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 ANNUAL REPORT

Contents

1. Company Profile

China Huarong Asset Management Co., Ltd. ("China Huarong", Stock Code: 2799), with its predecessor being China Huarong Asset Management Corporation founded on November 1, 1999, was converted into a joint stock limited company upon the approval of the State Council on September 28, 2012. On October 30, 2015, China Huarong was listed on the Main Board of the HKEX.

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

In 2017, China Huarong was recognized as one of the "2017 Top 500 Enterprises in China" and "2017 Top 500 Service Enterprises in China" by the China Enterprise Confederation and China Enterprises Directors Association, "Top 500 Enterprises in China" by Fortune Magazine, and "Top 500 Chinese Listed Companies in Market Value" by Eastmoney.com. China Huarong was awarded as "The Best Listed Company" by China Securities Golden Bauhinia Awards, and "The Best Asset Management Company of the Year" on the Chinese Financial Institution Gold Medal List.

2. Definitions

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

"A Share(s)"	ordinary shares proposed to be issued by the Company in accordance with A Share(s) Offering, with a nominal value of RMB1.00 each, which will be traded in RMB and listed on the Shanghai Stock Exchange
"A Share(s) Offering"	initial public offering of no more than 6,894,742,669 A Shares in China, proposed by the Company, which will be listed on the Shanghai Stock Exchange
"AMC(s)"	the four asset management companies approved for establishment by the State Council, namely the Company, China Great Wall Asset Management Co., Ltd., China Orient Asset Management Co., Ltd. and China Cinda Asset Management Co., Ltd.
"Articles of Association" or "Articles"	the Articles of Association of the Company as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會)
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Company"	China Huarong Asset Management Co., Ltd.
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"debt-to-equity swap(s)" or "DES"	the practice of converting indebtedness owed by the obligors to equity

2. Definitions

"DES Assets"	(1) the equity assets that converted from distressed indebtedness, which was acquired by the Company from medium and large state-owned enterprises prior to its restructuring, as a result of equity swaps of distressed debt assets according to national policy; (2) additional equities of the aforementioned enterprises that the Company subsequently acquired as part of asset packages it purchased; (3) additional investments by the Company in the aforementioned companies; (4) equities the Company received in satisfaction of debt and assets the Company acquired through distressed asset management; 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
"EUR€" or "EURO dollar"	the lawful currency of the European Union
"Group", "our Group", "China Huarong", "we" or "us"	the Company and its subsidiaries
"H Share(s)"	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
"HK$" or "HK dollar"	the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "HKEX"	The Stock Exchange of Hong Kong Limited
"Huarong Consumer Finance"	Huarong Consumer Finance Co., Ltd.
"Huarong Financial Leasing"	China Huarong Financial Leasing Co., Ltd.

2. 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
"Latest Practicable Date"	April 18, 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing Date"	October 30, 2015
"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)
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"non-performing loan(s)" or "NPL(s)"	loan(s) classified as substandard, doubtful and loss under the five-category loan classification system (as applicable) adopted by financial institutions pursuant to applicable PRC guidelines
"OFAC"	the Office of Foreign Assets Control of the United States
"Offshore Preference Shares Issuance Plan"	has the meaning as defined in the circular of the Company dated June 23, 2017

2. Definitions

"Offshore Preference Share(s)"	the not more than 200 million (inclusive) preference shares of an aggregate amount of not more than RMB20 billion (inclusive) or its equivalent, proposed to be issued by the Company in the offshore market pursuant to the Offshore Preference Share Issuance Plan
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC GAAP"	generally accepted accounting principles in the PRC
"Prospectus"	the prospectus for the Company's listing in Hong Kong dated October 16, 2015
"Protection of State Secret Laws"	Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法》), Implementation Measures for the Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法實施條例》) and related laws and regulations
"Relevant Persons"	has the meaning as defined in the Prospectus
"Reporting Period"	the year ended December 31, 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
"SGD"	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 "U.S. dollar"	the lawful currency of the U.S.
"Value Estimation"	has the meaning as defined in the Prospectus

3. Important Notice

The Board, Board of Supervisors, Directors, Supervisors and senior management of the Company undertake that the information in this annual report is true, accurate and complete and does not contain any false representations, misleading statements or material omissions, and jointly and severally take responsibility for its contents.

On March 20, 2018, the twelfth meeting of the second session of the Board considered and approved the 2017 Annual Report and the 2017 Annual Results Announcement of the Company. There were 10 Directors eligible to attend the meeting, of whom 10 attended in person.

The financial report for 2017 prepared by the Group according to the PRC GAAP and IFRS, were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with the Chinese and international auditing standards, respectively, and they have issued the standard audit reports for the Company without qualifications.

The Board proposes to distribute to Shareholders a cash dividend for 2017 of RMB1.689 (tax inclusive) per 10 shares. The profit distribution plan will be proposed to the Shareholders' general meeting for consideration and approval.

Board of Directors
March 20, 2018

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

For details of the major risks faced and the relevant measures taken by the Company, please see "6. Management Discussion and Analysis — 6.4 Risk Management" in this annual report.

4. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Authorized representatives	Wang Lihua, Li Yingchun
Secretary to the Board	Li Yingchun
Joint Company secretaries	Li Yingchun, Ngai Wai Fung
Registered address	No. 8 Financial Street, Xicheng District, Beijing, China
Postal code of place of registration	100033
Website	www.chamc.com.cn
Principal place of business in Hong Kong	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Website of Hong Kong Stock Exchange for publishing the H Shares annual report	www.hkexnews.hk
Place for maintaining annual reports available for inspection	Board Office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock code	2799
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)

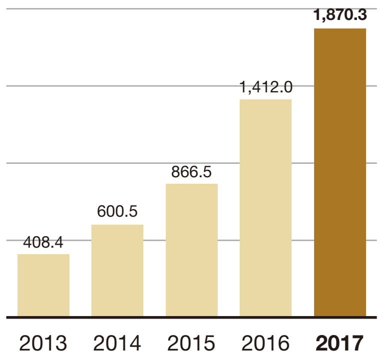
4. Corporate Information

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

5. Financial Summary

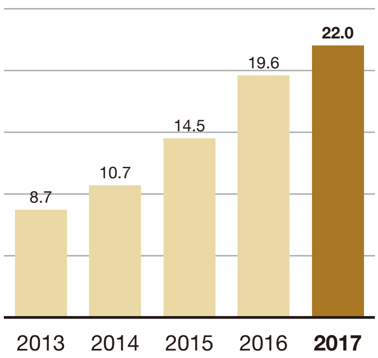
Leading asset size

Total assets
(in billions of RMB)



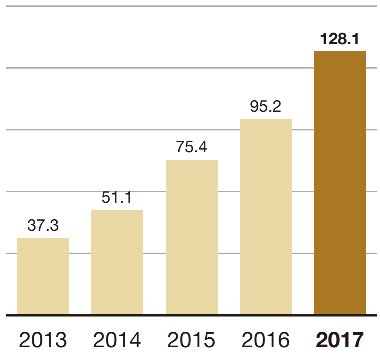
Outstanding profitability

Net profit attributable to equity holders of the Company (in billions of RMB)



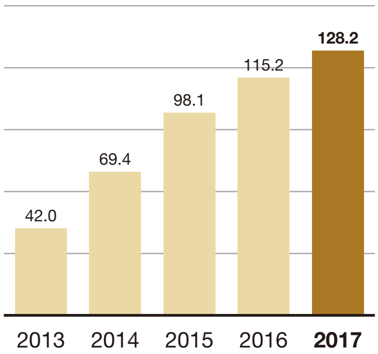
Excellent growth

Total income
(in billions of RMB)



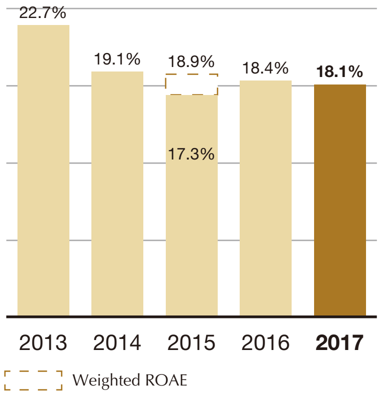
Significant increase in Shareholders' equity

Equity attributable to equity holders of the Company (in billions of RMB)



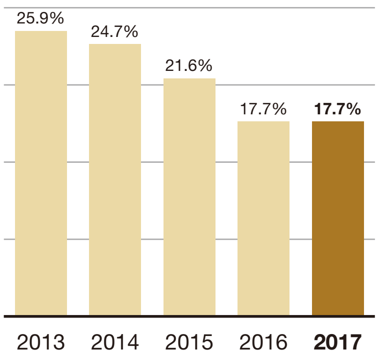
Remarkable Shareholders' return

ROAE



Effective cost control

Cost-to-income ratio



5. Financial Summary

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

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	(in millions of RMB)				
Income from distressed debt assets classified as receivables	**30,753.4**	25,140.0	23,095.0	15,662.0	8,918.0
Fair value changes on distressed debt assets	**4,661.3**	3,852.3	1,637.3	886.2	509.1
Fair value changes on other financial assets and liabilities	**8,109.5**	5,782.1	3,347.1	1,289.2	941.7
Interest income	**21,015.0**	16,444.1	14,067.1	12,047.6	10,075.6
Investment income, gains and losses	**44,179.7**	24,678.4	19,167.3	9,803.6	8,179.5
Commission and fee income	**13,039.1**	12,920.1	10,398.0	7,985.6	6,784.6
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**917.6**	2,027.7	427.4	128.0	14.3
Other income and other net gains or losses	**5,395.0**	4,363.0	3,246.6	3,258.5	1,896.6
Total income	**128,070.6**	95,207.7	75,385.8	51,060.7	37,319.4
Interest expenses	**(50,691.1)**	(31,416.8)	(25,902.2)	(17,903.7)	(10,930.6)
Commission and fee expenses	**(1,296.2)**	(1,035.9)	(945.3)	(452.5)	(328.4)
Operating expenses	**(15,140.9)**	(12,286.8)	(11,487.5)	(8,469.4)	(7,016.6)
Impairment losses on assets	**(17,463.6)**	(16,717.0)	(12,603.8)	(6,225.6)	(4,850.2)
Total expenses	**(84,591.8)**	(61,456.5)	(50,938.8)	(33,051.2)	(23,125.8)
Change in net assets attributable to other holders of consolidated structured entities	**(7,823.7)**	(3,376.3)	(2,456.6)	(1,307.2)	(554.8)
Share of results of associates and joint ventures	**946.6**	134.4	255.5	72.1	0.9
Profit before tax	**36,601.7**	30,509.3	22,245.9	16,774.4	13,639.7
Income tax expense	**(10,014.0)**	(7,400.8)	(5,295.1)	(3,743.6)	(3,546.5)
Profit for the year	**26,587.7**	23,108.5	16,950.8	13,030.8	10,093.2
Profit attributable to:					
Equity holders of the Company	**21,992.6**	19,613.5	14,482.1	10,656.2	8,659.6
Holders of perpetual capital instruments	**1,140.5**	455.8	174.0	0.7	—
Non-controlling interests	**3,454.6**	3,039.2	2,294.7	2,373.9	1,433.6
	26,587.7	23,108.5	16,950.8	13,030.8	10,093.2

5. Financial Summary

	As at December 31,				
	2017	2016	2015	2014	2013
	(in millions of RMB)				
Assets					
Cash and balances with central bank	**33,207.1**	27,259.8	24,982.1	26,945.3	21,152.0
Deposits with financial institutions	**162,881.1**	154,329.9	76,896.3	51,633.2	29,922.9
Financial assets designated as at fair value through profit or loss	**230,045.3**	95,167.3	85,458.2	33,115.2	20,264.0
Financial assets held under resale agreements	**41,238.1**	36,347.7	32,538.9	21,841.9	40,463.7
Available-for-sale financial assets	**195,520.7**	140,292.6	64,994.2	43,966.7	28,965.7
Financial assets classified as receivables	**701,192.4**	549,478.0	328,685.8	227,033.2	124,320.0
Loans and advances to customers	**158,221.9**	118,406.0	81,625.2	63,239.4	48,176.4
Finance lease receivables	**95,703.9**	84,991.3	71,672.5	63,494.3	55,546.3
Other assets	**252,249.8**	205,696.7	99,693.2	69,251.9	39,556.3
Total assets	**1,870,260.3**	1,411,969.3	866,546.4	600,521.1	408,367.3
Liabilities					
Deposits from financial institutions	**10,158.4**	6,962.5	15,468.2	13,660.0	16,017.9
Borrowings	**773,057.3**	511,308.6	295,031.8	239,885.2	136,131.1
Financial assets sold under repurchase agreements	**60,317.0**	56,390.6	30,361.9	26,203.1	33,988.6
Due to customers	**202,349.9**	172,405.9	139,998.9	117,246.1	87,885.9
Bonds and notes issued	**331,962.9**	243,075.2	143,053.8	48,002.1	17,886.2
Other liabilities	**309,779.9**	271,745.5	123,831.2	71,992.5	63,923.4
Total liabilities	**1,687,625.4**	1,261,888.3	747,745.8	516,989.0	355,833.1
Equity					
Equity attributable to equity holders of the Company	**128,174.6**	115,243.0	98,117.4	69,408.2	41,966.6
Perpetual Capital Instruments	**23,185.4**	15,030.3	6,454.1	1,450.7	—
Non-controlling interests	**31,274.9**	19,807.7	14,229.1	12,673.2	10,567.6
Total equity	**182,634.9**	150,081.0	118,800.6	83,532.1	52,534.2
Total equity and liabilities	**1,870,260.3**	1,411,969.3	866,546.4	600,521.1	408,367.3

5. Financial Summary

	As of or for the year ended December 31,				
	2017	2016	2015	2014	2013
	(in millions of RMB)				
Financial Ratios					
ROAE[(1)]	**18.1%**	18.4%	17.3%	19.1%	22.7%
ROAA[(2)]	**1.6%**	2.0%	2.3%	2.6%	2.8%
Cost-to-income ratio[(3)]	**17.7%**	17.7%	21.6%	24.7%	25.9%
Liability to total assets ratio[(4)]	**90.2%**	89.4%	86.3%	86.1%	87.1%
Basic earnings per share[(5)] (RMB)	**0.56**	0.50	0.43	0.38	0.34
Diluted earnings per share[(6)] (RMB)	**N/A**	0.50	0.43	N/A	N/A

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

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

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

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

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

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

6. Management Discussion and Analysis

6.1 Economic, Financial and Supervising Environment

The year of 2017 has seen the recovering momentum of the global economy. However, considering the United States' cancellation of quantitative easing policies, increase of interest rate of USD and tax reform, the global economy confronted challenges from trading policy and monetary policy systems. Despite the recovering momentum, the recovery of economy is still weak; faster economic growth has been seen in emerging-market countries, with distinct differences among areas, and the Asian emerging-market countries and regions kept taking the lead in economic growth. In the context of economic recovery, developed economies started tightening their monetary policies, which led to the liquidity deflation and increase of risk premium on financial market, which impacted external economic policies and currency stability of emerging-market countries.

In 2017, China's economy continued the stable and progressive development since the 18th CPC National Congress. The GDP increased by 6.9% year-on-year. The economic structure was continuously optimized. The contribution of the service industry to economic growth continued to increase, and the consumer demand was still the main driver of economic growth. New drivers provide power for economic growth and the quality of economic growth was constantly improving. Since the 18th CPC National Congress, historic achievements have been made in China's economic development and historic changes have taken place, providing important material conditions for the reform and development in other fields. The economic strength was further improved with an average annual growth of GDP of 7.1%, making it the main source of power and stabilizer for world economic growth. Major changes have taken place in the economic structure to promote structural reform on the supply side and promote the balance between supply and demand. The reform of the economic system continued to be carried forward and the economy was more dynamic and resilient. The opening up policy was further implemented, advocating and promoting the building of the "the Belt and Road ", and actively guiding economic globalization toward the right direction. Under such background, financial asset management companies center on national developmental strategies and reform points and give full play to the advantages of core business of distressed asset management and comprehensive financial services, playing an important role in supporting the tasks of "cutting overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak spots" and urging the exit of "zombie enterprises", supporting the implementation of market-oriented debt-to-equity swap and resolving financial risks, and significantly supporting the development of real economy.

6. Management Discussion and Analysis

A series of important meetings like the 19th National Congress of the CPC, Fifth National Financial Working Conference and 2017 Central Economic Work Conference were convened successively, and reform measures relating to protecting financial safety, rectifying financial disorders, preventing financial risks and promoting the sound cycle between finance and real economy, finance and real estate and inside financial systems have become increasingly clear and enhanced. The establishment of Financial Stability and Development Committee of the State Council and improvement of financial supervising system have enhanced financial supervision and coordination; the collective improvements of supervising shortages and intense release of policies and measures for financial supervision have steadily promoted the deleveraging of financial system; the rectification of financial disorders like "three violations" (violation of financial laws, violation of supervising rules and violation of internal rules), "three arbitrages" (supervision arbitrage, idle arbitrage and connected arbitrage), "four impropers" (improper innovation, improper transactions, improper incentives and improper charges)" and "ten disorders" (disorder of equity and outward investment, disorder of institutions and senior management, disorder of rules and regulations, disorder of business, disorder of products, disorder of staff's action, disorder of integrity risks, disorder of regulators' performance, disorder of unlawful activities from internal and external collusion and disorder of unlawful financial activities) have improved the prevention against financial risks; and the improvement of the quality and effectiveness of serving the real economy has led financial institutions to return to the sources and focus on core business. In respect of industry supervision of distressed assets, financial asset management companies are encouraged to speed up the disposal of distressed assets and actively give play to the function of preventing and resolving systematic financial risks; encourages innovation of distressed asset management; continues promoting the securitization of distressed assets, pilot transfer of ownership of benefits from distressed assets and market-oriented debt-to-equity swap; releases Measure on Management of Financial Asset Management Companies (Provisional), enhances the supervision of financial asset management companies, and leads them to focus on the core business of distressed asset management. The release of a series of policies and measures provides good external policy environment for financial asset management companies to significantly promote the core business of distressed asset management and also proposes higher requirements for the standard and normal operation of financial asset management companies.

6. Management Discussion and Analysis

6.2 Analysis of Financial Statements

6.2.1 Operating Results of the Group

In 2017, the net profit attributable to equity holders of the Company amounted to RMB21,992.6 million, representing an increase of RMB2,379.1 million, or 12.1%, compared to last year. ROAE and ROAA of the Group were 18.1% and 1.6%, respectively.

	For the year ended December 31,			
	2017	**2016**	**Change**	**Change in percentage**
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	**30,753.4**	25,140.0	5,613.4	22.3%
Fair value changes on distressed debt assets	**4,661.3**	3,852.3	809.0	21.0%
Fair value changes on other financial assets and liabilities	**8,109.5**	5,782.1	2,327.4	40.3%
Interest income	**21,015.0**	16,444.1	4,570.9	27.8%
Investment income, gains and losses	**44,179.7**	24,678.4	19,501.3	79.0%
Commission and fee income	**13,039.1**	12,920.1	119.0	0.9%
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**917.6**	2,027.7	(1,110.1)	(54.7%)
Other income and other net gains or losses	**5,395.0**	4,363.0	1,032.0	23.7%
Total income	**128,070.6**	95,207.7	32,862.9	34.5%
Interest expenses	**(50,691.1)**	(31,416.8)	(19,274.3)	61.4%
Commission and fee expenses	**(1,296.2)**	(1,035.9)	(260.3)	25.1%
Operating expenses	**(15,140.9)**	(12,286.8)	(2,854.1)	23.2%
Impairment losses on assets	**(17,463.6)**	(16,717.0)	(746.6)	4.5%
Total expenses	**(84,591.8)**	(61,456.5)	(23,135.3)	37.6%
Change in net assets attributable to other holders of consolidated structured entities	**(7,823.7)**	(3,376.3)	(4,447.4)	131.7%
Share of results of associates and joint ventures	**946.6**	134.4	812.2	604.3%
Profit before tax	**36,601.7**	30,509.3	6,092.4	20.0%
Income tax expense	**(10,014.0)**	(7,400.8)	(2,613.2)	35.3%
Profit for the year	**26,587.7**	23,108.5	3,479.2	15.1%
Profit attributable to:				
Equity holders of the Company	**21,992.6**	19,613.5	2,379.1	12.1%
Holders of perpetual capital instruments	**1,140.5**	455.8	684.7	150.2%
Non-controlling interests	**3,454.6**	3,039.2	415.4	13.7%
	26,587.7	23,108.5	3,479.2	15.1%

6. Management Discussion and Analysis

6.2.1.1 Total income

Total income of the Group increased by 34.5% from RMB95,207.7 million in 2016 to RMB128,070.6 million in 2017, mainly due to the increases of income from investment income, distressed debt assets classified as receivables and interest income.

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	**30,753.4**	25,140.0	5,613.4	22.3%
Fair value changes on distressed debt assets	**4,661.3**	3,852.3	809.0	21.0%
Fair value changes on other financial assets and liabilities	**8,109.5**	5,782.1	2,327.4	40.3%
Interest income	**21,015.0**	16,444.1	4,570.9	27.8%
Investment income, gains and losses	**44,179.7**	24,678.4	19,501.3	79.0%
Commission and fee income	**13,039.1**	12,920.1	119.0	0.9%
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	**917.6**	2,027.7	(1,110.1)	(54.7%)
Other income and other net gains or losses	**5,395.0**	4,363.0	1,032.0	23.7%
Total income	**128,070.6**	95,207.7	32,862.9	34.5%

6. Management Discussion and Analysis

6.2.1.1.1 Income from distressed debt assets classified as receivables

Income from distressed debt assets classified as receivables represents interest income and disposal income of the Group generated from loans and distressed debts acquired from financial institutions and the distressed debt acquired from non-financial enterprises. Income from distressed debt assets classified as receivables of the Group increased by 22.3% from RMB25,140.0 million in 2016 to RMB30,753.4 million in 2017. In 2016 and 2017, income from distressed debt assets classified as receivables represented 26.4% and 24.0% respectively of our total income. The increase in income was primarily due to the Group's strengthening its core business, the distressed assets business, and supporting the development of real economy, as well as the stable increase in the scale of distressed debt assets classified as receivables.

6.2.1.1.2 Fair value changes on distressed debt assets

Fair value changes on distressed debt assets consist of (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 21.0% from RMB3,852.3 million in 2016 to RMB4,661.3 million in 2017. Income increased mainly because the Group strengthened and focused on the core business as well as accelerated the acquisition and disposal of assets, which has achieved significant effects.

6.2.1.1.3 Fair value changes on other financial assets and liabilities

Changes in fair value of other financial assets and liabilities include (i) financial assets held for trading, and (ii) other financial assets and liabilities designated at fair value through profit or loss from the Company and relevant subsidiaries. Fair value changes on other financial assets and liabilities increased by 40.3% from RMB5,782.1 million in 2016 to RMB8,109.5 million in 2017. The increase in income was primarily due to an increase in the gains on the disposal of financial assets, including equity investment, bonds and trust products held by the Group.

6. Management Discussion and Analysis

6.2.1.1.4 Interest income

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers	**9,085.2**	6,657.8	2,427.4	36.5%
Finance lease receivables	**6,181.1**	5,522.1	659.0	11.9%
Deposits with financial institutions	**2,483.3**	1,866.6	616.7	33.0%
Financial assets held under resale agreements	**2,372.7**	1,758.7	614.0	34.9%
Balances with Central Bank	**483.8**	444.5	39.3	8.8%
Placements with financial institutions	**408.9**	194.4	214.5	110.3%
Total interest income	**21,015.0**	16,444.1	4,570.9	27.8%

The interest income of the Group increased by 27.8% from RMB16,444.1 million in 2016 to RMB21,015.0 million in 2017. The increase in income was mainly due to increases in loans and advances to customers, finance lease receivables, interest income from deposits with financial institutions, and financial assets held under resale agreements.

Interest income from loans and advances to customers of the Group increased by 36.5% from RMB6,657.8 million in 2016 to RMB9,085.2 million in 2017, primarily due to an increase in the total amounts of loans and advances to customers of the Group by 33.8% from RMB121,065.4 million as at December 31, 2016 to RMB162,011.2 million as at December 31, 2017. The growth of loans and advances to customers of our Group is mainly because, (i) Huarong Xiangjiang Bank's business developed steadily as the corporate loans and personal loans businesses maintained their growth momentum; and (ii) the personal loans business of Huarong Consumer Finance grew rapidly.

The interest income of the Group from finance lease receivables increased by 11.9% from RMB5,522.1 million in 2016 to RMB6,181.1 million in 2017. The increase was mainly because the transformation of the financial leasing business of Huarong Financial Leasing continued to achieve satisfactory performance, which resulted in an increase in the total amount of finance lease receivables of 12.2% from RMB97,704.2 million as at December 31, 2016 to RMB109,580.2 million as at December 31, 2017.

6. Management Discussion and Analysis

6.2.1.1.5 Investment income, gains and losses

The table below sets forth the components of the investment income, gains and losses of the Group for the years indicated.

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest income from other financial assets classified as receivables	26,245.2	16,751.2	9,494.0	56.7%
Disposal income from available-for-sale financial assets	8,142.4	3,693.5	4,448.9	120.5%
Interest income from available-for-sale financial assets	6,275.1	1,622.9	4,652.2	286.7%
Interest income from held-to-maturity debt securities	2,352.6	1,311.2	1,041.4	79.4%
Dividend income from available-for-sale financial assets	1,164.4	1,299.6	(135.2)	(10.4%)
Total investment income, gains and losses	44,179.7	24,678.4	19,501.3	79.0%

Investment income of the Group increased by 79.0% from RMB24,678.4 million in 2016 to RMB44,179.7 million in 2017. In 2016 and 2017, the investment income of the Group accounted for 25.9% and 34.5% of its total income, respectively. The increase was mainly due to the increase in the scale of other financial assets classified as receivables. Interest income from other financial assets classified as receivables increased by 56.7% from RMB16,751.2 million in 2016 to RMB26,245.2 million in 2017. Disposal income from available-for-sale financial assets increased by 120.5% from RMB3,693.5 million in 2016 to RMB8,142.4 million in 2017, primarily because (i) the increase in the gain on DES Assets disposed of the Company; (ii) the Group optimized and adjusted its asset structure and investment strategies and disposed of part of its assets, which achieved a better gain.

6. Management Discussion and Analysis

6.2.1.1.6 Commission and fee income

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Asset management business	**8,674.4**	8,314.2	360.2	4.3%
Trust business	**2,027.8**	1,475.2	552.6	37.5%
Securities and futures brokerage business	**1,683.7**	2,221.8	(538.1)	(24.2%)
Banking and consumer finance business	**530.5**	834.0	(303.5)	(36.4%)
Fund management business	**122.7**	74.9	47.8	63.8%
Total commission and fee income	**13,039.1**	12,920.1	119.0	0.9%

Commission and fee income of the Group increased by 0.9% from RMB12,920.1 million in 2016 to RMB13,039.1 million in 2017. The increase was mainly due to the increase in commission and fee income from the trust business and asset management business, which was partially offset by the income decrease in commission and fee income from the securities and futures brokerage business and banking and consumer finance business.

Commission and fee income from the trust business increased by 37.5% from RMB1,475.2 million in 2016 to RMB2,027.8 million in 2017, mainly due to a corresponding increase in the revenue of Huarong Trust as it made more efforts to expand its business.

Commission and fee income from securities and futures brokerage business decreased by 24.2% from RMB2,221.8 million in 2016 to RMB1,683.7 million in 2017, primarily as a result of fluctuation in the securities market.

6. Management Discussion and Analysis

6.2.1.1.7 Other income and other net gains or losses

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	**3,640.4**	2,837.6	802.8	28.3%
Rental income	**442.9**	278.2	164.7	59.2%
Government grants	**265.5**	233.6	31.9	13.7%
Net (losses)/gains on exchange differences	**(151.6)**	236.6	(388.2)	(164.1%)
Others	**1,197.8**	777.0	420.8	54.2%
Total other income and other net gains or losses	**5,395.0**	4,363.0	1,032.0	23.7%

Other income and net gains or losses of the Group increased by 23.7% from RMB4,363.0 million in 2016 to RMB5,395.0 million in 2017, mainly due to the increase in revenue from properties development of Huarong Real Estate.

6.2.1.2 Total expenses

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	**(50,691.1)**	(31,416.8)	(19,274.3)	61.4%
Commission and fee expenses	**(1,296.2)**	(1,035.9)	(260.3)	25.1%
Operating expenses	**(15,140.9)**	(12,286.8)	(2,854.1)	23.2%
Impairment losses on assets	**(17,463.6)**	(16,717.0)	(746.6)	4.5%
Total expenses	**(84,591.8)**	(61,456.5)	(23,135.3)	37.6%

Total expenses of the Group increased by 37.6% from RMB61,456.5 million in 2016 to RMB84,591.8 million in 2017, mainly due to the increase in interest expenses.

6. Management Discussion and Analysis

6.2.1.2.1 Interest expenses

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

	For the year ended December 31,			
	2017	**2016**	**Change**	**Change in percentage**
	(in millions of RMB, except for percentages)			
Borrowings	**(33,216.6)**	(19,188.5)	(14,028.1)	73.1%
Bonds and notes issued	**(11,710.2)**	(7,639.5)	(4,070.7)	53.3%
Financial assets sold under repurchase agreements	**(2,373.1)**	(768.6)	(1,604.5)	208.8%
Due to customers	**(2,303.0)**	(2,708.4)	405.4	(15.0%)
Deposits from financial institutions	**(623.4)**	(440.6)	(182.8)	41.5%
Placements from financial institutions	**(142.4)**	(352.3)	209.9	(59.6%)
Borrowings from central bank	**(73.7)**	(24.8)	(48.9)	197.2%
Amounts due to the MOF	**(47.0)**	(124.4)	77.4	(62.2%)
Other liabilities	**(201.7)**	(169.7)	(32.0)	18.9%
Total interest expenses	**(50,691.1)**	(31,416.8)	(19,274.3)	61.4%

Interest expense of the Group increased by 61.4% from RMB31,416.8 million in 2016 to RMB50,691.1 million in 2017, mainly due to increase in the scale of external financing to support business development by the Group.

The interest expenses of borrowings of the Group increased by 73.1% from RMB19,188.5 million in 2016 to RMB33,216.6 million in 2017, primarily due to the increased borrowing scale of the Group in order to support its business development.

Interest expenses of bonds and notes issued of the Group increased by 53.3% from RMB7,639.5 million in 2016 to RMB11,710.2 million in 2017, mainly because the Group's development of "debt financing based AMC" achieved further results. Bonds and notes issued increased by 36.6% from RMB243,075.2 million as at December 31, 2016 to RMB331,962.9 million as at December 31, 2017.

6. Management Discussion and Analysis

6.2.1.2.2 Commission and fee expenses

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Securities and futures brokerage business	**(489.6)**	(489.4)	(0.2)	—
Asset management business	**(443.3)**	(351.4)	(91.9)	26.2%
Banking and consumer finance business	**(321.7)**	(148.9)	(172.8)	116.1%
Fund management and other business	**(41.6)**	(46.2)	4.6	(10.0%)
Total commission and fee expenses	**(1,296.2)**	(1,035.9)	(260.3)	25.1%

Commission and fee expenses of the Group increased by 25.1% from RMB1,035.9 million in 2016 to RMB1,296.2 million in 2017.

6.2.1.2.3 Operating expenses

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	**(5,607.8)**	(5,090.3)	(517.5)	10.2%
Business tax, land appreciation tax and surcharges	**(1,384.3)**	(1,625.7)	241.4	(14.8%)
Cost of properties development and purchases	**(2,043.8)**	(1,459.5)	(584.3)	40.0%
Others	**(6,105.0)**	(4,111.3)	(1,993.7)	48.5%
Including:				
Minimum lease payments under operating leases	**(717.9)**	(594.7)	(123.2)	20.7%
Depreciation of property and equipment	**(515.5)**	(366.7)	(148.8)	40.6%
Amortization	**(291.7)**	(203.5)	(88.2)	43.3%
Depreciation of investment properties	**(74.7)**	(50.0)	(24.7)	49.4%
Auditor's remuneration	**(26.1)**	(20.6)	(5.5)	26.7%
Total operating expenses	**(15,140.9)**	(12,286.8)	(2,854.1)	23.2%

6. Management Discussion and Analysis

Operating expenses of the Group increased by 23.2% from RMB12,286.8 million in 2016 to RMB15,140.9 million in 2017, mainly came from moderate increases in employee benefits, cost of properties development and other operating expenses resulting from supported the business development by the Group.

Employee benefits of the Group increased by 10.2% from RMB5,090.3 million in 2016 to RMB5,607.8 million in 2017, which was mainly due to (i) the increase of employee headcounts; (ii) establishment of new institutions; and (iii) the increase of minimum contributions to social security and housing fund.

6.2.1.2.4 Impairment losses on assets

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Other financial assets classified as receivables	**(8,110.5)**	(3,351.2)	(4,759.3)	142.0%
Distressed debt assets classified as receivables	**(3,662.5)**	(10,774.5)	7,112.0	(66.0%)
Interests in associates and joint ventures	**(859.0)**	(2.5)	(856.5)	34,260.0%
Loans and advances to customers	**(1,929.5)**	(1,271.4)	(658.1)	51.8%
Available-for-sale financial assets	**(1,502.7)**	(786.5)	(716.2)	91.1%
Finance lease receivables	**(425.0)**	(445.8)	20.8	(4.7%)
Other assets	**(974.4)**	(85.1)	(889.3)	1,045.0%
Total	**(17,463.6)**	(16,717.0)	(746.6)	4.5%

Impairment losses on assets of the Group increased by 4.5% from RMB16,717.0 million in 2016 to RMB17,463.6 million in 2017, mainly due to the increase in provisions made by the Group pursuant to the applicable accounting policy with an aim to continuously strengthen its risk control and maintain its risk tolerance according to the general economic situation.

6.2.1.3 Profit before tax

Profit before tax of the Group increased by 20.0% from RMB30,509.3 million in 2016 to RMB36,601.7 million in 2017.

6. Management Discussion and Analysis

6.2.1.4 Income tax expense

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Profit before tax	36,601.7	30,509.3	6,092.4	20.0%
Income tax expense	(10,014.0)	(7,400.8)	(2,613.2)	35.3%
Effective tax rate	27.4%	24.3%		

Income tax expense increased by 35.3% from RMB7,400.8 million in 2016 to RMB10,014.0 million in 2017. The effective tax rate of the Group in 2016 and 2017 was 24.3% and 27.4%, respectively.

6.2.1.5 Segment results

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

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	68,912.9	50,695.6	18,217.3	35.9%
Financial services	30,931.4	24,450.0	6,481.4	26.5%
Assets management and investment	32,479.9	21,701.7	10,778.2	49.7%
Inter-segment elimination	(4,253.6)	(1,639.6)	(2,614.0)	159.4%
Total	128,070.6	95,207.7	32,862.9	34.5%

6. Management Discussion and Analysis

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

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**20,276.1**	15,890.6	4,385.5	27.6%
Financial services	**7,561.7**	6,986.6	575.1	8.2%
Assets management and investment	**11,013.0**	7,678.7	3,334.3	43.4%
Inter-segment elimination	**(2,249.1)**	(46.6)	(2,202.5)	4,726.4%
Total	**36,601.7**	30,509.3	6,092.4	20.0%

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

	As of December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**934,966.4**	628,712.6	306,253.8	48.7%
Financial services	**572,779.7**	515,150.5	57,629.2	11.2%
Assets management and investment	**435,906.9**	302,715.7	133,191.2	44.0%
Inter-segment elimination	**(86,792.9)**	(43,910.7)	(42,882.2)	97.7%
Total	**1,856,860.1**	1,402,668.1	454,192.0	32.4%

The total third party assets managed by the Group was RMB707,636.8 million and RMB721,415.4 million, respectively, as of December 31, 2016 and 2017.

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

	For the year ended December 31,	
	2017	2016
Distressed asset management	**22.1%**	20.7%
Financial services	**18.0%**	20.3%
Assets management and investment	**33.5%**	36.2%

6. Management Discussion and Analysis

Distressed asset management segment is the core business of the Group and an important source of income and profit of the Group. Total income from the Group's distressed asset management segment increased by 35.9% from RMB50,695.6 million in 2016 to RMB68,912.9 million in 2017. Profit before tax increased by 27.6% from RMB15,890.6 million in 2016 to RMB20,276.1 million in 2017. Total assets increased by 48.7% from RMB628,712.6 million in 2016 to RMB934,966.4 million in 2017. During the year, the total revenue, profit before tax and total assets of our distressed asset management segment increased, mainly because the Group returned to the origin, focused on the core business and vigorously developed the distressed asset management core business, and the scope and gains of distressed asset management core business maintained a relatively high level.

The financial services segment is an important integral part of the Group's integrated asset management business. During the year, financial services segment maintained a stable growth and recorded an increase in total income of 26.5% from RMB24,450.0 million in 2016 to RMB30,931.4 million in 2017, an increase in profit before tax of 8.2% from RMB6,986.6 million in 2016 to RMB7,561.7 million in 2017 and total assets increased by 11.2% from RMB515,150.5 million in 2016 to RMB572,779.7 million in 2017.

The Group's asset management and investment segment is a natural extension and supplement of its distressed asset management business and serves as an important platform for providing the Group's clients with a comprehensive array of diversified asset management, investment and financing services. During the year, the Group maintained a relatively rapid growth in the asset management and investment segment. Total income from the asset management and investment segment increased by 49.7% from RMB21,701.7 million in 2016 to RMB32,479.9 million in 2017. Profit before tax increased by 43.4% from RMB7,678.7 million in 2016 to RMB11,013.0 million in 2017. Total assets increased by 44.0% from RMB302,715.7 million in 2016 to RMB435,906.9 million in 2017.

6. Management Discussion and Analysis

6.2.2 Financial Positions of Our Group

As of December 31, 2016 and 2017, the total assets of the Group amounted to RMB1,411,969.3 million and RMB1,870,260.3 million, respectively, representing an increase of 32.5%. Total liabilities amounted to RMB1,261,888.3 million and RMB1,687,625.4 million, respectively, representing an increase of 33.7%. Total equity amounted to RMB150,081.0 million and RMB182,634.9 million respectively, representing an increase of 21.7%.

