 2016	Original principal amount	Term	Issuance date	Coupon rate per annum	Remarks
China Huarong International Holdings Limited							
Targeted debt financing instruments	**3,040,343**	—	RMB3,000 million	2 years	March 2017	4.7% fixed rate	Interest payable annually
Huarong Real Estate Co., Ltd.							
Corporation bonds	**1,900,581**	—	RMB1,900 million	5 years	March 2017	5.48% fixed rate	Interest payable annually
Huarong Tianze Investment Co., Ltd., subsidiary of Huarong Zhiyuan Investment & Management Co., Ltd.							
Corporation bonds	**300,000**	300,000	RMB300 million	3 years	December 2015	5.25% fixed rate	Interest payable on maturity date
Total	**298,123,732**	243,075,227					

Notes to the Condensed Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

37. Other liabilities

	As at June 30, 2017	As at December 31, 2016
Payables to interest holders of consolidated structured entities (IV.25)	**173,909,764**	158,364,835
Other payables	**65,216,352**	46,094,542
Guarantee deposits received from customers	**12,400,679**	14,707,887
Interest payable	**8,543,894**	6,154,996
Account payable to brokerage clients	**6,841,681**	9,809,924
Dividends payable	**6,382,745**	108,791
Amounts received in advance(1)	**5,907,213**	8,269,026
Employee benefits payable	**3,597,032**	4,146,139
Amounts due to China Trust Protection Fund	**2,648,000**	2,500,000
Amount due to the MOF(2)	**—**	3,938,855
Sundry taxes payable	**1,717,852**	1,226,954
Bills payable(3)	**1,609,681**	3,059,486
Margin deposit received from securities customers	**628,126**	1,224,952
Provisions(4)	**116,131**	116,131
Others	**392,551**	376,398
Total	**289,911,701**	260,098,916

(1) Amounts received in advance mainly included deposits received in respect of pre-sale of properties and receipts in advance relating to primary land development, and advances received relating to Company's sales of distressed assets.

(2) Amount due to the MOF represents outstanding balance of consideration arising from the purchase of assets in the policy business portfolio from the MOF. The amount is repayable in five equal installments of RMB3.94 billion each over a five-year period, representing an effective annual interest rate of 2.16%, starting from 2012.

(3) These are bank acceptance bills paid by China Huarong Financial Leasing Co., Ltd. to the suppliers for equipment purchased when conducting its finance lease business.

(4) Provisions are mainly made by the Group relating to litigation claims on the Group's entities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

38. Share capital of the Company

	For the six months ended June 30, 2017	For the year ended December 31, 2016
Authorized, issued and fully paid:		
At beginning and end of the period/year	**39,070,208**	39,070,208

	As at June 30, 2017 and December 31, 2016	
	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**

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

39. 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.

40. General reserve

Starting from July 1, 2012, pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (Caijin [2012] No.20) issued by the MOF, a financial enterprise is required to maintain a general reserve within equity, through the appropriation of profit determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC ("PRC GAAP"), at no less than 1.5% of its risk assets at the end of the reporting period. The financial enterprise is allowed to meet this requirement over a 5-year period.

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

For the six months ended June 30, 2017, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB2,122 million (Six months ended June 30, 2016: RMB734 million) to general reserve pursuant to the regulatory requirements in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

41. Other reserves

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

	For the six months ended June 30, 2017	For the year ended December 31, 2016
At beginning of the period/year	**3,071,816**	5,475,513
Cumulative gains arising on the effective portion of changes in fair value of cash flow hedges	**6,248**	—
Net changes arising on revaluation of available-for-sale financial assets	**(2,620,988)**	(3,155,365)
Cumulative gains reclassified to profit or loss upon disposal of available-for-sale financial assets	**(402,806)**	(964,162)
Cumulative losses reclassified to profit or loss on impairment of available-for-sale financial assets	**677,193**	673,874
Income tax effects	**370,086**	1,190,414
Share of other comprehensive income of associates	**(3,007)**	(98,155)
Exchange differences arising on translation of foreign operations	**23,305**	(41,606)
Actuarial losses on defined benefit obligations	**(6,410)**	(8,697)
At end of the period/year	**1,115,437**	3,071,816

A summary of movements of other reserves attributable to equity holders of the Company is as follow:

	Actuarial (losses)/ gains on defined benefit obligations	Fair value changes in the effective portion of cash flow hedges	Fair value changes in available-for-sale financial assets	Share of other comprehensive income of associates and joint ventures	Exchange differences arising on translation of foreign operations	Income tax effects	Total
As at January 1, 2016	929	—	7,328,636	100,709	(73,238)	(1,881,523)	5,475,513
(Decrease)/increase during the year	(8,697)	—	(3,445,653)	(98,155)	(41,606)	1,190,414	(2,403,697)
As at December 31, 2016 and January 1, 2017	**(7,768)**	**—**	**3,882,983**	**2,554**	**(114,844)**	**(691,109)**	**3,071,816**
(Decrease)/increase during the period	**(6,410)**	**6,248**	**(2,346,601)**	**(3,007)**	**23,305**	**370,086**	**(1,956,379)**
As at June 30, 2017	**(14,178)**	**6,248**	**1,536,382**	**(453)**	**(91,539)**	**(321,023)**	**1,115,437**

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

42. Perpetual capital instruments

Movement of the Perpetual Capital Instruments is as follows:

	Principal	Distribution	Total
Balance at January 1, 2017	**14,973,523**	**56,733**	**15,030,256**
Issuance of perpetual capital instruments(1)	**13,630,748**	**—**	**13,630,748**
Buy back of perpetual capital instruments(2)	**(1,970,000)**	**—**	**(1,970,000)**
Profit attributable to holders of perpetual capital instruments	**—**	**601,881**	**601,881**
Distribution to holders of perpetual capital instruments	**—**	**(405,120)**	**(405,120)**
Balance at June 30, 2017	**26,634,271**	**253,494**	**26,887,765**
Balance at January 1, 2016	6,450,000	4,112	6,454,112
Issuance of perpetual capital instruments(1)	9,973,523	—	9,973,523
Buy back of perpetual capital instruments	(1,450,000)	—	(1,450,000)
Profit attributable to holders of perpetual capital instruments	—	455,825	455,825
Distribution to holders of perpetual capital instruments	—	(403,204)	(403,204)
Balance at December 31, 2016	14,973,523	56,733	15,030,256

(1) Huarong Rongde Asset Management Co., Ltd., Huarong Huitong Asset Management Co., Ltd., Huarong Zhiyuan Investment & Management Co., Ltd. and Huarong Real Estate Co., Ltd. (the "Issuers"), subsidiaries of the Company, issued perpetual capital instruments with the face value of RMB13,630 million and RMB9,974 million during the six months ended June 30, 2017 and the year ended December 31, 2016 respectively.

(2) Huarong Huitong Asset Management Co., Ltd. bought back perpetual capital instruments of RMB1,970 million during the six months ended June 30, 2017.

There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Issuer. When the Issuer elects to declare dividends, the distribution to the holders of perpetual capital instruments shall be made at the distribution rate as defined in the subscription agreement.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

43. Cash and cash equivalents

Cash and cash equivalents with original maturity within 3 months comprise the following balances:

	As at June 30, 2017	As at June 30, 2016
Cash on hand	**451,481**	443,130
Balances with central bank	**2,922,195**	5,433,090
Deposits with financial institutions	**160,432,898**	96,300,612
Placements with banks	**3,370,976**	9,531,028
Financial assets held under resale agreements	**16,796,418**	11,366,894
Total	**183,973,968**	123,074,754

44. Major non-cash transaction

As part of the distressed asset management business, the Group entered into transaction of equity swap with counterparties in the ordinary courses of business during the period/year. For the six months ended June 30, 2017, there was no non-cash transaction. For year ended December 31, 2016, equity instruments amounting to RMB2,932 million were swapped with equity instruments held by the Group with carrying value of RMB1,346 million, including disposal of interests in associates with carrying value of RMB1,297 million.