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

	As of December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Assets				
Cash and balances with central bank	**33,207.1**	**1.8%**	27,259.8	1.9%
Deposits with financial institutions	**162,881.1**	**8.7%**	154,329.9	10.9%
Financial assets held for trading	**67,257.7**	**3.6%**	87,731.3	6.2%
Financial assets designated as at fair value through profit or loss	**230,045.3**	**12.3%**	95,167.3	6.7%
Financial assets held under resale agreements	**41,238.1**	**2.2%**	36,347.7	2.6%
Available-for-sale financial assets	**195,520.7**	**10.5%**	140,292.6	9.9%
Held-to-maturity investments	**64,451.2**	**3.4%**	44,884.2	3.2%
Financial assets classified as receivables	**701,192.4**	**37.5%**	549,478.0	38.9%
Loans and advances to customers	**158,221.9**	**8.5%**	118,406.0	8.4%
Finance lease receivables	**95,703.9**	**5.1%**	84,991.3	6.0%
Interests in associates and joint ventures	**42,097.1**	**2.3%**	9,564.0	0.7%
Other assets	**78,443.8**	**4.1%**	63,517.2	4.6%
Total assets	**1,870,260.3**	**100.0%**	1,411,969.3	100.0%
Liabilities				
Deposits from financial institutions	**10,158.4**	**0.6%**	6,962.5	0.6%
Borrowings	**773,057.3**	**45.8%**	511,308.6	40.5%
Financial assets sold under repurchase agreements	**60,317.0**	**3.6%**	56,390.6	4.5%
Due to customers	**202,349.9**	**12.0%**	172,405.9	13.7%
Bonds and notes issued	**331,962.9**	**19.7%**	243,075.2	19.3%
Other liabilities	**309,779.9**	**18.3%**	271,745.5	21.4%
Total liabilities	**1,687,625.4**	**100.0%**	1,261,888.3	100.0%
Equity				
Equity attributable to equity holders of the Company	**128,174.6**	**70.2%**	115,243.0	76.8%
Perpetual capital instruments	**23,185.4**	**12.7%**	15,030.3	10.0%
Non-controlling interests	**31,274.9**	**17.1%**	19,807.7	13.2%
Total equity	**182,634.9**	**100.0%**	150,081.0	100.0%
Total equity and liabilities	**1,870,260.3**	**100.0%**	1,411,969.3	100.0%

6. Management Discussion and Analysis

6.2.2.1 Assets

As of December 31, 2016 and 2017, the Group's total assets amounted to RMB1,411,969.3 million and RMB1,870,260.3 million, respectively, representing an increase of 32.5%. The Group's major assets consist of: (i) financial assets classified as receivables; (ii) financial assets designated as at fair value through profit or loss; (iii) available-for-sale financial assets; (iv) deposits with financial institutions; (v) loans and advances to customers; and (vi) finance lease receivables.

6.2.2.1.1 Deposits with financial institutions

As of December 31, 2016 and 2017, the Group's deposits with financial institutions amounted to RMB154,329.9 million and RMB162,881.1 million, respectively, representing an increase of 5.5%, mainly due to the expansion of external financing of the Group to reserve funds for the projects launched in early 2018 in advance.

6.2.2.1.2 Financial assets held for trading

As of December 31, 2016 and 2017, the Group's financial assets held for trading amounted to RMB87,731.3 million and RMB67,257.7 million, respectively, representing a decrease of 23.3%, mainly due to disposal of certain financial assets held for trading resulting the decrease in its scale as the Group adjusted its asset structure and investment strategies.

6.2.2.1.3 Financial assets designated as at fair value through profit or loss

As of December 31, 2016 and 2017, the Group's financial assets designated as at fair value through profit or loss amounted to RMB95,167.3 million and RMB230,045.3 million, respectively, representing an increase of 141.7%, mainly due to a significant increase in the scale of assets held under the acquisition-and-disposal business as the Group focused on and strengthened its core business and accelerated the acquisition of distressed assets.

6. Management Discussion and Analysis

6.2.2.1.4 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 at December 31,			
	2017	2016	Changes	Change in percentage
	(in millions of RMB, except for percentages)			
Funds	**73,483.4**	34,608.4	38,875.0	112.3%
Bonds				
— Government bonds	**599.2**	638.1	(38.9)	(6.1%)
— Public sector and quasi-government bonds	**15,999.2**	23,275.6	(7,276.4)	(31.3%)
— Financial institution bonds	**6,735.1**	2,834.7	3,900.4	137.6%
— Corporate bonds	**33,601.4**	7,348.0	26,253.4	357.3%
Equity investments	**27,612.6**	40,236.8	(12,624.2)	(31.4%)
Trust products	**23,932.0**	23,232.7	699.3	3.0%
Asset management plans	**6,237.7**	3,529.7	2,708.0	76.7%
Wealth management products	**4,885.7**	1,161.9	3,723.8	320.5%
Asset-backed securities	**3,346.2**	2,070.5	1,275.7	61.6%
Others	**—**	1,603.2	(1,603.2)	(100.0%)
Subtotal	**196,432.5**	140,539.6	55,892.9	39.8%
Less: allowance for impairment losses	**(911.8)**	(247.0)	(664.8)	269.1%
Total	**195,520.7**	140,292.6	55,228.1	39.4%

As of December 31, 2016 and 2017, the Group's available-for-sale financial assets amounted to RMB140,292.6 million and RMB195,520.7 million, respectively, representing an increase of 39.4%, which was mainly due to the Group's optimization of the investment strategies and assets structure, reduction of equity investments and increase of other assets allocation.

6. Management Discussion and Analysis

6.2.2.1.5 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 December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets				
Loans acquired from financial institutions	**51,186.3**	54,263.5	(3,077.2)	(5.7%)
Distressed debt assets acquired from non-financial enterprises	**317,242.1**	239,475.2	77,766.9	32.5%
Less: allowance for impairment losses	**(23,744.1)**	(23,666.5)	(77.6)	0.3%
Subtotal	**344,684.3**	270,072.2	74,612.1	27.6%
Other financial assets classified as receivables	**371,723.9**	287,227.4	84,496.5	29.4%
Less: allowance for impairment losses	**(15,215.8)**	(7,821.6)	(7,394.2)	94.5%
Subtotal	**356,508.1**	279,405.8	77,102.3	27.6%
Total	**701,192.4**	549,478.0	151,714.4	27.6%

As of December 31, 2016 and 2017, the Group's investments classified as receivables amounted to RMB549,478.0 million and RMB701,192.4 million, respectively, representing an increase of 27.6%. The increase was mainly due to (i) the Group's expansion of acquisition and restructuring business in line with the Group's insistence on strengthening the distressed asset business; (ii) the Group actively supported real economic development, and significantly increased investments on other financial assets classified as receivables.

As of December 31, 2016 and 2017, distressed debt assets classified as receivables which were impaired amounted to RMB5,322.3 million and RMB7,381.1 million, respectively, accounting for 1.8% and 2.0% of the gross amount of distressed debt assets classified as receivables.

6. Management Discussion and Analysis

6.2.2.1.6 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 December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Corporate loans and advances				
Loans and advances	**108,863.7**	80,884.7	27,979.0	34.6%
Discounted bills	**5,689.5**	8,796.5	(3,107.0)	(35.3%)
Subtotal	**114,553.2**	89,681.2	24,872.0	27.7%
Personal loans and advances				
Loans for business operations	**10,556.1**	9,816.0	740.1	7.5%
Mortgage	**11,390.8**	7,087.5	4,303.3	60.7%
Others	**17,987.7**	7,488.1	10,499.6	140.2%
Subtotal	**39,934.6**	24,391.6	15,543.0	63.7%
Loans to margin clients	**7,523.4**	6,992.6	530.8	7.6%
Gross loans and advances	**162,011.2**	121,065.4	40,945.8	33.8%
Less: allowance for impairment losses	**(3,789.3)**	(2,659.4)	(1,129.9)	42.5%
Total	**158,221.9**	118,406.0	39,815.9	33.6%

As of December 31, 2016 and 2017, the Group's loans and advances to customers amounted to RMB118,406.0 million and RMB158,221.9 million, respectively, representing an increase of 33.6%. The increase was mainly due to the stable development of Huarong Xiangjiang Bank's business and rapid development of Huarong Consumer Finance's business, hence maintaining a relatively fast growth in various loans businesses and consistent expansion of loans scale.

6. Management Discussion and Analysis

6.2.2.1.7 Finance lease receivables

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

	As of December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	**34,965.0**	31,900.8	3,064.2	9.6%
1 year to 5 years (inclusive)	**70,832.4**	63,850.1	6,982.3	10.9%
Over 5 years	**3,782.8**	1,953.3	1,829.5	93.7%
Subtotal	**109,580.2**	97,704.2	11,876.0	12.2%
Unearned finance income	**(11,852.8)**	(11,074.5)	(778.3)	7.0%
Less: Allowance for impairment losses	**(2,023.5)**	(1,638.4)	(385.1)	23.5%
Net finance lease receivables	**95,703.9**	84,991.3	10,712.6	12.6%
Present value of minimum finance lease receivables				
Within 1 year (inclusive)	**29,913.5**	27,148.7	2,764.8	10.2%
1 year to 5 years (inclusive)	**64,215.8**	57,629.3	6,586.5	11.4%
Over 5 years	**3,598.1**	1,851.7	1,746.4	94.3%
Total	**97,727.4**	86,629.7	11,097.7	12.8%

As of December 31, 2016 and 2017, the Group's finance lease receivables amounted to RMB84,991.3 million and RMB95,703.9 million, respectively, representing an increase of 12.6%. The increase was mainly due to continuously effective business transformation, front-ranking standing of overall strength in the industry, and the continuous expansion of the financial leasing business of Huarong Financial Leasing by leveraging the advantages of its branding and its excellent business capability.

6. Management Discussion and Analysis

6.2.2.2 Liabilities

Total liabilities of the Group include (i) borrowings; (ii) bonds and notes issued; and (iii) due to customers.

6.2.2.2.1 Borrowings

As of December 31, 2016 and 2017, borrowings of the Group amounted to RMB511,308.6 million and RMB773,057.3 million, respectively, representing an increase of 51.2%. The increase was primarily due to the significant increase in borrowings as a result of the increase in financing scale in order to support the growth of the business of the Group.

6.2.2.2.2 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 December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Huarong International	**127,208.0**	83,503.4	43,704.6	52.3%
The Company	**95,051.6**	95,008.8	42.8	—
Huarong Xiangjiang Bank	**54,662.9**	36,121.9	18,541.0	51.3%
Huarong Securities	**20,193.4**	14,376.9	5,816.5	40.5%
Huarong Financial Leasing	**15,469.2**	9,286.6	6,182.6	66.6%
Huarong Real Estate	**10,976.5**	—	10,976.5	100.0%
Huarong Rongde	**7,801.3**	4,477.6	3,323.7	74.2%
Huarong Huitong Asset Management Co., Ltd.	**300.0**	—	300.0	100.0%
Huarong Tianze Investment Limited	**300.0**	300.0	—	—
Total	**331,962.9**	243,075.2	88,887.7	36.6%

6. Management Discussion and Analysis

As of December 31, 2016 and 2017, the Group's bonds and notes issued amounted to RMB243,075.2 million and RMB331,962.9 million, respectively, representing an increase of 36.6%. The increase was mainly because the Group actively expanded the financing channels and achieved new milestones in developing into a "debt financing based AMC": (i) the Company issued tier II capital bonds of RMB10.0 billion in the current year; (ii) Huarong Xiangjiang Bank issued negotiable certificates of deposit of RMB49.21 billion, tier II capital bonds of RMB2.4 billion, and green financial bonds of RMB1.0 billion in the current year; (iii) Huarong International issued mid-term U.S. dollar notes of USD6.47 billion, SGD1.0 billion, and fixed debt financing instruments of RMB3.0 billion in the current year; (iv) Huarong Securities issued beneficiary certificates of RMB1.72 billion, corporate bonds of RMB3.5 billion and subordinated bonds of RMB6.0 billion in the current year; (v) Huarong Financial Leasing issued financial bonds of RMB2.0 billion and asset-backed securities of RMB9.951 billion in the current year; (vi) Huarong Rongde issued corporate bonds of RMB3.0 billion and super short-term bonds of RMB1.0 billion in the current year; (vii) Huarong Huitong issued corporate bonds of RMB0.3 billion in the current year; (viii) Huarong Real Estate issued corporate bonds of RMB7.12 billion, Euro bonds of Euro 0.5 billion in the current year.

6.2.2.2.3 Due to customers

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

	As of December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate	**96,481.6**	71,800.2	24,681.4	34.4%
Individual	**19,344.7**	16,545.4	2,799.3	16.9%
Time deposits				
Corporate	**36,435.8**	36,845.3	(409.5)	(1.1%)
Individual	**26,738.4**	24,407.5	2,330.9	9.5%
Pledged deposits	**9,340.5**	10,698.9	(1,358.4)	(12.7%)
Others	**14,008.9**	12,108.6	1,900.3	15.7%
Total	**202,349.9**	172,405.9	29,944.0	17.4%

As of December 31, 2016 and 2017, the amount due to customers of the Group was RMB172,405.9 million and RMB202,349.9 million, respectively, representing an increase of 17.4%. The increase was mainly attributable to active market expansion of Huarong Xiangjiang Bank and striving to attract quality customers, resulting in the significant increase in both corporate and personal deposits.

6. Management Discussion and Analysis

6.2.3 Contingent Liabilities

Due to the nature of business, the Company and its subsidiaries are involved in certain legal proceedings in the ordinary course of business, including litigation and arbitration. The Group makes provision, from time to time, for the probable losses with respect to those claims when the senior management of the Company can reasonably estimate the outcome of the proceedings, in light of the legal advice 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 of the Company believes that the probability of loss is remote or that any resulting liabilities will not have a material adverse effect on our financial condition or operating results.

As at December 31, 2016 and 2017, the Group made provisions of RMB110.1 million and RMB109.6 million respectively. The Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

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

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

6.3 Business Overview

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

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

	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**68,912.9**	**53.8%**	50,695.6	53.2%
Financial services	**30,931.4**	**24.2%**	24,450.0	25.7%
Asset management and investment	**32,479.9**	**25.3%**	21,701.7	22.8%
Inter-segment elimination	**(4,253.6)**	**(3.3%)**	(1,639.6)	(1.7%)
Total	**128,070.6**	**100.0%**	95,207.7	100.0%

6. Management Discussion and Analysis

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

	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	**20,276.1**	**55.4%**	15,890.6	52.1%
Financial services	**7,561.7**	**20.7%**	6,986.6	22.9%
Asset management and investment	**11,013.0**	**30.1%**	7,678.7	25.2%
Inter-segment elimination	**(2,249.1)**	**(6.2%)**	(46.6)	(0.2%)
Total	**36,601.7**	**100.0%**	30,509.3	100.0%

In 2017, the total income from distressed asset management segment, financial services segment and asset management and investment segment of the Group accounted for 53.8%, 24.2% and 25.3% of its total income, respectively, and the profit before tax of these segments accounted for 55.4%, 20.7% and 30.1% of our total profit before tax, respectively.

6.3.1 Distressed asset management

Distressed asset management segment is the core business and the primary source of income and profit of the Group. In 2016 and 2017, total income from the distressed asset management segment was RMB50,695.6 million and RMB68,912.9 million, respectively, accounting for 53.2% and 53.8% of our total income, respectively, its profit before tax was RMB15,890.6 million and RMB20,276.1 million, respectively, accounting for 52.1% and 55.4% of the total profit before tax of the Group, respectively.

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

6. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB)	
Distressed debt asset management business of the Company		
Gross amount of distressed debt assets[1]	468,892.2	328,202.4
Less: Allowance for impairment of distressed debt assets[2]	(22,846.7)	(23,649.9)
Net carrying amount of distressed debt assets	446,045.5	304,552.5
Acquisition cost of newly added distressed debt assets	407,993.7	348,022.9
Total income from distressed debt assets		
Operating income from distressed debt assets[3]	33,742.7	28,533.5
Financial advisory income from acquisition-and restructuring business	2,439.5	3,622.5
Total	36,182.2	32,156.0
DES asset management business of the Company		
Carrying amount of DES Assets	12,455.3	19,128.8
Dividend income from DES Assets	151.4	176.2
Acquisition cost of DES Assets disposed	3,209.7	1,699.9
Net gain from the disposal of DES Assets	3,397.0	2,959.9
Distressed asset-based custody and agency services business of the Company		
Income	807.0	389.3
Distressed asset management business conducted by our subsidiaries		
Gross amount of distressed debt assets	39,865.4	25,889.1
Income from distressed debt assets	1,421.2	455.2
Total assets of Huarong Ruitong[4]	12,509.0	—
Distressed asset-based special situations investments business[5]		
Income from Huarong Rongde	3,647.8	2,381.9
Income from China Huarong Western	921.3	624.4
Income from Huarong Tianjin Investment	767.6	321.7
Income from Huarong Guangdong Holdings	1,076.0	462.6
Income from Huarong Fujian	983.3	253.7
Distressed asset-based property development business		
Income from property sales and primary land development of Huarong Real Estate	3,640.4	2,837.6

6. Management Discussion and Analysis

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

(2) Allowance for impairment of distressed debt assets equals the Company's allowance for impairment of distressed debt assets under investments classified as receivables, as shown in the consolidated financial statements.

(3) 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.

(4) Huarong Ruitong Equity Investment Management Co., Ltd (華融瑞通股權投資管理有限公司)("Huarong Ruitong") is a subsidiary set by our Group primarily for market-oriented debt-to-equity swap business.

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

6.3.1.1 Distressed debt asset management business of the Company

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

6. Management Discussion and Analysis

6.3.1.1.1 Sources for acquisition of distressed debt assets of the Company

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

The table below sets forth some key financial indicators of distressed debt assets of the Company by acquisition sources as of the dates and for the years indicated.

	As of or for the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	**114,023.2**	**27.9%**	117,350.7	33.7%
NFE Distressed Assets	**293,970.5**	**72.1%**	230,672.2	66.3%
Total	**407,993.7**	**100.0%**	348,022.9	100.0%
Gross amount of distressed debt assets at the end of the period[1]				
FI Distressed Assets	**127,719.4**	**27.2%**	82,493.8	25.1%
NFE Distressed Assets	**341,172.8**	**72.8%**	245,708.6	74.9%
Total	**468,892.2**	**100.0%**	328,202.4	100.0%
Operating income from distressed debt assets for the period[2]				
FI Distressed Assets	**5,799.7**	**17.2%**	6,867.0	24.1%
NFE Distressed Assets	**27,943.0**	**82.8%**	21,666.5	75.9%
Total	**33,742.7**	**100.0%**	28,533.5	100.0%

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

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

6. Management Discussion and Analysis

6.3.1.1.1.1 FI Distressed Assets

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

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

	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Banking				
Large commercial banks	**59,219.7**	**51.9%**	57,469.6	49.0%
Joint stock commercial banks	**40,001.1**	**35.1%**	35,165.6	30.0%
City and rural commercial banks	**4,861.8**	**4.3%**	8,115.2	6.9%
Other banks	**796.5**	**0.7%**	1,093.6	0.9%
Subtotal	**104,879.1**	**92.0%**	101,844.0	86.8%
Non-bank financial institutions	**9,144.1**	**8.0%**	15,506.7	13.2%
Total	**114,023.2**	**100.0%**	117,350.7	100.0%

6.3.1.1.1.2 NFE Distressed Assets

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

6. Management Discussion and Analysis

6.3.1.1.2 Business models of distressed debt asset management

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

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

	As of or for the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	**137,563.9**	**33.7%**	106,676.2	30.7%
Acquisition-and-restructuring	**270,429.8**	**66.3%**	241,346.7	69.3%
Total	**407,993.7**	**100.0%**	348,022.9	100.0%
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal(1)	**140,902.5**	**30.1%**	59,595.0	18.2%
Acquisition-and-restructuring(2)	**327,989.7**	**69.9%**	268,607.4	81.8%
Total	**468,892.2**	**100.0%**	328,202.4	100.0%
Total income from distressed debt assets for the current period				
Acquisition-and-disposal(3)	**4,583.1**	**12.7%**	3,650.6	11.4%
Acquisition-and-restructuring	**31,599.1**	**87.3%**	28,505.4	88.6%
Total	**36,182.2**	**100.0%**	32,156.0	100.0%

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

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

(3) The total income of acquisition-and-disposal distressed debt assets equals change of the fair value of Company's distressed debt assets as shown in the consolidated financial statements.

6. Management Discussion and Analysis

6.3.1.1.2.1 Acquisition-and-disposal Model

As a major participant of the primary market and an important participant and supplier of the secondary market for distressed debt assets, the Company acquires distressed assets packages in batches from bank-based distressed asset market through public bidding or negotiated transfers. To maximize the recovery value of the distressed assets, the Company chooses different disposal methods for these assets based on subjective and objective factors, such as the characteristics of the distressed assets, the conditions of the debtors and the conditions of the collaterals and pledges. Disposal methods include: interim participation in operations, asset restructuring, debt-to-equity swaps, individual transfer, package-and-transfer, discounted collection from debtors, liquidation, regular collection, collection through litigation, receipts of other assets in satisfaction of debts and debt restructuring. Our core competitive advantage under the acquisition-and-disposal model is our ability to price and dispose of distressed assets.

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

	As of or for the year ended December 31,	
	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	**137,563.9**	106,676.2
Gross amount of distressed debt assets disposed	**56,465.6**	96,632.8
Gross amount of distressed debt assets at the end of the period(1)	**140,902.5**	59,595.0
Net gain or loss from disposal of distressed assets(2)		
Realized gain	**4,373.9**	2,834.5
Unrealized fair value changes	**209.2**	816.1
Total	**4,583.1**	3,650.6
IRR on completed projects(3)	**11.9%**	15.9%

(1) Gross amount of distressed debt assets at the end of the period equals the Company's distressed debt assets acquired under financial assets designated at fair value through profit or loss and acquired under the financial assets, as shown in the consolidated financial statements.

(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.

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

6. Management Discussion and Analysis

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

	As of December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta[1]	**53,320.3**	**37.8%**	21,305.3	35.8%
Pearl River Delta[2]	**15,310.4**	**10.9%**	9,350.4	15.7%
Bohai Rim Region[3]	**16,247.0**	**11.5%**	10,862.6	18.2%
Central Region[4]	**20,751.5**	**14.7%**	5,682.6	9.5%
Western Region[5]	**31,108.6**	**22.1%**	9,580.8	16.1%
Northeastern Region[6]	**4,164.7**	**3.0%**	2,813.3	4.7%
Total	**140,902.5**	**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, Western Region, Central Region and Bohai Rim Region.

6.3.1.1.2.2 Acquisition-and-restructuring Model

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

6. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB, except for percentages)	
Number of new projects (quantity)	902	944
Number of existing projects as of the end of the period (quantity)	1,387	1,250
Gross amount of distressed debt assets[1]	327,989.7	268,607.4
Allowance for impairment losses[2]	(22,846.7)	(23,649.9)
Net carrying amount of distressed debt assets[3]	305,143.0	244,957.5
Acquisition cost of newly added distressed debt assets	270,429.8	241,346.7
The total income from distressed debt assets		
Operating income from distressed debt assets[4]	29,159.6	24,882.9
Financial advisory income	2,439.5	3,622.5
Total	31,599.1	28,505.4
Annualized return on monthly average gross amount of distressed debt assets[5]	9.8%	12.1%
Impaired distressed debt assets[6]	7,381.1	5,322.3
Impaired distressed debt assets ratio[7]	2.25%	1.98%
Allowance to distressed debt assets ratio[8]	7.0%	8.8%
Impaired distressed debt assets coverage ratio[9]	309.5%	444.4%
Distressed debt assets collateral ratio[10]	37.4%	36.0%

(1) Gross amount of distressed debt assets equals the Company's distressed debt assets under investments classified as receivables, as shown in the consolidated financial statements.

(2) Allowance for impairment losses equals to the Company's allowance for impairment for distressed debt assets under investments classified as receivables, as shown in the consolidated financial statements.

(3) Net carrying amount of distressed debt assets equals the Company's total distressed debt assets under investments classified as receivables minus allowance for impairment losses, as shown in the consolidated financial statements.

(4) 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.

(5) Annualized return on monthly average gross amount of distressed debt assets equals the total income from distressed debt assets for the year divided by the average gross amount of distressed debt assets at the end of each month.

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

(7) Impaired distressed debt assets ratio equals impaired distressed debt assets divided by the gross amount of distressed debt assets.

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

(9) Impaired distressed debt assets coverage ratio equals allowance for impairment losses divided by 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.

6. Management Discussion and Analysis

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

	As of December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta (1)	68,941.5	21.0%	52,364.6	19.5%
Pearl River Delta (2)	49,412.7	15.1%	37,257.6	13.9%
Bohai Rim Region (3)	42,893.9	13.1%	29,214.2	10.9%
Central Region (4)	65,043.8	19.8%	52,549.9	19.6%
Western Region (5)	84,668.0	25.8%	80,232.6	29.9%
Northeastern Region (6)	17,029.8	5.2%	16,988.5	6.2%
Total	327,989.7	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.

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

	As of December 31,			
	2017		2016	
	Total	Percentage	Total	Percentage
	(in millions of RMB, except for percentages)			
Real estate	193,292.0	58.9%	152,634.2	56.8%
Manufacturing	31,780.4	9.7%	35,830.9	13.3%
Construction	18,885.4	5.8%	12,271.0	4.6%
Mining	5,474.2	1.7%	6,121.0	2.3%
Leasing and commercial services	18,023.6	5.5%	12,264.4	4.6%
Water, environment and public utilities management	14,373.0	4.4%	13,701.0	5.1%
Transportation, logistics and postal services	4,007.9	1.2%	3,116.4	1.2%
Others	42,153.2	12.8%	32,668.5	12.1%
Total	327,989.7	100.0%	268,607.4	100.0%

6. Management Discussion and Analysis

6.3.1.2 DES asset management business of the Company

The Company obtains DES Assets through debt-to-equity swaps, receipt of equity interests in satisfaction of debts and follow-on equity investments. The Company enhances the value of our DES Assets by improving the business operations of the DES Companies. The Company exits such investments primarily through asset swaps, merger and acquisition, restructuring and listing of DES Companies and realize the appreciation of our DES Assets. The Company's DES Assets are classified as shares of unlisted DES Companies ("Unlisted DES Assets") and shares of listed DES Companies ("Listed DES Assets"). As of December 31, 2017, the Company held Unlisted DES Assets in 157 DES Companies, with carrying amount of RMB8,510.2 million; and Listed DES Assets in 20 DES Companies, with carrying amount of RMB3,945.1 million.

The table below sets forth certain details of the Company's DES Assets portfolio by listed and unlisted status as of the dates indicated.

	As of December 31,	
	2017	2016
	(in millions of RMB, except for number of companies)	
Composition of existing DES asset portfolio		
Number of DES companies	**177**	200
Unlisted	**157**	173
Listed	**20**	27
Carrying amount	**12,455.3**	19,128.8
Unlisted	**8,510.2**	9,862.6
Listed	**3,945.1**	9,266.2

6. Management Discussion and Analysis

The Company derives the following income from its DES asset management business: (i) disposal income, which is the income from transfer of the Company's equity interests in DES Companies; (ii) restructuring income, which is the income the Company recognizes when exchanging the equity interests in DES Companies into equity interests in related parties of the DES Companies based on the fair value of the equity interests; (iii) dividend income, which are dividends and other distributions from DES Companies; and (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 as of the dates and for the years indicated.

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB)	
Number of DES Companies disposed	**23**	17
Acquisition cost of DES Assets disposed	**3,209.7**	1,699.9
Net gain on DES Assets disposed	**3,397.0**	2,959.9
Exit multiple of DES Assets disposed[1]	**2.1 times**	2.7 times
Dividend Income from DES Companies	**151.4**	176.2

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

In 2017, the Company's net gain on DES Assets disposed was RMB3,397.0 million and the average exit multiple was 2.1 times.

6. Management Discussion and Analysis

6.3.1.3 Distressed asset-based custody and agency services of the Company

Through the Company's distressed asset-based custody and agency services, 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 2016 and 2017, the income from such services of the Company amounted to RMB389.3 million and RMB807.0 million, respectively. As of December 31, 2016 and 2017, assets under such services of the Company amounted to RMB113,856.1 million and RMB118,719.1 million, respectively.

6.3.1.4 Distressed asset management business conducted by our subsidiaries

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

6.3.1.4.1 Distressed asset management conducted by our subsidiaries

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

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB)	
Gross amount of distressed debt assets	**39,865.4**	25,889.1
Allowance for impairment of assets	**(779.5)**	(16.5)
Net carrying amount of distressed debt assets	**39,085.9**	25,872.6
Revenue of distressed debt assets	**1,421.2**	455.2

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

The Group conducted the market-based debt-to-equity swap business through its subsidiary Huarong Ruitong. The Group's market-based debt-to-equity swap business mainly includes the following two business models:

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

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

6. Management Discussion and Analysis

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

	As of December 31, 2017 (In millions of RMB) Amount already paid
Issuing shares for repaying debts	6,756.0
Changing debt collection to equity	9,000.0
Total	**15,756.0**

6.3.1.5 Distressed asset-based special situations investments business

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

The Group primarily conducts our distressed asset-based special situations investment business through Huarong Rongde, China Huarong Western, Huarong Tianjin Investment, Huarong Guangdong Holdings and other subsidiaries.

6. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB, except for percentages)	
Total assets	**52,613.2**	41,930.4
Income	**3,647.8**	2,381.9
Net profit	**1,168.9**	1,165.5
ROAA	**2.5%**	3.5%
ROAE	**14.8%**	15.4%
Cost-to-income ratio	**15.4%**	18.7%

In 2017, the revenue of China Huarong West, Huarong Tianjin Investment, Huarong Guangdong Holdings and Huarong Fujian amounted to RMB921.3 million, RMB767.6 million, RMB1,076.0 million and RMB983.3 million; and the net profit amounted to RMB117.8 million, RMB113.5 million and RMB169.9 million and RMB101.8 million, respectively.

6.3.1.6 Distressed asset-based property development business

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

The Group conducts distressed assets-based property development business through Huarong Real Estate. In 2016 and 2017, income from property related business of Huarong Real Estate amounted to RMB2,837.6 million and RMB3,640.4 million, respectively.

6. Management Discussion and Analysis

6.3.2 Financial services

By leveraging the Group's multiple financial licenses, the Group provides its clients with products through a comprehensive financial services platform composed of Huarong Securities, Huarong Futures, Huarong Financial Leasing, Huarong Xiangjiang Bank and Huarong Consumer Finance. In 2016 and 2017, the total income from the Group's financial services segment accounted for 25.7% and 24.2% of our total income, respectively.

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

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB)	
Securities and Futures Business		
Total income	8,811.7	7,053.6
Profit before tax	2,096.7	2,100.9
Total assets	120,860.9	135,750.3
Total equity	13,781.0	10,800.0
Financial Leasing Business		
Total income	7,354.9	5,924.2
Profit before tax	2,180.7	1,965.7
Total assets	132,014.8	118,467.1
Total equity	14,239.7	11,124.7
Banking		
Total income	13,999.6	11,382.2
Profit before tax	3,156.2	2,956.8
Total assets	314,525.6	260,185.6
Total equity	19,950.1	14,445.2
Consumer Finance Business		
Total Income	765.7	90.1
Profit before tax	128.0	(36.8)
Total assets	6,827.5	1,862.3
Total equity	668.2	563.2

6. Management Discussion and Analysis

6.3.2.1 Securities and futures business

The Group conducts securities and futures business through Huarong Securities. The Group's securities and futures business mainly includes proprietary trading, securities brokerage and wealth management, investment banking and asset management businesses. The financial information for Huarong Securities disclosed in this section is consolidated financial information that includes information of Huarong Futures, its subsidiary. Affected by the securities market fluctuation, total income of Huarong Securities increased by 24.9% from RMB7,053.6 million in 2016 to RMB8,811.7 million in 2017 and profit before tax decreased by 0.2% from RMB2,100.9 million in 2016 to RMB2,096.7 million in 2017.

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

	As of or for the year ended December 31,		
	2017	2016	Regulatory requirements
Profitability indicators[1]			
Net profit margin[2]	**17.9%**	22.4%	—
ROAE[3]	**12.9%**	15.5%	—
ROAA[4]	**1.2%**	1.5%	—
Cost-to-income ratio[5]	**22.8%**	29.5%	—
Risk control indicators[6]			
Net capital to total risks ratio	**253.2%**	231.9%	Not lower than 100%
Net capital to net assets ratio	**131.4%**	131.3%	Not lower than 40%
Net capital to liabilities ratio	**54.9%**	63.8%	Not lower than 8%
Net assets to liabilities ratio	**41.8%**	48.6%	Not lower than 20%
Equity securities and derivatives of proprietary trading to net capital ratio	**8.5%**	24.6%	Not higher than 100%
Fixed income securities of proprietary trading to net capital ratio	**145.5%**	101.5%	Not higher than 500%

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

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

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

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

(5) Cost-to-income ratio equals the ratio that is calculated by dividing other expenses by the total income netting of commission and fee expenses as well as interest expenses.

(6) In 2017, risk control indicators are calculated in accordance with the latest regulatory requirements, and several indicators are calculated based on management data.

6. Management Discussion and Analysis

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

	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Proprietary trading	4,754.3	54.0%	2,642.7	37.5%
Securities brokerage and wealth management	2,544.6	28.9%	2,326.1	33.0%
Investment banking	731.8	8.3%	1,416.2	20.1%
Asset management business	380.6	4.3%	303.8	4.3%
Others	400.4	4.5%	364.8	5.1%
Total	8,811.7	100.0%	7,053.6	100.0%

Proprietary trading: The income of Huarong Securities from proprietary trading increased by 79.9% from RMB2,642.7 million in 2016 to RMB4,754.3 million in 2017. As of December 31, 2016 and 2017, the investment in proprietary trading amounted to RMB12,318.9 million and RMB21,991.1 million, respectively.

Securities brokerage and wealth management: The income of Huarong Securities from its securities brokerage and wealth management business increased by 9.4% from RMB2,326.1 million in 2016 to RMB2,544.6 million in 2017.

Investment banking: The income of Huarong Securities from its investment banking business decreased by 48.3% from RMB1,416.2 million in 2016 to RMB731.8 million in 2017.

Asset management: The income of Huarong Securities from its asset management business increased by 25.3% from RMB303.8 million in 2016 to RMB380.6 million in 2017. As of December 31, 2016 and 2017, the asset under the management of Huarong Securities was RMB306,138.7 million and RMB272,620.9 million, respectively.

6. Management Discussion and Analysis

6.3.2.2 Financial leasing business

The Group operates its financial leasing business through Huarong Financial Leasing. Huarong Financial Leasing mainly engages in financial leasing of equipment to provide customized financial solutions to clients, including sale and leaseback, direct leasing and operating leasing. As at December 31, 2017, Huarong Financial Leasing operated its financial leasing business in 31 provinces, autonomous and municipalities in China. As at December 31, 2017, Huarong Financial Leasing had total assets of RMB132,014.8 million, net assets of RMB14,239.7 million and ROAE of 12.8%, ranking seventh, fifth and twelfth among the 66 financial leasing companies in China, respectively. As at December 31, 2016 and 2017, total amount of finance lease receivables of Huarong Financial Leasing was RMB97,704.2 million and RMB107,653.0 million, respectively. In 2016 and 2017, the net profit of Huarong Financial Leasing was RMB1,471.6 million and RMB1,628.6 million, respectively, representing a growth rate of 10.7%.

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

	As of or for the year ended December 31,	
	2017	2016
Profitability indicators		
ROAA[(1)]	1.3%	1.5%
ROAE[(2)]	12.8%	13.9%
Net interest spread[(3)]	1.9%	2.4%
Net interest margin[(4)]	2.4%	3.0%
Cost-to-income ratio[(5)]	17.2%	17.1%
Asset quality indicators		
Distressed asset ratio[(6)]	1.32%	1.21%
Provision coverage ratio[(7)]	157.5%	155.8%
Capital adequacy indicators		
Core capital adequacy ratio[(8)]	11.9%	10.5%
Capital adequacy ratio[(8)]	12.5%	11.1%

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

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

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

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

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

6. Management Discussion and Analysis

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

(7) Provision coverage ratio equals the balance of finance lease receivables impairment provisions divided by the balance of distressed assets.

(8) Disclosed by the means reported to CBRC.

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

	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Sale and lease-back	5,888.5	80.1%	4,728.4	79.8%
Direct leasing	526.8	7.2%	839.9	14.2%
Others	939.6	12.7%	355.9	6.0%
Total	7,354.9	100%	5,924.2	100.0%

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

	As of December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	17,945.9	18.7%	18,883.9	21.8%
Water, environment and public utilities management	46,178.2	48.1%	35,077.7	40.5%
Transportation, logistics and postal services	4,955.1	5.1%	7,232.4	8.3%
Construction	4,859.1	5.1%	4,569.3	5.3%
Mining	1,454.1	1.5%	2,007.4	2.3%
Leasing and commercial services	1,636.0	1.7%	2,329.4	2.7%
Real estate	118.8	0.1%	179.3	0.2%
Others	18,948.6	19.7%	16,350.3	18.9%
Total	96,095.8	100.0%	86,629.7	100.0%

6. Management Discussion and Analysis

6.3.2.3 Banking services business

The Group conducts its banking services business in China through Huarong Xiangjiang Bank. Huarong Xangjiang Bank ranked 25th among the top 100 enterprises in Hunan province in 2017. As at December 31, 2016 and 2017, total assets of Huarong Xiangjiang Bank was RMB260,185.6 million and RMB314,525.6 million, respectively; total loans was RMB113,609.5 million and RMB149,706.8 million, respectively; total deposits was RMB172,483.7 million and RMB202,638.2 million, respectively. In 2016 and 2017, net profit of Huarong Xiangjiang Bank was RMB2,337.3 million and RMB2,510.4 million, respectively, with an increase of 7.4%.

As at December 31, 2017, the non-performing loan ratio and provision coverage ratio of Huarong Xianjang Bank was 1.48% and 159.1%, respectively. Its core tier 1 capital adequacy ratio was 9.9% and its capital adequacy ratio was 13.2%, and all major businesses indicators of Huarong Xiangjiang Bank either satisfied or outperformed regulatory requirements. The rating of Huarong Xiangjiang Bank was "AAA" as assessed by China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司).

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

	As of or for the year ended December 31,	
	2017	2016
Profitability indicators		
ROAA[(1)]	0.9%	1.0%
ROAE[(2)]	14.6%	17.1%
Net interest spread[(3)]	2.5%	2.8%
Net interest margin[(4)]	2.6%	2.7%
Cost-to-income ratio[(5)]	31.4%	34.5%
Asset quality indicators		
Non-performing loan ratio[(6)]	1.48%	1.48%
Provision coverage ratio[(7)]	159.1%	152.7%
Allowance to total loans[(8)]	2.4%	2.3%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio[(9)]	9.9%	8.6%
Capital adequacy ratio[(9)]	13.2%	11.5%
Other indicators		
Loan to deposit ratio[(10)]	72.1%	65.9%
Liquidity ratio[(11)]	42.9%	36.6%

6. Management Discussion and Analysis

(1) ROAA equals net profit for the period divided by the average of total assets at the beginning and end of the period.
(2) ROAE equals net profit attributable to shareholders for the period divided by the average balance of shareholders' equity at the beginning and end of the period.
(3) Net interest spread equals the difference between the average daily yield of interest-earning assets and the average daily cost of interest-bearing liabilities.
(4) Net interest margin equals net interest income divided by the average daily balance of interest-earning assets.
(5) Cost-to-income ratio equals the ratio of other expenses divided by total income (excluding commission and fees and interest expenses).
(6) Non-performing loan ratio equals the balance of non-performing loans divided by total loans and advances to customers.
(7) Provision coverage ratio equals the balance of loan allowance divided by the balance of non-performing loans.
(8) Allowance to total loans equals the balance of loan allowance divided by total loans and advances to customers.
(9) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBRC regulations.
(10) Loan to deposit ratio equals total loans and advances to customers divided by total deposits of customers.
(11) Liquidity ratio 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 fee and commission based services, for corporate banking clients under the brand of "Cai Zhi Rong" (財智融). The balance of corporate loans of Huarong Xiangjiang Bank was RMB90,876.4 million and RMB115,938.4 million respectively as of December 31, 2016 and 2017, representing an increase of 27.6%, of which the balance of loans to small and micro enterprises was RMB28,272.1 million and RMB40,793.8 million, respectively, representing 31.1% and 35.2% of its balance of corporate loans, respectively; the balance of corporate deposits was RMB108,723.3 million and RMB133,205.7 million, respectively, representing an increase of 22.5%.

Retail banking business: Huarong Xiangjiang Bank provides diversified products and services to retail banking clients, such as retail loans, retail deposits, bank cards as well as fee and commission based services. The balance of retail loans of Huarong Xiangjiang Bank was RMB22,733.0 million and RMB33,768.4 million respectively as at December 31, 2016 and 2017, representing an increase of 48.5%; the balance of retail deposits was RMB40,952.9 million and RMB46,083.1 million, respectively, representing an increase of 12.5%.

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

	As of December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Loans for business operations	**10,556.0**	**31.3%**	9,816.0	43.2%
Mortgage	**11,390.8**	**33.7%**	7,087.5	31.2%
Others	**11,821.6**	**35.0%**	5,829.5	25.6%
Total	**33,768.4**	**100.0%**	22,733.0	100.0%

6. Management Discussion and Analysis

Financial market business: As at December 31, 2016 and 2017, the balance of placements with financial institutions and financial assets held under resale agreements of Huarong Xiangjiang Bank was RMB5,240.3 million and RMB7,594.9 million, respectively, and the balance of placements from financial institutions and financial assets sold under repurchase agreements was RMB22,559.1 million and RMB16,093.4 million, respectively.

6.3.2.4 Consumer finance

In 2016, the Group established Huarong Consumer Finance to provide consumer finance services. As at December 31, 2017, total loans of Huarong Consumer Finance were RMB6,166.2 million and total assets were RMB6,827.5 million. In 2017, Huarong Consumer Finance achieved net profits of RMB105.0 million.

6.3.3 Asset Management and Investment Business

Benefiting from capital, customers and technical advantages accumulated from the distressed asset management business and financial services business of the Group, our asset management and investment segment generates commission and fee income, as well as investment income through asset management, financial investments, international business and other businesses. The asset management and investment business of the Group enhances the overall profitability of the distressed asset management business and optimizes the business and income structure of the Group. The Group's asset management and investment segment is a natural extension and supplement of its distressed asset management segment and serves as an important platform for providing the Group's clients with a comprehensive array of diversified asset management, investment and financing services. As at December 31, 2016 and 2017, the total assets under the Group's asset management and investment segment was RMB302,715.7 million and RMB435,906.9 million, respectively, representing 21.6% and 23.5%, respectively, of our total assets. In 2016 and 2017, the total income from asset management and investment segment was RMB21,701.7 million and RMB32,479.9 million, respectively, representing 22.8% and 25.3%, respectively, of our total income.

6. Management Discussion and Analysis

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

	As of or for the year ended December 31,	
	2017	2016
	(in millions of RMB)	
Trust business		
Outstanding trust AUM	**322,053.3**	242,592.7
Total trust income	**2,556.1**	2,079.4
Including: trust commission and fee income	**1,598.5**	1,475.2
Profit before tax	**1,129.6**	1,149.5
Private fund		
Total committed capital	**112,213.2**	82,310.2
Total income	**1,345.5**	2,252.7
Financial investments of the Company		
Balance of financial investments(1)	**62,390.7**	70,117.8
Investment income from financial investments(2)	**6,234.8**	5,329.5
International business		
Total assets	**274,763.5**	134,871.2
Total income	**18,244.9**	9,516.2
Profit before tax	**6,175.5**	4,521.1
Other businesses		
Total income	**4,098.6**	2,523.9

(1) Balance of financial investments equals financial investments in funds, fixed income products and structured entities, classified under financial assets held for trading, investments 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 attributable to the asset management and investment segment of the Company in consolidated financial statements.

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

6. Management Discussion and Analysis

6.3.3.1 Trust business

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

As at December 31, 2016 and 2017, the total trust assets under management of Huarong Trust was RMB242,592.7 million and RMB322,053.3 million, respectively, representing an increase of 32.8%. As of December 31, 2016 and 2017, we managed 384 and 396 existing trust projects, respectively.

In 2016 and 2017, the total income generated from trust business was RMB2,079.4 million and RMB2,556.1 million, respectively.

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

	As at December 31,	
	2017	2016
	(in millions of RMB)	
Industry and commerce	**50,088.8**	33,078.4
Financial institutions	**136,851.6**	86,182.5
Securities investment	**33,853.2**	31,827.8
Infrastructure	**34,736.7**	34,293.6
Real estate	**64,113.0**	43,567.7
Others	**2,410.0**	13,642.7
Total	**322,053.3**	242,592.7

6. Management Discussion and Analysis

6.3.3.2 Private fund business

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

As at December 31, 2017, Huarong Yufu managed a total of 43 private funds. These funds cover major private fund categories including high-yield funds, merger and acquisition funds, growth capital funds and industry funds. Principal investors in the funds managed by the Group include various types of investment companies, fund companies, banks, insurance companies, industry leading enterprises, real estate companies, trading companies and individuals.

The table below sets forth the basic operational details of the private fund business of Huarong Yufu as of the dates and years indicated.

	As at or for the year ended December 31,	
	2017	2016
	(in millions of RMB)	
Number of funds managed (unit)	**43**	40
Total committed capital	**112,213.2**	82,310.2
Total paid-in capital	**63,385.3**	47,918.7
Total income	**1,345.5**	2,252.7
Profit before tax	**694.4**	675.9

6. Management Discussion and Analysis

6.3.3.3 Financial investment business of the Company

Financial investment business of the Company mainly refers to fixed income investments and equity investments. As at December 31, 2016 and 2017, the balance of our financial investments was RMB70,117.8 million and RMB62,390.7 million, respectively. In 2016 and 2017, the income from financial investment business was RMB5,329.5 million and RMB6,234.8 million, respectively.

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

	As at December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Fixed income investments	**60,283.4**	**96.6%**	63,761.1	91.0%
Equity investments	**2,107.3**	**3.4%**	6,356.7	9.0%
Total	**62,390.7**	**100.0%**	70,117.8	100.0%

6.3.3.3.1 Fixed income investments

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 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, limited liability partnerships and dedicated asset management plans established by independent third parties. As at December 31, 2016 and 2017, the balance of the fixed income financial investment of the Company was RMB63,761.1 million and RMB60,283.4 million, respectively.

6.3.3.3.2 Equity investments

The Company utilizes its own funds to invest in stocks of unlisted and listed enterprises and other equity interests. The Group 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. Investment in other equity interests includes investments in wealth management products of securities companies and interests in limited partnership entities. We accelerate the consolidation and reorganization of such enterprises through our equity investments to facilitate the optimization and upgrade of their industrial structures, increase their enterprise values and realize investment returns mainly through exiting in the capital markets.

As at December 31, 2016 and 2017, the balance of equity financial investments of the Company was RMB6,356.7 million and RMB2,107.3 million, respectively.

6. Management Discussion and Analysis

6.3.3.4 International business

The Group conducts its international business mainly through Huarong International and other subsidiaries. As the overseas investment and financing platform of the Group, Huarong International takes advantage of the developed capital markets and established legal environment in Hong Kong, penetrates multi-level overseas financing channels and broadly conducts equity, debt and mezzanine capital investment and financing business. To exploit the geographic advantage and bridging function of Hong Kong, Huarong International uses overseas funds to build cross-border financing channels in order to facilitate the linkage between domestic and overseas funds and businesses.

As at December 31, 2016 and 2017, the total asset of Huarong International was RMB134,871.2 million and RMB235,482.2 million, respectively. The total income for 2016 and 2017 of Huarong International was RMB9,516.2 million and RMB15,108.9 million respectively, and the profit before tax was RMB4,521.1 million and RMB5,098.7 million, respectively.

6.3.3.5 Other businesses

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

In 2016 and 2017, the income from the Group's other businesses was RMB2,523.9 million and RMB4,098.6 million, respectively.

6.3.4 Business synergy

In 2017, the Group actively promoted the business cooperation between the Head Office, Company Branches and subsidiaries and the synergies effect was enhanced significantly. 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 RMB153,172.49 million and the total operating income of all operation units amounted to RMB9,867.28 million.

6. Management Discussion and Analysis

6.3.5 Major investment and acquisition

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

6.3.6 Development of information technology

Management of information technology

During the Reporting Period, the Group compiled the Informatization Planning for China Huarong (2017–2020) and built the technology management structure. The Group further implemented the Information Technology Management Committee and transformed the functions of the Information Technology Department. We strengthened independent research and development as well as independent operation and maintenance of core systems. By virtue of the "Construction of IFRS 9 Application System of Financial Asset Management Companies" Project, the Group won the Developmental Innovative Contribution Award of Scientific and Technological Innovation and Outstanding Services Award of Financial Industry for 2017 from the PBOC (Financial Electronization), and succeeded in declaring Consumer Finance Anti-fraud System — China Huarong's first national invention patent.

6. Management Discussion and Analysis

Information system establishment

During the Reporting Period, data entry of the whole Group was achieved in the human resources management system and organizational HR module was launched to basically realize the on-line management of key segments of customer management system. Mobile office system was initially established, to promote internal rating of credit risks in auditing system, impairment and valuation of IFRS 9 and Phase II of related transactions and reconstruction of overall risk supporting integrated business system in an orderly manner. We synchronized construction of the Company's off-balance sheet system and overall scheme design of the Group's off-balance sheet system, completed the part of the code development of financial system IFRS 9 application system. We continued to promote the Group's application system to a number of subsidiaries to support the Group's business development and management.

6.3.7 Human resources management

Employees

The Group had 12,520 employees as at December 31, 2017, including 2,665 employees working for the Company and 9,855 employees working for various subsidiaries. The Company's employees hold over 50 types of professional qualifications, including, among others, Certified Public Accountant, Chartered Financial Analyst, Sponsor Representative, attorneys, Financial Risk Managers, Certified Practising Valuer, banking practice qualifications and securities practice qualifications.

6. Management Discussion and Analysis

The table below sets forth a breakdown of the employees by age, as at December 31, 2017:

	Number	% of total
Aged 35 and below	7,293	58%
Aged 36–45	2,847	23%
Aged 46–55	2,154	17%
Above 55	226	2%
Total	12,520	100%

The table below sets forth a breakdown of the employees by education level, as at December 31, 2017:

	Number	% of total
Doctoral degree or doctoral candidate and above	227	2%
Master degree or master candidate	4,018	32%
Bachelor degree or undergraduate	6,837	55%
Junior college and below	1,438	11%
Total	12,520	100%

Remuneration policy

Salaries are reasonably 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 incentive system was further optimized. The Group has established a healthy and competitive remuneration management system based on its operating results and the principle of fairness.

Training

In 2017, the Group conducted various training programs in respect of different business lines for different levels of employees, including on-site training such as youth reserve talent training program, system introduction, case studies, special lectures, knowledge and skill promotion and subject research, and advocated knowledge sharing among its employees through platforms such as on-line colleges, which promoted employees' on-line learning and provided sufficient human resources and intelligence support for sustainable and sound development of the Group.

6. Management Discussion and Analysis

6.4 Risk Management

In 2017, the Group actively responded to relevant requirements of the Communist Party of China and regulatory institutions on strengthening financial risk prevention and control, constantly optimized its risk management, refined its risk management policy system and improved its risk management mechanism and process to accelerate the construction of risk management system. The Group's overall risk management level was improved continuously and risk resistance capability was reinforced constantly, which provided effective guarantee for smooth operation of various business activities of the Group.

6.4.1 Comprehensive Risk Management System

In 2017, the Group formulated and published the *2017 Risk Appetite Policy*, enriched risk appetite indexes, perfected management requirements, strengthened rigid constraints on risk appetite, and urged its subsidiaries to prudently determine and strictly perform their own risk appetites according to regulatory requirements of the Group. In accordance with regulatory requirements and its management needs, the Group revised the *Basic Procedures of Risk Management*, which provided policy support for the construction of its comprehensive risk management system. The Group continued to implement the five-year plan for comprehensive risk management, optimized and perfected planning contents according to regulatory policies and implementation situation to ensure full implementation of planning tasks. The Group further perfected its internal control management system and continuously improved its internal control management level. The Group adhered to the authorization policy of categorized management and dynamic adjustment, and strengthened the adjusting role of authorization in business operation and risk management. The Group gave full play to guiding and conducting functions of evaluation, intensified the efforts in linking risk prevention with performance appraisal and speeded up the progress of risk prevention. The Group also accelerated the construction of risk database and risk management system so as to strengthen the supporting role of risk management.

6.4.2 Structure of Risk Management

The Group has set up a risk management framework which is a three-dimensional risk management system consisting of three hierarchies within our corporate governance structure, three tiers of professional teams specialized in risk management and three lines of defense in our practical operations. In 2017, the Group continued to refine its risk management organization system, and leveraged the risk management committee's role of managing and discussing risks at the Board and the senior management levels in terms of corporate governance structure; further increased the allocation of risk directors in subsidiaries and formulated the *Risk Director Reporting System* to standardize reporting mechanisms and procedures of risk directors and enhance their independence and specialization in performing duties in terms of professional teams specialized in risk management; strengthened and deepened professional training on the Group's businesses, risks and audit lines to improve the awareness and capabilities of risk management among all employees in terms of our practical operations.

6. Management Discussion and Analysis

6.4.3 Credit Risk Management

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

In 2017, in accordance with regulatory requirements, the Group focused on enhancing monitoring and management of credit risks and improved the management quality of credit risks by revising and perfecting management system, implementing on-site and off-site inspection and conducting risk warning. Meanwhile, on the basis of further strengthening regular evaluation of assets quality, the Group carefully conducted risk measurement and stress test to make full preparation for risk mitigation.

In 2017, the Group further optimized its credit risk management systems and tools, basically built the internal rating system of credit risks, published the *Provisional Measures on Management of Credit Risk Internal Rating*, basically realized full coverage of customer rating and enhanced the level of customer credit risk quantitative management. In accordance with the changes of national industry policy and regulatory requirements, the Group timely updated the negative list of business access, clarified the bottom line for international business access and refined the credit risk control requirements. The Group strengthened customer limit management, continuously improved management mechanisms and systems, and effectively controlled the risk of customer concentration. The Group enhanced risk asset preservation and recovery, clarified task objectives of risk mitigation, concentrated its resources to accelerate risk mitigation of key projects and innovated risk mitigation methods. The Group evaluated the effectiveness of risk mitigation of all business units based on reasonable quantified measurement and achieved effective disposal of risk assets.

6.4.4 Market Risk Management

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

In 2017, the Group strengthened the construction of market risk management system, enriched market risk appetite indexes, improved monitoring and reporting mechanisms and procedures, and reinforced the monitoring and analysis of the Group's market risks. The Group also carried out the management requirements of classifying trading accounts and non-trading accounts, and completed account division of the Head Office's financial instruments and commodity positions. The Head Office and certain of its subsidiaries further refined their market risk management systems based on their business management needs, enriched market risk management rules and launched market risk stress tests. At the same time, the Group continued to evaluate assets measured by fair value and strengthened market risk measurement.

With respect to the risk of interest rate, the Group actively studied interest rate market-oriented reform measures and carry out proactive management of assets and liabilities, focusing on optimization of assets and liabilities structure and reduction of financing costs. By strictly controlling the maturity of debt restructuring, we strengthened the matching of liabilities with asset term and interest rate structure, and manage the interest rate risk through quantitative analysis, including regular risk sensitivity analysis of interest rates.

6. Management Discussion and Analysis

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 flexibly remit the proceeds from its overseas listing when the exchange rate is favourable based on uses of proceeds to further strengthen the distressed asset management business, to improve our integrated financial services platform and to develop our asset management and investment business. Our overseas subsidiaries issued U.S. dollar bonds, SGD bonds and EUR bonds and conducted the U.S. dollar borrowings. The investment assets were primarily denominated in US dollar, EUR or HK dollar, which was pegged to the US dollar. The denominated currencies of our assets and liabilities are basically same, therefore exchange rate risk is insignificant.

With respect to the price risks of listed stocks, according to the principle of prudent valuation, controllable risk and available profits, the Group closely monitored the impact of domestic and overseas macro-economic trends, industry fundamental changes, interest rates and liquidity of major economies, operating environment of capital market as well as policy changes from regulators on business development, financing environment and valuation of such listed companies. The Group set different trading portfolios for different assets, monitored their values daily and entrusted Huarong Securities to engage in portfolio management. In addition, the Group timely conducted information disclosure on reduction arrangements of policy-oriented equity assets, and market value monitoring and reduction on equity assets under the premise of complying with relevant policy requirements of regulatory authorities and exchanges as well as the Company's reduction plans.

6.4.5 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 daily operations or financial conditions. Market liquidity risk refers to the situation where the Group fails to dispose 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, insufficient liquidity reserve and insufficient financing to support business development.

While actively implementing requirements on liquidity management from regulatory institutions, the Group adopted a centralized liquidity management system to strengthen initiative and foresight of liquidity management as well as risk management and control. By focusing on asset and liability management, the Group maintained the mismatch of assets and liabilities at an acceptable liquidity risk level, and set target leverage ratio that meets regulatory requirements to effectively control leverage and guarantee long-term liquidation.

6. Management Discussion and Analysis

The Group monitored the maturity mismatch between assets and liabilities, and implemented liquidity management through cash flow forecasts and controls. With respect to asset management, the Group established the system of working capital plan, adopted transfer pricing method and other measures to expedite the turnover of funds, and reasonably maintained fund positions. With respect to liability management, the Group adopted the system of unified-borrowing and unified-lending and central management on external financing, strengthened financing channel development and financing innovation, continuously refined and improved them to issue financial bonds, long-term financing and interbank market borrowings. Other less important financing channels included interbank advances and pledge-oriented buyback. The structure of the Group's liabilities was optimized through the increase of the proportion of medium and long-term liabilities and the addition of market financing methods in terms of the maturity and types of liabilities.

The methods for monitoring and controlling liquidity risks of the Group include indicator monitoring, alert management, stress tests and contingency plans. The Group strengthened the centralized management of its fund plan and liquidity, enhanced the maturity alert of assets and liabilities, and set, supervised and controlled liquidity risk indicators in accordance with regulatory requirements and its actual situation to dynamically monitor, analyze and control over the liquidity risk. The Group also conducted regular stress tests and perfected liquidity risk emergency plan based on the test results.

6.4.6 Management of Operational Risks

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 management, including legal risks. The Group's operational risks mainly arise from internal fraud, external fraud, employment practices and accidents on our premises, business activities of customers or related to our products, damage to physical assets, incidents related to IT system and incidents related to execution, delivery and process management.

In 2017, the Group continued to strengthen its management of operational risks, carefully sorted out operational procedures, identified important risk points and management measures, actively conducted operational risk stress tests, strengthened supervision, guidance, inspection and training, promoted the concept of operational risk management, enhanced the awareness of operational risks among all employees and integrated operational risk management into daily operation and management activities.

The Group attached great importance to the building of prevention and control system of legal risks covering all processes, all systems and all directions. The Group optimized legal review process, strengthened contract management, promoted innovation of working mechanism of case management, and built sound compliance risk management system to fully prevent and control the legal risks in its operation and management activities. The Group also conducted legal training and cultivated compliance culture.

6. Management Discussion and Analysis

The Group further refined its information technology risk prevention system. Guided by regulatory requirements, the Group formulated and promulgated the *Administrative Measures on Information Technology Risk and Information Security*, to optimize and improve all systems and regulations and guide information technology risk prevention and control and information security management. By implementing self-inspection and risk assessment of network security, the Group further improved the level of network security compliance and risk management. The Group also passed the ISO27001/20000 information security and technology service management system certification test by China Information Security Certification Center (ISCCC). During the Reporting Period, there was no significant event in relation to information security and technological risks.

6.4.7 Reputational Risk Management

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

The Group attached great importance to reputational risk management, incorporated it into corporate governance and comprehensive risk management system, perfected unified reputational risk management system, and conducted active management of reputational risks to ensure prompt detection and proper handling of incidents in relation to reputational risks of the Group.

In 2017, in accordance with the principles of proactive and prudent management, the Group adopted classified management on reputational risks, insisted on combining centralized control and classified management as well as daily management and special management, did well in crisis prevention and achieved management and control with full involvement and division of duties and responsibilities, real-time monitoring and standard process. By further improving its capability of reputational risk management, the Group vigorously safeguarded and promoted its social reputation and brand image. In 2017, the Group did not have any significant or particularly significant event of reputational risk.

6.4.8 Internal Control

In 2017, the objectives of the Group's internal control are focused on efficiency of operations, reliability of reports and compliance of operations. The Group has strictly implemented all regulatory requirements, further improved organizational structure of internal control and reinforced internal control measures. The Group perfected internal control tools and optimized internal control systems. In accordance with regulatory requirements, the Group revised the Internal Control Process Framework, the Internal Control Manual and the Risk Control Matrix, strengthened risk control of important segments in the process to promote the construction of internal control culture and enhance the level of internal control.

Details of the Group's internal control are set out in "10. Internal Control".

6. Management Discussion and Analysis

6.4.9 Internal Audit

The Group has adopted an internal audit system and has professional auditors responsible for independent and objective supervision, examination and evaluation of 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 2017, in accordance with regulatory requirements the Group conducted routine audits, special audits, economic responsibility audits and evaluation of internal control. The Group performed its audit duties, optimized and perfected its internal audit management system and improved the professional quality of the audit team as well as completed the annual audit plan by overall planning and step-by-step implementation.

The Group improved the internal audit and management systems. The Group established an internal audit system and management mode which is applicable to financial asset management companies. The Group improved and consolidated its audit and management systems to further specify the objectives of and improve the applicability of the documents of the systems. The Group has optimized the internal audit examination system to further enhance the daily supervision and management of the internal audit of its branches and subsidiaries.

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

The Group organized and conducted evaluation of internal control. By adopting self-evaluation, on-site examination and special inspection across the Group, the Group evaluated the efficiency of its internal control on risk management, internal supervision, financial management, business operation and information communication, gave suggestions and implemented rectifications to promote the perfection of the Group's internal control system.

The Group strengthened internal audit structure. The Group has strengthened the construction of its internal audit team by organizing training on internal and external businesses to enhance its internal audit performance capability. The Group has also improved its audit technological methods to develop an off-site audit system covering all lines of business and give full play to supervision of internal audit. The Group has reallocated and organized the audit resources, highlighted the audit focus and enhanced the audit level so as to improve the overall level of its internal audit.

6. Management Discussion and Analysis

6.4.10 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. The Company continuously improves its anti-money laundering management system and working mechanism. In accordance with new regulatory requirements, the Group revised its anti-money laundering system, perfected its anti-money laundering internal control, improved the organizational structure of anti-money laundering management, optimized relevant information system, and strengthened its daily supervision and management to ensure effective enforcement of anti-money laundering laws and regulations and relevant rules of the Company.

6.5 Capital Management

In accordance with external regulatory requirements and the Company's development strategies, the Company has continuously optimized its capital measurement, planning, utilization, monitoring and efficiency assessment mechanism, and optimized its internal capital allocation to ensure a sound and compliant capital base and support the steady development of the Company.

As at December 31, 2016 and 2017, the capital adequacy ratio of the Company was 12.86% and 13.06%, respectively, which met the regulatory requirements.

As at December 31, 2016 and 2017, the leverage ratio of the Company was 9.1:1 and 10.8:1, respectively.

6.6 Development Outlook

Looking at 2018, the fundamentals of global economy will follow the trend of steady growth in 2017. Under the background that the United States raised interest rates, shrank balance sheet and lowered taxes, and major developed economies such as Europe and Japan withdrew from easing policy, it is expected that global interest rate will grow further and liquidity will trend tightening, together with rising trade protectionism, all of which will bring certain pressure on continuous recovery of global economy.

Domestically, as socialism with Chinese characteristics has entered a new era, China's economic development has also entered a new era. Its basic feature is that China's economy has shifted from rapid growth to high-quality development. In accordance with the spirit of the Central Economic Work Conference, in 2018, China will continue to insist on the key direction of maintaining stability and closely follow the changes in major social contradictions in our country. In accordance with the requirements of high-quality development, we will stick to stability and continuity in macro-economic policy. China will adhere to the principle of supply-side structural reform and vigorously promote reform and opening up, promote quality

6. Management Discussion and Analysis

change, efficiency change, motivation change, and promote sustained and healthy economic and social development. We will implement proactive fiscal policies and prudent monetary policies, improve the coordination mechanism for economic policies and keep the economy operating within a reasonable range.

Facing the new external situation, the Company will actively adapt to national demands on entering the new era of high-quality development, insist on "concentrating relatively and protruding main business", closely focus on the main business of distressed assets, vigorously transforms the way of development, adjust the optimization structure and actively implement the three main tasks of "serving the real economy, preventing and defusing financial risks, and deepening financial reform" to vigorously support the supply-side structural reform, playing a proactive role in promoting the sound cycle and healthy development of the economy and finance.

7. Changes in Share Capital and Information on Substantial Shareholders

7.1 Changes in Share Capital

The share capital of the Company as at December 31, 2017 is set out as follows:

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

7.2 Substantial Shareholders

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

As at December 31, 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)

7. Changes in Share Capital and Information on Substantial Shareholders

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

Note: (L): long position

Notes:

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

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

(3) According to the Corporate Substantial Shareholder Notice from Warburg Pincus & Co. 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.

7. Changes in Share Capital and Information on Substantial Shareholders

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

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

(6) Calculated based on 14,026,355,544 Domestic Shares or 25,043,852,918 H Shares in issue of the Company as at December 31, 2017.

(7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at December 31, 2017.

7. Changes in Share Capital and Information on Substantial Shareholders

7.2.2 Substantial Shareholders

During the Reporting Period, the substantial Shareholders of the Company with shareholding of class of shares over 5% remained unchanged, details of which are as follows:

MOF

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

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

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

Warburg Pincus LLC

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

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

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

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

8. Directors, Supervisors and Senior Management

8.1 Directors

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

No.	Name	Gender	Age	Position	Term of office
Current Directors[1]					
1	Wang Lihua[2]	M	53	Executive Director and Vice President	The second session: From April 2017 to the election of the next session of the Board
2	Li Yi[3]	M	58	Non-executive Director	The first session: From January 2017 to February 2017 The second session: From February 2017 to the election of the next session of the Board
3	Wang Cong	F	55	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to the election of the next session of the Board
4	Dai Lijia	F	46	Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to the election of the next session of the Board
5	Zhou Langlang[4]	M	37	Non-executive Director	The second session: From April 2017 to the election of the next session of the Board
6	Song Fengming	M	71	Independent Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to the election of the next session of the Board

8. Directors, Supervisors and Senior Management

No.	Name	Gender	Age	Position	Term of office
7	Tse Hau Yin	M	70	Independent Non-executive Director	The first session: From March 2015 to February 2017 The second session: From February 2017 to the election of the next session of the Board
8	Liu Junmin	M	68	Independent Non-executive Director	The first session: From June 2015 to February 2017 The second session: From February 2017 to the election of the next session of the Board
9	Shao Jingchun	M	61	Independent Non-executive Director	The first session: From November 2016 to February 2017 The second session: From February 2017 to the election of the next session of the Board
Resigned Directors					
1	Lai Xiaomin	M	55	Chairman of the Board and Executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to April 2018
2	Ke Kasheng	M	53	Executive Director and President	The first session: From September 2012 to February 2017 The second session: From February 2017 to August 2017
3	Wang Keyue	M	60	Vice Chairman and Non-executive Director	The first session: From September 2012 to February 2017 The second session: From February 2017 to October 2017
4	Tian Yuming	M	53	Non-executive Director	From September 2012 to January 2017
5	Wang Sidong	M	56	Non-executive Director	From March 2015 to February 2017

8. Directors, Supervisors and Senior Management

(1) On February 14, 2017, the Company held the first extraordinary general meeting and the first meeting of the second session of the Board for 2017 respectively to consider and approve the members of the second session of the Board, electing chairman, vice chairman of the second session of the Board and appointing the members of special committees of the second session of the Board.

(2) Mr. Wang Lihua was considered and appointed as an executive Director of the Company at the fourth extraordinary general meeting for 2016 of the Company on October 31, 2016 and he took office on April 12, 2017 upon the approval of the CBRC.

(3) Mr. Li Yi was considered and appointed as a non-executive Director of the Company at the fourth extraordinary general meeting for 2016 of the Company on October 31, 2016 and he took office on January 3, 2017 upon the approval of the CBRC.

(4) Mr. Zhou Langlang was considered and appointed as a non-executive Director of the Company at the third extraordinary general meeting for 2016 of the Company on September 13, 2016 and he took office on April 12, 2017 upon the approval of the CBRC.

8. Directors, Supervisors and Senior Management

8.1.1 Executive Directors

Mr. Wang Lihua, aged 53, has been an executive Director and vice president of the Company since April 12, 2017. He was accredited as a senior economist by the Company in May 2015. Mr. Wang began his career at the Finance Office of Zhangqing Township, Hukou County, Jiangxi Province in July 1985 and worked as a cadre of the Finance Bureau of Hukou County, Jiangxi Province from December 1987 to September 1989. From July 1992 to September 1994, he was a financial manager in Hainan Zhonghe Industrial Co., Ltd.. From August 1997 to September 2012, he worked in the MOF, serving successively as cadre of the National Debt Department, principal staff member of the National Debt and Finance Department, deputy director of the Comprehensive Affairs Division of the Finance Department, deputy director of the Finance Division II of the Finance Department, director of the Finance Division II of the Finance Department and a cadre of deputy director level of the Finance Department. Mr. Wang joined the Company in October 2012 and has served as vice president till April 2017. Mr. Wang graduated from the Forestry Department of Jiangxi Agricultural University with a bachelor's degree in agriculture in July 1985. He graduated from Research Institute for Fiscal Science of the MOF (now known as Chinese Academy of Fiscal Sciences), majoring in public finance, with a master's degree and then a doctor's degree in economics in July 1992 and July 1997, respectively. From October 2005 to January 2008, he studied at the post-doctoral research center for applied economics of Peking University.

8. Directors, Supervisors and Senior Management

8.1.2 Non-executive Directors

Mr. Li Yi, aged 58, has been a non-executive Director of the Company since January 3, 2017. Mr. Li began his career in April 1978. He worked in the MOF, serving successively as cadre, staff member and deputy principal staff member of the Party Committee Publicity Department from June 1985 to February 1989, principal staff member of the Department for Tax Affairs from March 1989 to November 1996, assistant researcher of the Tariff Division of the Department for Tax Affairs from November 1996 to September 1997, and deputy director of the Tariff Division of the Department for Tax Affairs from September 1997 to February 1998. He practiced as deputy county magistrate of Xinhua County, Hunan Province from March 1998 to February 2000 (during which he studied as a part-time postgraduate at Economics and Management School of Hunan Normal University from September 1998 to July 2000). He worked in the MOF, serving successively as deputy director of the Agricultural Tax Division of the Department for Tax System and Tax Rules from February 2000 to June 2000, deputy director of the Agricultural Tax Division of the Department for Tax Affairs from June 2000 to August 2006, secretary of the Department for Tax Affairs (level of director) from September 2006 to August 2014 and deputy director of the Information and Network Center from August 2014 till January 2017 (level of deputy director general).

Ms. Wang Cong, aged 55, has been a non-executive Director of the Company since September 27, 2012. Ms. Wang has been appointed as deputy researcher by PBOC in October 1997. Ms. Wang has been working in PBOC for many years, successively served as principal staff member and deputy director at the Scientific Research Organization Division of the Financial Research Institute from August 1985 to August 1998, then served as deputy director (in charge) of the Fiscal and Taxation Research Division of the Research Bureau from August 1998 to February 2004, researcher of the Risks Management of Banking Institutions Division, researcher and director of the Deposit Insurance System Division of the Finance Stability Bureau from February 2004 to December 2012, during which period Ms. Wang practiced as assistant general manager of the Personal Financial Department of the PBOC from August 2011 to August 2012. Ms. Wang graduated from the School of Finance of Renmin University of China, majoring in finance, with a bachelor's degree in economics in July 1985, and graduated from the Department of Public Finance of Xiamen University with a master's degree in economics in July 1996.

Ms. Dai Lijia, aged 46, has been a non-executive Director of the Company since September 27, 2012. Ms. Dai worked for many years at The People's Insurance Company (Group) of China Limited ("PICC"), the Central Financial Work Commission and CBRC, serving successively as a deputy director of PICC, deputy director of the Non-Banking Division of the Supervisory Committee Work Department of the Central Financial Work Commission, director of the Non-Banking Division of the Supervisory Committee Work Department of CBRC, researcher of the China Development Bank Regulatory Division, director of the General Office (Comprehensive Affairs Division), director of the Market Entry Division and counsel of deputy director level of the Banking Regulatory Department IV of CBRC. Ms. Dai graduated from the Finance and Accounting Department of Jiangxi College of Finance and Economics (now known as Jiangxi University of Finance and Economics) in July 1993 with a bachelor's degree in economics, and graduated from the Graduate School of the Research Institute for Fiscal Science (now known as Chinese Academy of Fiscal Sciences) of the MOF in July 1999 with a master's degree in economics and graduated from the Faculty of Business of University of Bath in UK in October 2006 with an MBA degree.

8. Directors, Supervisors and Senior Management

Mr. Zhou Langlang, aged 37, has been our non-executive Director since April 12, 2017. Mr. Zhou has been a managing director of Warburg Pincus LLC since 2005 and is currently a director of Hwabao WP Fund Management Co., Ltd, Shanghai Cango Investment and Management Consultation Service Co., Ltd, Wacai Holdings Limited. Mr. Zhou served as an analyst of the investment banking division of Credit Suisse First Boston from 2003 to 2004 and an associate of the investment banking division of Citibank from 2004 to 2005. Mr. Zhou obtained a bachelor's degree in business and a bachelor's degree in electrical engineering from the University of Western Ontario in 2002.

8. Directors, Supervisors and Senior Management

8.1.3 Independent Non-executive Directors

Mr. Song Fengming, aged 71, has been an independent non-executive Director of the Company since September 27, 2012. He is entitled to the Government Special Allowance of the State Council. He is currently a professor and PhD supervisor of the School of Economics and Management of Tsinghua University. Mr. Song served as a deputy dean (in charge) of the Management Department (now known as School of Economics and Management) of Zhenjiang Shipbuilding Institute (now known as Jiangsu University of Science and Technology), dean of the Department of Finance of the School of Economics and Management and co-chairman of the China Centre for Financial Research of Tsinghua University. Mr. Song was a senior visiting scholar of MIT Sloan School of Management and attended the training course for general managers offered by Harvard Business School. Mr. Song served as an independent director of China Construction Bank Corporation ("CCB") (a company listed on the Hong Kong Stock Exchange, stock code: 00939, and on Shanghai Stock Exchange, stock code: 601939) from May 2004 to May 2010 and a supervisor of CCB from May 2010 to March 2013. He has been an independent director of China Guangfa Bank Co., Ltd. from 2013 to December 2016 and chairman of the board of supervisors of Tsinghua Holdings Co., Ltd. from October 2003 to October 2016. Mr. Song received a doctor's degree in engineering (now known as system engineering) from Tsinghua University in August 1988. He pursued his post-doctorate research at University of California from 1992 to 1994. Currently, Mr. Song is deputy secretary-general, managing director, member of the Academic Committee and chairman of the Financial Engineering Professional Committee of China Society for Finance and Banking, managing director, member of the Academic Committee, chairman of the Quantitative Financial Professional Committee of the Society of Quantitative Economics of China, and managing director and member of the Academic Committee of China Urban Financial Society and China Society for Rural Finance.

Mr. Tse Hau Yin, aged 70, has been an independent non-executive Director of the Company since March 23, 2015. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a former president of the HKICPA and a former member of the audit committee of the HKICPA. He joined KPMG in 1976 and became a partner in 1984. Before his retirement in 2003, Mr. Tse was a non-executive chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse has been an independent non-executive director of OCBC Wing Hang Bank Limited (formerly listed on the Hong Kong Stock Exchange, stock code: 00302) since November 2004, an independent non-executive director of Daohe Global Group Limited (listed on the Hong Kong Stock Exchange, stock code: 00915 and formerly known as Linmark Group Limited) from May 2005 to December 2016, an independent non-executive director of CNOOC Limited (listed on the Hong Kong Stock Exchange, stock code: 00883) since June 2005, an independent non-executive director of China Telecom Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 00728) since September 2005, an independent non-executive director of Sinofert Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00297) since June 2007, an independent non-executive director of SJM Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 00880) since October 2007 and an independent non-executive director of CCB International (Holdings) Limited (a wholly-owned subsidiary of CCB) since March 2013. Mr. Tse is a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse graduated from the University of Hong Kong and obtained a bachelor's degree in social science in November 1970.

8. Directors, Supervisors and Senior Management

Mr. Liu Junmin, aged 68, has been an independent non-executive Director of the Company since June 23, 2015. Mr. Liu taught in Tianjin University of Finance and Economics and served as lecturer and associate professor from 1982 to 1992. He has been teaching in the Department of Economics of Nankai University since 1992 and served successively as an associate professor and a professor of the department and retired in July 2015. Mr. Liu served as an independent non-executive director of Tianjin Faw Xiali Automobile Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 000927) from May 2003 to June 2009 and has been serving as independent non-executive director of Tianjin Faw Xiali Automobile Co., Ltd. again since November 2016. Mr. Liu served as an independent non-executive director of Suzhou Jinfu New Material Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 300128) from March 2008 to June 2014. Currently, Mr. Liu is an independent non-executive director of AVIC Electromechanical Systems Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: 002013), Chinese People Holdings Company Limited (a listed company on the Hong Kong Stock Exchange, stock code: 00681) and Yingli Green Energy Holdings Co., Ltd.. Mr. Liu graduated from Nankai University, majoring in economy and obtained a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctor's degree in economics in July 1994.