45. Contingent liabilities and commitments

(1) Legal proceedings

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at June 30, 2017, total claim amount of pending litigations was RMB2,308 million (December 31, 2016: RMB1,950 million) for the Group, and total provision of RMB110 million (December 31, 2016: RMB110 million) for the Group was made based on court judgments or the advice of legal counsels. The Board of 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)

IV. EXPLANATORY NOTES *(continued)*

45. Contingent liabilities and commitments *(continued)*

(2) 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 June 30, 2017	As at December 31, 2016
Within one year	**660,896**	589,729
In the second to the fifth year inclusive	**1,936,758**	1,252,834
Over five years	**226,998**	233,249
Total	**2,824,652**	2,075,812

(3) Credit enhancement

As at June 30, 2017, the Group provided credit enhancement for third parties involving in borrowing arrangements in the amount of RMB580 million (December 31, 2016: RMB300 million).

(4) Credit commitments

	As at June 30, 2017	As at December 31, 2016
Bank bill acceptance	**16,984,705**	19,669,086
Loan commitments	**11,767,682**	13,006,722
Letters of guarantee issued	**2,296,896**	2,381,816
Undrawn credit card commitments	**4,320,421**	2,438,966
Letters of credit issued	**757,295**	728,255
Total	**36,126,999**	38,224,845

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

45. Contingent liabilities and commitments *(continued)*

(5) Other commitments

	As at June 30, 2017	As at December 31, 2016
Contracted but not provided for — commitments for acquisitions of properties and equipment	**253,294**	295,716

46. Segment information

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

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

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

Distressed asset management operations

The distressed asset management segment comprises relevant business operated by the Company and certain of its subsidiaries, including distressed asset management, debt equity swap asset management, custody and agency services for distressed assets, 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, financial leasing and consumer finance. These operations are mainly carried out by the subsidiaries of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

46. Segment information *(continued)*

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 and other asset management business, 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 condensed consolidated financial statements of the Group.

Revenue and assets of the Group are generated primarily from operating units located in Mainland China and Hong Kong. There is no significant customer concentration of the Group's business with no customer contributing more than 10% of the Group's revenue.

Segment income, expenses, gains, losses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

46. Segment information *(continued)*

For the six months ended June 30, 2017	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	14,628,993	—	—	—	14,628,993
Fair value changes on distressed debt assets	2,293,671	—	—	—	2,293,671
Fair value changes on other financial assets	983,892	1,072,941	836,662	—	2,893,495
Interest income	690,560	9,188,366	889,493	(664,629)	10,103,790
Investment income	10,972,353	3,160,434	8,377,219	(1,918,209)	20,591,797
Commission and fee income	3,312,038	1,124,892	2,518,759	(95,196)	6,860,493
Net gains on disposals of subsidiaries, associates and joint ventures	160,168	—	481,186	—	641,354
Other income and other net gains or losses	2,235,376	137,331	1,138,254	(718,157)	2,792,804
Total	35,277,051	14,683,964	14,241,573	(3,396,191)	60,806,397
Interest expenses	(12,343,382)	(5,468,216)	(5,451,103)	1,231,855	(22,030,846)
Commission and fee expenses	(144,211)	(332,987)	(70,015)	51,992	(495,221)
Operating expenses	(3,864,260)	(1,961,256)	(1,184,095)	152,260	(6,857,351)
Impairment losses on assets	(1,886,417)	(1,784,085)	(2,179,207)	—	(5,849,709)
Total	(18,238,270)	(9,546,544)	(8,884,420)	1,436,107	(35,233,127)
Change in net assets attributable to other holders of consolidated structured entities	(2,435,602)	(1,198,493)	(253,455)	—	(3,887,550)
Share of results of associates and joint ventures	(37,931)	—	226,880	—	188,949
Profit before tax	14,565,248	3,938,927	5,330,578	(1,960,084)	21,874,669
Income tax expense					(5,472,705)
Profit for the period					16,401,964
Capital expenditure	26,292	1,621,184	68,945	—	1,716,421
Depreciation and amortization	98,419	225,127	73,277	—	396,823
As at June 30, 2017					
Segment assets	807,555,274	554,702,735	346,613,117	(61,061,503)	1,647,809,623
Including: Interests in associates and joint ventures	3,397,191	6,300	17,018,365	—	20,421,856
Deferred tax assets					10,344,993
Total assets					1,658,154,616
Segment liabilities	705,753,634	515,255,116	317,818,437	(54,880,344)	1,483,946,843
Deferred tax liabilities					975,078
Tax payable					3,170,965
Total liabilities					1,488,092,886

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

46. Segment information *(continued)*

For the six months ended June 30, 2016	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	11,688,521	—	—	—	11,688,521
Fair value changes on distressed debt assets	1,432,354	—	—	—	1,432,354
Fair value changes on other financial assets	84,096	57,783	2,577,049	—	2,718,928
Interest income	775,780	6,570,167	73,027	(227,847)	7,191,127
Investment income	2,221,075	3,033,534	4,475,897	(149,277)	9,581,229
Commission and fee income	2,763,009	1,591,406	1,441,871	(50,429)	5,745,857
Net gains on disposals of subsidiaries, associates and joint ventures	21,275	—	—	—	21,275
Other income and other net gains or losses	1,445,057	64,245	313,557	(191,555)	1,631,304
Total	20,431,167	11,317,135	8,881,401	(619,108)	40,010,595
Interest expenses	(6,974,410)	(4,282,352)	(3,161,094)	390,228	(14,027,628)
Commission and fee expenses	(212,502)	(243,625)	(25,475)	9	(481,593)
Operating expenses	(2,764,401)	(2,065,900)	(697,080)	168,616	(5,358,765)
Impairment losses on assets	(209,406)	(677,108)	(1,082,645)	—	(1,969,159)
Total	(10,160,719)	(7,268,985)	(4,966,294)	558,853	(21,837,145)
Change in net assets attributable to other holders of consolidated structured entities	(615,303)	(155,693)	(535,517)	—	(1,306,513)
Share of results of associates and joint ventures	29,458	3,046	45,593	—	78,097
Profit before tax	9,684,603	3,895,503	3,425,183	(60,255)	16,945,034
Income tax expense					(4,099,325)
Profit for the period					12,845,709
Capital expenditure	464,889	223,931	11,714	—	700,534
Depreciation and amortization	87,043	195,799	16,313	—	299,155
As at December 31, 2016					
Segment assets	628,712,579	515,150,506	302,715,707	(43,910,679)	1,402,668,113
Including: Interests in associates and joint ventures	265,444	—	9,298,567	—	9,564,011
Deferred tax assets					9,301,184
Total assets					1,411,969,297
Segment liabilities	544,781,261	478,569,397	276,538,211	(43,381,579)	1,256,507,290
Deferred tax liabilities					700,372
Tax payable					4,680,635
Total liabilities					1,261,888,297

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

47. Related party transactions

(1) The MOF

As at June 30, 2017, the MOF directly owned 63.36% (December 31, 2016: 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. Entities controlled by the MOF are mainly financial institutions.

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

The Group had the following balances with the MOF:

	As at June 30, 2017	As at December 31, 2016
Held-to-maturity investments	**6,121,297**	5,790,481
Financial assets designated as at fair value through profit or loss	**50,340**	—
Available-for-sale financial assets	**555,609**	588,182
Other assets	**61,409**	—
Amount due to the MOF	**—**	3,938,855
Dividends payable	**3,727,758**	—
Other liabilities	**1,063,407**	—

The Group had the following transactions with the MOF:

	For the six months ended June 30, 2017	2016
Interest expenses	**47,048**	82,627
Investment income	**111,025**	112,205

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

47. Related party transactions *(continued)*

(2) Government related entities

Other than those disclosed above, the Group also entered into transactions with government related entities. These transactions are entered into under normal commercial terms and conditions. None of them was individually significant.