Mr. Shao Jingchun, aged 61, has been an independent non-executive Director of the Company since November 11, 2016. Mr. Shao served as a lecturer of the faculty of law of Peking University in 1988; a post-doctoral fellow of the European University Institute in 1989; a guest researcher of the European University Institute in 1990; Mr. Shao has been travelling, studying and conducting legal practice in Europe from 1991 to 1994. He was an associate professor of the faculty of law of Peking University in 1994; the director of international economic law department of the Law School of Peking University in 1996. He has been serving as a professor of Law School and doctoral supervisor, the director of the international economic law institute of Peking University since 2001; He has been a director of WTO legal study center of Peking University since 2002. Concurrently, Mr. Shao served as an arbitrator of China International Economic and Trade Arbitration Commission from 1995 to 2006, a counselor of All China Lawyers Association from 2003, an arbitrator/mediator of International Center for Settlement of Investment Disputes (ICSID) of the World Bank from 2004 to 2016, an English senior translator of the Commission of Legislative Affairs of the National People's Congress of the People's Republic of China from 2005, the vice director of the Institute of International Economic Law of China Law Society from 2005, the vice director of the World Trade Organization Institute of China Law Society from 2015, the vice director of International Construction Law Association from 2015 and the vice director of China Association for Quality Promotion (CAQP) from 2016. Mr. Shao was admitted to the Law School of Peking University in 1978 and got the bachelor's degree in law, master's degree in law and doctor's degree in law of Peking University in 1982, 1985 and 1988, respectively.

8. Directors, Supervisors and Senior Management

8.2 Supervisors

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

No.	Name	Gender	Age	Position	Term of office
Current Supervisors[1]					
1	Ma Zhongfu	M	51	Chairman of the Board of Supervisors and Shareholder Representative Supervisor	The first session: From October 2016 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
2	Dong Juan	F	65	External Supervisor	The first session: From April 2015 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
3	Xu Li[2]	F	59	External Supervisor	The second session: From February 2017 to the election of the new session of the Board of Supervisors
4	Zheng Shengqin	F	54	Employee Representative Supervisor	The first session: From February 2014 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
5	Chen Jin[3]	M	46	Employee Representative Supervisor	The second session: From September 2017 to the election of the new session of the Board of Supervisors
Resigned Supervisors					
1	Wang Qi[4]	F	61	External Supervisor	From September 2012 to February 2017
2	Xu Dong[4]	M	52	Employee Representative Supervisor	From March 2015 to February 2017
3	Mao Biaoyong[5]	M	52	Employee Representative Supervisor	From February 2017 to September 2017

(1) The Company held the third meeting of the second session of the employee representative meeting on January 23, 2017 to elect the employee representative Supervisors of the second session of the Board of Supervisors; the first extraordinary general meeting for 2017 on February 14, 2017 to elect the Shareholder representative Supervisors and external Supervisor of the second session of the Board of Supervisors; the first meeting of the second session of the Board of Supervisors on February 15, 2017 to elect the chairman of the second session of the Board of Supervisors and the fifth meeting of the second session of the employee representative meeting on September 14, 2017 to elect the employee representative Supervisors of the second session of the Board of Supervisors.

8. Directors, Supervisors and Senior Management

(2) Ms. Xu Li was elected as an external Supervisor by the Company's 2017 first extraordinary general meeting on February 14, 2017 and her term of office became effective on February 14, 2017.

(3) Mr. Chen Jin was elected as an employee representative Supervisor by the fifth session of the Company's second employee representative meeting on September 14, 2017 and his term of office became effective on September 14, 2017.

(4) Ms. Wang Qi and Mr. Xu Dong did not offered for re-election as their terms of office have expired, and ceased to be the Supervisors from February 14, 2017.

(5) Mr. Mao Biaoyong resigned as staff representative Supervisor due to work changes and became effective on September 14, 2017.

8. Directors, Supervisors and Senior Management

Mr. Ma Zhongfu, aged 51, has been the chairman of the Board of Supervisors since October 2016. He was accredited as a senior economist by Agricultural Bank of China Limited ("ABC") in December 1996. Mr. Ma started his career with Credit Cooperation Department of ABC in July 1988 and served successively as a staff member, senior staff member and principal staff member. Mr. Ma served as a deputy director of System Reform Division of Agriculture and Economic Reform Department of the State Council from November 1996 to June 1997. From June 1997 to September 2003, Mr. Ma worked in PBOC, serving successively as a deputy director of Finance Division and deputy director of Comprehensive Affairs Division of Rural Cooperative Financial Supervision and Management Bureau, deputy director of Comprehensive Affairs Division, deputy director of Business Division, deputy director of Credit Business Administration Division, deputy director of Supervision Division V, director of Supervision Division V of Cooperative Financial Institutions Supervision and Management Department. From September 2003 to April 2016, Mr. Ma worked in the CBRC, serving successively as a director of Agriculture Business Supervision Division and Comprehensive Affairs Division of Cooperative Financial Institutions Supervision and Management Department, deputy director of CBRC Jiangxi Office, director of CBRC Xiamen Office, director of CBRC Jiangxi Office and director of CBRC Chongqing Office. Mr. Ma joined the Company in April 2016 and has been a deputy party secretary of the Company up to now. Mr. Ma graduated from Nankai University with a bachelor's degree in economics in July 1988 and graduated from Chinese Academy of Social Sciences with a doctor's degree in management in June 2000.

Ms. Dong Juan, aged 65, has been an external Supervisor since April 2015. She obtained the qualification of PRC certified public accountant in 1994. Ms. Dong had served as deputy director and director of the Foreign Trade Division in the Commerce and Trade Department of the MOF from 1984 to 1994. Ms. Dong worked as director of the Enterprise Department of the National State owned Assets Supervision and Administration Bureau from 1994 to 1998, director of the Assessment Department of MOF from 1998 to 2000, and chairman of the board of directors of Grandchina International Consulting Co., Ltd. from 2000 to 2014. She also served as an external supervisor of China Cinda Asset Management Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 01359) from June 2010 to February 2015, and an external supervisor of Industrial and Commercial Bank of China Limited ("ICBC") (listed on the Hong Kong Stock Exchange, stock code: 01398, and the Shanghai Stock Exchange, stock code: 601398) from May 2009 to June 2016. Ms. Dong graduated from Shanxi Finance and Economics College in July 1978, and graduated from Dongbei University of Finance and Economics in August 1997 with a master's degree in economics.

Ms. Xu Li, aged 59, has been an external Supervisor since February 2017. She was accredited as a senior economist by the MOF in November 1993. Ms. Xu served successively as a senior staff member and principal staff member of the Agricultural Finance Department of the MOF from January 1982 to April 1988. From April 1988 to November 2002, she served as the general manager of the Planning and Financial Department as well as the general manager of the Financial Department and assistant to general manager of China Economic Development Trust & Investment Corporation. From December 2002 to January 2015, she served as the chief financial officer and vice president of China Minzu Securities Co., Ltd.. Since March 2015 and up to now, she has acted as the deputy general manager of China Water Affairs Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00855). Ms. Xu graduated from Dongbei University of Finance & Economics with a bachelor of Economics degree in January 1982 and finished post graduate courses of monetary banking major from Dongbei University of Finance & Economics in December 1997.

8. Directors, Supervisors and Senior Management

Ms. Zheng Shengqin, aged 54, has been an employee representative Supervisor since February 2014. She was accredited as a senior economist by ICBC in 1997. Ms. Zheng worked in ICBC from August 1984 to January 2000, serving successively as deputy director level inspector, deputy director and director of the Supervisory Office of the Disciplinary Committee of ICBC Head Office. Ms. Zheng joined the Company in January 2000 and served successively as deputy general manager of the Creditor's Rights Management Department, deputy general manager of the Operational Management Department, deputy general manager of the Operational Development Department, general manager of the Operational Management Department and general manager of the Risk Management Department until December 2010, and concurrently served as general manager of the Risk Management Department and the secretary of Disciplinary Committee of Huarong Securities from December 2010 to April 2011, secretary of the Disciplinary Committee of Huarong Securities from April 2011 to July 2011 and chairman of the Board of Supervisors and secretary of the Disciplinary Committee of Huarong Securities from July 2011 to January 2014. Ms. Zheng served successively as head and executive vice chairman of the Labor Union Committee of the Company since 2014. Ms. Zheng graduated from Sichuan College of Finance and Economics (now known as Southwestern University of Finance and Economics) with a bachelor's degree in finance in July 1984. From September 2001 to August 2003, she studied the IMBA course at Fudan University and at The University of Hong Kong and received a master's degree.

Mr. Chen Jin, aged 46, has been the employee representative Supervisor since September 2017 and was accredited as a senior economist by the Company in November 2012. Mr. Chen worked in Hangzhou Communication Equipment Plant of Ministry of Posts and Telecommunications of China from August 1993 to January 1995, worked in Hangzhou Branch of CCB Trust and Investment Co., Ltd. from January 1995 to May 1996, worked as the manager assistant of Management Department 1, deputy manager of the Management Department, the deputy manager of the Management Department, the deputy manager of Evaluation Department, the manager of the Evaluation Department, the general manager of the Risk Management Department, the general manager of Project Evaluation Department, the general manager assistant and deputy general manager of Huarong Financial Leasing from May 1996 to January 2015, served as the deputy general manager, the deputy general manager (general manager level) and the general manager (general manager level, in charge) of the Risk Management Department of the Company from January 2015 to September 2017 and has been the general manager of the Risk Management Department of the Company since September 2017 till now. He graduated from the specialty of mechanical engineering of Ningbo University with a bachelor's degree in Engineering in August 1993.

8. Directors, Supervisors and Senior Management

8.3 Senior Management

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

No.	Name	Gender	Age	Position	Beginning of the term of office
Existing senior management					
1	Li Yuping	M	55	Member of senior management	September 2012
2	Wang Lihua	M	53	Vice President	October 2012
3	Xiong Qiugu	M	57	Vice President	October 2012
4	Hu Jiliang	M	53	Vice President	November 2014
5	Wang Wenjie	M	56	Vice President	November 2014
6	Hu Ying	F	53	Assistant to President	December 2015
7	Yang Guobing	M	52	Assistant to President	December 2015
8	Li Yingchun	M	45	Secretary to the Board	October 2017
Resigned senior management					
1	Ke Kasheng	M	53	President	From September 2012 to August 2017
2	Hu Jianjun	M	54	Secretary to the Board	From November 2014 to April 2017

8. Directors, Supervisors and Senior Management

Mr. Li Yuping, aged 55, has been a member of the senior management since September 2012. He was accredited as a chief editor by PBOC in November 1997. From August 1984 to December 1998, Mr. Li served successively as editor of the General Editorial Department of the Economic Daily, and editor, person-in-charge and deputy director (deputy director level) of the General Editorial Department of Financial Times. From December 1998 to September 2003, Mr. Li worked at the Central Financial Work Commission, serving successively as deputy director of the Publicity Department, deputy director of the Civilization Office (director level) and director of the Publicity Division (the Civilization Office). Mr. Li worked as director of the News and Information Division of the General Office of CBRC from September 2003 to February 2006, deputy director of CBRC Jiangsu Office from February 2006 to September 2012. Mr. Li graduated from Fudan University Journalism Department with a bachelor's degree in July 1984 and completed postgraduate courses in finance at Hunan College of Finance and Economics (now known as Hunan University) in December 1998.

Mr. Wang Lihua, aged 53, serves as an executive Director and Vice President of the Company since April 2017. Details of the experiences of Mr. Wang are set out in "8.1.1 Executive Directors".

Mr. Xiong Qiugu, aged 57, has been a Vice President of the Company since October 2012. He was accredited as a senior economist by ICBC in September 1997. He started his career with Jing'an sub-branch of PBOC in Jiangxi Province in October 1980. From January 1985 to April 2000, he served successively as vice president of Jing'an sub-branch of ICBC in Jiangxi province, deputy director of General Office of Jiangxi branch of ICBC and president of Jingdezhen branch of ICBC in Jiangxi Province. Mr. Xiong joined the Company as deputy general manager of Nanchang Office in April 2000. He served successively as deputy general manager of the Creditor's Rights Management Department, general manager of the Asset Management Department I and general manager of the Capital and Finance Department from September 2001 to November 2009, CFO and general manager of the Capital and Finance Department from November 2009 to January 2010, CFO and general manager of Planning and Finance Department from January 2010 to February 2011, assistant to President, CFO and general manager of the Planning and Finance Department from February 2011 to October 2012. Mr. Xiong has served as Vice President since October 2012 (concurrently serving as chairman of the board of directors of Huarong Securities from April 2011 to December 2012). Mr. Xiong graduated from Changchun Cadre's Institute of Finance and Management majoring in finance in July 1988 and graduated from Fudan University majoring in accounting with a bachelor's degree in economics in July 1997.

8. Directors, Supervisors and Senior Management

Mr. Hu Jiliang, aged 53, has been a Vice President of the Company since November 2014. He was accredited as a senior economist by the Company in December 2000. Mr. Hu started his career in PBOC in December 1981. He held various positions in ICBC from February 1985 to April 2000, including deputy manager of Quzhou Trust and Investment Corporation of ICBC, director of the Infrastructure Construction Office of Quzhou Branch of ICBC, director of the Planning Loan Section of Quzhou Branch of ICBC, general manager of Zhejiang Industrial and Commercial Real Estate Development Corporation, deputy general manager of the Asset Management Department (in charge) and deputy director of the Asset Risk Management Division (in charge) of Zhejiang Branch of ICBC. Mr. Hu joined the Company in April 2000, serving successively as senior manager, assistant to general manager and deputy general manager of the Creditor's Rights Management Department of Hangzhou Office till August 2004, deputy director of the Reorganization Office I of the Company, deputy general manager of Hangzhou Office and general manager of Huarong Financial Leasing from August 2004 to December 2009, marketing director, chairman of the board of directors and general manager of Huarong Financial Leasing from December 2009 to January 2014, and assistant to President from September 2012 to November 2014. Mr. Hu graduated from Hangzhou Cadre's Institute of Finance and Management majoring in banking management in 1997, and graduated from The University of Hong Kong with an MBA degree in August 2003.

Mr. Wang Wenjie, aged 56, has been a Vice President of the Company since November 2014. He was accredited as a senior economist by ICBC in December 1994. Mr. Wang started his career in the Technological Transformation Credit Department of ICBC in July 1986. From March 1987 to December 1999, he served successively as principal staff member of the Technological Transformation Credit Department, deputy director of the Project Management Division, director of Project Management Division I and deputy general manager of the Assessment and Consultation Department of ICBC. Mr. Wang joined the Company in December 1999, serving successively as deputy general manager (in charge) and general manager of International Business Department till June 2003, deputy general manager (general manager level) and general manager of Nanjing Office from June 2003 to August 2006, general manager of the Investment Business Department (International Business Department) from August 2006 to December 2009, chief investment and operation officer and general manager of the Investment Business Department (International Business Department) from December 2009 to June 2010, chief investment and operation officer and general manager of Shanghai Office from June 2010 to April 2011, chief risk officer, chief investment and operation officer and general manager of the Risk Management Department from April 2011 to April 2013 and assistant to President and Secretary to the Board from September 2012 to November 2014. Mr. Wang graduated from Shaanxi College of Finance and Economics (now known as School of Finance and Economics of Xi'an Jiaotong University) with a bachelor's degree in industrial finance and accounting and a master's degree in industrial economy in July 1983 and July 1986, respectively.

8. Directors, Supervisors and Senior Management

Ms. Hu Ying, aged 53, has been an assistant to President of the Company since December 2015. She was accredited as a senior economist by the Company in October 2003. Ms. Hu started her career with Quzhou sub-branch of PBOC in December 1983. She worked in Quzhou branch of ICBC from May 1984 to January 1999, serving successively as deputy director of the Planning Loan Section and deputy director of Asset Preservation Department (in charge). She was the vice president of Quhua sub-branch of ICBC (in charge) from January 1999 to February 2000. Ms. Hu joined the Company in February 2000, serving successively as senior deputy manager of the Creditor's Rights Management Department and senior manager, deputy general manager and general manager of Assets Management Department I of Hangzhou Office till October 2012 (concurrently held a temporal position as senior manager of the Assets Management Department I of the Company from September 2003 to May 2004). She served as general manager of Zhejiang Branch from October 2012 to December 2015 (concurrently serving as general manager of Shanghai Branch from January 2013 to December 2015). She served as assistant to President of the Company and concurrently served as general manager of Shanghai Branch and Zhejiang Branch from December 2015 to May 2016, and served as the assistant to President of the Company from May 2016 to August 2017. She served as the assistant to President of the Company and concurrently served as the director of the General Overseas Business Management Department of the Company from August 2017 to January 2018 and has served as the assistant to President of the Company since January 2018. Ms. Hu graduated from Zhejiang Gongshang University majoring in business administration with an MBA degree in July 2009.

Mr. Yang Guobing, aged 52, has been an assistant to President of the Company since December 2015. He was accredited as a senior economist by the Company in October 2001. Mr. Yang started his career with Jiangxi branch of PBOC in July 1984. From January 1985 to April 2000, he served successively as a staff member, deputy chief of the Asset Preservation Department, chief of the Operations Department, and chief of the Creditor's Rights Management Department of Jiangxi branch of ICBC (concurrently serving as deputy chief and director of Nanchang Minde Urban Credit Cooperative from November 1992 to November 1994 and deputy chairman of the board of directors and deputy chief of Nanchang Minde Urban Credit Cooperative from November 1994 to March 1997). Mr. Yang joined the Company in April 2000 as senior deputy manager (in charge) of Capital and Finance Department of Nanchang Office, and then served as senior deputy manager of the Investment Banking Department and the Securities Operations Department successively from February 2001 to May 2003, assistant to general manager and deputy general manager of Nanchang Office from May 2003 to June 2006, deputy general manager of Huarong Financial Leasing from June 2006 to August 2008, deputy general manager of Beijing Office from August 2008 to December 2010, deputy general manager (in charge) and general manager of the Equity Administration Department of the Company successively from December 2010 to August 2012, and general manager of the Planning and Finance Department of the Company from September 2012 to July 2015 (concurrently serving as the chairman of the board of directors of Huarong Zhiyuan Investment & Management Co., Ltd. (華融致遠投資管理有限責任公司) from November 2013 to December 2014, general manager of the Risk Management Department of the Company from January 2015 to July 2015), chief risk officer, the general manager of the Risk Management Department and the general manager of the Planning and Finance Department of the Company from July 2015 to November 2015, chief risk officer and the general manager of the Risk Management Department of the Company from November 2015 to December 2015. He served as an assistant to President of the Company, chief risk officer and the general manager of the Risk Management Department of the Company from December 2015 to May 2016, assistant to President of the Company and chief risk officer from May 2016 to September 2016, assistant to President of the Company, chief risk officer and the general manager of the Information and Technology Department of the Company from September 2016 to January 2018. He has served as the assistant to President and chief risk officer of the Company since January 2018 till now. Mr. Yang graduated from the College of Economics at Peking University with a bachelor's degree in economics in August 1998, and graduated from Macau University of Science and Technology with an MBA degree in July 2003.

8. Directors, Supervisors and Senior Management

Mr. Li Yingchun, aged 45, has been the secretary to the Board of Directors since October 2017, and was accredited as an accountant by MOF in May 1998. Mr. Li began to work in Beijing Chemical Industry Group Co., Ltd. in July 1994 and successively served as an assistant accountant of its Capital Transfer Center and an accountant of its Financial Department. He worked in Banking Supervisory Office of the Business Management Department of People's Bank of China from August 2000 to September 2003, served as the deputy chief, chief and deputy director of Beijing Regulatory Bureau Office of CBRC from September 2003 to August 2006, the deputy director general of the Non-banking Financial Institutions Regulatory Office of Beijing Regulatory Bureau of CRBC from August 2006 to February 2009 and the deputy director general of the Human Resources Office of Beijing Regulatory Bureau of CRBC from February 2009 to March 2010. Mr. Li joined in the Company in March 2010 and had served as the senior manager of the Human Resource Department, the general manager assistant and the deputy general manager of the Company till October 2013. He served as the deputy director (in charge) of the office of the Board of Directors from October 2013 to February 2015, the director of the Office of the Board of Directors from February 2015 to October 2017 and has been the secretary to the Board of Directors and the director of the office of the Board of Directors from October 2017 to November 2017, and served as the secretary to the Board of Directors since November 2017. Mr. Li graduated from Hubei Economics and Finance Institute (now known as Hebei University of Economics and Business) with a bachelor's in economics in July 1994 and graduated from Jiangxi University of Finance and Economics with a senior MBA degree in June 2014.

8. Directors, Supervisors and Senior Management

8.4 Changes in Directors, Supervisors and Senior Management

8.4.1 Changes in Directors

On February 14, 2017, the Company elected the Director, the chairman and the vice chairman of the second session of the Board of Directors and appointed the members of the second session of special committee of the Board of Directors. For details, please refer to the announcement of the Company dated February 14, 2017.

On October 31, 2016, the Company appointed Mr. Wang Lihua as an executive Director. On April 12, 2017, Mr. Wang Lihua performed his duties after the CBRC approved his qualification as the Director. For details, please refer to the announcement of the Company dated April 19, 2017.

On October 31, 2016, the Company appointed Mr. Li Yi as a non-executive Director. On January 3, 2017, Mr. Li Yi performed his duties after the CBRC approved his qualification as the Director. For details, please refer to the announcement of the Company dated January 9, 2017.

On September 13, 2016, the Company appointed Mr. Zhou Langlang as a non-executive Director of the Company. On April 12, 2017, Mr. Zhou Langlang performed his duties after the CBRC approved his qualification as the Director. For details, please refer to the announcement of the Company dated April 19, 2017.

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

On October 27, 2017, Mr. Wang Keyue ceased to be vice chairman of the Board of Directors and non-executive Director because he reached the age for retirement. Please refer to the announcement dated October 27, 2017 for details.

8. Directors, Supervisors and Senior Management

8.4.2 Changes in Supervisors

On January 23, 2017, the Company elected employee representative Supervisors of the second session of the Board of Supervisors. On February 14, 2017, the Company elected the Shareholder representative Supervisors and external Supervisors of the second session of the Board of Supervisors. On February 15, 2017, the Company elected the chairman of the second session of the Board of Supervisors. On September 14, 2017, the Company elected employee representative Supervisors. For details, please refer to the announcement of the Company dated January 23, 2017, February 14, 2017, February 15, 2017 and September 14, 2017.

On September 14, 2017, the Company elected Mr. Chen Jin as employee representative Supervisor. For details, please refer to the announcement of the Company dated 14 September 2017.

On February 14, 2017, Ms. Wang Qi ceased to be the external Supervisor due to the expiry of her term of office, and Mr. Xu Dong ceased to be the employee representative Supervisor due to the expiry of his term of office. Please refer to the announcements dated January 23, 2017 and February 14, 2017 respectively for details.

On September 14, 2017, Mr. Mao Biaoyong resigned from his post as employee representative Supervisor due to job change. For details, please refer to the announcement of the Company dated September 14, 2017.

8. Directors, Supervisors and Senior Management

8.4.3 Changes in Senior Management

On April 14, 2017, the Company re-appointed Mr. Ke Kasheng as the president of the Company, re-appointed Mr. Wang Lihua, Mr. Xiong Qiugu, Mr. Hu Jiliang and Mr. Wang Wenjie as the vice presidents of the Company, and re-appointed Ms. Hu Ying and Mr. Yang Guobing as the assistant to the president of the Company. For details, please refer to the announcement of the Company dated April 17, 2017.

On April 14, 2017, the Company appointed Mr. Li Yingchun as the secretary to the Board. On October 26, 2017, Mr. Li Yingchun performed his duties as the secretary to the Board of Directors after being approved by the CBRC. For details, please refer to the announcements of the Company dated April 17, 2017 and October 30, 2017.

On August 23, 2017, Mr. Ke Kasheng resigned as the president of the Company due to work changes. Mr. Wang Lihua, an executive Director and vice president of the Company, assumed the office of president temporarily before the appointment of new president. For details, please refer to the announcement of the Company dated August 23, 2017.

On April 14, 2017, Mr. Hu Jianjun resigned as the secretary to the Board due to personal health reasons. For details, please refer to the announcement of the Company dated April 17, 2017.

8.4.4 Annual Remuneration

Remuneration of Directors, Supervisors and senior management

Details of the remuneration of the Directors, Supervisors and senior management of the Company are set out in “15. Audit Report and Financial Statements — V. Explanatory Notes — 16. Emoluments of Directors and Supervisors” and “15. Audit Report and Financial Statements — V. Explanatory Notes — 57. Related party transactions”. The total compensation packages for the above Directors, Supervisors and senior management of the Company for 2017 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC. Further disclosure will be made when the final compensation packages are determined.

Highest paid individuals

Details of the emoluments of the five highest paid individuals of the Company during the Reporting Period are set out in “15. Audit Report and Financial Statements — V. Explanatory Notes — 17. Five highest paid individuals”.

9. Corporate Governance Report

9.1 Summary

During the Reporting Period, in compliance with the Company Law of the PRC, Securities Law of the PRC, the Listing Rules, other laws and regulations, regulatory documents and the Articles of Association, the Company constantly enhanced its corporate governance structure construction of governance mechanism, corporate governance level and internal control and management. Efforts were also made to optimize risk management system and continuously improve information disclosure and investor relations management to promote the implementation of major strategies and ensure the sound and sustainable development of the Company with a view to creating good returns for Shareholders. During the Reporting Period, the Company was awarded the "Best Listed Company" by China Securities Golden Bauhinia Awards and the "Best Assets Management Company of the Year" by Chinese Financial Institutions Gold Medal Tally.

9.1.1 Code of Corporate Governance

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

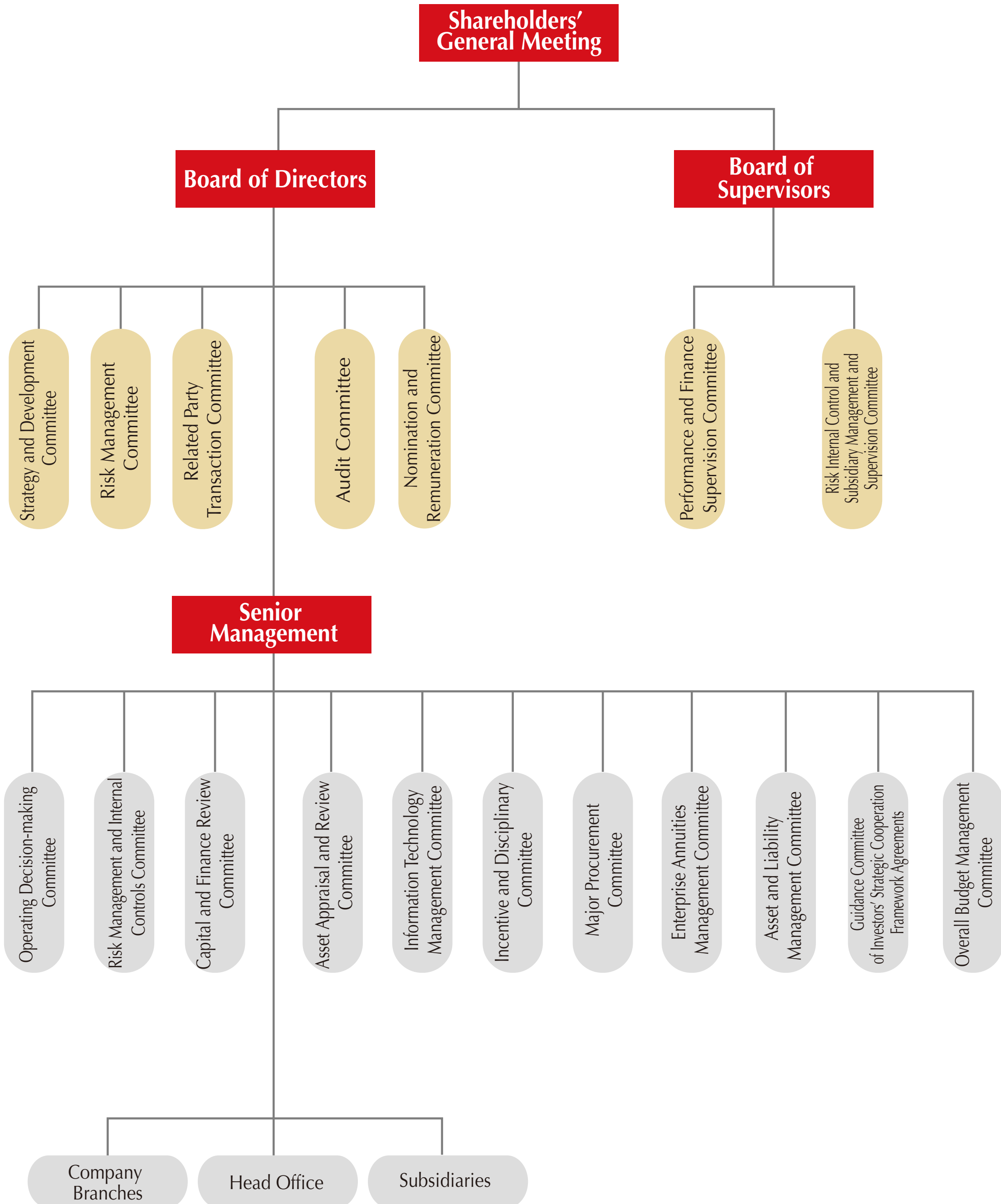
Corporate governance function

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

9. Corporate Governance Report

9.1.2 Corporate Governance Structure

During the Reporting Period, the corporate governance structure of the Company was as follows:



9. Corporate Governance Report

9.1.3 Amendment of the Articles of Association

During the Reporting Period, the Company considered and approved the resolution on amendment of the Articles of Association for the purpose of foreign preferred shares issuance and implementation of requirements of the Party's construction and the resolution on amendment of the Articles of Association for the purpose of foreign preferred shares issurance, A shares issuance and implementation of requirements of the Party's construction at the third extraordinary general meeting held on August 7, 2017. Please refer to the circular of the Company dated June 23, 2017 for details.

9.2 Shareholders' General Meetings

9.2.1 Responsibilities of the Shareholders' General Meeting

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

9. Corporate Governance Report

9.2.2 Details of Shareholders' General Meetings

During the Reporting Period, the Company held six Shareholders' general meetings in Beijing, including an annual general meeting and five extraordinary general meetings, considered and approved 27 resolutions, and heard one report. The Company strictly complied with the legal procedures applicable to Shareholders' general meetings which Shareholders or their proxies attended and exercised their voting rights. The Company engaged PRC legal counsels to attend and witness Shareholders' general meetings and to provide legal advice. Material matters include:

- proposed non-public offering of preferred shares overseas by the Company and relevant authorization;
- the extension of validity period of the plan for A Share Offering of the Company;
- the financial bonds issuance plan and relevant authorization of the Company for 2017;
- the report of the Board and the report of the Board of Supervisors for 2016;
- the final accounts plan of the Company for 2016;
- the profit distribution plan of the Company for 2016;
- the remuneration plan for Directors and Supervisors;
- the employment of external auditor of the Company for 2017.

9.2.3 Shareholders' Rights

Right to propose to convene extraordinary general meeting

Shareholders who individually or jointly hold 10% or more of the shares of the Company with voting rights shall have the right to request the Board to convene an extraordinary general meeting or class meeting in writing. The Board shall reply in writing as to whether or not it agrees to convene such extraordinary general meeting within 10 days upon receipt of the proposal in accordance with laws, regulations, regulatory documents and the Articles of Association. If the Board agrees to convene an extraordinary general meeting or class meeting, a notice of such meeting shall be issued within five days after the resolution of the Board is passed. If the Board does not agree to convene an extraordinary general meeting or class meeting, or fails to give its response within 10 days upon receipt of the proposal, the requesting Shareholders may propose to the Board of Supervisors to convene an extraordinary meeting or class meeting in writing. If the Board of Supervisors agrees to convene an extraordinary general meeting, a notice of such meeting shall be issued

9. Corporate Governance Report

within five days upon receipt of the proposal. If the Board of Supervisors does not issue the notice of such meeting within the prescribed period, it shall be deemed that the Shareholders' general meeting will not be convened. In such circumstances, Shareholders who individually or jointly hold 10% or more of the Company's total Shares with voting rights for not less than 90 consecutive days may have the discretion to convene and preside over the meeting.

Right to propose resolutions at the Shareholders' general meeting

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

Right to propose to convene extraordinary meeting of the Board

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

Right to propose resolutions for Board meetings

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

Shareholders' right to raise proposal and enquiry

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

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Other rights

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

9.2.4 Attendance of Directors at Shareholders' General Meetings

Directors' attendance at shareholders' general meetings in 2017 is set out in the following table:

Members of the Board	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Lai Xiaomin	5/6	83%
Wang Lihua	4/4	100%
Non-executive Directors		
Li Yi	6/6	100%
Wang Cong	6/6	100%
Dai Lijia	5/6	83%
Zhou Langlang	2/4	50%
Independent non-executive Directors		
Song Fengming	5/6	83%
Tse Hau Yin	5/6	83%
Liu Junmin	6/6	100%
Shao Jingchun	6/6	100%
Resigned Directors during the Reporting period		
Ke Kasheng	2/3	67%
Wang Keyue	3/4	75%
Wang Sidong	0/1	0%

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone or by video conference.
3. Attendance rate is the percentage of the number of meetings attended to the number of meetings required to be attended.

9. Corporate Governance Report

9.2.5 Independence from Controlling Shareholders

The Company is independent from its controlling Shareholders in operation, personnel, assets, organization and finance. The Company is an independent legal entity and is financially independent. The Company has its own independent and complete businesses and can operate independently.

9.3 Board of Directors

9.3.1 Composition and Responsibilities of the Board

As of the Latest Practicable Date, the Board had nine Directors, including one executive Director, namely Mr. Wang Lihua; four non-executive Directors, namely Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and Mr. Zhou Langlang; and four independent non-executive Directors, namely Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun. The term of office of Directors will last until the election of the next session of Board of Directors.

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

The Board is accountable to the Shareholders' general meeting in accordance with the Articles of Association. The major duties of the Board include: (1) to convene and report its work to the Shareholders' general meeting; (2) to implement the resolutions of the Shareholders' general meeting; (3) to determine the operation plans, development strategies and investment proposals of the Company; (4) to formulate annual financial budget and final accounts of the Company; (5) to formulate profit distribution plan and loss recovery plan of the Company; (6) to formulate proposals for increases or reductions of the registered capital of the Company; (7) to formulate plans for the merger, division, changes of organization and dissolution of the Company; (8) to formulate proposals for the issue of corporate bonds, any classes of shares, warrants or other marketable securities by the Company and its listing; (9) to formulate plans for the repurchase of Shares of the Company; (10) to formulate the amendments to the Articles of Association, the rules of procedures of the Shareholders' general meeting and Board meeting; (11) to consider and approve the terms of reference of the president; (12) to appoint or remove the president of the Company and the secretary to the Board; (13) to appoint or remove vice president and other senior management members (excluding secretary to the Board) and the director of internal audit as nominated by the president; (14) based on the proposal of Shareholders individually or jointly holding 10% or more shares of the Company with voting rights, chairman of the Board and at least one-third of the Directors, to elect the chairman and members of the Nomination and Remuneration Committee; based on the nomination of the Nomination and Remuneration Committee, to elect the chairman (other than the chairman of the Strategy and Development Committee) and members of other special committees of the Board; (15) to propose the performance appraisal system and remuneration packages for Directors to the Shareholders' general meeting for approval; (16) to determine the compensation, appraisal, incentive and punishment of the senior management members and director of the internal audit department of the Company; (17) to formulate the basic management system of the Company; to determine the risk management, compliance and internal control policies of the Company and formulate systems in relation to internal control and compliance management as well as internal audit of the Company; (18) to determine the structure of internal management departments of the Company; (19) to evaluate and improve the corporate governance of the Company; (20) to formulate share incentive scheme; (21) to manage matters in relation to information disclosure and management of investors' relations of the Company; (22) to propose the appointment, removal or termination of appointment of accounting firm to the Shareholders' general meeting; (23) to consider and approve, or authorize the Related Party Transactions Committee of the Board to approve related party transactions, except for those which shall be considered and approved by Shareholders' general meeting; (24) within the scope of authorization of Shareholders' general meeting, to consider and approve the investment and disposal of equity interests, investment and disposal of debentures, financing, pledges and mortgage and guarantee of assets, purchases and disposal of fixed assets, disposal of DES Assets, write-off of assets, major decisions of legal corporations and external donations; (25) to consider and approve the proposals of special committees of the Board; (26) to consider the work report of the president to ensure that each Director obtains the information related to the performance of his/her duties in accordance with the regulatory requirement in a timely manner; to review the work of senior management members to monitor and ensure their effective performance of management duties; (27) to review the execution and rectification of regulation opinions against the Company by the banking regulators of the State Council; (28) to review the structure of the first class branches of the Company inside and outside the PRC; (29) to consider the responsibility insurance of senior management; and (30) to perform other duties as required by laws, regulations, regulatory documents, the requirements of the securities regulatory authority of the place(s) where the shares of the Company are listed and the Articles of Association, and other matters as authorized by Shareholders' general meeting.

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9.3.2 Board Meetings

In 2017, the Board had conducted ten meetings, including four regular meetings and six extraordinary meetings. 71 resolutions were passed and 10 work reports were reviewed at the meetings, including 35 resolutions on operation and management matters, 5 resolutions on system establishment, 19 resolutions on personnel management, and 12 other resolutions. The major issues include:

- the final accounts plan and the profit distribution plan of the Company for 2016; and the fixed assets investment budget for 2017;
- the 2016 Annual Report (Annual Results Announcement) and 2017 Interim Report (Interim Results Announcement) of the Company;
- the Company's non-public offering of offshore preferred shares program and relevant authorization;
- the work report of the Board of Directors for 2016, internal control evaluation report and social responsibility report of the Company;
- election of the chairman and vice chairman of the second session of the Board of Directors and the directors and members of the special committees;
- the appointment of the external auditor of the Company for 2017;
- listening to the report of the Company on compliance risk management and related parties.

In addition, the Board conducted self-evaluation on the effectiveness of the internal control of the Group during the Reporting Period. Details are set out in "10. Internal Control".

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9.3.3 Attendance of Board Meetings

Directors' attendance at Board meetings in 2017:

Members	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Lai Xiaomin	9/10	90%
Wang Lihua	7/7	100%
Non-executive Directors		
Li Yi	10/10	100%
Wang Cong	10/10	100%
Dai Lijia	9/10	90%
Zhou Langlang	5/7	71%
Independent non-executive Directors		
Song Fengming	10/10	100%
Tse Hau Yin	9/10	90%
Liu Junmin	10/10	100%
Shao Jingchun	10/10	100%
Resigned Directors during the Reporting Period		
Ke Kasheng	4/5	80%
Wang Keyue	6/6	100%
Tian Yuming	N/A	N/A
Wang Sidong	0/1	0%

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes personal attendance and attendance by telephone or video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required.
4. The attendance rate for Mr.Tian Yuming is not applicable as no meeting was convened by the Company during his term of office.