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

(3) Annuity Scheme

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

	For the six months ended June 30,	
	2017	2016
Contribution to Annuity Schemes	128,492	79,880

(4) Key management personnel

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

	For the six months ended June 30,	
	2017	2016
Emoluments of key management personnel		
— Salaries and other benefits	1,844	2,346
— Employer's contribution to pension scheme	147	188
— Discretionary and performance related incentive payments	1,427	1,275
Total (before tax)	3,418	3,809

The total compensation package of the above key management personnel for the six months ended June 30, 2017 has not yet been finalized in accordance with regulations of the relevant authorities in the PRC.

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management

The Group's primary objectives of risk management, risk management framework, the nature of the risks faced by the Group and the risk management measures taken by management are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2016.

The types of risk of the Group is exposed to include credit risk, market risk and liquidity risk. Market risk includes interest rate risk, foreign exchange risk and other price risk.

48.1 Credit risk

The Group's credit risk management and its approach to impairment assessment and risk mitigating measures are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2016.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

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

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk mainly arises from distressed debt assets, loans and advance to customers, finance lease receivables, investment securities, and treasury operations of its banking activities. At the end of the reporting period, maximum exposure to credit risk (excluding distressed debt assets designated at FVTPL) is as follows:

	As at June 30, 2017	As at December 31, 2016
Balances with central bank	**32,044,018**	26,831,070
Deposits with financial institutions	**175,611,951**	154,329,885
Placements with financial institutions	**3,641,952**	4,902,346
Financial assets held for trading	**60,453,901**	76,983,771
Financial assets designated as at fair value through profit or loss	**26,107,143**	21,227,139
Financial assets held under resale agreements	**48,742,920**	36,347,736
Loans and advances to customers	**142,520,818**	118,405,979
Finance lease receivables	**90,759,193**	84,991,341
Available-for-sale financial assets	**65,748,127**	52,209,524
Held-to-maturity investments	**53,699,674**	44,884,175
Financial assets classified as receivables	**643,916,885**	549,477,957
Other assets	**21,658,498**	18,261,764
Subtotal	**1,364,905,080**	1,188,852,687
Credit enhancements	**580,000**	300,000
Credit commitments	**36,126,999**	38,224,845
Subtotal	**36,706,999**	38,524,845
Total	**1,401,612,079**	1,227,377,532

Distressed debt assets designated as at FVTPL may contain certain elements of credit risk. The risks such assets exposed to are detailed in note IV.48.4.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(ii) Risk concentration of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables

	As at June 30, 2017	As at December 31, 2016
Distressed debt assets classified as receivables	**332,916,259**	293,738,625
Loans and advances to customers	**146,238,627**	121,065,376
Finance lease receivables	**92,631,856**	86,629,749
Subtotal	**571,786,742**	501,433,750
Allowance for impairment losses		
Distressed debt assets classified as receivables	**(22,469,775)**	(23,666,452)
Loans and advances to customers	**(3,717,809)**	(2,659,397)
Finance lease receivables	**(1,872,663)**	(1,638,408)
Subtotal	**(28,060,247)**	(27,964,257)
Net carrying amount		
Distressed debt assets classified as receivables	**310,446,484**	270,072,173
Loans and advances to customers	**142,520,818**	118,405,979
Finance lease receivables	**90,759,193**	84,991,341
Total	**543,726,495**	473,469,493

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(ii) Risk concentration of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

Analyzed by geographical area

	As at June 30, 2017		As at December 31, 2016	
Area	Gross amount	%	Gross amount	%
Central Region	**222,519,173**	**38.9**	180,840,550	36.1
Western Region	**127,198,462**	**22.2**	118,482,500	23.6
Yangtze River Delta	**97,134,325**	**17.0**	89,544,494	17.9
Pearl River Delta	**47,804,287**	**8.4**	42,974,885	8.6
Bohai Rim	**49,996,717**	**8.7**	41,916,111	8.4
Northeastern Region	**23,668,789**	**4.1**	23,669,942	4.6
Overseas	**3,464,989**	**0.7**	4,005,268	0.8
Total	**571,786,742**	**100.0**	501,433,750	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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(ii) Risk concentration of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

Analyzed by industry

	As at June 30, 2017		As at December 31, 2016	
Industry	Gross amount	%	Gross amount	%
Corporate business				
Real estate	191,248,439	33.4	167,220,440	33.4
Manufacturing	73,071,741	12.8	72,794,422	14.5
Water, environment and public utilities management	83,942,353	14.7	61,821,192	12.3
Construction	35,941,399	6.3	27,845,007	5.6
Leasing and commercial services	30,801,078	5.4	27,136,984	5.4
Transportation, logistics and postal services	14,196,345	2.5	14,114,519	2.8
Mining	10,388,866	1.8	10,749,567	2.1
Others	92,453,542	16.1	88,367,452	17.6
Subtotal	532,043,763	93.0	470,049,583	93.7
Personal business				
Loans for business operations	10,767,942	1.9	9,816,041	2.0
Mortgage	9,215,582	1.6	7,087,467	1.4
Personal consumption loans	11,989,520	2.1	6,405,757	1.3
Others	1,476,608	0.3	1,082,292	0.2
Subtotal	33,449,652	5.9	24,391,557	4.9
Loans to margin clients	6,293,327	1.1	6,992,610	1.4
Total	571,786,742	100.0	501,433,750	100.0

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(ii) Risk concentration of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

By contractual maturity and security type

	Gross amount as at June 30, 2017				Gross amount as at December 31, 2016			
	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	11,642,640	17,192,744	12,244,173	41,079,557	16,500,821	6,119,621	1,638,705	24,259,147
Guaranteed	47,175,428	95,779,615	5,674,947	148,629,990	53,769,258	64,792,469	3,655,144	122,216,871
Collateralized	29,582,020	246,521,566	22,971,872	299,075,458	92,178,625	170,164,932	15,843,971	278,187,528
Pledged	25,233,828	55,001,422	2,766,487	83,001,737	40,610,930	35,120,492	1,038,782	76,770,204
Total	113,633,916	414,495,347	43,657,479	571,786,742	203,059,634	276,197,514	22,176,602	501,433,750

(iii) Past due distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables

	Gross amount as at June 30, 2017						Gross amount as at December 31, 2016					
	Up to 90 days	91 to 360 days	361 days to 3 years	Over 3 years	Total	Past due amount as a % of total gross amount	Up to 90 days	91 to 360 days	361 days to 3 years	Over 3 years	Total	Past due amount as a % of total gross amount
Distressed debt assets classified as receivables	2,537,376	2,770,499	1,448,937	3,274,822	10,031,634	3.0	2,841,185	2,710,000	1,649,801	2,962,604	10,163,590	3.5
Loans and advances to customers	1,194,423	2,065,467	1,195,164	94,575	4,549,629	3.1	1,349,712	1,288,459	634,944	35,000	3,308,115	2.7
Finance lease receivables	772,948	1,312,423	840,243	221,673	3,147,287	3.4	872,947	989,274	733,117	103,589	2,698,927	3.1
Total	4,504,747	6,148,389	3,484,344	3,591,070	17,728,550	3.1	5,063,844	4,987,733	3,017,862	3,101,193	16,170,632	3.2

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(iv) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables

	As at June 30, 2017	As at December 31, 2016
Neither past due nor impaired	**553,920,408**	485,199,527
Past due but not impaired[1]	**8,703,434**	8,170,251
Impaired[2]	**9,162,900**	8,063,972
Subtotal	**571,786,742**	501,433,750
Allowance for impairment losses	**(28,060,247)**	(27,964,257)
Net carrying amount	**543,726,495**	473,469,493

(1) Past due but not impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables

	Gross amount as at June 30, 2017					Gross amount as at December 31, 2016				
	Up to 90 days	91 to 360 days	361 days to 3 years	Over 3 years	Total	Up to 90 days	91 to 360 days	361 days to 3 years	Over 3 years	Total
Distressed debt assets classified as receivables	**2,510,689**	**1,696,328**	**—**	**—**	**4,207,017**	2,841,185	2,000,091	—	—	4,841,276
Loans and advances to customers	**1,169,783**	**1,237,897**	**85,647**	**—**	**2,493,327**	1,044,042	530,412	61,572	—	1,636,026
Finance lease receivables	**755,618**	**1,095,655**	**151,817**	**—**	**2,003,090**	872,947	596,845	223,157	—	1,692,949
Total	**4,436,090**	**4,029,880**	**237,464**	**—**	**8,703,434**	4,758,174	3,127,348	284,729	—	8,170,251

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(iv) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

(2) Impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables

	As at June 30, 2017			As at December 31, 2016		
	Gross amount	Allowance for impairment losses	Net carrying value	Gross amount	Allowance for impairment losses	Net carrying value
Distressed debt assets classified as receivables						
— Individually assessed	**5,824,617**	**(3,777,247)**	**2,047,370**	5,322,314	(3,663,130)	1,659,184
Loans and advances to customers						
— Individually assessed	**1,768,477**	**(952,005)**	**816,472**	1,385,489	(614,538)	770,951
— Collectively assessed	**353,221**	**(146,607)**	**206,614**	304,550	(101,307)	203,243
Finance lease receivables						
— Individually assessed	**977,003**	**(658,144)**	**318,859**	866,153	(491,926)	374,227
— Collectively assessed	**239,582**	**(121,446)**	**118,136**	185,466	(100,406)	85,060
Total	**9,162,900**	**(5,655,449)**	**3,507,451**	8,063,972	(4,971,307)	3,092,665

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(iv) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

(2) Impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

	As at June 30, 2017	As at December 31, 2016
Distressed debt assets classified as receivables		
Individually assessed and impaired	**5,824,617**	5,322,314
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	**1.7**	1.8
Fair value of collateral	**10,359,587**	8,762,222
Loans and advances to customers		
Individually assessed and impaired	**1,768,477**	1,385,489
Individually assessed and impaired as a % of total loans and advances to customers (%)	**1.2**	1.1
Collectively assessed and impaired	**353,221**	304,550
Collectively assessed and impaired as a % of total loans and advances to customers (%)	**0.2**	0.3
Fair value of collateral	**3,823,561**	3,118,101
Finance lease receivables		
Individually assessed and impaired	**977,003**	866,153
Individually assessed and impaired as a % of total finance lease receivables (%)	**1.1**	1.0
Collectively assessed and impaired	**239,582**	185,466
Collectively assessed and impaired as a % of total finance lease receivables (%)	**0.3**	0.2
Fair value of collateral*	**236,553**	215,953

* It represents the fair value of collaterals obtained by the Group in addition to the finance lease assets under finance lease business.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(iv) Credit quality of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

(2) Impaired distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables *(continued)*

Analyzed by geographical area

	As at June 30,2017			As at December 31,2016		
Area	Gross amount	%	Impairment ratio %	Gross amount	%	Impairment ratio %
Central Region	**4,624,282**	**50.5**	**2.1**	4,420,276	54.8	2.4
Western Region	**2,065,316**	**22.5**	**1.6**	1,640,783	20.3	1.4
Yangtze River Delta	**1,622,666**	**17.7**	**1.7**	1,629,944	20.2	1.8
Pearl River Delta	**19,285**	**0.2**	**0.0**	1,328	0.0	0.0
Bohai Rim	**119,473**	**1.3**	**0.2**	84,099	1.0	0.2
Northeastern Region	**711,878**	**7.8**	**3.0**	287,542	3.7	1.2
Total	**9,162,900**	**100.0**	**1.6**	8,063,972	100.0	1.6

(v) Credit quality of investment securities

The tables below set forth the credit quality of investment securities.

	As at June 30, 2017	As at December 31, 2016
Neither past due nor impaired[1]	**542,683,586**	477,905,787
Past due but not impaired[2]	**1,100,867**	1,017,929
Impaired[3]	**4,519,025**	3,608,320
Subtotal	**548,303,478**	482,532,036
Allowance for impairment losses		
— Individually assessed	**(1,518,334)**	(1,386,481)
— Collectively assessed	**(7,305,898)**	(6,435,162)
Net carrying amount	**539,479,246**	474,710,393

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(v) Credit quality of investment securities (continued)

(1) Neither past due nor impaired investment securities

	As at June 30, 2017						As at December 31, 2016					
	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	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
Government bonds	654,422	—	605,609	16,069,617	—	17,329,648	4,549,186	—	638,106	15,738,801	—	20,926,093
Public sector and quasi-government bonds	579,749	—	18,082,712	29,555,119	—	48,217,580	757,610	—	23,275,592	23,775,474	—	47,808,676
Financial institution bonds	1,151,292	—	4,570,529	6,965,973	—	12,687,794	684,287	—	2,834,686	4,954,109	—	8,473,082
Corporate bonds	38,186,355	—	11,622,659	1,108,965	—	50,917,979	48,329,744	—	7,347,996	415,791	—	56,093,531
Trust products	—	684,164	15,159,318	—	149,614,613	165,458,095	—	649,713	13,011,307	—	114,415,852	128,076,872
Wealth management products	10,220,486	2,408,537	4,867,507	—	12,676,000	30,172,530	10,413,218	2,129,900	1,161,872	—	12,286,958	25,991,948
Entrust loans	—	—	—	—	75,449,808	75,449,808	—	—	—	—	53,325,425	53,325,425
Debt instruments	—	—	6,835,557	—	80,720,431	87,555,988	—	—	—	—	83,735,941	83,735,941
Asset management plans	—	3,832,988	2,235,361	—	17,814,965	23,883,314	—	3,398,947	1,569,347	—	18,837,002	23,805,296
Convertible bonds	—	10,010,639	—	—	—	10,010,639	—	9,954,520	—	—	—	9,954,520
Structured products	—	9,170,815	304,200	—	—	9,475,015	—	5,094,059	300,090	—	—	5,394,149
Negotiable certificates of deposit	9,241,911	—	—	—	398,924	9,640,835	11,456,817	—	—	—	—	11,456,817
Asset-backed securities	419,686	—	1,464,675	—	—	1,884,361	792,909	—	2,070,528	—	—	2,863,437
Total	60,453,901	26,107,143	65,748,127	53,699,674	336,674,741	542,683,586	76,983,771	21,227,139	52,209,524	44,884,175	282,601,178	477,905,787

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(v) Credit quality of investment securities (continued)

(2) Past due but not impaired investment securities

	As at June 30, 2017						As at December 31, 2016					
	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	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	–	–	–	–	224,970	224,970	–	–	–	–	100,000	100,000
Entrust loans	–	–	–	–	–	–	–	–	–	–	–	–
Debt instruments	–	–	–	–	875,897	875,897	–	–	–	–	588,180	588,180
Asset management plans	–	–	–	–	–	–	–	–	–	–	329,749	329,749
Total	–	–	–	–	1,100,867	1,100,867	–	–	–	–	1,017,929	1,017,929

(3) Impaired investment securities

	As at June 30, 2017						As at December 31, 2016					
	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	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
Corporate bonds	–	–	90,000	–	–	90,000	–	–	–	–	–	–
Trust products	–	–	–	–	2,907,986	2,907,986	–	–	–	–	2,402,302	2,402,302
Entrust loans	–	–	–	–	881,467	881,467	–	–	–	–	881,467	881,467
Debt instruments	–	–	–	–	162,906	162,906	–	–	–	–	169,900	169,900
Asset management plans	–	–	–	–	476,666	476,666	–	–	–	–	154,651	154,651
Total	–	–	90,000	–	4,429,025	4,519,025	–	–	–	–	3,608,320	3,608,320

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.1 Credit risk *(continued)*

(vi) Investment securities analyzed by credit rating from reputable rating agencies