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9.4 Special Committees of the Board

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

9.4.1 Strategy and Development Committee

As of the Latest Practicable Date, the Strategic Development Committee of the Company consisted of 9 directors. The members included executive Director Mr. Wang Lihua, non-executive Directors Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia and Mr. Zhou Langlang, and independent non-executive Directors Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun.

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

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In 2017, the Strategy and Development Committee had convened eight meetings to consider 11 resolutions, including the fixed assets investment budget of the Company for 2017 and non-public offering of preferred shares overseas.

Attendance of members at Strategy and Development Committee meetings in 2017:

Members	Number of meetings attended/ required to attend	Attendance rate
Lai Xiaomin	7/8	88%
Wang Lihua	6/6	100%
Li Yi	8/8	100%
Wang Cong	8/8	100%
Dai Lijia	7/8	88%
Zhou Langlang	4/6	67%
Song Fengming	8/8	100%
Tse Hau Yin	7/8	88%
Liu Junmin	8/8	100%
Shao Jingchun	8/8	100%
Resigned Directors during the Reporting Period		
Ke Kasheng	4/4	100%
Wang Keyue	5/5	100%
Tian Yuming	N/A	N/A
Wang Sidong	0/1	0%

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone or video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Mr.Tian Yuming is not applicable as no meeting was convened by the Company during his term of office.

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9.4.2 Risk Management Committee

As of the Latest Practicable Date, the Risk Management Committee of the Company comprised four Directors. The chairman was acted by Ms. Dai Lijia, a non-executive Director. The members included Mr. Wang Lihua, an executive Director, Ms. Wang Cong, a non-executive Director and Mr. Song Fengming, an independent non-executive Director.

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

In 2017, the Risk Management Committee convened five meetings to consider 17 resolutions and reports, including 2017 risk preference policies and 2017 work plan of the Risk Management Committee.

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Attendance of members at Risk Management Committee meetings in 2017:

Members	Number of meetings attended/ required to attend	Attendance rate
Dai Lijia	5/5	100%
Wang Lihua	3/3	100%
Wang Cong	5/5	100%
Song Fengming	4/5	80%
Resigned Directors during the Reporting Period		
Tian Yuming	N/A	N/A
Wang Sidong	N/A	N/A

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone or video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to be attended.
4. The attendance rate for Mr.Tian Yuming and Mr.Wang Sidong is not applicable as no meetings were convened by the Company during their terms of office.

9.4.3 Related Party Transaction Committee

As of the Latest Practicable Date, the Related Party Transaction Committee of the Company comprised four Directors. The chairman was acted by Mr. Shao Jingchun, an independent non-executive Director. The members included non-executive Director, Mr. Li Yi, and independent non-executive Directors, Mr. Song Fengming and Mr. Tse Hau Yin.

The main duties of the related transaction committee include but are not limited to the following items: reviewing the basic management system of related party transactions, supervising its implementation and making recommendations to the board of directors; recognizing the related parties of the company, reporting to the board of directors and the board of supervisors, and timely disclosing to the relevant personnel of the company; to conduct preliminary review of the related party transactions which should be approved by the board of directors or the general meeting of shareholders and submit them to the board of directors for approval; within the scope authorized by the board of directors, to consider and approve related party transactions and other matters associated with related party transactions; to accept the related party transactions record and review the information disclosure matters of the company's significant related party transactions; to consider and approve the annual related party transactions management report and report it to the Board of Directors; and other matters as required by the laws, regulations and normative documents, the securities regulatory authorities where the shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

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In 2017, the Related Party Transaction Committee convened four meetings to consider seven resolutions and reports, including the related party transactions report, the work plan of the Related Party Transaction Committee for 2017 and list of related parties of the Company.

Attendance of members at Related Party Transaction Committee meetings in 2017:

Members	Number of meetings attended/ required to attend	Attendance rate
Shao Jingchun	4/4	100%
Li Yi	4/4	100%
Song Fengming	4/4	100%
Tse Hau Yin	4/4	100%
Resigned Directors during the Reporting Period		
Ke Kasheng	N/A	N/A
Tian Yuming	N/A	N/A
Wang Cong	N/A	N/A
Dai Lijia	N/A	N/A

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes personal attendance and attendance by telephone or video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to be attended.
4. The attendance rate for Mr.Ke Kasheng, Mr.Tian Yuming, Ms. Wang Cong and Ms.Dai Lijia is not applicable as no meetings were convened by the Company during their terms of office.

9.4.4 Audit Committee

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

The main responsibilities of the Audit Committee include but are not limited to the following: supervising the establishment of the Company's internal control, the Company's core business and management rules and regulations and its implementation, assessing the compliance and effectiveness of the Company's major business activities; supervising the Company's financial Information and its disclosure, major financial policies of the Company and its implementation and financial operation status; monitoring the authenticity of financial reports and the effectiveness of management's implementation of financial reporting procedures; reviewing the basic management rules and regulations of the Company's auditing, medium and long-term auditing planning, annual work plan and internal auditing system setting program and making recommendations to the Board of Directors; supervising and evaluating the internal auditing work of the Company, supervising the implementation of the internal auditing system of the Company; evaluating the working procedures and work effectiveness of the internal auditing department; proposing to hire or replace the external auditing firm and reporting to the board of directors for deliberation, taking appropriate measures to supervise the work of the external auditing institution, and examining the reports of the external auditing institutions to ensure the ultimate responsibility of the external auditing institutions for the board of directors and the audit committee; reviewing the accounting firm's annual audit reports and other special opinions, audited financial and accounting reports, other financial and accounting reports and other financial information to be disclosed; making judgments on the authenticity, completeness and accuracy of the audited financial report information and submitting them to the board of directors for deliberation; coordinating the communication between the internal audit department and the external auditing institution; and other matters as required by the laws, regulations and normative documents, the securities regulatory authorities where the shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2017, the Audit Committee convened seven meetings to consider 40 resolutions and reports, including final accounts of the Company for 2016, profit distribution plan, financial statements and audit reports of the Company for recent three years.

Attendance of members at Audit Committee meetings in 2017:

Members	Number of meetings attended/ required to attend	Attendance rate
Tse Hau Yin	7/7	100%
Li Yi	7/7	100%
Wang Cong	6/7	86%
Dai Lijia	7/7	100%
Song Fengming	7/7	100%
Liu Junmin	7/7	100%
Shao Jingchun	7/7	100%
Resigned Directors during the Reporting Period		
Tian Yuming	N/A	N/A

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone or video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to be attended.
4. The attendance rate for Tian Yuming is not applicable as no meeting was convened by the Company during his term of office.

9.4.5 Nomination and Remuneration Committee

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

The main responsibilities of the Nomination and Remuneration Committee include, but are not limited to: reviewing the strategic development plan of human resources and making recommendations to the Board of Directors; making recommendations to the Board of Directors on the candidates for the directors, the president and the secretary to the board of directors; formulating proposals for election and appointment of directors, special committees of the Board, members and senior management of the Company and making recommendations to the board of directors; conduct preliminary review of the qualifications of directors and senior management candidates and making recommendations to the board of directors; nominating directors of special committees under the board of directors (except for the director of the Strategic Development Committee) and member candidates; formulating assessment methods and remuneration plan for the directors, and evaluating the performance and behavior of the directors, and submitting them to the

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shareholders' general meeting for approval after consent by the board of directors; formulating and reviewing the assessment methods and remuneration packages of senior management and the internal audit department head, evaluating the performance and behaviors of senior management and submitting them to the Board of Directors for approval; considering the major human resources and remuneration policies and management systems submitted by senior management and approved by the board of directors or general meeting of shareholders; submitting to the Board for decisions and monitoring the implementation of relevant policies and management systems; and other matters as required by the laws, regulations and normative documents, the securities regulatory authorities where the shares of the Company are listed and the Articles of Association and as authorized by the Board of Directors.

In 2017, the Nomination and Remuneration Committee convened six meetings to consider and hear 21 resolutions and reports on the electing the chairman of the second session of the Board, assessment results of the members of senior management by the Board for 2016 and 2016 remuneration scheme of Directors of the Company.

Attendance at Nomination and Remuneration Committee meetings in 2017:

Members	Number of meetings attended/ required to attend	Attendance rate
Song Fengming	6/6	100%
Li Yi	6/6	100%
Wang Cong	6/6	100%
Liu Junmin	6/6	100%
Shao Jingchun	6/6	100%
Resigned Directors during the Reporting Period		
Tian Yuming	N/A	N/A

Notes:

1. Changes in Directors are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management".
2. Attendance includes physical attendance and attendance by telephone or video conference.
3. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
4. The attendance rate for Tian Yuming is not applicable as no meeting was convened by the Company during his term of office.

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

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

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

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

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

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

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

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

9.5 Board of Supervisors

9.5.1 Duties of the Board of Supervisors

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

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9.5.2 Composition of the Board of Supervisors

As of the Latest Practicable Date, the Board of Supervisors comprised five Supervisors, including a Shareholder representative Supervisor, namely Mr. Ma Zhongfu, two external Supervisors, namely Ms. Dong Juan and Ms. Xu Li, and two employee representative Supervisors, namely Ms. Zheng Shengqin and Mr. Chen Jin.

The term of office of a Supervisor shall be ended until the election of the next session of the Board of Supervisors. Supervisors may be re-elected after the expiry of his/her term of office. The Shareholder representative Supervisors and external Supervisors are elected at the Shareholders' general meeting and the employee representative Supervisors are elected at the employee representative meeting.

9.5.3 Chairman of the Board of Supervisors

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

9.5.4 Operation of the Board of Supervisors

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

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9.5.5 Meetings of the Board of Supervisors

The Board of Supervisors convened seven meetings in the Reporting Period, and considered and approved 29 resolutions, mainly including:

The Work Report of the Board of Supervisors for 2016;

The Final Accounts of the Company for 2016;

The Profit Distribution Plan of the Company for 2016;

The Work Plan of the Board of Supervisors for 2017;

The 2016 Annual Report of the Company;

The Evaluation Report on the Internal Control of the Company for 2016;

The Social Responsibility Report of the Company for 2016;

The Remuneration Packages for Supervisors in 2016.

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9.5.6 Supervisors' attendance at meetings of the Board of Supervisors

Supervisors	Number of meetings attended/ required to attend	Attendance rate
Shareholder Representative Supervisor		
Ma Zhongfu	7/7	100%
External Supervisors		
Dong Juan	7/7	100%
Xu Li	6/6	100%
Employee Representative Supervisors		
Zheng Shengqin	7/7	100%
Chen Jin	2/2	100%
Resigned Supervisors during the Reporting Period		
Wang Qi	1/1	100%
Xu Dong	1/1	100%
Mao Biaoyong	3/4	75%

Notes:

1. Attendance includes physical attendance and attendance by telephone or video conference.
2. Attendance rate is the percentage of number of meetings attended to the number of meetings required to attend.
3. Supervisors failing to attend the meeting in person have entrusted other supervisors to attend the meeting and perform their voting rights.

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9.5.7 Special Committee of the Board of Supervisors

The Board of Supervisors set two special committees, namely Performance and Finance Supervision Committee and Risk Internal Control and Subsidiary Management and Supervision Committee, which were accountable to the Board of Supervisors and assisted the Board of Supervisors to perform duties and reported work to the Board of Supervisors according to work rules and authorization of the Board of Supervisors.

Performance and Finance Supervision Committee

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

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

During the Reporting Period, the Performance and Finance Supervision Committee convened three meetings to consider 13 resolutions, including the Final Accounts of the Company for 2016.

Risk Internal Control and Subsidiary Management and Supervision Committee

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

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

During the Reporting Period, the Risk Internal Control and Subsidiary Management and Supervision Committee convened two meetings to consider 2 resolutions, including the Evaluation Report on the Internal Control of the Company for 2016.

9. Corporate Governance Report

9.5.8 Trainings for the Supervisors

During the Reporting Period, the Board of Supervisors actively encouraged and organized Supervisors to participate in various trainings, to assist Supervisors to constantly and comprehensively improve their quality and ability to perform their duties. All of the Supervisors had participated in relevant trainings as needed, and the trainings attended by the Supervisors included: key points for regulations on inside information of Hong Kong and good practices; overview of HKAS and its material amendments and updates; continuing obligations of companies listed in Hong Kong; latest amendments and updates of listing rules in Hong Kong; interpretation of accounting standards related to financial businesses; how does the Board of Supervisors carry out financial supervision.

9.6 Chairman of the Board and President

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

Each of the chairman of the Board and the president has a clear segregation on their respective duties. The chairman of the Board is mainly responsible for leading the Board of Directors to make it operate effectively, so as to ensure the timely handling of key issues by the Board of Directors, and providing the strategic direction of the Company. While the president takes the charge of the daily management of the Company's business and effectively carry out the strategies and policies of the enterprise. Their respective tasks and responsibilities have been listed in writing and have been passed and adopted by the Board of Directors.

9.7 Senior Management

9.7.1 Composition and Duties of Senior Management

The senior management is the execution body of the Company and is accountable to the Board. As of the Latest Practicable Date, the senior management of the Company comprises eight members. Details of its composition and the biography of members are set out in "8. Directors, Supervisors and Senior Management — 8.3 Senior Management". There is a strict separation of powers between the senior management and the Board. The senior management determines the operation management and decisions within its terms of reference as authorized by the Board. The Company regularly refines such authorization in accordance with its needs. The Board, in turn, conducts performance appraisal on senior management and its members in accordance with the evaluation requirements of the MOF, the results of which form the basis of their remuneration and performance arrangements.

9.7.2 Supervision and Evaluation on the Performance of Senior Management

The Board of Supervisors earnestly implements the regulatory requirements including the Guidelines on Corporate Governance of Commercial Banks issued by CSRC, supervises the performance of the duties of the Board, senior management and its members by way of attending meetings, conducting survey, carrying out investigation, and carrying out work interviews in accordance with the Measures on the Supervision of the Performance of the Board, Senior Management and Its Members by the Board of Supervisors (《監事會對董事會、高級管理層及其成員履職監督辦法》); and evaluates the performance of the Directors and senior management during the year in accordance with the requirements of the Measures for the Performance Evaluation of Directors (Trial) (《董事履職評價辦法（試行）》) and the Provisional Measures on the Performance Evaluation of the Senior Management by the Board of Supervisors (《監事會對高級管理人員履職評價暫行辦法》) of the Company.

9.7.3 Remuneration of Directors and Senior Management

The remuneration policies of the Directors and senior management are set out in "11. Report of the Board of Directors — 11.26 Remuneration Policy of Directors, Supervisors and Senior Management".

9. Corporate Governance Report

9.8 Communication with Shareholders

9.8.1 Information Disclosure and Investor Relations

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

In 2017, the Company strictly abided by the principles of truthfulness, accuracy, completeness, timeliness and fairness and conscientiously conducted information disclosure. The Company continued to improve the quality of periodic report disclosure and strengthened the pertinence and effectiveness of the periodic report disclosure. The Company disclosed the interim announcements in accordance with laws and regulations in a timely and accurate manner, and constantly improved the transparency of information disclosure to protect the investors' rights to know. The Company continued to improve the information disclosure mechanism, raised awareness of employees in information disclosure and strengthened the building of compliance culture of information disclosure.

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

9.8.2 Contacts of Board of Directors' office

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

Board Office of China Huarong Asset Management Co., Ltd.
Address: No. 8, Financial Street, Xicheng District, Beijing, China
Tel. no.: 86-10-59619119
Email address: ir@chamc.com.cn

9. Corporate Governance Report

9.9 Inside Information Management

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

9.10 Auditor's remuneration

Auditor's Responsibility

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP. and Deloitte Touche Tohmatsu (hereinafter collectively referred to as "Deloitte") as our auditor for 2017, after considered and approved at the annual general meeting for 2017 of the Company. The Independent Auditor's Report issued by the auditors is set forth on pages 155 to 161 of this annual report.

In arriving at its opinion, the auditor conducted a full scope audit without any restrictions and had access to individual Directors (including members of the Audit Committee) and management of the Company.

The auditor was available at the annual general meeting of the Company to answer questions which Shareholders may have.

Auditor's Remuneration

The remunerations paid and payable by the Group to Deloitte, the auditor of the Company in respect of audit and non-audit services provided to the Group in 2016 and 2017 is set out below:

Audit and Non-audit Services	Year ended December 31, 2017 (in millions of RMB)	2016
Statutory audit and Interim audit/review	**26.1**	20.5
Other audit services	**15.6**	22.5
Tax consultations and other services	**0.1**	0.5
Total:	**41.8**	43.5

9. Corporate Governance Report

9.11 Responsibilities of Directors for Financial Statements

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

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

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

9.13 Securities Transactions by Directors, Supervisors and Relevant Employees

The Company has formulated the Code for Securities Transactions by Directors, Supervisors and Relevant Employees which regulates the securities transactions by Directors, Supervisors and relevant employees and is of no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Issuers (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 set out therein during the Reporting Period.

9.14 Independence of Independent Non-executive Directors

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

9.15 Training for Directors

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

The trainings attended by the Directors with certificates provided by third parties in 2017 include:

On May 10, 2017, Directors Mr. Wang Lihua, Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia, Mr. Zhou Langlang, Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun participated in the special training class organized by the Hong Kong Institute of Chartered Secretaries (the "HKICS") for senior management of China Huarong.

From May 24, 2017 to May 27, 2017, Directors Mr. Li Yi, Ms. Wang Cong, Ms. Dai Lijia, Mr. Song Fengming and Mr. Shao Jingchun participated in the Forty-third seminar on Joint Members to Strengthen Continuing Professional Development by HKICS.

9.16 Liability Insurance for Directors

The Company maintained liability insurance for Directors in 2017 to provide protection against claims arising from the lawful discharge of duties by Directors, thus encouraging Directors to fully perform their duties.

9.17 Joint Company Secretaries

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

10. Internal Control

10.1 Statement of the Board in Relation to Internal Control Responsibilities

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

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

Pursuant to relevant regulatory requirements set out in the Basic Internal Control Norms for Enterprises and its implementation guidelines jointly promulgated by the five ministries including the MOF and relevant system from CBRC, the Company conducted the evaluation of internal control for 2017, formulated a plan for internal control assessment, which has defined the scope, procedures and methods of internal control assessment, and actively organized and conducted on-site tests and assessments of internal controls.

The internal control assessment of the Company for 2017 covered all major departments at the Company's headquarters, branches, subsidiaries and major products and business lines, and consisted of comprehensive self-assessment and key re-evaluation. No significant or material deficiencies in internal controls were identified during the assessment.

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

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

10. Internal Control

10.3 Establishment of Internal Control Management System

During the Reporting Period, the Company earnestly implemented regulatory requirements and continued to optimize the internal control system and continuously improved internal control tools.

Based on changes in external regulatory requirements and business development, the Company revised major businesses and management processes based on changes in external regulatory requirements and business development. The Company has revised Internal Control Manual and related Risk Control Matrix, and strengthened risk control of key links in the processes. Through measures including trainings, investigation, examination, rectification and evaluation, to improve the construction of internal control culture and upgrade the internal control management.

10.4 Internal Control Measures for Sanctions Risk

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

1. The Group reviews sanctions risks for every potential investment opportunity including the DES Companies. Through reviewing the public list of sanctioned parties and countries of the United States, the European Union, the United Kingdom and the United Nations, the Company identifies 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 subject to OFAC sanctions risks.

2. The Group has conducted sanctions risk 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.

3. 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.

10. Internal Control

4. 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, the United Kingdom, the European Union 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.

5. The Company has engaged Kirkland & Ellis as the 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.

10.5 Internal Control Measures for Excluded DES Companies

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

1. As for the Excluded DES Companies, we have appointed designated project managers to identify and monitor any material legal disputes and non-compliance risks of such companies. Based on the information available to the Group, such enterprises have not encountered any risk of material legal dispute and compliance risk since the Listing Date.

2. The Group will evaluate the risks that may be brought by the Excluded DES Companies on a regular basis based on information available. If any potential risk is identified, the Company will seek an opinion issued by its reputable external legal counsels with relevant expertise and experience and take appropriate measures accordingly.

3. The Group has fully commenced the disposal plan for the Excluded DES Companies. The disposal of the Excluded DES Companies is set out in "11.19. Disposal of Equity in Excluded DES Companies".

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

5. The Group will review new laws and regulations on protection of state secrets on a regular basis.

6. The Group will review and update the internal control policies and procedures for the Excluded DES Companies on a regular basis.

10. Internal Control

10.6 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 and large state-owned enterprises according to the national policies prior to our restructuring. According to the operating plans of the Group for such assets, the Group appreciated the importance of leveraging on mergers and acquisitions opportunities to realize asset liquidity and achieve gains from equity restructuring, disinvest from highly competitive industries or such companies with limited potential for asset appreciation, take advantage of our strengths in integrated financial services, enhance internal business collaboration, improve the level and return of market value management and enhance the management of equity assets, in order to increase the overall gain from equity assets management and seek greater social benefits.

In the future, the Group will proactively follow up the national strategy of coordinated development of Beijing-Tianjin-Hebei region and the Yangtze River Economic Belt. The Group will pay close attention to deepening the reform of multi-level capital markets, leading the transformation and upgrading of entities through innovation, promoting the equity diversification of state-owned enterprises and implementing the market-based legal DES policy environment and development to strengthen market research and industry analysis, explore investment opportunities of DES companies and other market, enhance the reserve of equity-based asset investment projects on the basis of full due diligence and cautiously assess the risks that may exist in the project, including the risk of sanctions, and proactively and steadily expand the equity investment business according to laws and regulations.

11. Report of the Board of Directors

11.1 Principal Business

The Group's business operation and the review situations are set out in "6. Management Discussion and Analysis — 6.3 Business Overview".

The major risks and uncertainties that the Group may be exposed to are set out in "6. Management Discussion and Analysis — 6.4 Risk Management". During the Reporting Period, there was a transition within the Board of Directors and the Board of Supervisors, the details of which are set out in "8. Directors, Supervisors and Senior Management — 8.4 Changes in Directors, Supervisors and Senior Management" respectively.

Meanwhile, the environmental policies of the Group are set out in "11.6 Social Responsibility Report (Namely Environmental, Social and Governance Report)" of this report of the Board of Directors. The compliance with relevant laws and regulations with significant impact on the Group are set out in "11.30 Compliance with Relevant Laws and Regulations" of this report of the Board of Directors. Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in "6. Management Discussion and Analysis — 6.3 Business Overview — 6.3.7 Human Resources Management", and "11.10 Major Clients" and "11.11 Major Suppliers" of this report of the Board of Directors, respectively.

11.2 Profit and Dividend Distribution

The profit and financial condition of the Group for the year ended December 31, 2017 are set out in "6. Management Discussion and Analysis — 6.2 Analysis of Financial Statements".

The Board of Directors proposed to distribute cash dividends for 2017 based on the total share capital of 39,070,208,462 shares of Domestic Shares and H Shares of the Company as at December 31, 2017. Shareholders of Domestic Shares and H Shares whose names appeared on our register of members as at the record date will be distributed RMB1.689 (tax inclusive) for every 10 Shares with the total cash dividend distributed amounting to approximately RMB6.599 billion, representing approximately 30.01% of the net profit attributable to the Shareholders of the Company on a consolidated basis of the Group for 2017. The earliest dividend payout date for 2017 will be Monday, May 21, 2018.

Dividend distribution plan for 2017 has been reviewed and approved at the second extraordinary general meeting in 2018. For the detailed arrangements for declaration and distribution of the annual dividends, please refer to the circular of the Shareholders' general meeting.

11. Report of the Board of Directors

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

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation regulations, State Administration of Taxation's Notice on the Relevant Issues Concerning the Distribution of Dividends and Withholding Enterprise Income Tax on Resident Enterprises of Chinese Resident Enterprises to Overseas H-share Nonresident Enterprises (Guo Shui Han [2008] No. 897) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) and other relevant regulations, the Company is obliged to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the H Share register of members of the Company when distributing dividends of 2017. Any Shares which are registered under the names of non-individual Shareholders, including those registered under HKSCC Nominees Limited, other agents or trustees, or other organizations and groups, shall be deemed as shares held by non-resident enterprise Shareholders, and enterprise income tax shall be withheld from dividends payable to such Shareholders.

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

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Announcement of the State Administration of Taxation in relation to the Administration Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (《國家稅務總局關於發佈<非居民納稅人享受稅收協定待遇管理辦法>的公告》) (SAT Announcement 2015 No. 60) and the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) and other relevant laws and regulations and regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the 2017 annual dividend to be distributed to them. However, the individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). In this regard, the Company will implement the following arrangements in relation to the withholding and payment of dividend as individual income tax for the individual holders of H Shares in the distribution of the dividend:

(1) For individual holders of H Shares who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with mainland of China stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares when distributes the 2017 annual dividend.

11. Report of the Board of Directors

(2) For individual holders of H Shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating other tax rates, the Company will temporarily withhold and pay individual income tax at the effective rate of not less than 10% required by relevant tax treaties on behalf of the individual holders of H Shares when distributes the 2017 annual dividend.

(3) For a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual holders of H Shares when distributes the 2017 annual dividend.

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

11.3 Reserves

Reserves of the Group as of December 31, 2017 are set out in the Consolidated Statement of Changes in Equity in the consolidated financial statements.

11.4 Distributable Reserves

The distributable reserves of the Group as of December 31, 2017 are set out in the Consolidated Statement of Financial Position in the consolidated financial statements.

11.5 Financial Highlights

The operating results and summary of assets and liabilities of the Group as of December 31, 2017 are set out in the section headed "5. Financial Summary".

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

In 2017, the Group further improved the Environmental, Social and Governance (ESG) indicator system. The disclosure coverage of ESG environmental indicator expanded to the Company's headquarter and branches in 2017. In the meanwhile, we made deep communication with stakeholders to enquire their opinions and suggestions regarding 14 social responsibility issues on economy, society, environment and

11. Report of the Board of Directors

corporate governance, and we derived a materiality matrix in 2017 through scientific analysis and took it as an important reference for the Group to determine the management direction for social responsibility of the year and prepare future work plans. For details regarding ESG of China Huarong, please refer to the Social Responsibility Report of China Huarong 2017 independently published by the Company, which can be accessed or downloaded at the websites of the Company and the Hong Kong Stock Exchange.

11.7 Donation

Total donations made by the Group for 2017 amounted to RMB47.0 million.

11.8 Property and Equipment

None of the properties held by the Group had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. For the details in relation to the changes in property and equipment of the Group as of December 31, 2017, please see "15. Audit Report and Financial Statements — V. Explanatory Notes — 35. Property and equipment".

11.9 Pension Plan

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

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

11. Report of the Board of Directors

11.10 Major Clients

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

11.11 Major Suppliers

During the Reporting Period, the cost from the top five suppliers from which the Company acquired distressed assets in aggregate accounted for not more than 30% of the Company's costs for distressed assets acquisition in 2017.

11.12 Share Capital and Public Float

As at December 31, 2017, the Company had a total of 39,070,208,462 Shares and 511 registered Shareholders. Details are set out in "7. Changes in Share Capital and Information on Substantial Shareholders". As at the Latest Practicable Date, based on the public information available to the Company and to the knowledge of the Directors, the public float of the Company was in compliance with requirements of relevant laws, regulations and the Listing Rules.

11.13 Pre-emptive Right and Share Option Arrangement

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

11.14 Purchase, Sale and Redemption of Shares

As of December 31, 2017, neither the Company nor its subsidiaries has purchased, sold or redeemed any Shares of the Company.

11.15 Issuance of Securities

Details of debt securities issued by the Company are set out in "15. Audit Report and Financial Statements — V. Explanatory Notes — 45. Bonds and notes issued".

In addition, the Company considered and approved the resolutions related to proposed non-public issuance of Offshore Preference Shares at the third extraordinary general meeting for 2017, the first domestic share class meeting for 2017 and the first H share class meeting for 2017 convened on August 7, 2017. Please refer to the Company's relevant announcements published on June 12, 2017, June 23, 2017 and August 7, 2017, respectively, for details. The Company considered and approved the resolutions related to extension of validity period of the plan for A Share Offering at the fourth extraordinary general meeting for 2017, the second domestic share class meeting for 2017 and the second H share class meeting for 2017 convened on September 12, 2017. Please refer to the Company's relevant announcements published on July 19, 2017, July 28, 2017 and September 12, 2017, respectively, for details. The Company will disclose further details and progress related to issuance of Offshore Preference Shares and A Share Offering in due time.

Save as abovementioned, during the Reporting Period, the Group did not have any other issuance or grant of Shares, convertible bonds, options or other securities.

11.16 Material Interests and Short Positions

Details of material interests and short positions of Shareholders are set out in "7. Changes in Share Capital and Information on Substantial Shareholders — 7.2 Substantial Shareholders — 7.2.1 Interests and Short Positions held by the Substantial Shareholders and Other Persons".

11.17 Use of Proceeds

On October 30, 2015, the Group was listed on the Main Board of the Hong Kong Stock Exchange and the proceeds from the listing amounted to HK$19,697.7 million. As of December 31, 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; RMB2,500.0 million was used to develop the financial services business 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 December 31, 2017, the balance for the proceeds amounted to HK$2,865 million (interest included). The unused proceeds will be used to increase the capital of our subsidiaries under the financial services segment of the Group, in order to develop the financial services business.

11.18 Borrowings

The borrowings of the Group as at December 31, 2017 amounted to approximately RMB773.06 billion. Details of our borrowings are set out in "15. Audit Report and Financial Statements — V. Explanatory Notes — 42. Borrowings".

11. Report of the Board of Directors

11.19 Disposal of Equity in Excluded DES Companies

The Group has commenced the disposal plan of the Excluded DES Companies. As of December 31, 2017, for all of the six Excluded DES Companies, the Group had negotiated with their respective de-facto controllers and controlling Shareholders regarding the disposal of our shareholdings in such companies, among which, three Excluded DES Companies have commenced the disposal processes, two companies have been disposed and the other one has obtained internal and external approval for the disposal plan, and is undergoing assets transfer and changes of industrial and commercial registration. The remaining three Excluded DES Companies have entered into the principle program of equity disposal with the enterprises and their de-facto controllers, and are actively seeking for qualified investors. During the Reporting Period, Wang Lihua, our executive Director, took charge of the disposal process and supervised the disposal. Our independent non-executive Directors conducted official supervision of relevant acts of Wang Lihua, our executive Director. In March 2018, Wang Lihua, our executive Director, together with our independent non-executive Directors, discussed such disposal plans and progress, which were reported to our independent non-executive Directors by Wang Lihua, our executive Director, and for which our independent non-executive Directors proposed certain corresponding issues to Wang Lihua, our executive Director. In March 2018, Wang Lihua, our executive Director, reported such disposal plans and progress to Audit Committee of the Board.

The Group has used and will continue to use its best efforts to complete the disposal of the equity interests in Excluded DES Companies as soon as practicable after listing in accordance with the arrangements as disclosed in the Prospectus.

We will retain Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited as our compliance adviser until all of our equity interests in the Excluded DES Companies have been disposed of.

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

11.20 Directors, Supervisors and Senior Management

Details of the Directors, Supervisors and senior management of the Company are set out in “8. Directors, Supervisors and Senior Management”. The daily operations of the Board are set out in “9. Corporate Governance Report”.

11. Report of the Board of Directors

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

As of December 31, 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 other associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

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

None of the Directors and Supervisors or their associated entities had any beneficial interests, directly or indirectly, in any transactions, arrangements or contracts of significance (except service contracts) concerning the business of the Group entered into with the Company or any of its controlling companies, subsidiaries or fellow subsidiaries in 2017.

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

11.23 Material Contracts with Controlling Shareholders

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

11.24 Management Contracts

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

11.25 Interests of Directors in Businesses Competing with the Company

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

11. Report of the Board of Directors

11.26 Remuneration Policy of Directors, Supervisors and Senior Management

The remuneration policy of Directors, Supervisors and senior management of the Company is in compliance with the Interim Administrative Measures for the Remuneration of Representatives of Central Financial Enterprises issued by the MOF. The remuneration system comprises basic annual salary, performance-based salary, bonuses based on term of service, and other benefits, as well as corporate pension scheme in accordance with relevant national requirements.

11.27 Relationship between Directors, Supervisors and Senior Management

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

11.28 Indemnity from Directors, Supervisors and Senior Management

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

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

11.29 Connected Transactions and Related Party Transactions

Details of the related party transactions based on the IFRS during the Reporting Period are set out in "15. Audit Report and Financial Statements — V. Explanatory Notes — 57. Related Party Transactions". As confirmed by the Group, such related party transactions did not constitute connected transactions under Chapter 14A of the Listing Rules. During the Reporting Period, the Group did not conduct any connected transaction which was required to be disclosed according to Chapter 14A of the Listing Rules.

11. Report of the Board of Directors

11.30 Compliance with Relevant Laws and Regulations

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

11.31 Major Subsidiaries

The major subsidiaries of the Group are set out in "15. Audit Report and Financial Statements — V. Explanatory Notes — 63. Particulars of principal subsidiaries".

11.32 Auditors

The consolidated financial statements of the Company for 2017 prepared under the IFRS and PRC GAAP have been audited by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively.

11.33 Statement for Changes of Auditors in the Past Three Years

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

12. Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors conducted in-depth study of the spirit of the 19th CPC National Congress of the communist party and the Fifth National Financial Working Conference of the State and implemented a series of regulatory requirements of the CBRC. In accordance with the provisions of relevant PRC laws and regulations and the Articles of Association, the Board of Supervisors carried out various supervision over the Company's development strategy and priority work to play an important role in promoting the Company's continuous improvement in corporate governance and in achieving a sound and sustainable development in accordance with laws and regulations.

12.1 Major Work Completed

The Board of Supervisors convened meetings. In 2017, the Board of Supervisors held seven meetings to review and approve 29 resolutions, including reports of the Board of Supervisors for 2016, final accounts for 2016 of the Company, and working plan of the Board of Supervisors for 2017. The Special Committee of the Board of Supervisors held five meetings to review 15 resolutions, including the final accounts for 2016 of the Company, annual report for 2016 of the Company and social responsibility report for 2016 of the Company.

Performance supervision. The Board of Supervisors strengthened supervision on the implementation of the government's macro-economic policies, regulatory requirements, as well as providing support to the real economy and service to the supply-side structural reform by the Board of Directors and the Senior Management. It focused on the adoption of working measures by the Board of Directors and the Senior Management aimed at returning to its original source, focusing on the main business, giving full play to the functions of the rescue financial institutions and improving the economic efficiency of service for entities; it strengthened the supervision of the performance of the board of directors, the senior management and their members, paid attention to the exercise of power by the board of directors and senior management within the scope of their powers, paid attention to the fulfillment of loyalty and diligence obligations of the directors and senior management; it strengthened the supervision of the standard operation of the special committees of the board of directors and paid attention to the convening of meetings and review procedures for the resolutions of the special committees of the Board of Directors; it reinforced the supervision of the implementation of the resolutions of the shareholders' general meeting and the Board of Directors and organized the evaluation of the annual performance of directors and senior management according to regulatory requirements.

Financial supervision. The Board of Supervisors reviewed regular financial reports in an earnest manner, focused on the authenticity of financial information, paid attention to changes in capital adequacy ratio and other relevant indicators; heard the annual audit plan, the implementation and reporting of the audit results, suggesting audit focus, supervision of the independence and effectiveness of external audit; it paid attention to the rectification of the problems found in external audit. In response to common problems, senior management was instructed to step up rectification efforts; focused on the financial foundation work, and the senior management was urged to attach importance to the financial foundation work of subsidiaries and to take practical measures to consolidate the basic work.

12. Report of the Board of Supervisors

Risk management supervision. The Board of Supervisors strengthened the supervision over the construction and operation of the comprehensive risk management system, hold a joint meeting of internal supervision with the theme of risk management, discussed and analyzed the key risk prevention and control in the operation and management of the Company, and prompted the Board of Directors and senior management to pay attention to and resolve these risks; it strengthened the supervision of credit risk, liquidity risk, concentration risk and other key areas. It conducted researches on risk management of some branches and liquidity risk management of the Group. According to the research result, senior management was prompted to pay attention to the construction of credit risk prevention and control mechanism, and the Board of Directors and senior management was prompted to further improve the liquidity risk management mechanism; it strengthened supervision over related party transactions and internal transactions and conducted special investigations into the construction and operation of the Group's risk isolation mechanism; senior management was prompted to further improve the Group's risk isolation firewall; it continued to strengthen its supervision over the quality of assets, with a focus on the CBRC's implementation of the asset classification policy and the scientific and reasonable provision of impairment losses on assets.

Internal control supervision. The Board of Supervisors strengthened the supervision over construction and operation of the internal control system; it focused on the implementation of authorization, and compliance management and risk management of overseas institutions; it paid attention to the new institutions and some key businesses and conducted special investigations and supervision on the construction and operation of some subsidiaries' internal control system and the implementation of off-balance-sheet assets business; it strengthened supervision over the rectification and implementation of regulatory opinions and the opinions of external audit agencies, focused on paying attention to the implementation of relevant regulatory opinions of CBRC; it organized holding of special meetings to urge the subsidiaries to rectify and implement the opinions of the external auditor on the subsidiaries in the annual audit; it paid attention to information system construction, prevention and control of cases, anti-money laundering and other work; it carefully reviewed the internal control evaluation report of the Board of Directors and the internal control audit report of the external auditor.

Strengthen self-construction. In accordance with the regulatory requirements and corporate governance procedures, the Board of Supervisors completed the election at expiration of office terms of the board of supervisors, and adjusted the setting of special committees of the Board of Supervisors according to the actual situation, fully respected and exerted the experience expertise of supervisors; it organized the supervisors to participate in various types of internal and external training courses to continuously improve their ability to work; it organized annual assessment, and conducted assessment on duty performance of supervisors. During the Reporting Period, members of the Board of Supervisors performed their duties faithfully and dutifully, attended the shareholders' general meeting and the meetings of board of supervisors on time, attended the meetings of the Board of Directors and special committees, carefully considered the proposals, carried out in-depth investigation and research and submitted relevant opinions and suggestions in a timely manner. During the Reporting Period, the shareholder representative supervisors and external supervisors all worked for the Company for more than 15 working days.

12. Report of the Board of Supervisors

12.2 Independent opinions on relevant matters

12.2.1 Lawful Operation

During the Reporting Period, the Company's operations were in compliance with laws and regulations, and its decision-making procedures conformed to relevant laws, regulations and the Articles of Association. Directors and senior management of the Company duly performed their duties. The Board of Supervisors is not aware of any breach of laws, regulations and the Articles of Association or any actions which may be detrimental to the interests of the Company in performing their duties.

12.2.2 Financial Reports

The financial reports for the year fairly and accurately reflected the financial position and operating results of the Company.

12.2.3 Evaluation Report of the Board on Internal Control

The Board of Supervisors reviewed the annual evaluation report of the Board on internal control for 2017 and had no objections.

12.2.4 Implementation of Resolutions Adopted at the General Meeting of Shareholders

During the Reporting Period, the Board of Supervisors had no objection to the matters submitted by the Board to the Shareholders' general meetings for review. The Board properly implemented the resolutions approved by the Shareholders at the general meetings of the Company.

12.2.5 Use of Proceeds

During the Reporting Period, the use of proceeds of the Company was consistent to the commitment set out in the Prospectus.

12. Report of the Board of Supervisors

12.2.6 Fulfillment of Social Responsibility

During the Reporting Period, the Company duly fulfilled its social responsibility. The Board of Supervisors reviewed the social responsibility report (namely environmental, social and governance report) for 2017 of the Board and had no objections.

13. Significant Events

13.1 Material Litigation and Arbitration

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

During the Reporting Period, we were involved in various unresolved litigation matters. For example, as of December 31, 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 RMB989 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 RMB29,444 million. We believe that we have made full accrual allowance for the potential losses arising from unresolved legal proceedings and that none of such legal proceedings, individually or in aggregate, would have a material adverse impact on the business, financial condition and results of operations of the Company.

13.2 Major Acquisition and Disposal of Assets and Merger

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

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

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

13.4 Implementation of Share Incentive Scheme

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

13.5 Major Contracts and Their Implementation

13.5.1 Major Custodies, Underwriting and Leasing

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

13.5.2 Material Guarantees

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

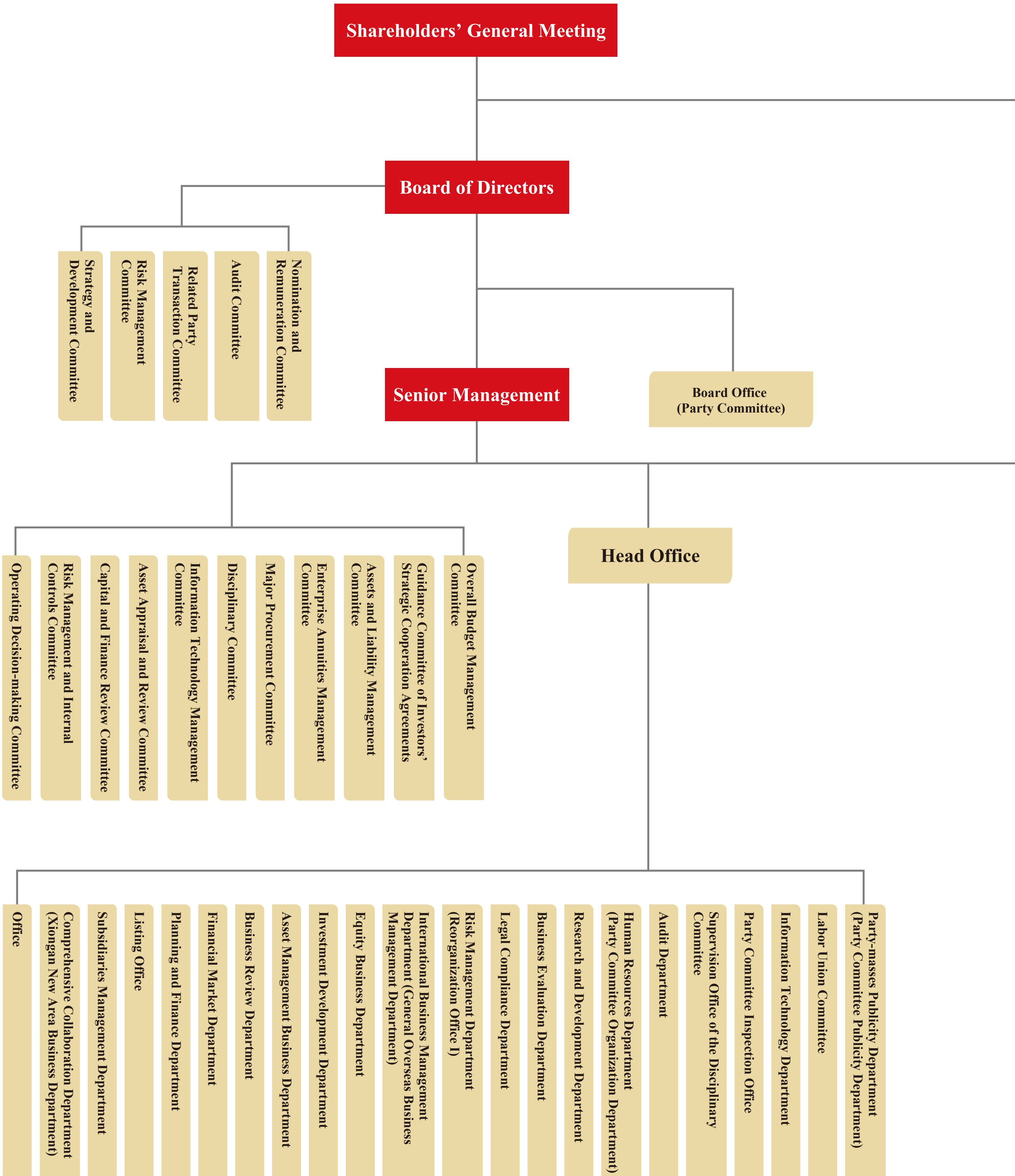
13.6 Penalty Imposed on the Company and Directors, Supervisors and Senior Management during the Reporting Period

During the Reporting Period, none of the Company or any of the Directors, Supervisors and senior management 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.

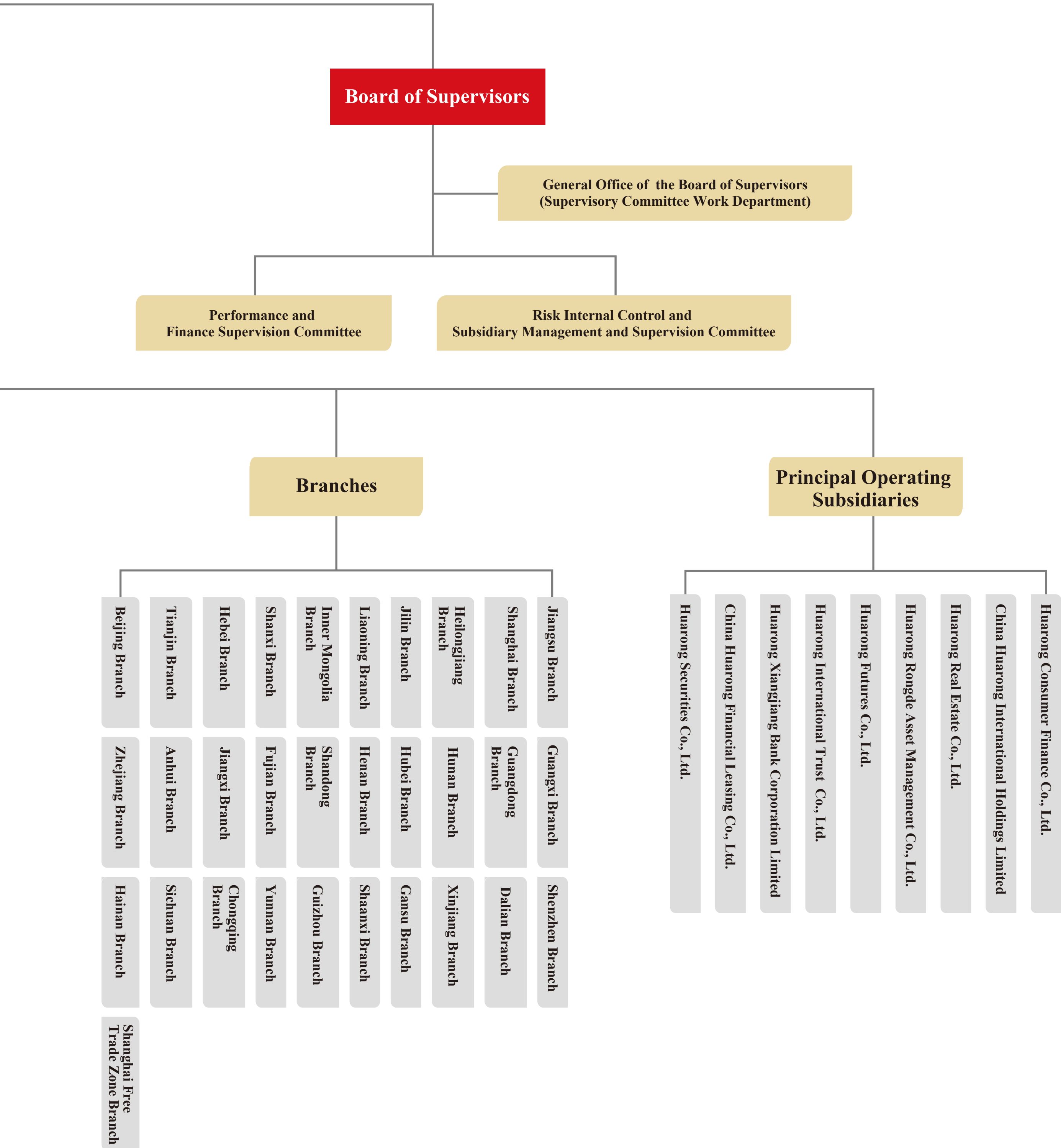
13.7 Events after the Reporting Period

Details of events after the Reporting Period are set out in "15. Audit Report and Financial Statements — VI. Events after the Reporting Period".

14. Organizational Chart



14. Organizational Chart



15. Audit Report and Financial Statements

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

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Independent Auditor's Report

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of China Huarong Asset Management Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 162 to 328, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Independent Auditor's Report

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment on loans and advances to customers, finance lease receivables and financial assets classified as receivables	
Financial assets including loans and advances to customers (note V. 24), finance lease receivables (note V. 25), and financial assets classified as receivables (note V. 29) are together accounted for approximately 51% of the total assets of the Group and subject to credit risk. The management of the Group exercises significant judgements and estimation in determining the impairment losses on these financial assets. As the carrying balances of these financial assets are material to the Group, and the significance of these judgements and estimation, impairment on these financial assets is a key audit matter.	Our procedures in relation to impairment on loans and advances to customers, finance lease receivables and financial assets classified as receivables included the following: • We tested and assessed the effectiveness of controls design and operations over impairment assessment and provision estimates; • We performed credit review on a sample basis to assess if impairment has incurred and whether it has been appropriately and timely identified; reviewed the assumptions used in arriving at the expected future cash flows, including realization of collateral held, from borrowers or counterparties; • We recalculated the impairment provision and compared the results with those estimated by the Group; • For financial assets collectively assessed for impairment loss, we gained an understanding on the impairment estimation methods used by the Group and evaluated the appropriateness of assumptions and parameters used in impairment models. We also examined the reasonableness of parameters and assumptions including historical loss data or industry experience when determining collective impairment losses.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments measured at Level 3 Fair Value	
The Group's financial instruments measured at Level 3 fair value with unobservable inputs mainly included financial assets designated as at fair value through profit or loss (note V. 22) and available-for-sale financial assets (note V. 27). In aggregate, carrying balances of these financial assets accounted for approximately 18% of the total assets of the Group. Valuations of these financial instruments involve significant management judgement and estimation. As the carrying balances of these financial assets are material to the Group, and the significance of these judgements and estimation, valuation of financial assets measured at Level 3 fair value is a key audit matter.	Our procedures in relation to valuation of financial instruments measured at Level 3 fair value included the following: • We tested and assessed the effectiveness of controls design and operations over financial instrument valuation process; • We selected samples and examined the reasonableness of the valuation methods used, whether they have been consistently applied and evaluated the appropriateness of assumptions used; • We recalculated fair value estimates and compared the results to the Group's valuations and investigated significant differences, if any; For financial instruments with significant unobservable inputs in valuations, we involved our own internal valuation experts to review and assess the valuation assumptions used, including considering alternative valuation methodologies used by other market participants, and the appropriateness of the data inputs used.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Consolidation of structured entities Details of interests in structured entities are disclosed in note V. 32 to the consolidated financial statements. The management of the Group has to assess whether the Group is exposed significant variable returns and has power to affect its returns from these structured entities. This assessment determines whether the Group has controls over these structured entities and, accordingly, whether to consolidate these structured entities. The Group acts as a manager or investor of these structured entities, it exercises significant judgement when determining it has controls over these structured entities and its assessment is based on decision-making authorities as a manager or investor, power held by other parties, remuneration as mangers, exposures to variable returns and risks. Due to the significance of these structured entities to the Group and the judgment involved, consolidation of structured entities is a key audit matter.	Our procedures in relation to consolidation of structured entities included the following principal procedures: • We understood and assessed management process, control design and operations over consolidation of structured entities; • We reviewed, on a sample basis, the terms of the relevant contracts, considered the facts and arrangements to determine if the Group has control over these structured entities. Factors we evaluated include the objectives of establishments of these structured entities, the relevant activities and decision-making processes, the quantum and volatilities of variable returns, and whether the Group can use its power over the relevant activities to affect its variable returns from these structured entities; • We assessed the adequacy of the disclosures in the consolidated financial statements.

Independent Auditor's Report

Other Information

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 20, 2018

Consolidated Statement of Profit or Loss

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended December 31, 2017	2016
Income from distressed debt assets classified as receivables	2	**30,753,417**	25,140,048
Fair value changes on distressed debt assets	3	**4,661,251**	3,852,330
Fair value changes on other financial assets and liabilities	4	**8,109,503**	5,782,109
Interest income	5	**21,014,963**	16,444,090
Investment income, gains and losses	6	**44,179,688**	24,678,434
Commission and fee income	7	**13,039,077**	12,920,129
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**917,609**	2,027,719
Other income and other net gains or losses	8	**5,395,042**	4,362,862
Total		**128,070,550**	95,207,721
Interest expenses	9	**(50,691,073)**	(31,416,755)
Commission and fee expenses	10	**(1,296,167)**	(1,035,945)
Operating expenses	11	**(15,140,925)**	(12,286,782)
Impairment losses on assets	12	**(17,463,643)**	(16,717,039)
Total		**(84,591,808)**	(61,456,521)
Change in net assets attributable to other holders of consolidated structured entities	32	**(7,823,672)**	(3,376,316)
Share of results of associates and joint ventures		**946,624**	134,419
Profit before tax		**36,601,694**	30,509,303
Income tax expense	13	**(10,013,982)**	(7,400,772)
Profit for the year		**26,587,712**	23,108,531
Profit for the year attributable to:			
Equity holders of the Company		**21,992,590**	19,613,458
Holders of perpetual capital instruments		**1,140,525**	455,825
Non-controlling interests		**3,454,597**	3,039,248
		26,587,712	23,108,531
Earnings per share attributable to equity holders of the Company			
(Expressed in RMB Yuan per share)			
— Basic	14	**0.56**	0.50
— Diluted	14	**N/A**	0.50

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended December 31, 2017	2016
Profit for the year		**26,587,712**	23,108,531
Other comprehensive expense:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit obligations		**(10,621)**	(8,697)
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		**(1,249,372)**	(2,931,761)
Reclassification of gains to profit or loss on disposals		**(3,985,573)**	(1,054,141)
Impairment losses		**838,001**	673,874
Income tax effect		**854,724**	1,146,980
		(3,542,220)	(2,165,048)
Share of other comprehensive expense of associates and Joint ventures		**(8,111)**	(96,404)
Exchange differences arising on translation of foreign operations		**(895,282)**	(207,741)
Cumulative gains arising on the effective portion of changes in fair value of cash flow hedges	22, 51	**280,665**	—
Income tax effect		**(46,310)**	—
Other comprehensive expense for the year, net of income tax		**(4,221,879)**	(2,477,890)
Total comprehensive income for the year		**22,365,833**	20,630,641
Total comprehensive income attributable to:			
Equity holders of the Company		**18,121,224**	17,209,761
Holders of perpetual capital instruments		**1,140,525**	455,825
Non-controlling interests		**3,104,084**	2,965,055
		22,365,833	20,630,641

Consolidated Statement of Financial Position

As at December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	As at December 31, 2017	2016
Assets			
Cash and balances with central bank	18	**33,207,112**	27,259,805
Deposits with financial institutions	19	**162,881,077**	154,329,885
Placements with financial institutions	20	**9,822,736**	4,902,346
Financial assets held for trading	21	**67,257,709**	87,731,296
Financial assets designated as at fair value through profit or loss	22	**230,045,342**	95,167,253
Financial assets held under resale agreements	23	**41,238,105**	36,347,736
Loans and advances to customers	24	**158,221,948**	118,405,979
Finance lease receivables	25	**95,703,929**	84,991,341
Inventories	26	**16,640,824**	16,418,914
Available-for-sale financial assets	27	**195,520,697**	140,292,637
Held-to-maturity investments	28	**64,451,200**	44,884,175
Financial assets classified as receivables	29	**701,192,438**	549,477,957
Interests in associates and joint ventures	30	**42,097,082**	9,564,011
Investment properties	34	**2,135,383**	1,828,408
Property and equipment	35	**8,645,191**	7,145,821
Goodwill		**342,051**	206,873
Deferred tax assets	36	**13,400,222**	9,301,184
Other assets	37	**27,457,236**	23,713,676
Total assets		**1,870,260,282**	1,411,969,297
Liabilities			
Borrowings from central bank	38	**4,647,000**	1,987,000
Deposits from financial institutions	39	**10,158,354**	6,962,544
Placements from financial institutions	40	**2,101,560**	4,278,497
Financial assets sold under repurchase agreements	41	**60,316,970**	56,390,595
Borrowings	42	**773,057,262**	511,308,643
Financial liabilities designated as at fair value through profit or loss	22	**2,547,383**	—
Due to customers	43	**202,349,949**	172,405,868
Tax payable	44	**6,025,835**	4,680,635
Deferred tax liabilities	36	**1,380,333**	700,372
Bonds and notes issued	45	**331,962,869**	243,075,227
Other liabilities	46	**293,077,905**	260,098,916
Total liabilities		**1,687,625,420**	1,261,888,297

Consolidated Statement of Financial Position

As at December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

		As at December 31,	
	Notes V	2017	2016
Equity			
Share capital	47	**39,070,208**	39,070,208
Capital reserve	48	**19,015,028**	18,320,682
Surplus reserve	49	**5,299,688**	3,615,201
General reserve	50	**12,882,925**	10,304,363
Other reserves	51	**(799,550)**	3,071,816
Retained earnings		**52,706,296**	40,860,728
Equity attributable to equity holders of the Company		**128,174,595**	115,242,998
Perpetual capital instruments	52	**23,185,421**	15,030,256
Non-controlling interests		**31,274,846**	19,807,746
Total equity		**182,634,862**	150,081,000
Total equity and liabilities		**1,870,260,282**	1,411,969,297

The consolidated financial statements on page 162 to 328 were approved and authorized for issue by the Board of Directors on March 20, 2018 and are signed on its behalf by Lai Xiaomin and Wang Lihua.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

		Equity attributable to equity holders of the Company							Non-controlling interests		
	Notes V	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Subtotal	Perpetual capital instruments	Other non-controlling interests	Total
As at January 1, 2017		**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 year		**—**	**—**	**—**	**—**	**—**	**21,992,590**	**21,992,590**	**1,140,525**	**3,454,597**	**26,587,712**
Other comprehensive expense		**—**	**—**	**—**	**—**	**(3,871,366)**	**—**	**(3,871,366)**	**—**	**(350,513)**	**(4,221,879)**
Total comprehensive (expense)/income for the year		**—**	**—**	**—**	**—**	**(3,871,366)**	**21,992,590**	**18,121,224**	**1,140,525**	**3,104,084**	**22,365,833**
Capital contribution from non-controlling interests	63	**—**	**567,789**	**—**	**—**	**—**	**—**	**567,789**	**—**	**8,950,334**	**9,518,123**
Dividends paid		**—**	**—**	**—**	**—**	**—**	**(5,883,973)**	**(5,883,973)**	**—**	**(946,477)**	**(6,830,450)**
Appropriation to surplus reserve	49	**—**	**—**	**1,684,487**	**—**	**—**	**(1,684,487)**	**—**	**—**	**—**	**—**
Appropriation to general reserve	50	**—**	**—**	**—**	**2,578,562**	**—**	**(2,578,562)**	**—**	**—**	**—**	**—**
Increase in perpetual capital instruments	52	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**19,246,542**	**—**	**19,246,542**
Decrease in perpetual capital instruments	52	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(11,307,658)**	**—**	**(11,307,658)**
Distribution relating to perpetual capital instruments	52	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(924,244)**	**—**	**(924,244)**
Disposal of subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(21,168)**	**(21,168)**
Effect of acquisition of subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**424,202**	**424,202**
Change in ownership interest in subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(12,172)**	**(12,172)**
Others		**—**	**126,557**	**—**	**—**	**—**	**—**	**126,557**	**—**	**(31,703)**	**94,854**
As at December 31, 2017		**39,070,208**	**19,015,028**	**5,299,688**	**12,882,925**	**(799,550)**	**52,706,296**	**128,174,595**	**23,185,421**	**31,274,846**	**182,634,862**
As at January 1, 2016		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 year		—	—	—	—	—	19,613,458	19,613,458	455,825	3,039,248	23,108,531
Other comprehensive expense		—	—	—	—	(2,403,697)	—	(2,403,697)	—	(74,193)	(2,477,890)
Total comprehensive (expense)/income for the year		—	—	—	—	(2,403,697)	19,613,458	17,209,761	455,825	2,965,055	20,630,641
Capital contribution from non-controlling interests		—	—	—	—	—	—	—	—	3,667,732	3,667,732
Dividends paid		—	—	—	—	—	—	—	—	(765,935)	(765,935)
Appropriation to surplus reserve	49	—	—	1,174,114	—	—	(1,174,114)	—	—	—	—
Appropriation to general reserve	50	—	—	—	1,732,698	—	(1,732,698)	—	—	—	—
Increase in perpetual capital instruments	52	—	—	—	—	—	—	—	9,973,523	—	9,973,523
Decrease in perpetual capital instruments	52	—	—	—	—	—	—	—	(1,450,000)	—	(1,450,000)
Distribution relating to perpetual capital instruments	52	—	—	—	—	—	—	—	(403,204)	—	(403,204)
Disposal of subsidiaries		—	—	—	—	—	—	—	—	(101,052)	(101,052)
Change in ownership interest in subsidiaries		—	(163,635)	—	—	—	—	(163,635)	—	(187,194)	(350,829)
Others		—	79,522	—	—	—	—	79,522	—	—	79,522
As at December 31, 2016		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

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended December 31, 2017	2016
OPERATING ACTIVITIES			
Profit before tax		**36,601,694**	30,509,303
Adjustments for:			
Impairment losses on assets		**17,463,643**	16,717,039
Depreciation of property and equipment and investment properties		**590,180**	416,682
Amortization of intangible assets and other assets		**291,741**	203,502
Share of results of associates and joint ventures		**(946,624)**	(134,419)
Fair value changes on financial assets		**(424,217)**	(2,730,853)
Interest income arising from impaired financial assets		**(414,311)**	(233,110)
Investment income		**(35,985,775)**	(19,477,394)
Interest expenses of bonds and notes issued and other borrowings	60	**28,917,756**	11,945,329
Change in net assets attributable to other holders of consolidated structured entities		**7,823,672**	3,376,316
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures		**(917,609)**	(2,027,719)
Net losses on disposal of property and equipment		**12,999**	98
Net foreign exchange losses/(gains)		**235,863**	(202,742)
Net reversal of contingent liabilities		**(521)**	(53,690)
Operating cash flows before movements in working capital		**53,248,491**	38,308,342
Net increase in loans and advances to customers		**(42,117,899)**	(38,008,628)
Net increase in finance lease receivables		**(10,986,738)**	(13,764,648)
Net decrease/(increase) in balances with central bank and deposits with financial institutions		**2,531,923**	(13,558,902)
Net increase in financial assets at fair value through profit or loss		**(88,546,708)**	(83,717,750)
Net (increase)/decrease in placements with financial institutions		**(522,736)**	1,198,706
Net decrease/(increase) in financial assets held under resale agreements		**605,151**	(11,113,080)
Net increase in financial assets classified as receivables		**(79,888,221)**	(115,036,148)
Net decrease in available-for-sale financial assets		**3,209,335**	1,653,256
Net increase in due to customers		**29,944,081**	32,376,326
Net increase in borrowings from central bank		**2,660,000**	1,967,000
Net increase/(decrease) in placements and deposits from financial institutions		**1,018,873**	(5,191,908)
Net increase in financial assets sold under repurchase agreements		**691,375**	25,816,229
Net increase in borrowings of financial institution subsidiaries		**164,807,294**	114,346,919
Other changes in operating receivables		**(3,779,625)**	(20,404,757)
Other changes in operating payables		**6,137,879**	28,681,626
Cash from/(used in) operations		**39,012,475**	(56,447,417)
Income tax paid		**(11,276,247)**	(9,123,383)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**27,736,228**	(65,570,800)

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended December 31, 2017	2016
INVESTING ACTIVITIES			
Cash receipts from disposals of financial assets		**402,980,372**	257,259,277
Cash receipts from interest income arising from financial assets		**36,472,794**	17,266,929
Cash receipts from dividend income		**1,869,760**	1,449,695
Cash receipts from disposals of associates and joint ventures		**4,812,559**	3,469,875
Cash receipts from disposals of property and equipment, and other assets		**130,887**	103,796
Cash payments for purchases of financial assets		**(571,825,244)**	(463,536,954)
Cash payments for investment in associates and joint ventures		**(34,662,944)**	(5,840,854)
Cash receipts from/(payments for) pledge deposits in bank		**3,331,341**	(3,548,797)
Cash payments for purchases of property and equipment, investment properties and other assets		**(3,260,664)**	(839,631)
Net cash inflow/(outflow) on acquisitions of subsidiaries		**1,119,946**	(1,969,326)
Net cash inflow/(outflow) on disposals of subsidiaries		**899,965**	(130,782)
NET CASH USED IN INVESTING ACTIVITIES		**(158,131,228)**	(196,316,772)

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes V	Year ended December 31, 2017	2016
FINANCING ACTIVITIES			
Contribution from non-controlling interests of subsidiaries		**9,518,123**	3,667,732
Cash (payments for)/receipts from consolidated structured entities	60	**(11,987,311)**	117,756,339
Cash payments for acquisition of additional interests in subsidiaries		**(12,172)**	(350,829)
Issue of perpetual capital instruments		**19,246,542**	9,973,523
Redemption of perpetual capital instruments		**(8,300,000)**	(1,450,000)
Proceeds of borrowings of non-financial institution subsidiaries	60	**252,708,202**	197,825,281
Repayments of borrowings of non-financial institution subsidiaries	60	**(159,755,281)**	(95,773,540)
Cash receipts from bonds and notes issued	60	**183,033,045**	130,275,008
Cash payments for transaction cost of bonds and notes issued	60	**(278,880)**	(272,293)
Cash repayments for bonds and notes redeemed	60	**(92,794,634)**	(33,648,904)
Interest paid for bonds and notes issued and other borrowings	60	**(22,486,578)**	(12,443,431)
Dividends paid	60	**(6,761,781)**	(1,932,619)
Cash payments for distribution to holders of perpetual capital instruments		**(924,244)**	(403,204)
NET CASH FROM FINANCING ACTIVITIES		**161,205,031**	313,223,063
NET INCREASE IN CASH AND CASH EQUIVALENTS		**30,810,031**	51,335,491
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**138,854,990**	86,728,444
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(544,940)**	791,055
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	53	**169,120,081**	138,854,990
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**50,303,353**	39,843,203
Interest paid		**(27,750,491)**	(18,806,340)
		22,552,862	21,036,863

Notes to the Consolidated Financial Statements

For the year ended December 31, 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. Its registered office is located at No. 8, Finance Street, Xicheng District, Beijing 100033, PRC. The ultimate controlling party of the Company is the MOF.

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

The Company listed on The Stock Exchange of Hong Kong Limited 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 futures 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 consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

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

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

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 IFRSs 2014-2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note V. 60. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note V.60, the application of these amendments has had no impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

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

New and revised IFRSs is issued but not yet effective:

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after January 1, 2018.

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

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

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

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

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

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement,* the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

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

IFRS 9 Financial Instruments *(continued)*

Key requirements of IFRS 9 which are relevant to the Group are: *(continued)*

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9.

Classification and measurement:

- Debt instruments classified as available-for-sale financial assets carried at fair value as disclosed in note V.27: for some of these financial assets, their contractual cash flows are solely payments of principal and interest on the principal outstanding ("contractual cash flow characteristics test"), and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments in the open market. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the applications of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the debt instruments are derecognised. However, some of these financial assets which satisfy the contractual cash flow characteristics test, although classified previously as available-for-sale financial assets, are held within a business model whose objective is to collect contractual cash flows. Accordingly, these financial assets will be subsequently measured at amortised costs upon the application of IFRS 9. In addition, most asset-backed securities and wealth management products classified as available-for-sale debt instruments fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income under IFRS 9. On initial application of IFRS 9, investment revaluation reserve relating to (i) those financial assets subsequently measured at amortised costs will be adjusted against the fair value of the financial assets, and (ii) those financial assets subsequently measured at fair value through profit or loss will be transferred to retained earnings as at 1 January 2018, respectively.

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

IFRS 9 Financial Instruments *(continued)*

Classification and measurement: *(continued)*

- Equity instruments classified as available-for-sale financial assets carried at fair value as disclosed in note V.27: most equity instruments (including shares, funds and most trust products) carried at fair value will be measured at fair value with subsequent fair value gains or losses to be recognized in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve relating to these equity instruments will be transferred to retained earnings as at 1 January 2018.

- Equity instruments classified as available-for-sale financial assets carried at costs less impairment as disclosed in note V.27: all of these financial assets, primarily shares, are qualified for designation as measured at FVTOCI under IFRS 9 but the Group will only elect this option for designation at FVTOCI for approximately less than 15% of financial assets carried at cost less impairment. The Group will measure these equity instruments designated as FVTOCI at fair value at the end of subsequent reporting periods with fair value gains or losses recorded in other comprehensive income and accumulated in the investment revaluation reserve, except for dividend income recognized in profit or loss. Upon the initial application of IFRS 9, fair value gains relating to these equity instruments will be adjusted to investment revaluation reserve as at 1 January 2018. For the remaining available-for-sale equity instruments carried at cost less impairment but not designated as FVTOCI, they will be measured at fair value with subsequent fair value gains or losses to be recognized in profit or loss. On initial application of IFRS 9, fair values gains that represent the differences between the cost less impairment and fair value, will be adjusted to retained earnings as at 1 January 2018.

- Distressed debt assets as disclosed in note V.29 are carried at amortized costs: most of these distressed debt assets are held within a business model whose objective is to collect contractual cash flows that satisfy contractual cash flow characteristics test and, therefore, will continue to be subsequently measured at amortized cost upon the application of IFRS 9. Approximately 30% of distressed debt assets satisfy the contractual cash flow characteristics tests, but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these distressed debt assets. Accordingly, these distressed debt assets will be subsequently measured at FVTOCI upon the application of IFRS 9, and the differences between fair value and amortized costs will be recorded in the investment revaluation reserve. This fair value change will be subsequently reclassified to profit or loss when the relevant distressed debt assets are derecognized. In addition, certain other financial assets classified as receivables disclosed in V. 29 fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss. On initial application of IFRS 9, the difference between amortized costs and fair values of these financial assets will be adjusted to retained earnings as at 1 January 2018.

All other financial assets and liabilities will continue to be measured on the same basis as are currently measured under IAS 39.

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

IFRS 9 Financial Instruments *(continued)*

Classification and measurement: *(continued)*

According to the assessment made by the directors of the Company up to the date of issuance of the consolidated financial statements, the changes in measurement basis mentioned above in respect of financial assets will increase the total equity of the Group at 1 January 2018 by approximately less than 2% on initial application of IFRS 9, after having taken into account the impacts of deferred tax.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provision upon application of IFRS 9 by the Group. This change will reduce the total equity of the Group at 1 January 2018 by less than 2% on initial application of IFRS 9, after having taken into account the impacts of deferred tax.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

IFRS 15 Revenue from contracts with customers

IFRS15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract

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

IFRS 15 Revenue from contracts with customers *(continued)*

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principle versus agent considerations, as well as licensing application guidance.

The Group provides various services as disclosed in note V.7 and is engaged in selling of properties as disclosed in note V.8. Interest income, a significant component of the Group's revenue, is not under the scope of IFRS15. The Group has assessed the impact of IFRS 15 on the remaining revenue and does not expect that the application of the standard will have a significant impact on recognition or measurement of income from majority of these services. However, the application of IFRS 15 may result in more disclosures in the consolidated financial statements.

IFRS 16 Leases

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

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, expect for short-term leases and leases of low value assets.

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

IFRS 16 Leases *(continued)*

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

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

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of RMB2,970 million as disclosed in note V.55. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Notes to the Consolidated Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

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

2. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values and certain non-financial assets which are stated at deemed cost, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3. Basis of consolidation

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

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

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income and expenses of a subsidiary is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3. Basis of consolidation *(continued)*

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

When the Group loses control of a subsidiary, the asset and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. Business combinations

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4. Business combinations *(continued)*

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

5. Goodwill

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

5. Goodwill *(continued)*

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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

6. Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates or joint ventures used for equity accounting purpose are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in associates or joint ventures is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

7. Cash and cash equivalents

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

8. Foreign currencies

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

8. Foreign currencies *(continued)*

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

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

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

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

9. Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.1 Effective interest method

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

9.2 Classification, recognition and measurement of financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Investment securities comprise held-to-maturity investments, available-for-sale financial assets and financial assets classified as receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

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

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Classification, recognition and measurement of financial assets *(continued)*

Financial assets at fair value through profit or loss ("FVTPL") *(continued)*

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. Any dividend or interest income arising from financial assets at FVTPL is also included in fair value changes of such assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that are quoted in an active market and that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any identified impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include balances with central bank, deposits with financial institutions, placements with financial institutions, financial assets held under resale agreements, financial assets classified as receivables, loans and advances to customers, finance lease receivables and other receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition or impairment is recognized in profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.2 Classification, recognition and measurement of financial assets *(continued)*

Financial assets at fair value through profit or loss ("FVTPL") *(continued)*

Loans and receivables *(continued)*

Debt instruments with fixed or determinable payments but have no quoted price in an active market are accounted for as financial assets classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

When a debt is swapped into equity interest of an entity during a debt restructuring, the difference between the carrying amount of the debt receivable and the fair value of the equity interest being swapped is recognized in profit or loss for the period.

9.3 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.3 Impairment of financial assets *(continued)*

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Objective evidence that other financial asset is impaired includes the following observable events:

(1) significant financial difficulty of the issuer or obligor;

(2) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(4) it becoming probable that the borrower will enter bankruptcy or other financial reorganizations;

(5) the disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

— adverse changes in the payment status of borrowers in the portfolio; or

— national or local economic conditions that correlate with defaults on the assets in the portfolio;

(7) significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) other objective evidence indicating there is an impairment of a financial asset.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.3 Impairment of financial assets *(continued)*

Impairment of financial assets measured at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the assets are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collateralized financial asset includes the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The carrying amount of a financial asset is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognized in the profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income and accumulated in equity and there is objective evidence that asset is impaired, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment loss on available-for-sale equity investment at fair value is not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in equity. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.3 Impairment of financial assets *(continued)*

Impairment of available-for-sale financial assets *(continued)*

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. Such impairment loss on such financial asset is not reversed once it is recognized.

9.4 Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the assets to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts on the date of transfer. The difference between (i) the carrying amount allocated to the part derecognized; and (ii) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

9.5 Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

On initial recognition, the Group's financial liabilities are generally classified into financial liabilities at FVTPL or other financial liabilities.

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For the year ended December 31, 2017

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.5 Financial liabilities and equity instruments *(continued)*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

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

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

A financial liability other than a financial liability held for trading (or contingent consideration that may be paid by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Financial liabilities at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.5 Financial liabilities and equity instruments *(continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *provisions, contingent liabilities and contingent assets*; and

- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Perpetual capital instruments issued by the Group, which include no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavorable to the Group, are classified as equity instruments and are initially recorded at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of convertible loan notes issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.5 Financial liabilities and equity instruments *(continued)*

Compound instruments *(continued)*

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded subsequently as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to other equity. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to other equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

9.6 Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

9. Financial instruments *(continued)*

9.7 Derivatives and embedded derivatives

Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

9.8 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when both of the following conditions are satisfied: (i) the Group currently has a legal enforceable right to set off the recognized amounts; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

10. Inventories

Properties under development and properties held for sale

Properties under development and properties held for sale are stated at the lower of cost and net realizable value on an individual basis. Cost comprises the acquisition cost and other costs directly attributable to such properties as well as borrowing costs capitalized in accordance with the Group's accounting policy.

11. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including any directly attributable expenditure.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

11. Investment properties *(continued)*

All investment properties upon the incorporation of the Company were revalued by reference to the valuation carried out during the financial restructuring. The revalued amount was adopted as the deemed cost of the related investment properties.

Subsequent to initial recognition, investment properties are stated at cost or deemed cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost or deemed cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognized.

12. Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purposes are stated in the statements of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

12. Property and equipment *(continued)*

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment other than construction in progress are as follows:

Category	Depreciation	Residual value rates	Annual depreciation rates
Buildings	5–35 years	3%–5%	2.71%–19.40%
Machinery equipment	5–20 years	3%–5%	4.75%–19.40%
Electronic equipment, furniture and fixtures	3–10 years	3%–5%	9.50%–32.33%
Motor vehicles	5–10 years	3%–5%	9.50%–19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and for qualifying assets, borrowing cost capitalized in accordance with the Group's accounting policy. Such properties are reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purpose, the amortization of prepaid lease payment provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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For the year ended December 31, 2017

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

13. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

14. Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortization and any accumulated impairment losses. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

15. Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

16. Resale and repurchase agreements

16.1 Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognized in the statements of financial position. The cost (including interests) of purchasing such assets is presented under "financial assets held under resale agreements" in the consolidated statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

16.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognized in the statements of financial position. The proceeds (including interests) from selling such assets are presented under "financial assets sold under repurchase agreements" in the consolidated statements of financial position. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

17. Provisions

Provisions are recognized when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

18. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below:

18.1 Income from distressed debt assets classified as receivables

Income from distressed debt assets includes interest income and disposal income arising on distressed debt assets classified as receivables. Interest income is recognized in profit or loss using the effective interest method.

18.2 Interest income

Interest income for all interest-bearing financial instruments, except for interest income from distressed debt assets and investment securities, are recognized within "interest income" in profit or loss using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income arising from distressed debt assets designated as at FVTPL is included in "fair value changes on distressed debt assets".