	As at June 30, 2017						As at December 31, 2016					
	AAA	AA	A	Below A	Unrated	Total	AAA	AA	A	Below A	Unrated	Total
Government bonds	4,459,064	—	—	—	12,870,584	17,329,648	8,194,585	—	—	—	12,731,508	20,926,093
Public sector and quasi-government bonds	—	—	6,783	22,012	48,188,785	48,217,580	29,780	—	—	—	47,778,896	47,808,676
Financial institution bonds	1,572,835	2,967,864	75,806	359,636	7,711,653	12,687,794	1,695,420	1,833,073	—	—	4,944,589	8,473,082
Corporate bonds	16,615,061	24,407,260	558,591	5,475,485	3,951,582	51,007,979	20,715,341	15,308,510	457,681	2,871,394	16,740,605	56,093,531
Trust products	—	—	—	—	168,591,051	168,591,051	—	—	—	—	130,579,174	130,579,174
Wealth management products	—	—	—	—	30,172,530	30,172,530	—	—	—	—	25,991,948	25,991,948
Entrust loans	—	—	—	—	76,331,275	76,331,275	—	—	—	—	54,206,892	54,206,892
Debt instruments	—	220,000	—	1,795,313	86,579,478	88,594,791	—	—	—	—	84,494,021	84,494,021
Asset management plans	—	—	—	—	24,359,980	24,359,980	—	—	—	—	24,289,696	24,289,696
Convertible bonds	—	—	—	—	10,010,639	10,010,639	—	—	—	—	9,954,520	9,954,520
Structured products	—	—	—	—	9,475,015	9,475,015	—	—	—	—	5,394,149	5,394,149
Negotiable certificates of deposit	—	—	—	—	9,640,835	9,640,835	—	—	—	—	11,456,817	11,456,817
Asset-backed securities	1,187,588	416,520	—	—	280,253	1,884,361	1,695,939	870,022	—	—	297,476	2,863,437
Total	23,834,548	28,011,644	641,180	7,652,446	488,163,660	548,303,478	32,331,065	18,011,605	457,681	2,871,394	428,860,291	482,532,036

(vii) 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 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. The Group's market risk management procedures are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2016.

The significant market risks are analyzed below.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 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, categorized by remaining maturity based on the earlier of contractual repricing or maturity dates are as follows:

	As at June 30, 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	31,829,540	—	—	—	—	665,959	32,495,499
Deposits with financial institutions	145,570,959	20,279,038	9,262,053	499,901	—	—	175,611,951
Placements with banks	2,870,976	500,000	270,976	—	—	—	3,641,952
Financial assets held for trading	15,068,797	5,311,151	4,566,173	25,680,521	9,793,258	10,369,286	70,789,186
Financial assets designated as at fair value through profit or loss	9,427,486	1,440,497	2,810,304	10,633,962	159,200	97,811,166	122,282,615
Financial assets held under resale agreements	14,084,400	5,552,621	23,404,713	5,701,186	—	—	48,742,920
Loans and advances to customers	14,982,334	9,627,683	56,423,779	44,908,755	16,578,267	—	142,520,818
Finance lease receivables	39,694,108	2,706,417	44,331,650	4,027,018	—	—	90,759,193
Available-for-sale financial assets	6,025,179	3,773,080	12,945,072	40,217,369	6,696,435	117,180,870	186,838,005
Held-to-maturity investments	3,288,932	2,060,481	12,941,090	19,614,735	15,794,436	—	53,699,674
Financial assets classified as receivables	27,422,388	23,159,453	152,240,128	424,298,550	16,796,366	—	643,916,885
Other financial assets	285,345	—	121,014	3,777,000	4,539,574	12,935,565	21,658,498
Total financial assets	310,550,444	74,410,421	319,316,952	579,358,997	70,357,536	238,962,846	1,592,957,196
Borrowings from central bank	(4,720,000)	—	(1,430,000)	—	—	—	(6,150,000)
Deposits from financial institutions	(615,737)	(500,000)	(2,010,000)	(3,600,000)	—	—	(6,725,737)
Placements from financial institutions	(1,081,345)	—	(1,000,000)	—	—	—	(2,081,345)
Financial assets sold under repurchase agreements	(33,514,206)	(17,206,440)	(435,200)	(1,500,000)	—	—	(52,655,846)
Borrowings	(16,204,459)	(58,132,803)	(256,105,659)	(266,792,647)	(25,925,220)	—	(623,160,788)
Due to customers	(147,774,767)	(10,753,636)	(25,946,536)	(20,243,912)	—	(418,843)	(205,137,694)
Bonds and notes issued	(15,340,336)	(8,586,022)	(43,296,869)	(189,490,775)	(41,409,730)	—	(298,123,732)
Other financial liabilities	(20,225,265)	(448,142)	(8,252,470)	(14,502,270)	(20,004,724)	(155,805,731)	(219,238,602)
Total financial liabilities	(239,476,115)	(95,627,043)	(338,476,734)	(496,129,604)	(87,339,674)	(156,224,574)	(1,413,273,744)
Interest rate gap	71,074,329	(21,216,622)	(19,159,782)	83,229,393	(16,982,138)	82,738,272	179,683,452

Notes to the Condensed Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 Market risk *(continued)*

Interest rate risk *(continued)*

	As at December 31, 2016						
	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	26,611,450	—	—	—	—	648,355	27,259,805
Deposits with financial institutions	128,393,341	19,691,650	6,244,894	—	—	—	154,329,885
Placements with financial institutions	4,569,370	332,976	—	—	—	—	4,902,346
Financial assets held for trading	12,558,277	4,585,049	5,263,372	41,000,681	13,576,392	10,747,525	87,731,296
Financial assets designated as at fair value through profit or loss	720,000	1,620,470	6,740,797	12,145,872	—	73,940,114	95,167,253
Financial assets held under resale agreements	9,875,844	1,591,250	9,071,421	15,809,221	—	—	36,347,736
Loans and advances to customers	11,760,703	12,369,327	50,616,036	36,758,718	6,901,195	—	118,405,979
Finance lease receivables	62,510,557	2,715,464	16,649,299	3,100,623	15,398	—	84,991,341
Available-for-sale financial assets	5,973,155	1,016,950	7,811,919	19,252,390	2,458,233	103,779,990	140,292,637
Held-to-maturity investments	4,844,863	3,947,972	2,080,416	19,266,754	14,744,170	—	44,884,175
Financial assets classified as receivables	23,492,363	21,458,286	179,183,258	318,698,823	6,645,227	—	549,477,957
Other financial assets	—	—	—	—	—	18,261,764	18,261,764
Total financial assets	291,309,923	69,329,394	283,661,412	466,033,082	44,340,615	207,377,748	1,362,052,174
Borrowings from central bank	(937,000)	—	(1,050,000)	—	—	—	(1,987,000)
Deposits from financial institutions	(862,544)	(1,200,000)	(330,000)	(4,570,000)	—	—	(6,962,544)
Placements from financial institutions	(2,128,497)	(2,150,000)	—	—	—	—	(4,278,497)
Financial assets sold under repurchase agreements	(39,544,662)	(13,020,933)	(1,925,000)	(1,900,000)	—	—	(56,390,595)
Borrowings	(38,892,327)	(43,831,982)	(177,514,033)	(225,383,270)	(25,687,031)	—	(511,308,643)
Due to customers	(110,796,005)	(9,197,995)	(25,471,446)	(26,596,464)	—	(343,958)	(172,405,868)
Bonds and notes issued	(10,097,603)	(8,028,290)	(37,479,607)	(161,456,152)	(26,013,575)	—	(243,075,227)
Other financial liabilities	(366,569)	(1,045,500)	(16,897,333)	(18,798,674)	(20,005,077)	(153,232,481)	(210,345,634)
Total financial liabilities	(203,625,207)	(78,474,700)	(260,667,419)	(438,704,560)	(71,705,683)	(153,576,439)	(1,206,754,008)
Interest rate gap	87,684,716	(9,145,306)	22,993,993	27,328,522	(27,365,068)	53,801,309	155,298,166

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 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 dollar ("USD"), Hong Kong dollar ("HKD") or other currencies.

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IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 Market risk *(continued)*

Foreign exchange risk *(continued)*

At the end of the reporting period, a breakdown of the financial assets and liabilities analyzed by currency is as follows:

	As at June 30, 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	32,461,040	34,179	246	34	32,495,499
Deposits with financial institutions	136,285,485	29,231,875	7,400,689	2,693,902	175,611,951
Placements with banks	3,100,000	541,952	—	—	3,641,952
Financial assets held for trading	62,165,354	5,784,686	2,732,824	106,322	70,789,186
Financial assets designated as at fair value through profit or loss	103,126,380	10,879,082	8,277,153	—	122,282,615
Financial assets held under resale agreements	48,742,920	—	—	—	48,742,920
Loans and advances to customers	138,936,627	154,074	3,376,613	53,504	142,520,818
Finance lease receivables	90,311,430	447,763	—	—	90,759,193
Available-for-sale financial assets	137,003,336	38,394,134	11,343,870	96,665	186,838,005
Held-to-maturity investments	53,699,674	—	—	—	53,699,674
Financial assets classified as receivables	604,015,074	25,878,547	12,260,341	1,762,923	643,916,885
Other financial assets	18,345,713	548,487	2,758,234	6,064	21,658,498
Total financial assets	1,428,193,033	111,894,779	48,149,970	4,719,414	1,592,957,196
Borrowings from central bank	(6,150,000)	—	—	—	(6,150,000)
Deposits from financial institutions	(6,725,737)	—	—	—	(6,725,737)
Placements from financial institutions	(2,000,000)	(27,098)	—	(54,247)	(2,081,345)
Financial assets sold under repurchase agreements	(52,301,624)	(354,222)	—	—	(52,655,846)
Borrowings	(570,576,805)	(31,071,451)	(21,512,532)	—	(623,160,788)
Due to customers	(204,639,528)	(498,155)	(8)	(3)	(205,137,694)
Bonds and notes issued	(185,919,104)	(109,285,773)	—	(2,918,855)	(298,123,732)
Other financial liabilities	(217,920,109)	(788,561)	(529,917)	(15)	(219,238,602)
Total financial liabilities	(1,246,232,907)	(142,025,260)	(22,042,457)	(2,973,120)	(1,413,273,744)
Net exposure	181,960,126	(30,130,481)	26,107,513	1,746,294	179,683,452

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IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 Market risk *(continued)*

Foreign exchange risk *(continued)*

	As at December 31, 2016				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	27,229,769	29,925	48	63	27,259,805
Deposits with financial institutions	133,855,139	14,561,224	4,529,153	1,384,369	154,329,885
Placements with financial institutions	4,500,000	402,346	—	—	4,902,346
Financial assets held for trading	71,723,882	11,420,134	4,558,354	28,926	87,731,296
Financial assets designated as at fair value through profit or loss	80,481,896	8,578,971	6,106,386	—	95,167,253
Financial assets held under resale agreements	36,347,736	—	—	—	36,347,736
Loans and advances to customers	113,952,762	1,044,338	3,380,758	28,121	118,405,979
Finance lease receivables	84,677,447	313,894	—	—	84,991,341
Available-for-sale financial assets	113,472,083	22,637,457	4,084,672	98,425	140,292,637
Held-to-maturity investments	44,884,175	—	—	—	44,884,175
Financial assets classified as receivables	521,131,245	21,555,378	6,791,334	—	549,477,957
Other financial assets	15,154,347	816,667	2,290,722	28	18,261,764
Total financial assets	1,247,410,481	81,360,334	31,741,427	1,539,932	1,362,052,174
Borrowings from central bank	(1,987,000)	—	—	—	(1,987,000)
Deposits from financial institutions	(6,962,544)	—	—	—	(6,962,544)
Placements from financial institutions	(4,250,000)	—	—	(28,497)	(4,278,497)
Financial assets sold under repurchase agreements	(51,389,013)	(5,001,582)	—	—	(56,390,595)
Borrowings	(477,045,818)	(23,754,647)	(10,508,178)	—	(511,308,643)
Due to customers	(171,790,989)	(614,876)	(3)	—	(172,405,868)
Bonds and notes issued	(159,571,818)	(83,503,409)	—	—	(243,075,227)
Other financial liabilities	(206,501,710)	(825,426)	(3,018,494)	(4)	(210,345,634)
Total financial liabilities	(1,079,498,892)	(113,699,940)	(13,526,675)	(28,501)	(1,206,754,008)
Net exposure	167,911,589	(32,339,606)	18,214,752	1,511,431	155,298,166

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.3 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The tables below present the cash flows of non-derivative 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 June 30, 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	29,122,118	3,373,382	1,497,737	—	—	—	—	33,993,237
Deposits with financial institutions	—	132,072,083	26,123,489	7,851,079	9,410,210	517,031	—	175,973,892
Placements with banks	—	—	2,888,822	505,469	278,389	—	—	3,672,680
Financial assets held for trading	11,106,746	14,665,260	1,769,652	5,627,254	5,929,244	30,474,983	10,262,029	79,835,168
Financial assets designated as at fair value through profit or loss	87,617,364	6,455,229	2,147,376	1,655,249	4,178,675	20,159,058	138,975	122,351,926
Financial assets held under resale agreements	—	—	14,125,998	5,691,830	23,741,925	6,126,086	—	49,685,839
Loans and advances to customers	2,987,549	—	6,474,498	11,190,904	46,101,586	71,633,797	35,864,112	174,252,446
Finance lease receivables	1,674,085	—	3,540,970	4,750,722	25,254,978	66,880,290	2,151,700	104,252,745
Available-for-sale financial assets	104,967,626	383,078	5,924,347	4,307,559	15,344,275	55,577,280	8,679,705	195,183,870
Held-to-maturity investments	—	—	3,132,218	2,237,854	14,785,943	23,909,316	17,657,709	61,723,040
Financial assets classified as receivables	4,715,791	—	27,917,477	75,779,504	241,973,522	448,162,270	16,168,729	814,717,293
Other financial assets	169,785	3,614,477	984,235	990,081	2,223,512	4,293,502	4,903,149	17,178,741
Total financial assets	242,361,064	160,563,509	96,526,819	120,587,505	389,222,259	727,733,613	95,826,108	1,832,820,877
Borrowings from central bank	—	—	(4,734,508)	(11,805)	(1,455,111)	—	—	(6,201,424)
Deposits from financial institutions	—	(1,064,824)	—	(584,318)	(1,776,342)	(3,855,174)	—	(7,280,658)
Placements from financial institutions	—	—	(1,102,545)	—	(1,043,000)	—	—	(2,145,545)
Financial assets sold under repurchase agreements	—	(263,636)	(33,295,707)	(17,401,602)	(451,623)	(1,580,539)	—	(52,993,107)
Borrowings	—	—	(14,854,050)	(60,009,424)	(272,807,337)	(318,712,106)	(31,471,916)	(697,854,833)
Due to customers	—	(138,809,867)	(9,987,041)	(10,940,703)	(27,222,890)	(22,873,972)	—	(209,834,473)
Bonds and notes issued	—	—	(9,920,797)	(9,222,344)	(50,214,999)	(225,155,996)	(51,572,391)	(346,086,527)
Other financial liabilities	(3,426,838)	(39,702,497)	(22,295,325)	(1,255,753)	(11,464,479)	(118,802,466)	(25,196,443)	(222,143,801)
Total financial liabilities	(3,426,838)	(179,840,824)	(96,189,973)	(99,425,949)	(366,435,781)	(690,980,253)	(108,240,750)	(1,544,540,368)
Net position	238,934,226	(19,277,315)	336,846	21,161,556	22,786,478	36,753,360	(12,414,642)	288,280,509

Notes to the Condensed Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.3 Liquidity risk *(continued)*