Interest income from the debt assets and equity instruments that are classified as available-for-sale financial assets, held-to- maturity investments and debt instruments classified as receivables are included in "investment income, gains and losses".

18.3 Dividend income

Dividend income from investments is recognized when the shareholder's rights to receive the payment has been established and is recognized provided that the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

18. Revenue recognition *(continued)*

18.4 Commission and fee income

The Group earns commission and fee income from a diverse range of services it provides to its customers. For those services that are over a period of time, commission and fee income are accrued over that period when the services are rendered. For other services, commission and fee income are recognized when the transactions are completed.

The income from securities trading brokerage business is recognized as commission and fee income on trade date basis.

The income from securities underwriting services is recognized according to the underwriting agreements as commission and fee income when the securities are allotted.

Funds and asset management fee, futures business fee and consultancy and financial advisory fee are recognized on accrual basis when services are provided.

Fees from leasing business are recognized on accrual basis when services are provided.

Commission and fee income from trustee services is recognized on accrual basis and calculated in accordance with the terms of the trust contract.

18.5 Other income

Revenue from sale of goods

Revenue from sale of goods is recognized when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

Property rental income

The property rental income is recognized when the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group, and is recognized on accrued basis.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

18. Revenue recognition *(continued)*

18.5 Other income *(continued)*

Property management fee

The property management fee is recognized when the services are provided and it is probable that the associated economic benefits will flow to the Group and relevant income and cost can be measured reliably.

Hotel operation income

Revenue from hotel operation is recognized upon provision of services.

19. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

19.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

19.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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For the year ended December 31, 2017

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

19. Taxation *(continued)*

19.2 Deferred tax *(continued)*

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

20. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

20.1 The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

20.2 The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

20.3 Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, leasehold interests in land (i.e. land use rights) are accounted for as operating leases and amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire l property is generally classified as if the leasehold land is under finance lease.

III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

21. Fiduciary activities

The Group's fiduciary activities mainly include trust and asset custody services.

The trust service of the Group refer to the business that the Group acts as trustee to undertake investment activity within the agreed period and scope on behalf of the third-party lenders who provide the fund.

The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

22. Employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the employee benefits expenses for those services in profit or loss.

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the PRC government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognized in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

22. Employee benefits *(continued)*

Annuity Scheme

The employees of the Company and some subsidiaries of the Group participate in annuity scheme set up by the Group (the "Annuity Scheme"). The Group made annuity contributions with reference to employees' salaries of last year, and the contributions are expensed in profit or loss when incurred. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement arising from actuarial gains and losses is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur, and will not be reclassified to profit or loss.

The remeasurements arising from actuarial gains and losses recognized in other comprehensive income are accumulated in the Group's reserve headed 'actuarial (losses)/gains on pension benefit obligation' and is transferred to retained earnings when the defined benefit plans terminates. Past service cost is recognized in profit or loss in the period of a plan amendment. Interest expense is calculated by applying the discount rate at the beginning of the period to the defined benefit liability. Defined benefit costs are categorized as follows:

- Service costs (including past service costs, gains and losses on curtailment and settlements);
- Interest expenses; and
- Remeasurement.

The Group presents the first two components of its defined benefit costs in profit or loss in "Operating expenses". Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficits in the Group's defined benefit plan.

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Notes to the Consolidated Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

23. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

24. Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss as the recognized hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Notes to the Consolidated Financial Statements

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IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note III, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

1. Classification of financial assets

The Group's management needs to make critical judgment in classifying financial assets based on the purpose and nature on the initial recognition date. Due to the differences of the subsequent measurement of financial assets, the classification will affect the financial position and operating results. If the Group sold more than an insignificant amount of held-to-maturity investments before maturity, it is required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

2. Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial instrument is impaired requires significant judgment. For available-for-sale equity instruments, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost; or the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk, to determine whether impairment exist and the corresponding amount of the impairment loss. For available-for-sale debt instruments, the Group makes the judgements as to whether there is an objective evidence of impairment which indicates a measurable decrease in the estimated future cash flows of these debt instruments. As at December 31, 2017, available-for-sale instruments amounted to RMB195,521 million (December 31, 2016: RMB140,293 million) and impairment losses of RMB1,503 million (December 31, 2016: RMB787 million) were recorded for the current year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying accounting policies *(continued)*

3. Control on structured entities

The Group's management needs to assess whether the Group has all the following: (a) power over the structured entity, (b) exposure to significant variable returns from its involvement with the structured entity, and (c) the ability to use its power over the structured entity to affect its returns. If such power, exposure and ability exist, the Group has to consolidate such structured entity. When the Group served as manager or trustee of the structured entity, the Group uses the following judgments to determine whether control exists in a structured entity: the scope of decision-making as a manager or trustee, the power held by other parties, the remuneration and the exposure to variability of returns.

The Group reassesses whether or not it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in note III.3. The judgments the Group used in determining whether or not it has control over the structured entities are detailed in note V.32.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1. Fair value of financial instruments

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. As at December 31,2017, the total fair value of Level 2 and Level 3 financial assets that are measured at fair value on a recurring basis amounted to RMB416,010 million (December 31,2016: RMB237,548 million).

IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

2. Impairment of financial assets classified as receivables, loans and advances to customers and finance lease receivables

The Group reviews its financial assets classified as receivables, loans and advances to customers and finance lease receivables to assess impairment on a periodic basis. In determining whether there is objective evidence of impairment, the Group makes judgments as to whether the estimated future cash flows from financial assets classified as receivables, loans and advances to customers and finance lease receivables would likely be lower than those stated on the repayment schedule as stipulated in the agreements. The Group first makes the assessment on an individual basis to determine allowance for impairment losses. When the decrease may not have been identified individually or the individual financial assets classified as receivables or loans and advances to customers or finance lease receivables is not significant, management uses estimates based on historical loss experience and industrial experience data on a collective basis to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. (Details of the carrying amounts and the impairment losses of these assets are included in note V.24, note V.25 and note V.29).

Notes to the Consolidated Financial Statements

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V. EXPLANATORY NOTES

1. Segment information

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

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

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

Distressed asset management operations

The distressed asset management segment comprises relevant business operated by the Company and certain of its subsidiaries, including distressed asset management, debt equity swap asset management, distressed asset-based custody and agency services, distressed asset management business conducted by subsidiaries, distressed asset-based special situations investment and distressed asset-based property development.

Financial services operations

The Group's financial services segment comprises relevant business of the Group, including the provision of financial services in sectors such as banking, securities and futures, finance lease and consumer finance. These operations are mainly carried out by the subsidiaries of the Company.

Asset management and investment operations

The asset management and investment segment comprises relevant business operated by the Company and certain of its subsidiaries, mainly including trust, private equity fund, financial investment, international business and other business.

No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

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

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

Year ended December 31, 2017	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	30,753,417	—	—	—	30,753,417
Fair value changes on distressed debt assets	4,661,251	—	—	—	4,661,251
Fair value changes on other financial assets and liabilities	2,404,850	3,331,769	2,372,884	—	8,109,503
Interest income	913,739	18,712,155	2,945,185	(1,556,116)	21,014,963
Investment income, gains and losses	19,919,029	6,361,119	20,193,238	(2,293,698)	44,179,688
Commission and fee income	6,129,300	2,175,467	4,867,756	(133,446)	13,039,077
Net gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	296,353	—	621,256	—	917,609
Other income and other net gains or losses	3,834,941	350,855	1,479,572	(270,326)	5,395,042
Total	68,912,880	30,931,365	32,479,891	(4,253,586)	128,070,550
Interest expenses	(28,088,376)	(12,011,157)	(12,201,861)	1,610,321	(50,691,073)
Commission and fee expenses	(426,094)	(784,786)	(151,463)	66,176	(1,296,167)
Operating expenses	(7,968,697)	(4,617,677)	(2,838,684)	284,133	(15,140,925)
Impairment losses on assets	(8,303,854)	(2,845,232)	(6,314,557)	—	(17,463,643)
Total	(44,787,021)	(20,258,852)	(21,506,565)	1,960,630	(84,591,808)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

Year ended December 31, 2017	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Change in net assets attributable to other holders of consolidated structured entities	(3,790,889)	(3,110,894)	(965,781)	43,892	(7,823,672)
Share of results of associates and joint ventures	(58,857)	70	1,005,411	—	946,624
Profit before tax	20,276,113	7,561,689	11,012,956	(2,249,064)	36,601,694
Income tax expense					(10,013,982)
Profit for the year					26,587,712
Capital expenditure	94,688	2,503,121	271,777	—	2,869,586
Depreciation and amortization	259,401	477,358	145,162	—	881,921
As at December 31, 2017					
Segment assets	934,966,367	572,779,725	435,906,899	(86,792,931)	1,856,860,060
Including: Interests in associates and joint ventures	12,336,700	6,370	29,754,012	—	42,097,082
Deferred tax assets					13,400,222
Total assets					1,870,260,282
Segment liabilities	835,238,155	525,159,713	396,366,198	(76,544,814)	1,680,219,252
Deferred tax liabilities					1,380,333
Tax payable					6,025,835
Total liabilities					1,687,625,420

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

Year ended December 31, 2016	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	25,140,048	—	—	—	25,140,048
Fair value changes on distressed debt assets	3,852,330	—	—	—	3,852,330
Fair value changes on other financial assets and liabilities	506,830	1,257,929	4,017,350	—	5,782,109
Interest income	1,420,880	14,999,629	1,301,207	(1,277,626)	16,444,090
Investment income, gains and losses	9,131,246	5,083,261	10,501,836	(37,909)	24,678,434
Commission and fee income	6,978,577	2,964,885	3,176,171	(199,504)	12,920,129
Net (losses)/gains on disposals or deemed disposals of subsidiaries, associates and joint ventures	(1,378)	—	2,029,097	—	2,027,719
Other income and other net gains or losses	3,667,075	144,337	676,008	(124,558)	4,362,862
Total	50,695,608	24,450,041	21,701,669	(1,639,597)	95,207,721
Interest expenses	(16,316,171)	(8,752,497)	(7,656,292)	1,308,205	(31,416,755)
Commission and fee expenses	(396,620)	(648,364)	(16,559)	25,598	(1,035,945)
Operating expenses	(6,298,865)	(4,456,294)	(1,790,860)	259,237	(12,286,782)
Impairment losses on assets	(10,953,100)	(2,005,427)	(3,758,512)	—	(16,717,039)
Total	(33,964,756)	(15,862,582)	(13,222,223)	1,593,040	(61,456,521)
Change in net assets attributable to other holders of consolidated structured entities	(987,649)	(1,600,887)	(787,780)	—	(3,376,316)
Share of results of associates and joint ventures	147,392	—	(12,973)	—	134,419
Profit before tax	15,890,595	6,986,572	7,678,693	(46,557)	30,509,303
Income tax expense					(7,400,772)
Profit for the year					23,108,531
Capital expenditure	215,307	558,871	65,453	—	839,631
Depreciation and amortization	181,720	396,407	42,057	—	620,184

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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V. EXPLANATORY NOTES *(continued)*

1. Segment information *(continued)*

Year ended December 31, 2016	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
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

2. Income from distressed debt assets classified as receivables

The amount represents interest income and disposal 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 V.29).

Interest income accrued on impaired financial assets included in income from distressed debt assets classified as receivables amounted to RMB300 million for the year of 2017 (2016: RMB183 million).

3. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets designated by the Group at FVTPL during the year (see note V.22).

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

4. Fair value changes on other financial assets and liabilities

	Year ended December 31, 2017	2016
Fair value changes on financial assets held for trading	**4,323,381**	2,447,887
Fair value changes on financial assets and liabilities designated as at FVTPL	**3,786,122**	3,334,222
Total	**8,109,503**	5,782,109

5. Interest income

The following interest income arises from financial assets other than investment securities and distressed debt assets and is mainly generated by the banking, leasing and securities operations of the Group:

	Year ended December 31, 2017	2016
Loans and advances to customers		
Corporate loans and advances	**5,991,587**	4,990,526
Personal loans and advances	**2,534,990**	1,202,451
Loans to margin clients	**558,665**	464,792
Finance lease receivables	**6,181,136**	5,522,059
Deposits with financial institutions	**2,483,324**	1,866,649
Financial assets held under resale agreements	**2,372,683**	1,758,728
Balances with central bank	**483,779**	444,513
Placements with financial institutions	**408,799**	194,372
Total	**21,014,963**	16,444,090
Including: Interest income accrued on impaired financial assets	**80,116**	43,502

For the year ended December 31, 2017, the total interest income, including the interest income arising from distressed debt assets as disclosed in note V.2 and interest income arising from investment securities as disclosed in note V.6, amounted to RMB86,641 million (December 31, 2016: RMB61,269 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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V. EXPLANATORY NOTES *(continued)*

6. Investment income, gains and losses

	Year ended December 31, 2017	2016
Interest income from		
Other financial assets classified as receivables	**26,245,155**	16,751,246
Available-for-sale financial assets	**6,275,111**	1,622,890
Held-to-maturity debt securities	**2,352,624**	1,311,154
Net realized gains from disposals of available-for-sale financial assets	**8,142,403**	3,693,534
Dividend income from available-for-sale financial assets	**1,164,395**	1,299,610
Total	**44,179,688**	24,678,434
Including: Interest income accrued on impaired other financial assets classified as receivables	**33,330**	6,109

7. Commission and fee income

	Year ended December 31, 2017	2016
Asset management business	**8,674,390**	8,314,193
Trust business	**2,027,787**	1,475,226
Securities and futures brokerage business	**1,683,680**	2,221,836
Banking and consumer finance business	**530,502**	834,043
Fund management business	**122,718**	74,831
Total	**13,039,077**	12,920,129

8. Other income and other net gains or losses

	Year ended December 31, 2017	2016
Revenue from properties development	**3,640,356**	2,837,574
Rental income	**442,863**	278,248
Government grants(1)	**265,464**	233,579
Net (losses)/gains on exchange differences	**(151,612)**	236,576
Others	**1,197,971**	776,885
Total	**5,395,042**	4,362,862

(1) Government grants are subsidies granted by local governments for the Group's establishment of operations or subsidiaries in certain cities.

Notes to the Consolidated Financial Statements

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V. EXPLANATORY NOTES *(continued)*

9. Interest expenses

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

	Year ended December 31,	
	2017	2016
Borrowings	**(33,216,640)**	(19,188,493)
Bonds and notes issued	**(11,710,213)**	(7,639,536)
Financial assets sold under repurchase agreements	**(2,373,071)**	(768,599)
Due to customers	**(2,302,964)**	(2,708,408)
Deposits from financial institutions	**(623,393)**	(440,597)
Placements from financial institutions	**(142,435)**	(352,254)
Borrowings from central bank	**(73,738)**	(24,805)
Amount due to the MOF	**(47,048)**	(124,393)
Other liabilities	**(201,571)**	(169,670)
Total	**(50,691,073)**	(31,416,755)

10. Commission and fee expenses

	Year ended December 31,	
	2017	2016
Securities and futures brokerage business	**(489,552)**	(489,454)
Asset management business	**(443,334)**	(351,414)
Banking and consumer finance business	**(321,701)**	(148,862)
Fund management and other business	**(41,580)**	(46,215)
Total	**(1,296,167)**	(1,035,945)

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

11. Operating expenses

	Year ended December 31, 2017	2016
Employee benefits[1]	**(5,607,814)**	(5,090,298)
Business tax, land appreciation tax and surcharges	**(1,384,318)**	(1,625,726)
Cost of properties development and purchases	**(2,043,806)**	(1,459,549)
Others	**(6,104,987)**	(4,111,209)
Including:		
Minimum lease payments under operating leases	**(717,874)**	(594,730)
Depreciation of property and equipment	**(515,466)**	(366,709)
Amortization	**(291,741)**	(203,502)
Depreciation of investment properties	**(74,714)**	(49,973)
Auditors' remuneration	**(26,118)**	(20,574)
Total	**(15,140,925)**	(12,286,782)

(1) Employee benefits.

	Year ended December 31, 2017	2016
Wages or salaries, bonuses, allowances and subsidies	**(3,962,624)**	(3,693,341)
Defined contribution plans	**(511,235)**	(417,324)
Staff welfare	**(279,080)**	(235,829)
Housing funds	**(267,060)**	(223,851)
Social insurance	**(221,465)**	(183,594)
Labor union and staff education expenses	**(170,473)**	(155,319)
Early retirement benefits	**(87,103)**	(99,073)
Others	**(108,774)**	(81,967)
Total	**(5,607,814)**	(5,090,298)

Defined contribution plans include pension scheme, unemployment insurance and corporate annuity scheme set up by the Company and certain other Group entities.

Notes to the Consolidated Financial Statements

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V. EXPLANATORY NOTES *(continued)*

12. Impairment losses on assets

	Year ended December 31,	
	2017	**2016**
Distressed debt assets classified as receivables	**(3,662,540)**	(10,774,533)
Other financial assets classified as receivables	**(8,110,476)**	(3,351,233)
Interests in associates and joint ventures	**(858,992)**	(2,509)
Loans and advances to customers	**(1,929,517)**	(1,271,383)
Available-for-sale financial assets	**(1,502,742)**	(786,501)
Finance lease receivables	**(425,010)**	(445,804)
Other assets	**(974,366)**	(85,076)
Total	**(17,463,643)**	(16,717,039)

13. Income tax expense

	Year ended December 31,	
	2017	**2016**
Current income tax		
PRC Enterprise Income tax	**(10,994,904)**	(10,006,473)
Hong Kong Profits Tax	**(1,569,509)**	(617,414)
Macau Profits Tax	**(16,992)**	—
(Under)/over-provision in prior years	**(40,042)**	43,120
Deferred income tax (Note V.36)	**2,607,465**	3,179,995
Total	**(10,013,982)**	(7,400,772)

The statutory income tax rate applicable to PRC enterprise was 25% for the year of 2017 (2016: 25%).

The preferential income tax rate applicable to PRC enterprises within the scope of the western development area was 15% for the year of 2017 (2016: 15%).

Hong Kong Profits Tax was computed at 16.5% of the estimated assessable profit for the year of 2017 (2016: 16.5%).

Macau Profits Tax was computed at 12% of the estimated assessable profit for the year of 2017 (2016: N/A).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

13. Income tax expense *(continued)*

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

	Year ended December 31, 2017	2016
Profit before tax	**36,601,694**	30,509,303
Income tax calculated at the tax rate of 25%	**(9,150,424)**	(7,627,326)
Tax effect of income not taxable for tax purpose	**168,014**	181,005
Tax effect of expenses not deductible for tax purpose	**(541,200)**	(192,157)
Tax effect of different tax rate of subsidiaries	**99,589**	346,168
(Under)/over-provisions in prior years	**(40,042)**	43,120
Effect of unused tax losses and deductible temporary differences not recognized as deferred tax assets	**(559,031)**	(151,582)
Utilisation of deductible temporary differences previously not recognized	**9,112**	—
Income tax expense	**(10,013,982)**	(7,400,772)

Notes to the Consolidated Financial Statements

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V. EXPLANATORY NOTES *(continued)*

14. Earnings per share

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

	Year ended December 31, 2017	Year ended December 31, 2016
Earnings:		
Profit attributable to equity holders of the Company	**21,992,590**	19,613,458
Effect of dilutive potential profit attribute to equity holders of the Company		
Interest expense on convertible notes issued by a subsidiary, net of tax	**N/A**	—
Adjusted profit attributable to equity holders of the Company	**N/A**	—
Earnings for the purpose of calculating diluted earnings per share	**21,992,590**	19,613,458
Number of shares:		
Weighted average number of shares in issue (in thousand)	**39,070,208**	39,070,208
Weighted average number of shares in issue for the purpose of diluted earnings per share (in thousand)	**39,070,208**	39,070,208
Basic earnings per share (RMB Yuan)	**0.56**	0.50
Diluted earnings per share (RMB Yuan)	**N/A**	0.50

The calculation of diluted earnings per share for the year ended December 31, 2016 took into account the impact of convertible bonds issued by a subsidiary. These convertible bonds were fully converted in January 2016 and therefore there were not similar dilutive potential ordinary shares for the year ended December 31, 2017.

15. Dividends

	Year ended December 31, 2017	Year ended December 31, 2016
Dividends for ordinary shareholders of the company recognized as distribution during the year:		
Final dividend for 2016[(1)]	**5,883,973**	—

(1) Distribution of final dividend for 2016

On May 12, 2017, the Company declared dividends of RMB1.506 per 10 shares (tax inclusive), in an aggregate amount of RMB5,884 million for the year ended December 31, 2016.

(2) Subsequent to the end of the reporting period, a cash dividend in respect of the year ended 31 December 2017 of RMB1.689 yuan per 10 shares (tax inclusive), in an aggregate amount of RMB6,599 million, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors

	Year ended December 31, 2017				
	Fees	Paid remuneration and other benefits	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
LAI Xiaomin	—	397	208	32	637
KE Kasheng(1)	—	262	138	17	417
WANG Lihua(2)	—	366	185	25	576
Non-executive directors					
WANG Keyue(3)	—	284	156	24	464
TIAN Yuming(4)(5)	—	—	—	—	—
WANG Cong(4)	—	—	—	—	—
DAI Lijia(4)	—	—	—	—	—
LI Yi(4)(6)	—	—	—	—	—
ZHOU Langlang(4)(7)	—	—	—	—	—
WANG Sidong(4)(8)	—	—	—	—	—
Independent non-executive directors					
SONG Fengming	250	—	—	—	250
TSE Hau Yin	250	—	—	—	250
LIU Junmin	250	—	—	—	250
SHAO Jingchun(9)	250	—	—	—	250
Supervisors					
Ma Zhongfu(10)	—	397	208	14	619
WANG Qi(11)(12)	—	—	—	—	—
DONG Juan(11)	—	—	—	—	—
XU Li(13)	183	—	—	—	183
Zheng Shengqin	20	440	1,069	36	1,565
CHEN Jin(14)	7	269	1,133	23	1,432
MAO Biaoyong(15)	12	276	309	26	623
XU Dong(16)	2	423	1,681	29	2,135
Total	1,224	3,114	5,087	226	9,651

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors *(continued)*

	Year ended December 31, 2016 (Restated)				
	Fees	Paid remuneration	Performance related bonuses	Employer's contribution to pension scheme	Total before tax
Executive directors					
LAI Xiaomin	—	404	380	39	823
KE Kasheng[(1)]	—	400	95	29	524
Non-executive directors					
WANG Keyue[(3)]	—	374	344	35	753
TIAN Yuming[(4)]	—	—	—	—	—
WANG Cong[(4)]	—	—	—	—	—
DAI Lijia[(4)]	—	—	—	—	—
LI Hui[(4)(17)]	—	—	—	—	—
WANG Sidong[(4)(8)]	—	—	—	—	—
Independent non-executive directors					
SONG Fengming	250	—	—	—	250
WU Xiaoqiu[(18)]	63	—	—	—	63
TSE Hau Yin	250	—	—	—	250
LIU Junmin	250	—	—	—	250
SHAO Jingchun[(9)]	42	—	—	—	42
Supervisors					
SUI Yunsheng[(19)]	—	136	159	17	312
MA Zhongfu[(10)]	—	204	191	7	402
WANG Qi[(11)(12)]	—	—	—	—	—
DONG Juan[(11)]	—	—	—	—	—
ZHENG Shengqin	20	390	1,085	30	1,525
XU Dong[(16)]	20	337	990	23	1,370
Total	895	2,245	3,244	180	6,564

(1) KE Kasheng resigned in August 2017.

(2) WANG Lihua was appointed as an executive director in April 2017.

(3) WANG Keyue was appointed as a non-executive director in September 2016 and resigned in October 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors *(continued)*

(4) These non-executive directors did not receive any fees from the Group.

(5) TIAN Yuming resigned in January 2017.

(6) LI Yi was appointed as a non-executive director in January 2017.

(7) ZHOU Langlang was appointed as a non-executive director in April 2017.

(8) WANG Sidong ceased to serve as a non-executive director in February 2017.

(9) SHAO Jingchun was appointed as an independent non-executive director in November 2016.

(10) MA Zhongfu joined the company in April 2016 and was appointed as the chairman of the Board of Supervisors in October 2016.

(11) In accordance with the relevant requirements, WANG Qi and DONG Juan waived their emoluments from the Group in 2017 and 2016.

(12) WANG Qi ceased to serve as supervisor in February 2017.

(13) XU Li was appointed as a supervisor in February 2017.

(14) CHEN Jin was appointed as a supervisor in September 2017.

(15) MAO Biaoyong was appointed as a supervisor in February 2017 and resigned in September 2017.

(16) XU Dong ceased to serve as supervisor in February 2017.

(17) LI Hui resigned in March 2016.

(18) WU Xiaoqiu resigned in November 2016.

(19) SUI Yunsheng ceased to be the chairman of the Board of Supervisors in October 2016.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company and/or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as the directors of the Company. Lai Xiaomin acted as the Chairman of the Board of the Company during the years of 2017 and 2016.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

16. Emoluments of directors and supervisors *(continued)*

The total compensation packages for these directors and supervisors for the year ended December 31, 2017 have not been approved by the general meeting, nor finalized in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed in a separate announcement when determined.

As of the date of issuance of the 2016 consolidated financial statements, the above compensation package for the Directors and Supervisors for the year ended December 31, 2016 had not been finalized and the amount of remuneration of Directors and Supervisors recognized in the consolidated income statement for the year of 2016 was RMB5.81 million. The comparative figures on disclosure on emoluments of directors and supervisors have been restated to RMB6.56 million after they had been finalized.

During the year, no emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as set out in note V.17 below as an inducement to join or upon joining the Group or as a compensation for loss of office. Bonus was determined based on the performance of individuals by the Group on a discretionary basis.

17. Five highest paid individuals

The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended December 31, 2017 were as follows:

	Year ended December 31,	
	2017	**2016**
Salaries and other benefits	**2,904**	4,085
Employer's contribution to pension scheme	**285**	265
Discretionary and performance related incentive payments	**15,422**	18,186
Total	**18,611**	22,536

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

17. Five highest paid individuals *(continued)*

Among the five individuals with the highest emoluments in the Group, none of them was a director nor supervisor during the year of 2017 and 2016. The number of these five individuals whose emoluments fall within the following bands is as follows:

	Year ended December 31,	
	2017	2016
HKD4,000,001 to HKD4,500,000	4	2
HKD4,500,001 to HKD5,000,000	1	2
HKD6,500,001 to HKD7,000,000	—	1
	5	5

18. Cash and balances with central bank

	As at December 31,	
	2017	2016
Cash	497,304	428,735
Mandatory reserve deposits with central bank(1)	29,392,184	22,964,487
Surplus reserve deposits with central bank(2)	3,011,766	3,675,129
Other deposits with central bank	305,858	191,454
Total	33,207,112	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 December 31, 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 ("Huarong Xiangjiang Bank"); foreign currency mandatory reserve deposits were mainly based on 5% (December 31, 2016: 5%) of eligible foreign currency deposits of Huarong Xiangjiang Bank. 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 Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

19. Deposits with financial institutions

	As at December 31,	
	2017	**2016**
Banks[1]	**158,190,292**	145,636,190
Clearing settlement funds[1][2]	**3,579,401**	4,736,006
Other financial institutions	**1,111,384**	3,957,689
Total	**162,881,077**	154,329,885

(1) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at December 31 2017, the bank balances and clearing settlement fund held on behalf of customers by the Group amounted to RMB6,602 million (December 31, 2016: RMB12,189 million). The Group has recognized the corresponding amount in accounts payable to brokerage clients and margin deposit received from securities customers (see note V.46).

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

20. Placements with financial institutions

The Group's placements as at December 31, 2017 and 2016 were conducted with commercial banks and other financial institutions.

21. Financial assets held for trading

	As at December 31,	
	2017	**2016**
Debt securities		
— Corporate bonds	**28,071,002**	48,329,744
— Financial institution bonds	**2,401,265**	684,287
— Public sector and quasi-government bonds	**903,100**	757,610
— Government bonds	**346,547**	4,549,186
Funds	**9,837,509**	4,116,182
Wealth management products	**10,386,791**	10,413,218
Shares	**7,575,268**	6,631,343
Negotiable certificates of deposit	**7,290,694**	11,456,817
Asset-backed securities	**445,533**	792,909
Total	**67,257,709**	87,731,296

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

22. Financial assets and financial liabilities designated as at fair value through profit or loss

	As at December 31, 2017	2016
Financial assets designated as at fair value through profit or loss		
Distressed debt assets	**150,807,178**	68,436,032
Equity instruments	**20,836,769**	5,504,082
Trust products	**18,492,657**	649,713
Structured products[(1)(2)]	**14,202,645**	5,094,059
Convertible bonds	**13,010,094**	9,954,520
Wealth management products[(3)]	**7,670,492**	2,129,900
Asset management plans	**3,509,948**	3,398,947
Debt instruments with embedded derivatives	**1,515,559**	—
Total	**230,045,342**	95,167,253

	As at December 31, 2017	2016
Financial liabilities designated as at fair value through profit or loss		
Interest of other holders of consolidated structured entities	**2,012,075**	—
Structured products	**535,308**	—
Total	**2,547,383**	—

(1) The Group entered into a series of structured transactions that are managed on the fair value basis. Such structured products are accounted for as financial assets designated as at fair value through profit or loss according to their investment management strategy.

On December 31, 2017, included in structured products were credit linked notes of RMB2,128 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 total return swap arrangements under which the Group pays counterparties a reference interest rate with a spread adjustment and receives from counterparties total returns of reference assets. The Group therefore is exposed to default risks of the reference assets. On December 31, 2017, the fair value and nominal value of these total return swaps amounted to RMB1,247 million (December 31, 2016: RMB897 million) and RMB3,182 million (December 31, 2016: RMB2,360 million), respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

22. Financial assets and financial liabilities designated as at fair value through profit or loss *(continued)*

(2) The Group had the following interest rate swap and cross-currency swap contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency denominated bonds and notes issued. The Group assesses hedging effectiveness by using regression analysis. The terms of the derivative contracts have been negotiated to match the terms of the respective designated hedged items. The major terms of these contracts are as follows:

31 December 2017

Cross-currency swap

Notional amount	Maturity	Interest rates
USD 430 million/	27 April 2021	Pays USD fixed rate 3.577%
SGD 600 million		Receives SGD fixed rate 3.2%
USD 294 million/	7 November 2025	Pays USD fixed 4.355%
SGD 400 million		Receives SGD fixed 3.8%

Interest rate swap

Notional amount	Maturity	Interest rates
USD 500 million	27 April 2020	Pays fixed rate 3.327%
		Receives LIBOR + 1.65%
USD 1,000 million	27 April 2022	Pays fixed rate 3.725%
		Receives LIBOR + 1.85%
USD 200 million	7 November 2022	Pays fixed rate 3.22%
		Receives LIBOR + 1.15%
USD 400 million	7 November 2022	Pays fixed rate 3.22%
		Receives LIBOR + 1.15%
USD 800 million	27 July 2019	Pays fixed rate 2.695%
		Receives LIBOR + 1%

As at December 31, 2017, the fair value of these cash flow hedges amounted to RMB419 million (December 31, 2016: Nil).

(3) This mainly represents wealth management products issued by banking institutions outside the Group.

23. Financial assets held under resale agreements

	As at December 31, 2017	2016
By collateral type:		
Securities	**39,968,293**	36,287,736
Bills	**494,812**	—
Others	**775,000**	60,000
Total	**41,238,105**	36,347,736

The majority of these financial assets held under resale agreements arises from its securities and banking business.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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V. EXPLANATORY NOTES *(continued)*

23. Financial assets held under resale agreements *(continued)*

As at December 31, 2017, the Group received pledged securities with a fair value of approximately RMB64,713 million (December 31, 2016: RMB76,427 million). RMB500 million (December 31, 2016: Nil) of them could be resold or repledged by the Group in the absence of default by their owners. As at December 31, 2017 and 2016, the Group did not repledge the securities (December 31, 2016: Nil). The Group has an obligation to return the pledged securities to their counterparties on the maturity dates of the resale agreements.

24. Loans and advances to customers

	As at December 31,	
	2017	**2016**
Corporate loans and advances		
— Loans and advances	**108,863,712**	80,884,667
— Discounted bills	**5,689,485**	8,796,542
Subtotal	**114,553,197**	89,681,209
Personal loans and advances		
— Loans for business operations	**10,556,064**	9,816,041
— Mortgage	**11,390,788**	7,087,467
— Personal consumption loans	**15,483,236**	6,405,757
— Others	**2,504,521**	1,082,292
Subtotal	**39,934,609**	24,391,557
Loans to margin clients	**7,523,393**	6,992,610
Gross loans and advances	**162,011,199**	121,065,376
Less: Allowance for impairment losses		
— Individually assessed	**(1,082,706)**	(614,538)
— Collectively assessed	**(2,706,545)**	(2,044,859)
Subtotal	**(3,789,251)**	(2,659,397)
Net loans and advances to customers	**158,221,948**	118,405,979

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

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

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

		Identified impaired loans and advances				
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed	subtotal	Total	Identified impaired loans and advances to customers as a % of total loans and advances
At December 31, 2017						
Gross loans and advances	**159,726,600**	**435,241**	**1,849,358**	**2,284,599**	**162,011,199**	**1.41%**
Allowances for impairment loss	**(2,529,782)**	**(176,763)**	**(1,082,706)**	**(1,259,469)**	**(3,789,251)**	
Net loans and advances to customers	**157,196,818**	**258,478**	**766,652**	**1,025,130**	**158,221,948**	
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 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 year	**1,495,099**	**1,699,386**	**3,194,485**
Reversal for the year	**(282,459)**	**(982,509)**	**(1,264,968)**
Recovery of loans and advances written off in previous years	**141,943**	**24,604**	**166,547**
Write-offs	**(823,213)**	**(62,881)**	**(886,094)**
Unwinding of discount on allowance	**(63,202)**	**(16,914)**	**(80,116)**
At December 31, 2017	**1,082,706**	**2,706,545**	**3,789,251**

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For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

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

	Individually assessed allowance	Collectively assessed allowance	Total
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 loans and advances 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

25. Finance lease receivables

	As at December 31, 2017	2016
Minimum finance lease receivables:		
Within 1 year (inclusive)	**34,965,022**	31,900,780
1–5 years (inclusive)	**70,832,369**	63,850,148
Over 5 years	**3,782,800**	1,953,318
Gross amount of finance lease receivables	**109,580,191**	97,704,246
Less: Unearned finance income	**(11,852,781)**	(11,074,497)
Net amount of finance lease receivables	**97,727,410**	86,629,749
Less: Allowance for impairment losses	**(2,023,481)**	(1,638,408)
Carrying amount of finance lease receivables	**95,703,929**	84,991,341
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	**29,913,503**	27,148,678
1–5 years (inclusive)	**64,215,768**	57,629,331
Over 5 years	**3,598,139**	1,851,740
Total	**97,727,410**	86,629,749

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

25. Finance lease receivables *(continued)*

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

	2017		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
At January 1, 2017	**491,926**	**1,146,482**	**1,638,408**
Provided for the year	**264,678**	**160,332**	**425,010**
Write-offs/Transfer out	**(46,712)**	**—**	**(46,712)**
Recovery of finance lease receivables written off in previous years	**8,000**	**—**	**8,000**
Foreign exchange effect	**—**	**(1,225)**	**(1,225)**
At December 31, 2017	**717,892**	**1,305,589**	**2,023,481**
At January 1, 2016	376,433	823,717	1,200,150
Provided for the year	123,039	322,765	445,804
Write-offs/Transfer out	(8,146)	—	(8,146)
Recovery of finance lease receivables written off in previous years	600	—	600
At December 31, 2016	491,926	1,146,482	1,638,408

26. Inventories

	As at December 31,	
	2017	**2016**
Property development costs	**12,443,281**	13,135,323
Properties held for sale	**3,467,908**	2,651,184
Land development costs	**729,635**	632,407
Total	**16,640,824**	16,418,914

During the year, borrowing costs of RMB861 million (2016: RMB763 million) capitalized in the costs of inventory.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

27. Available-for-sale financial assets

	As at December 31, 2017	As at December 31, 2016
Shares[(1)]	**27,612,554**	40,236,833
Debt securities		
— Government bonds	**599,150**	638,106
— Public sector and quasi-government bonds	**15,999,165**	23,275,592
— Financial institution bonds	**6,735,082**	2,834,686
— Corporate bonds	**33,601,429**	7,347,996
Asset-backed securities	**3,346,249**	2,070,528
Funds	**73,483,419**	34,608,371
Trust products	**23,932,018**	23,232,734
Asset management plans	**6,237,674**	3,529,761
Wealth management products	**4,885,716**	1,161,872
Others[(2)]	**—**	1,603,176
Less: Allowance for impairment losses	**(911,759)**	(247,018)
Total	**195,520,697**	140,292,637

(1) Included in the balance are shares of RMB8,278 million as at December 31, 2017 (December 31, 2016: RMB9,507 million) that were measured at cost because their fair value cannot be reliably measured. These equity instruments contain policy debt-to-equity swaps bought from Ministry of Finance when the Company was restructured. According to the regulation of the Ministry of Finance 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. During the year, net gains of RMB3,397 million (December 31, 2016: RMB2,960 million) arose from disposals of shares with carrying values of RMB3,210 million (December 31, 2016: RMB1,700 million) measured at cost less impairment. These gains were included in "investment income, gains and losses" in these consolidated financial statement. As at December 31, 2017, accumulative impairment of RMB912 million (December 31, 2016: RMB247 million) was made against these securities measured at cost. An additional impairment of RMB665 million (2016: 113 million) was made during the year.

(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. (the "Huarong Securities"), a Group entity, contributed RMB1,590 million into the designated account during 2015. The designated account was fully terminated during the year.

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

28. Held-to-maturity investments

	As at December 31, 2017	2016
Government bonds	**19,988,506**	15,738,801
Public sector and quasi-government bonds	**31,756,394**	23,775,474
Financial institution bonds	**10,197,297**	4,954,109
Corporate bonds	**2,509,003**	415,791
Total	**64,451,200**	44,884,175

29. Financial assets classified as receivables

	As at December 31, 2017	2016
Distressed debt assets		
Loans acquired from financial institutions	**51,186,322**	54,263,464
Other debt assets acquired from non-financial institutions	**317,242,065**	239,475,161
Subtotal	**368,428,387**	293,738,625
Less: Allowance for impairment losses		
— Individually assessed	**(4,907,664)**	(3,663,130)
— Collectively assessed	**(18,836,403)**	(20,003,322)
	(23,744,067)	(23,666,452)
Subtotal	**344,684,320**	270,072,173
Other financial assets classified as receivables		
Trust products	**159,514,273**	116,918,154
Debt instruments	**97,977,262**	84,494,021
Entrust loans[1]	**85,139,955**	54,206,892
Asset management plans	**15,873,245**	19,321,402
Wealth management products	**13,219,119**	12,286,958
Subtotal	**371,723,854**	287,227,427
Less: Allowance for impairment losses		
— Individually assessed	**(3,655,588)**	(1,386,481)
— Collectively assessed	**(11,560,148)**	(6,435,162)
	(15,215,736)	(7,821,643)
Subtotal	**356,508,118**	279,405,784
Total	**701,192,438**	549,477,957

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V. EXPLANATORY NOTES *(continued)*

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

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

(2) The carrying amount of distressed debt assets transferred to structured entities amounted to RMB37,469 million for the year ended December 31, 2017 million (December 31, 2016: RMB22,292 million).