	As at December 31, 2016							
	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	23,156,379	4,103,426	—	—	—	—	—	27,259,805
Deposits with financial institutions	12,972,540	83,525,566	31,958,661	19,782,997	6,377,817	—	—	154,617,581
Placements with financial institutions	—	—	4,573,514	334,932	—	—	—	4,908,446
Financial assets held for trading	10,422,312	—	12,490,329	4,711,644	6,845,690	46,513,018	16,933,549	97,916,542
Financial assets designated as at fair value through profit or loss	73,940,114	—	726,392	1,712,214	6,814,691	15,182,340	—	98,375,751
Financial assets held under resale agreements	—	200	9,893,399	1,618,594	9,484,856	18,262,396	—	39,259,445
Loans and advances to customers	1,844,710	—	6,601,130	13,859,967	46,489,755	53,164,004	15,960,860	137,920,426
Finance lease receivables	1,282,863	—	3,216,235	4,711,905	23,972,640	62,567,286	1,953,318	97,704,247
Available-for-sale financial assets	74,394,936	7,501,509	2,275,656	1,659,037	10,796,878	42,485,089	5,150,045	144,263,150
Held-to-maturity investments	—	—	4,707,952	4,133,894	3,139,679	23,533,455	16,530,571	52,045,551
Financial assets classified as receivables	9,363,181	—	15,170,179	29,083,404	208,551,993	346,853,802	8,058,605	617,081,164
Other financial assets	77,674	12,619,654	759,978	63,706	1,162,929	15,244	—	14,699,185
Total financial assets	207,454,709	107,750,355	92,373,425	81,672,294	323,636,928	608,576,634	64,586,948	1,486,051,293
Borrowings from central bank	—	—	(937,592)	(8,465)	(1,056,502)	—	—	(2,002,559)
Deposits from financial institutions	—	(162,562)	(704,628)	(1,217,692)	(353,509)	(5,700,837)	—	(8,139,228)
Placements from financial institutions	—	—	(2,130,908)	(2,171,276)	—	—	—	(4,302,184)
Financial assets sold under repurchase agreements	—	—	(39,582,962)	(13,135,146)	(1,947,995)	(2,046,400)	—	(56,712,503)
Borrowings	—	(18,233,513)	(23,229,121)	(46,788,657)	(194,216,314)	(247,130,270)	(32,402,546)	(562,000,421)
Due to customers	—	(103,156,049)	(8,136,345)	(9,421,834)	(26,711,841)	(30,429,062)	—	(177,855,131)
Bonds and notes issued	—	—	(7,054,344)	(8,084,991)	(43,932,264)	(189,257,043)	(29,811,101)	(278,139,743)
Other financial liabilities	(3,667,827)	(17,858,998)	(9,211,514)	(1,961,814)	(20,036,294)	(132,540,759)	(27,824,775)	(213,101,981)
Total financial liabilities	(3,667,827)	(139,411,122)	(90,987,414)	(82,789,875)	(288,254,719)	(607,104,371)	(90,038,422)	(1,302,253,750)
Net position	203,786,882	(31,660,767)	1,386,011	(1,117,581)	35,382,209	1,472,263	(25,451,474)	183,797,543

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IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.4 Risk management of distressed assets

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

The Group's distressed assets risk arises from distressed debts which the Group initially classifies as financial assets designated as at fair value through profit or loss, financial assets classified as receivables and available-for-sale financial assets, and equity instruments which the Group classifies as available-for-sale financial assets.

The types of risk, their risk management of distressed debt assets and assets obtained through debt-to-equity swap, fair value measurement techniques and impairment assessment are the same as those described in the Group's consolidated financial statements for the year ended December 31, 2016.

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.5 Capital management

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

- Ensure compliance with regulatory requirements;
- Optimize capital allocation among the Group entities;
- Improve efficiency of capital 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 CBRC 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 CBRC.

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Provisional) (Yinjianbanfa [2012] No. 153), issued by the CBRC in 2012, the Company is required to maintain a minimum Capital Adequacy Ratio ("CAR") at 12.5%. CAR is calculated by dividing the qualified capital of the Company by its risk-weighted assets. As at June 30, 2017 and December 31, 2016, the Company complied with the regulatory requirements on the minimum CAR.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments

The fair values of financial assets and financial liabilities are categorized into level 1, 2 and 3 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;
- Level 3 inputs are unobservable inputs for the asset or liability.

The determination of fair values of financial assets and financial liabilities are the same as those described in the Group's consolidated financial statements for the year ended December 31, 2016.

49.1 Fair value of financial assets 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 June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	**44,681,997**	**25,711,509**	**395,680**	**70,789,186**
Financial assets designated as at fair value through profit or loss	**828,270**	**8,751,140**	**112,703,205**	**122,282,615**
Available-for-sale financial assets	**23,711,796**	**30,080,289**	**123,731,186**	**177,523,271**
Total assets	**69,222,063**	**64,542,938**	**236,830,071**	**370,595,072**

	As at December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	57,223,069	30,295,138	213,089	87,731,296
Financial assets designated as at fair value through profit or loss	—	5,528,847	89,638,406	95,167,253
Available-for-sale financial assets	18,913,433	32,818,804	79,053,342	130,785,579
Total assets	76,136,502	68,642,789	168,904,837	313,684,128

There were no significant transfers between level 1 and level 2 within the Group for period/year.

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IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments *(continued)*

49.1 Fair value of financial assets that are measured at fair value on a recurring basis *(continued)*

Fair values of the financial assets and their fair value hierarchy.

Financial assets	Fair value as at June 30, 2017	Fair value as at December 31, 2016	Fair value hierarchy
1) Financial assets held for trading			
Debt securities	**40,571,818**	54,320,827	
— Government bonds traded in stock exchange	**4,952**	4,329,416	Level 1
— Government bonds traded in inter-bank market	**649,470**	219,770	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	**579,749**	757,610	Level 2
— Financial institution bonds traded in stock exchange	**555,803**	418,732	Level 1
— Financial institution bonds traded in inter-bank market	**595,489**	265,555	Level 2
— Corporate bonds traded in stock exchange	**34,928,636**	44,929,802	Level 1
— Corporate bonds traded in inter-bank market	**2,062,122**	3,112,052	Level 2
— Unlisted corporate bonds	**1,085,556**	287,890	Level 2
— Unlisted corporate bonds	**110,041**	—	Level 3
Equity instruments	**6,233,626**	6,631,343	
— Equity instruments listed or traded on exchanges	**5,976,780**	6,418,254	Level 1
— Unlisted equity instruments (inactive)	**256,846**	213,089	Level 3
Funds	**4,101,659**	4,116,182	
— Listed	**3,215,826**	1,126,865	Level 1
— Unlisted	**857,040**	2,989,317	Level 2
— Unlisted	**28,793**	—	Level 3
Wealth management products	**10,220,486**	10,413,218	Level 2
Negotiable certificates of deposit	**9,241,911**	11,456,817	Level 2
Asset-backed securities	**419,686**	792,909	Level 2
Subtotal	**70,789,186**	87,731,296	

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IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments *(continued)*

49.1 Fair value of financial assets that are measured at fair value on a recurring basis *(continued)*

Financial assets		Fair value as at June 30, 2017	Fair value as at December 31, 2016	Fair value hierarchy
2)	Financial assets designated as at FVTPL			
	Distressed debt assets	**90,552,500**	68,436,032	Level 3
	Convertible bonds	**80,145**	—	Level 1
	Convertible bonds	**9,930,494**	9,954,520	Level 3
	Structured products	**1,561,030**	—	Level 2
	Structured products	**7,609,785**	5,094,059	Level 3
	Asset management plans issued by financial institutions	**3,820,988**	3,398,947	Level 2
	Asset management plans issued by financial institutions	**12,000**	—	Level 3
	Wealth management products issued by banks and other financial institutions	**2,408,537**	2,129,900	Level 2
	Equity instruments	**5,622,972**	5,504,082	
	— Equity investments in listed companies	**748,125**	—	Level 1
	— Equity investments in listed companies (Restricted share units)	**3,105,881**	4,573,622	Level 3
	— Equity investments in unlisted companies	**960,585**	—	Level 2
	— Equity investments in unlisted companies	**808,381**	930,460	Level 3
	Trust products issued by financial institutions	**684,164**	649,713	Level 3
	Subtotal	**122,282,615**	95,167,253	
3)	Available-for-sale financial assets			
	Debt securities	**34,881,509**	34,096,380	
	— Government bonds traded in stock exchange	**84,981**	32,602	Level 1
	— Government bonds traded in inter-bank market	**520,628**	605,504	Level 2
	— Public sector and quasi-government bonds traded in inter-bank market	**18,082,712**	23,275,592	Level 2
	— Financial institution bonds traded in stock exchange	**1,228,758**	259,605	Level 1
	— Financial institution bonds traded in inter-bank market	**3,341,771**	2,575,081	Level 2
	— Corporate bonds traded in stock exchange	**10,071,090**	6,376,619	Level 1
	— Corporate bonds traded in inter-bank market	**1,551,569**	971,377	Level 2

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments *(continued)*

49.1 Fair value of financial assets that are measured at fair value on a recurring basis *(continued)*

Financial assets	Fair value as at June 30, 2017	Fair value as at December 31, 2016	Fair value hierarchy
3) Available-for-sale financial assets *(continued)*			
Equity instruments	**38,041,861**	30,482,757	
Listed equity instruments	**21,302,423**	17,908,839	
— Unrestricted equity instruments	**10,471,022**	12,092,556	Level 1
— Restricted equity instruments	**10,831,401**	5,816,283	Level 3
Unlisted equity instruments	**16,739,438**	12,573,918	Level 3
Funds	**63,690,640**	34,608,371	
— Listed	**1,855,945**	152,051	Level 1
— Unlisted*	**409,845**	730,878	Level 2
— Unlisted*	**955,252**	540,708	Level 3
— Private equity fund*	**111,147**	111,585	Level 2
— Private equity fund*	**60,358,451**	33,073,149	Level 3
Wealth management products issued by banks or other financial institutions	**4,867,507**	1,161,872	Level 2
Others	**36,041,754**	30,436,199	
— Trust products issued by financial institutions	**23,044,567**	23,232,734	Level 3
— Debt instruments	**8,467,206**	—	Level 3
— Asset management plans	**3,065,306**	3,529,761	Level 3
— Asset-backed securities, senior tranche	**1,195,110**	1,783,739	Level 2
— Asset-backed securities, subordinate tranche	**269,565**	286,789	Level 3
— Others	**—**	1,603,176	Level 2
Subtotal	**177,523,271**	130,785,579	
Total	**370,595,072**	313,684,128	

* For those items of which the underlying assets have open or active market quotations, they are classified as Level 2 and for those have no open or active market quotations, they are classified as Level 3.

IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments *(continued)*

49.1 Fair value of financial assets 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 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, etc.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments *(continued)*

49.2 Reconciliation of Level 3 fair value measurements

	Financial assets held for trading	Financial assets at FVTPL	Available-for-sale financial assets
As at January 1, 2017	**213,089**	**89,638,406**	**79,053,342**
Recognized in profit or loss	**(499)**	**1,039,784**	**(373,900)**
Recognized in other comprehensive income	**—**	**—**	**5,739,342**
Fair value changes transfer out upon disposal	**—**	**(2,165,270)**	**—**
Purchases	**183,090**	**76,088,404**	**52,472,138**
Settlements/disposals	**—**	**(50,212,070)**	**(12,569,650)**
Transferred in	**—**	**—**	**822,503**
Transferred out from Level 3	**—**	**(1,686,049)**	**(1,412,589)**
As at June 30, 2017	**395,680**	**112,703,205**	**123,731,186**
Changes in unrealized gains for the period included in profit or loss for assets held at the end of the period	**(499)**	**(440,605)**	**—**

	Financial assets held for trading	Financial assets at FVTPL	Available-for-sale financial assets
As at January 1, 2016	—	82,873,548	13,457,303
Recognized in profit or loss	—	5,338,235	(72,372)
Recognized in other comprehensive income	—	—	441,493
Fair value changes transfer out upon disposal	—	(2,965,605)	(415,713)
Purchases	213,089	182,979,188	81,451,526
Settlements/disposals	—	(178,586,960)	(15,808,895)
As at December 31, 2016	213,089	89,638,406	79,053,342
Changes in unrealized gains for the year included in profit or loss for assets held at the end of the year	—	2,372,630	—

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

49. Fair value of financial instruments *(continued)*

49.2 Reconciliation of Level 3 fair value measurements *(continued)*

The Group determines the fair value of distressed debt assets classified as financial assets designated as at fair value through profit or loss 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. Discount rate used is determined by referencing to the historical rate of return on similar distressed assets portfolio, adjusted for economic conditions that only exist at the valuation day. The average discount rate used by the Group as at June 30, 2017 was 11% (December 31, 2016: 11%).

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

The tables below summarize the carrying amounts and fair values 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 banks, financial assets held under resale agreements, finance lease receivables, borrowings from central bank, deposits from financial institutions, placements from financial institutions, financial assets sold under repurchase agreements, due to customers are not included in the tables below.

	As at June 30, 2017		As at December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	**142,520,818**	**145,474,325**	118,405,979	120,483,766
Held-to-maturity investments	**53,699,674**	**53,085,061**	44,884,175	45,076,229
Financial assets classified as receivables	**643,916,885**	**675,246,925**	549,477,957	581,512,646
Total	**840,137,377**	**873,806,311**	712,768,111	747,072,641
Financial liabilities				
Borrowings	**(623,160,788)**	**(657,684,862)**	(511,308,643)	(556,462,712)
Bonds and notes issued	**(298,123,732)**	**(296,720,173)**	(243,075,227)	(242,572,261)
Total	**(921,284,520)**	**(954,405,035)**	(754,383,870)	(799,034,973)

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

50. Acquisitions of subsidiaries

Huarong Investment Stock Corporation Ltd.

Pursuant to the subscription agreement between Huarong Investment Stock Corporation Ltd. ("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 HK$232 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 condensed financial statements thereafter.

Consideration transferred

Cash	205,506

Assets acquired and liabilities recognized at the date of acquisition are as follows:

Cash and deposits with financial institutions	1,324,217
Properties 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	(5,014)
Goodwill as at 30 June 2017	242,976

The non-controlling interests at the acquisition date was measured at the proportionate share of the fair value of identifiable net assets of HISC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

50. Acquisitions of subsidiaries *(continued)*

Huarong Investment Stock Corporation Ltd. *(continued)*

At the acquisition date, the fair value of the Group's 27.99% equity interest in HISC was re-measured based on the quoted closing stock price on Hong Kong Stock Exchange of that day. The difference between such fair value and the carrying value of this associate was recognised as a gain on deemed disposal of an associate of RMB299 million.

Net cash inflow on acquisition of HISC

	Six months ended June 30, 2017
Cash consideration paid	(205,506)
Less: cash and cash equivalent balances acquired	1,324,217
	1,118,711

Other than the acquisition of HISC, the Group also acquired another subsidiary during the six months ended 30 June, 2017 but their impacts of the financial position, operating results and cash flows of the condensed consolidated financial statements are considered immaterial and therefore the details are not disclosed.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

51. Disposals of subsidiaries

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 derecognized 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

	Six months ended June 30, 2017
Consideration received in cash and cash equivalents	745,184
Less: cash and cash equivalent balances disposed of	—
	745,184

Other than the disposed of Lord Summit Limited, the Group also disposed of two subsidiaries during the six months ended 30 June, 2017 but their impacts of the financial position, operating results and cash flows of the condensed consolidated financial statements are considered immaterial and therefore the details are not disclosed.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EVENTS AFTER THE REPORTING PERIOD

1. Huarong Rongde Asset Management Co., Ltd., a subsidiary of the Company, issued private bonds of RMB1,500 million on July 28, 2017. These bonds carry interests of 5.4% per annum and will mature in 2022.

2. Huarong Xiangjiang Bank Co., Ltd., a subsidiary of the Company, issued tier-2 capital bonds of RMB2,400 million on July 13, 2017. These bonds carry interests of 5.0% per annum and will mature in 2027.

3. On August 7, 2017, the Company convened the third extraordinary general meeting for 2017, the first domestic shareholders' class meeting for 2017 and the first H shareholders' class meeting for 2017, and considered and approved by item the proposed non-public issuance of offshore preference shares. The Company shall conduct a non-public issuance of offshore preference shares to raise proceeds not exceeding RMB20 billion (inclusive) or its equivalent to replenish the Company's tier 1 other capital.

4. Huarong Securities Co., Ltd., a subsidiary of the Company, issued subordinate bonds of RMB1,470 million on August 16, 2017. These bonds carry interests of 5.0% per annum and will mature in 2020.

VI. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 23, 2017.

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