Movements of allowance for impairment losses during the 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 year	**4,364,933**	**20,387,296**	**24,752,229**
Reversal for the year	**(517,097)**	**(12,462,116)**	**(12,979,213)**
Unwinding of discount on allowance	**(334,195)**	**—**	**(334,195)**
Transfer-out	**—**	**(3,873,741)**	**(3,873,741)**
Exchange difference	**—**	**(93,372)**	**(93,372)**
As at December 31, 2017	**8,563,252**	**30,396,551**	**38,959,803**
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

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

30. Interests in associates and joint ventures

	As at December 31,	
	2017	**2016**
Interests in associates		
Cost of investments in associates	**18,265,232**	6,228,655
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**569,319**	378,013
Less: Allowance for impairment losses	**(871,461)**	(12,469)
Subtotal	**17,963,090**	6,594,199
Interests in joint ventures		
Cost of investments in joint ventures	**24,230,642**	2,981,872
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	**(96,650)**	(12,060)
Less: Allowance for impairment losses	**—**	—
Subtotal	**24,133,992**	2,969,812
Total	**42,097,082**	9,564,011
Fair value of listed companies	**5,634,971**	1,571,157

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

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

Details of the Group's principal associates and joint ventures are as follows:

Name of entity	Place of incorporation/ establishment	Principal place of business	Carrying amount		Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities
			At December 31,		At December 31,		At December 31,		
			2017	2016	2017	2016	2017	2016	
					%	%	%	%	
Associates									
Panda Green Energy Group Ltd.	Bermuda	Hong Kong	**1,909,375**	—	**21.74**	—	**21.74**	—	Energy Industry
Ruikong (Holdings) Ltd.	Hong Kong	Hong Kong/ Netherlands	**1,894,421**	1,961,840	**22.59**	22.59	**22.59**	22.59	Investment holding
Harbin Hatou Investment Co., Ltd.(1)	Harbin, China	Mainland China	**1,885,049**	—	**11.24**	—	**11.24**	—	Power, thermal production and supply industry
IDG Magic V Fund L.P.(1)	Cayman Islands	Mainland China	**983,308**	—	**36.25**	—	**33.33**	—	Fund
Hangzhou Hangyang Co., Ltd.(1)	Hangzhou, China	Mainland China	**965,301**	850,270	**11.26**	13.22	**11.26**	13.22	Manufacturing Industry
Joint ventures									
One Belt One Road Industry Development Fund I, L.P.(2)	Cayman Islands	Hong Kong	**4,690,115**	—	**24.00**	—	**40.00**	—	Fund
Sacred Heart Healthcare L.P.(2) (3)	Cayman Islands	Mainland China	**2,511,093**	—	**83.33**	—	**50.00**	—	Fund
Anhui MOMA Wanguofu Land Co., Ltd.	Hefei, China	Mainland China	**899,970**	—	**49.00**	—	**49.00**	—	Real Estate Industry
Longstar Development Ltd.(2)	Hong Kong	Mainland China	**850,933**	—	**81.25**	—	**33.33**	—	Fund
GC Overseas Investment Rising HOU, Ltd.	Cayman Islands	the United States of America	**502,009**	79,900	**62.96**	62.96	**33.33**	33.33	Real Estate Industry

(1) The Group has representations in the board of directors of Harbin Hatou Investment Co., Ltd. and Hangzhou Hangyang Co., Ltd., advisory committee of IDG Magic V Fund L.P. Therefore, the Group is able to exercise significant influence over these investees and account for them as associates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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V. EXPLANATORY NOTES *(continued)*

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

(2) There are various classes of equity interests for One Belt One Road Industry Development Fund I, L.P., Sacred Heart Healthcare L.P. ("Sacred Heart") and Longstar Development Ltd. The ownership interest percentages are calculated as the capital contributed by the Group out of the total equity.

(3) Sacred Heart owns indirectly 100% equity interests in a company which is engaged in production and distribution of pharmaceutical products in Mainland China. On 10 December 2017, Sacred Heart entered into a framework agreement with an independent third party to sell its 100% equity interest in this company to an independent third party at a consideration of HKD3.6 billion to HKD3.8 billion. The transaction will result in a gain of no more than HKD200 million to Sacred Heart when it is completed.

The above individually material associates and joint ventures only have significant impacts to the statement of financial positions, but their impacts to profit or loss and other comprehensive income are not significant. Therefore, only the individual carrying amounts recorded in these consolidated financial statements are disclosed and these carrying amounts mainly reflect the Group's share of net assets of these investees.

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

31. Non-controlling interests in the subsidiaries of the Group

The subsidiaries that have significant non-controlling interests to the Group are set out below. They include Huarong Xiangjiang Bank, Huarong Rongde Asset Management Co., Ltd ("Huarong Rongde"), China Huarong Financial Leasing Co., Ltd ("Huarong Financial Leasing"), Huarong Securities, and Huarong International Trust Co., Ltd ("Huarong Trust").

General information about these subsidiaries has been set out in note V.63. Summarized financial information about these subsidiaries and entities controlled by them, before intra-group eliminations, is as follows:

Huarong Xiangjiang Bank

	As at December 31,	
	2017	2016
Total assets	**314,525,569**	260,185,641
Total liabilities	**294,575,463**	245,740,446
Equity attributable to equity holders of the subsidiary	**19,884,629**	14,386,570
Non-controlling interests	**65,477**	58,625
Total equity	**19,950,106**	14,445,195
Non-controlling interests of the subsidiary	**11,825,389**	7,052,297

	Year ended December 31,	
	2017	2016
Total revenue	**13,999,624**	11,382,153
Profit before tax	**3,156,221**	2,956,782
Total comprehensive income	**2,310,207**	2,208,791
Profit attributable to non-controlling interests of the subsidiary	**1,226,514**	1,140,892
Dividend distribution to non-controlling interests	**301,988**	301,988

	Year ended December 31,	
	2017	2016
Net cash flow used in operating activities	**(6,213,476)**	(4,338,082)
Net cash flow used in investing activities	**(12,563,076)**	(21,059,286)
Net cash flow from financing activities	**19,909,012**	20,286,119
Net cash flow	**1,132,460**	(5,111,249)

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V. EXPLANATORY NOTES *(continued)*

31. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Securities

	As at December 31,	
	2017	**2016**
Current assets	**100,526,134**	125,571,490
Non-current assets	**20,334,744**	10,178,848
Total assets	**120,860,878**	135,750,338
Current liabilities	**86,766,480**	110,359,485
Non-current liabilities	**20,313,420**	14,590,860
Total liabilities	**107,079,900**	124,950,345
Equity attributable to equity holders of the subsidiary	**13,700,885**	10,741,615
Non-controlling interests	**80,093**	58,378
Total equity	**13,780,978**	10,799,993
Non-controlling interests of the subsidiary	**3,837,618**	1,958,196

	Year ended December 31,	
	2017	**2016**
Total revenue	**8,811,726**	7,053,636
Profit before tax	**2,096,710**	2,100,868
Total comprehensive income	**1,516,173**	1,391,565
Profit attributable to non-controlling interests of the subsidiary	**286,289**	276,471
Dividend distribution to non-controlling interests	**106,403**	106,947

	Year ended December 31,	
	2017	**2016**
Net cash flow (used in)/from operating activities	**(900,332)**	13,499,179
Net cash flow used in investing activities	**(9,088,865)**	(15,040,228)
Net cash flow from financing activities	**6,517,813**	1,430,449
Net cash flow	**(3,471,384)**	(110,600)

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V. EXPLANATORY NOTES *(continued)*

31. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Financial Leasing

	As at December 31, 2017	As at December 31, 2016
Current assets	**59,251,629**	52,552,383
Non-current assets	**72,763,209**	65,914,760
Total assets	**132,014,838**	118,467,143
Current liabilities	**50,811,104**	60,046,692
Non-current liabilities	**66,964,044**	47,295,753
Total liabilities	**117,775,148**	107,342,445
Total equity	**14,239,690**	11,124,698
Non-controlling interests of the subsidiary	**2,859,228**	2,233,839

	Year ended December 31, 2017	Year ended December 31, 2016
Total revenue	**7,354,918**	5,924,156
Profit before tax	**2,180,745**	1,965,687
Total comprehensive income	**1,574,894**	1,466,139
Profit attributable to non-controlling interests of the subsidiary	**327,001**	295,507
Dividend distribution to non-controlling interests	**67,620**	88,484

	Year ended December 31, 2017	Year ended December 31, 2016
Net cash flow (used in)/from operating activities	**(8,927,944)**	20,003,678
Net cash flow used in investing activities	**(891,413)**	(6,347,278)
Net cash flow from financing activities	**5,266,983**	2,076,000
Net cash flow	**(4,552,374)**	15,732,400

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V. EXPLANATORY NOTES *(continued)*

31. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Rongde

	As at December 31, 2017	As at December 31, 2016
Current assets	**38,035,168**	39,163,813
Non-current assets	**14,578,027**	2,766,539
Total assets	**52,613,195**	41,930,352
Current liabilities	**26,357,396**	19,033,889
Non-current liabilities	**15,232,185**	13,371,016
Total liabilities	**41,589,581**	32,404,905
Equity attributable to the equity holders of the subsidiary	**5,515,454**	5,257,402
Perpetual capital instruments	**5,508,160**	4,268,045
Total equity	**11,023,614**	9,525,447
Non-controlling interests of the subsidiary	**2,244,790**	2,139,763
Equity attributable to		
holders of perpetual capital instruments	**3,350,000**	3,850,000

	Year ended December 31, 2017	Year ended December 31, 2016
Total revenue	**3,647,754**	2,381,922
Profit before tax	**1,472,416**	1,542,934
Total comprehensive income	**1,026,121**	1,146,345
Profit attributable to		
non-controlling interests of the subsidiary	**439,576**	474,345
holders of perpetual capital instruments	**213,278**	92,340
Dividend distribution to non-controlling interests	**187,220**	170,940

	Year ended December 31, 2017	Year ended December 31, 2016
Net cash flow from/(used in) operating activities	**6,227,837**	(9,970,436)
Net cash flow used in investing activities	**(15,151,508)**	(1,989,774)
Net cash flow from financing activities	**8,103,094**	16,244,158
Net cash flow	**(820,577)**	4,283,948

Notes to the Consolidated Financial Statements

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V. EXPLANATORY NOTES *(continued)*

31. Non-controlling interests in the subsidiaries of the Group *(continued)*

Huarong Trust

	As at December 31, 2017	As at December 31, 2016
Current assets	**5,541,851**	1,797,984
Non-current assets	**16,638,563**	18,180,055
Total assets	**22,180,414**	19,978,039
Total liabilities	**12,579,303**	13,201,609
Total equity	**9,601,111**	6,776,430
Non-controlling interests of the subsidiary	**2,228,580**	108,583

	Year ended December 31, 2017	Year ended December 31, 2016
Total revenue	**2,556,129**	2,079,380
Profit before tax	**1,129,589**	1,149,458
Total comprehensive income	**778,298**	874,314
Profit attributable to non-controlling interests of the subsidiary	**114,169**	7,050
Dividend distribution to non-controlling interests	**6,257**	4,935

	Year ended December 31, 2017	Year ended December 31, 2016
Net cash flow (used in)/from operating activities	**649,347**	1,021,237
Net cash flow from/(used in) investing activities	**324,154**	(5,830,283)
Net cash flow from financing activities	**(199,177)**	5,446,036
Net cash flow	**774,324**	636,990

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V. EXPLANATORY NOTES *(continued)*

32. Interests in consolidated structured entities

To determine whether control exists in a structured entity, the Group uses the following judgments:

(1) For a structured entity that the Group provides financial guarantee, the Group therefore has an obligation to fund the losses beyond its investment, if any, in accordance with the guarantee agreements. The Group then concludes that its exposure to variability of returns is of such significance that the structured entity will be consolidated.

(2) For private equity funds where the Group involves as both general partner and limited partner, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The fund will be consolidated if the Group acts in the role of principal.

(3) For trust products or asset management plans where the Group involves as trustee/manager and/or as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the trust products or asset management plans that is of such significance that it indicates that the Group is a principal. The trust products or asset management plans will be consolidated if the Group acts in the role of principal.

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

As at December 31, 2017, interests in these consolidated structured entities held by the Group amounted to RMB147,540 million (December 31, 2016: RMB78,712 million).

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

Interests held by other interest holders are presented as other liabilities and financial liabilities designated as at fair value through profit or loss in the consolidated statement of financial position as disclosed in note V. 46 and V. 22. The change in net assets attributable to other holders of consolidated structured entities amounted to RMB7,824 million for the year ended December 31, 2017 (December 31, 2016: RMB3,376 million) as disclosed in the consolidated statement of profit or loss.

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V. EXPLANATORY NOTES *(continued)*

33. Interests in unconsolidated structured entities

Apart from the structured entities the Group has consolidated as detailed in note V.32, the Group also served as general partner, manager or trustee of certain structured entities and therefore had power over them. However, in the opinion of the directors of the Company, the variable returns the Group exposed to over these structured entities are not significant. The Group therefore did not consolidate these structured entities.

The Group classified the investments in these unconsolidated structured entities as financial assets 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 assets under management, carrying amount and maximum exposure to loss of the Group's investments in unconsolidated structured entities that are sponsored by the Group are as follows:

	December 31, 2017				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	324,291,262	4,834,750	4,834,750	2,440,482	
				1,341,000	Commission and fee income
				1,099,482	Investment income
Private equity funds	131,177,611	13,845,754	13,845,754	762,664	
				39,564	Commission and fee income
				723,100	Investment income
Asset management plans	238,852,198	4,092,770	4,092,770	441,106	
				392,544	Commission and fee income
				48,562	Investment income
Total	694,321,071	22,773,274	22,773,274	3,644,252	

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V. EXPLANATORY NOTES *(continued)*

33. Interests in unconsolidated structured entities *(continued)*

	December 31, 2016				
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	Income Type
Trust products	208,808,794	1,210,500	1,210,500	967,940	
				954,517	Commission and fee income
				13,423	Investment income
Private equity funds	53,390,978	5,023,557	5,023,557	84,620	
				76,009	Commission and fee income
				8,611	Investment income
Asset management plans	243,702,208	132,169	132,169	343,695	
				337,522	Commission and fee income
				6,173	Investment income
Total	505,901,980	6,366,226	6,366,226	1,396,255	

Meanwhile, the Group also holds interests in the unconsolidated structured entities sponsored by independent third parties through investments. As at December 31, 2017, the carrying amount and maximum exposure to loss are RMB328,061 million (December 31, 2016: RMB228,760 million). These investments are accounted for in financial assets held for trading, financial assets designated as at fair value through profit or loss, available-for-sale financial assets and financial assets classified as receivables.

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V. EXPLANATORY NOTES *(continued)*

34. Investment properties

	As at December 31,	
	2017	**2016**
Cost		
At beginning of the year	**2,099,741**	1,292,742
Purchases	**382,133**	3,689
Transfer in	**4,480**	830,648
Transfer out	**(5,846)**	(27,338)
At end of the year	**2,480,508**	2,099,741
Accumulated depreciation		
At beginning of the year	**271,333**	222,533
Charge for the year	**74,714**	49,973
Transfer out	**(922)**	(1,173)
At end of the year	**345,125**	271,333
Net book value		
At beginning of the year	**1,828,408**	1,070,209
At end of the year	**2,135,383**	1,828,408

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

The Group's investment properties are located in active real estate markets, and the internal appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value measurement is classified as Level 3.

Notes to the Consolidated Financial Statements

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V. EXPLANATORY NOTES *(continued)*

35. Property and equipment

	Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Costs						
As at January 1, 2017	5,604,039	1,266,994	1,160,599	228,502	889,498	9,149,632
Purchases	7,780	1,958,122	209,167	16,607	536,494	2,728,170
Disposals	(135,454)	(323)	(33,037)	(12,054)	—	(180,868)
Acquisition of subsidiaries	6,935	64,219	11,238	6,937	—	89,329
Transfer in	52,616	—	5,133	3,421	43,832	105,002
Transfer out	—	—	—	—	(754,532)	(754,532)
As at December 31, 2017	5,535,916	3,289,012	1,353,100	243,413	715,292	11,136,733
Accumulated depreciation						
As at January 1, 2017	891,861	222,251	695,579	166,337	—	1,976,028
Charge for the year	194,607	127,859	169,732	23,268	—	515,466
Disposals	(12,520)	(248)	(17,249)	(10,644)	—	(40,661)
As at December 31, 2017	1,073,948	349,862	848,062	178,961	—	2,450,833
Allowance for impairment losses						
As at January 1, 2017	—	27,783	—	—	—	27,783
Provided for the year	—	12,926	—	—	—	12,926
As at December 31, 2017	—	40,709	—	—	—	40,709
Net book values						
As at January 1, 2017	4,712,178	1,016,960	465,020	62,165	889,498	7,145,821
As at December 31, 2017	4,461,968	2,898,441	505,038	64,452	715,292	8,645,191
Including:						
Net book value of assets pledged for borrowings as at December 31, 2017	2,834	—	—	—	—	2,834

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V. EXPLANATORY NOTES *(continued)*

35. Property and equipment *(continued)*

	Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Costs						
As at January 1, 2016	3,210,088	1,215,327	852,741	213,690	1,160,134	6,651,980
Purchases	25,571	56,149	260,632	17,682	337,865	697,899
Disposals	(32,167)	(10,001)	(90,574)	(2,870)	—	(135,612)
Acquisition of subsidiaries	1,862,202	—	120,677	—	—	1,982,879
Transfer in	538,345	5,519	17,123	—	—	560,987
Transfer out	—	—	—	—	(608,501)	(608,501)
As at December 31, 2016	5,604,039	1,266,994	1,160,599	228,502	889,498	9,149,632
Accumulated depreciation						
As at January 1, 2016	735,328	157,052	559,739	148,298	—	1,600,417
Charge for the year	160,711	74,536	149,530	20,274	—	405,051
Disposals	(5,351)	(9,337)	(13,690)	(2,235)	—	(30,613)
Transfer in	1,173	—	—	—	—	1,173
As at December 31, 2016	891,861	222,251	695,579	166,337	—	1,976,028
Allowance for impairment losses						
As at January 1, 2016	—	24,792	—	—	—	24,792
Provided for the year	—	2,991	—	—	—	2,991
As at December 31, 2016	—	27,783	—	—	—	27,783
Net book values						
As at January 1, 2016	2,474,760	1,033,483	293,002	65,392	1,160,134	5,026,771
As at December 31, 2016	4,712,178	1,016,960	465,020	62,165	889,498	7,145,821
Including:						
Net book value of assets pledged for borrowings as at December 31, 2016	—	—	—	—	—	—

As at December 31, 2017, properties that the Group have not obtained certificate of land use right or certificate of property ownership amounted to RMB154 million (December 31, 2016: RMB181 million). The directors of the Company do not anticipate the aforesaid matters to have any significant adverse effect on the Group's operations.

As at December 31, 2017, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB585 million (December 31, 2016: RMB397 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

36. 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 December 31, 2017	As at December 31, 2016
Deferred tax assets	**13,400,222**	9,301,184
Deferred tax liabilities	**(1,380,333)**	(700,372)
Total	**12,019,889**	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
As at 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 (Note V.13)	**—**	**153,461**	**59,199**	**92,690**	**3,308,352**	**(1,006,237)**	**2,607,465**
Credit to other comprehensive income	**854,724**	**—**	**—**	**—**	**—**	**(46,310)**	**808,414**
Disposals of subsidiaries	**2,224**	**—**	**—**	**—**	**3,209**	**(2,235)**	**3,198**
As at December 31, 2017	**77,161**	**(455,573)**	**439,645**	**(541,878)**	**13,531,087**	**(1,030,553)**	**12,019,889**
As at 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 (Note V.13)	—	(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
As at December 31, 2016	(779,787)	(609,034)	380,446	(634,568)	10,219,526	24,229	8,600,812

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

36. Deferred taxation *(continued)*

As at December 31, 2017, the Group's unused tax losses and deductible temporary differences not recognized as deferred tax assets amounted to RMB1,380 million and RMB1,578 million respectively (December 31, 2016: RMB502 million and RMB115 million respectively).

The expiry dates of unused tax losses are as follows:

	As at December 31,	
	2017	**2016**
December 31, 2018	**47,272**	47,272
December 31, 2019	**30,785**	30,785
December 31, 2020	**62,869**	62,869
December 31, 2021	**352,129**	361,241
December 31, 2022	**564,783**	—
Undated	**321,770**	—
Total	**1,379,608**	502,167

37. Other assets

	As at December 31,	
	2017	**2016**
Other receivables	**8,629,719**	11,644,326
Interest receivable	**5,027,606**	3,562,579
Payments in advance	**5,026,483**	1,550,591
Foreclosed assets	**1,957,108**	1,191,633
Land use rights	**1,845,021**	937,708
Receivable from disposals of investments(1)	**1,711,123**	2,200,953
Prepaid expenses	**1,330,616**	445,780
Deductible value-added tax	**357,010**	533,412
Intangible assets	**304,438**	240,675
Clearing and settlement receivables	**294,436**	620,677
Dividends receivable	**66,524**	34,747
Others	**907,152**	750,595
Total	**27,457,236**	23,713,676

(1) Amount included sale proceeds from disposal of available-for-sale financial assets, held-for-trading investments and financial assets designated as at fair value through profit or loss. The receivable from sale of investments is repayable within three months.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

38. Borrowings from central bank

	As at December 31,	
	2017	**2016**
Due within 1 year	**4,647,000**	1,987,000
Total	**4,647,000**	1,987,000

As at December 31, 2017, borrowings from central bank carry interest at market rates which range from 2.75% to 3.85% (December 31, 2016: 2.75% to 3.60%) per annum.

39. Deposits from financial institutions

	As at December 31,	
	2017	**2016**
Banks	**7,971,760**	2,275,153
Other financial institutions	**2,186,594**	4,687,391
Total	**10,158,354**	6,962,544

Deposits from financial institutions carry interest at market rates which range from 0.35% to 7.50% (31 December 2016: 0.35% to 7.50%) per annum.

40. Placements from financial institutions

	As at December 31,	
	2017	**2016**
Banks	**2,101,560**	3,678,497
Other financial institutions	**—**	600,000
Total	**2,101,560**	4,278,497

The ranges of interest rate on the Group's placements from financial institutions are as follows:

	As at December 31,	
	2017	**2016**
Ranges of interest rate	**0.30%–4.30%**	0.25%–4.13%

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

41. Financial assets sold under repurchase agreements

	As at December 31,	
	2017	2016
Bonds	47,620,734	53,990,595
Loans and advances to customers	6,516,482	2,400,000
Beneficial rights of debt instruments	5,922,254	—
Beneficial rights of trust products	257,500	—
Total	60,316,970	56,390,595

42. Borrowings

	As at December 31,	
	2017	2016
Unsecured loans	636,602,087	425,073,875
Guaranteed loans	90,101,884	44,229,871
Pledged loans	40,458,244	39,807,397
Loans secured by properties	5,895,047	2,197,500
Total	773,057,262	511,308,643

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

	As at December 31,	
	2017	2016
Finance lease receivables	39,326,979	40,335,567
Deposits with financial institutions	2,226,130	5,557,471
Inventories	6,908,344	4,399,492
Held-to-maturity investments	2,479,543	2,836,974
Available-for-sale financial assets	746,321	683,117
Financial assets classified as receivables	2,702,798	—
Investment properties	1,019,822	—
Financial assets held for trading	3,209,270	—
Property and equipment	2,834	—
Total	58,622,041	53,812,621

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

42. Borrowings *(continued)*

	As at December 31, 2017	2016
Carrying amount repayable*:		
Within one year	**386,222,411**	252,983,366
More than one year, but not exceeding two years	**193,267,431**	73,714,065
More than two years, but not exceeding five years	**161,815,023**	152,509,206
More than five years	**31,198,449**	26,411,930
Subtotal	**772,503,314**	505,618,567
Carrying amount of borrowings that contain a repayment on demand clause repayable*:		
Within one year	**553,948**	—
More than two years, but not exceeding five years	**—**	5,690,076
Subtotal	**553,948**	5,690,076
Total	**773,057,262**	511,308,643

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

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

	As at December 31, 2017	2016
Within one year	**324,731,487**	248,515,982
More than one year, but not exceeding two years	**155,585,168**	73,714,065
More than two years, but not exceeding five years	**119,956,687**	151,669,205
More than five years	**23,639,911**	25,687,031
Total	**623,913,253**	499,586,283

In addition, the Group has variable-rate borrowings which carry interest based on borrowing or deposit benchmark interest rate of PBOC, Shanghai Inter-bank Offered Rate ("SHIBOR"), Hong Kong Inter-bank Offered Rate ("HIBOR"), London Inter-bank Offered Rate ("LIBOR") or prime rate.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

42. Borrowings *(continued)*

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

	As at December 31,	
	2017	**2016**
Fixed-rate borrowings	**2.18%–9.50%**	1.96%–11.75%
Variable-rate borrowings	**1.65%–7.20%**	2.13%–7.40%

43. Due to customers

	As at December 31,	
	2017	**2016**
Demand deposits		
Corporate customers	**96,481,636**	71,800,158
Individual customers	**19,344,726**	16,545,386
Time deposits		
Corporate customers	**36,435,836**	36,845,258
Individual customers	**26,738,407**	24,407,465
Pledged deposits	**9,340,458**	10,698,908
Others	**14,008,886**	12,108,693
Total	**202,349,949**	172,405,868

44. Tax payable

	As at December 31,	
	2017	**2016**
Enterprise income tax	**4,523,501**	4,174,327
Hong Kong profits tax	**1,485,342**	506,308
Macau Profits tax	**16,992**	—
Total	**6,025,835**	4,680,635

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
The Company							
Financial bonds	**5,594,464**	5,589,547	RMB6,000 million	5 years	November 2013	5.66% fixed rate	Interest payable annually
Financial bonds	**—**	9,986,744	RMB10,000 million	3 years	December 2014	4.60% fixed rate	Interest payable annually
Financial bonds	**9,928,178**	9,920,414	RMB10,000 million	5 years	December 2014	4.80% fixed rate	Interest payable annually
Financial bonds	**17,495,515**	17,472,450	RMB17,500 million	3 years	July 2015	4.01% fixed rate	Interest payable annually
Financial bonds	**17,179,583**	17,166,744	RMB17,500 million	5 years	July 2015	4.21% fixed rate	Interest payable annually
Financial bonds	**9,972,657**	9,965,172	RMB10,000 million	5 years	March 2016	3.39% fixed rate	Interest payable annually
Financial bonds	**12,473,324**	12,454,344	RMB12,500 million	3 years	November 2016	3.35% fixed rate	Interest payable annually
Financial bonds	**12,464,135**	12,453,414	RMB12,500 million	5 years	November 2016	3.54% fixed rate	Interest payable annually
Tier II capital bonds	**9,943,748**	—	RMB10,000 million	10 years	June 2017	4.95% fixed rate	Interest payable annually[(1)]
Subtotal	**95,051,604**	95,008,829	RMB106,000 million				
Huarong Xiangjiang Bank							
Subordinate bonds	**—**	1,495,015	RMB1,500 million	10 years	November 2012	6.30% fixed rate	Interest payable annually
Tier II capital bonds	**2,991,320**	2,990,737	RMB3,000 million	10 years	June 2015	6.00% fixed rate	Interest payable annually[(2)]
Negotiable certificates of deposit	**—**	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	**48,273,093**	—	RMB49,210 million	3–12 months	January–December 2017	2.95%–5.3%	Interest payable on maturity date
Tier II capital bonds	**2,399,838**	—	RMB2,400 million	10 years	July 2017	5.00% fixed rate	Interest payable annually[(3)]
Green financial bonds	**998,616**	—	RMB1,000 million	3 years	November 2017	4.90% fixed rate	Interest payable annually
Subtotal	**54,662,867**	36,121,880	RMB89,080 million				

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V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities							
Subordinate bonds	–	1,500,000	RMB1,500 million	4 years	July 2013	6.25% fixed rate	Interest payable annually
Subordinate bonds	–	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
Corporate 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	RMB160 million	2 years	July 2016	3.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	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	RMB130 million	2 years	August 2016	3.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	300,000	RMB300 million	1 years	November 2016	3.30% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	1,730,000	RMB1,730 million	183 days	November 2016	3.30% fixed rate	Interest payable on maturity date
Beneficiary certificates	–	400,000	RMB400 million	1 years	November 2016	3.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	450,000	RMB450 million	181 days	November 2016	3.35% fixed rate	Interest payable semi-annually
Beneficiary certificates	–	100,000	RMB100 million	1 years	November 2016	3.50% fixed rate	Interest payable on maturity date
Subordinate bonds	2,000,000	2,000,000	RMB2,000 million	2 years	December 2016	4.20% fixed rate	Interest payable annually
Subordinate bonds	4,516,410	—	RMB4,530 million	3 years	April 2017	5.30% fixed rate	Interest payable annually
Beneficiary certificates	9,500	—	RMB10 million	2 years	May 2017	4.80% fixed rate	Interest payable semi-annually

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V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities — continued							
Beneficiary certificates	100,000	—	RMB100 million	2 years	May 2017	5.00% fixed rate	Interest payable semi-annually
Beneficiary certificates	400,000	—	RMB400 million	2 years	May 2017	5.40% fixed rate	Interest payable semi-annually
Beneficiary certificates	600,000	—	RMB600 million	2 years	June 2017	5.30% fixed rate	Interest payable semi-annually
Beneficiary certificates	400,000	—	RMB400 million	2 years	June 2017	5.50% fixed rate	Interest payable semi-annually
Beneficiary certificates	200,000	—	RMB200 million	2 years	June 2017	5.00% fixed rate	Interest payable semi-annually
Corporate bonds	1,500,000	—	RMB1,500 million	3 years	July 2017	4.98% fixed rate	Interest payable annually
Subordinate bonds	1,465,590	—	RMB1,470 million	3 years	August 2017	5.00% fixed rate	Interest payable annually
Corporate bonds	1,992,000	—	RMB2,000 million	3 years	November 2017	5.86% fixed rate	Interest payable annually
Beneficiary certificates	9,920	—	RMB10 million	14 days	December 2017	6.00% fixed rate	Interest payable on maturity date
Subtotal	20,193,420	14,376,940	RMB25,597 million				

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V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Financial Leasing							
Financial bonds	**399,548**	398,922	RMB400 million	5 years	September 2013	floating rate	Interest payable annually[(4)]
Financial bonds	**999,227**	997,679	RMB1,000 million	3 years	June 2015	floating rate	Interest payable annually[(5)]
Leasing asset — backed securities	**640,127**	1,324,964	RMB2,855 million	6 years	October 2015	floating rate	Interest payable quarterly[(6)]
Financial bonds	**1,997,454**	1,994,851	RMB2,000 million	3 years	December 2015	3.76% fixed rate	Interest payable annually
Financial bonds	**1,992,030**	1,989,535	RMB2,000 million	5 years	December 2015	4.00% fixed rate	Interest payable annually
Leasing asset — backed securities	**1,294,254**	2,580,593	RMB4,411 million	6 years	April 2016	floating rate	Interest payable quarterly[(7)]
Financial bonds	**997,670**	—	RMB1,000 million	3 years	February 2017	4.45% fixed rate	Interest payable annually
Financial bonds	**995,126**	—	RMB1,000 million	5 years	February 2017	4.70% fixed rate	Interest payable annually
Leasing asset — backed securities	**2,671,193**	—	RMB4,990 million	6 years	February 2017	4.40% fixed rate & floating rate	Interest payable quarterly[(8)]
Leasing asset — backed securities	**3,482,608**	—	RMB4,961 million	10 years	November 2017	5.30% fixed rate & floating rate	Interest payable quarterly[(9)]
Subtotal	**15,469,237**	9,286,544	RMB24,617 million				
Huarong Rongde							
Corporate bonds	**2,334,638**	2,991,322	RMB3,000 million	3 years	September 2015	4.95% fixed rate	Interest payable annually
Corporate bonds	**1,488,985**	1,486,303	RMB1,500 million	5 years	April 2016	3.80% fixed rate	Interest payable annually
Corporate bonds	**1,487,981**	—	RMB1,500 million	5 years	July 2017	5.40% fixed rate	Interest payable annually
Corporate bonds	**1,490,894**	—	RMB1,500 million	5 years	October 2017	5.39% fixed rate	Interest payable annually
Interbank bonds	**998,842**	—	RMB1,000 million	270 days	November 2017	5.00% fixed rate	Interest payable on maturity date
Subtotal	**7,801,340**	4,477,625	RMB8,500 million				
Huarong Huitong Asset Management Co., Ltd.							
Corporate bonds	**300,000**	—	RMB300 million	3 years	October 2017	5.60% fixed rate	Interest payable annually
Subtotal	**300,000**	—	RMB300 million				

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V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Tianze Investment Co., Ltd., subsidiary of Huarong Zhiyuan Investment & Management Co., Ltd							
Corporate bonds	**300,000**	300,000	RMB300 million	3 years	December 2015	5.25% fixed rate	Interest payable annually
Subtotal	**300,000**	300,000	RMB300 million				
Huarong Real Estate Co., Ltd.							
Corporate bonds	**1,900,000**	—	RMB1,900 million	5 years	March 2017	5.48% fixed rate	Interest payable annually
Corporate bonds	**2,215,448**	—	RMB2,220 million	5 years	December 2017	6.34% fixed rate	Interest payable annually
Corporate bonds	**2,995,570**	—	RMB3,000 million	5 years	December 2017	6.35% fixed rate	Interest payable annually
Subtotal	**7,111,018**	—	RMB7,120 million				
Huarong Real Estate Co., Ltd.							
Euro bonds	**3,865,508**	—	EUR500 million	5 years	December 2017	1.625% fixed rate	Interest payable annually
Huarong Finance Co., Ltd., subsidiary of Huarong International Holdings Limited							
U.S. Dollar bonds	**—**	2,105,455	USD300 million	3 years	July 2014	3.00% fixed rate	Interest payable annually
U.S. Dollar bonds	**7,957,206**	8,429,981	USD1,200 million	5 years	July 2014	4.00% fixed rate	Interest payable annually
Subtotal	**7,957,206**	10,535,436	USD1,500 million				

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V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance II Co., Ltd., subsidiary of Huarong International Holdings Limited							
Mid-term U.S. dollar notes	3,982,630	4,217,868	USD600 million	3 years	January 2015	3.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	7,974,680	8,453,138	USD1,200 million	5 years	January 2015	4.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	9,265,431	9,823,661	USD1,400 million	10 years	January 2015	5.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,273,074	3,469,278	USD500 million	3 years	November 2015	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,263,265	3,458,475	USD500 million	5 years	November 2015	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	5,215,246	5,532,450	USD800 million	10 years	November 2015	5.00% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,576,433	4,853,302	USD700 million	3 years	June 2016	2.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	5,862,321	6,214,295	USD900 million	5 years	June 2016	3.25% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	5,826,203	6,177,979	USD900 million	10 years	June 2016	4.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,535,702	6,928,684	USD1,000 million	3 years	November 2016	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	8,823,166	9,359,358	USD1,350 million	5 years	November 2016	3.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,223,257	4,479,485	USD650 million	10 years	November 2016	4.875% fixed rate	Interest payable semi-annually
Subtotal	68,821,408	72,967,973	USD10,500 million				

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V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

	As at December 31, 2017	2016	Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance 2017 Co., Ltd., subsidiary of Huarong International Holdings Limited							
Mid-term U.S. dollar notes	7,258,689	—	USD1,100 million	3 years	January 2017	3.375% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,735,003	—	USD570 million	5 years	April 2017	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,585,576	—	USD700 million	10 years	April 2017	4.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	1,315,292	—	USD200 million	30 years	April 2017	5.5% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,278,111	—	USD500 million	3 years	April 2017	3 months LIBOR+ 1.65%	Interest payable quarterly
Mid-term U.S. dollar notes	6,556,976	—	USD1,000 million	5 years	April 2017	3 months LIBOR+ 1.85%	Interest payable quarterly
Mid-term U.S. dollar notes	3,930,072	—	USD600 million	5 years	November 2017	3 months LIBOR+ 1.15%	Interest payable quarterly
Mid-term U.S. dollar notes	7,195,596	—	USD 1,100 million	10 years	November 2017	4.25% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,568,111	—	USD700 million	30 years	November 2017	4.95% fixed rate	Interest payable semi-annually
Subtotal	42,423,426	—	USD6,470 million				
Mid-term SGD notes	2,938,383	—	SGD600 million	4 years	April 2017	3.20% fixed rate	Interest payable semi-annually
Mid-term SGD notes	1,959,759	—	SGD400 million	8 years	November 2017	3.80% fixed rate	Interest payable semi-annually
Subtotal	4,898,142	—	SGD1,000 million				
Huarong Finance 2017 Co., Ltd., subsidiary of Huarong International Holdings Limited							
Private Placement Note Instrument	3,107,693	—	RMB3,000 million	2 years	March 2017	4.70% fixed rate	Interest payable annually
Total	331,962,869	243,075,227					

V. EXPLANATORY NOTES *(continued)*

45. Bonds and notes issued *(continued)*

(1) The Company has the right to exercise early redemption partially or fully on June 29, 2022. If no early redemption is exercised, the coupon rate of the bonds will remain at 4.95% per annum.

(2) Huarong Xiangjiang Bank has the right to exercise early redemption partially or fully on June 29, 2020. If no early redemption is exercised, the coupon rate of the bonds would remain at 6.00% per annum.

(3) Huarong Xiangjiang Bank has the right to exercise early redemption partially or fully on July 17, 2022. If no early redemption is exercised, the coupon rate of the bonds would remain at 5.00% per annum.

(4) Floating rate is determined as PBOC one-year deposit rate plus 2.70% per annum.

(5) Floating rate is determined as PBOC one-year deposit rate plus 3.05% per annum.

(6) Floating rates for Class A-1 and Class B-1 of these asset-backed securities are determined as PBOC one-year deposit rate plus 2.25% and 2.98%, respectively, per annum. As the underlying finance lease receivables have been received, the corresponding liabilities were reduced accordingly.

(7) Floating rates for Class A and Class B asset-backed securities are determined as PBOC one-year deposit rate plus 2.10% and 2.95% per annum.

(8) Huarong Financial Leasing set up an asset securitization trust of RMB4,990 million in February 2017. These asset-backed securities are comprised of Class A-1, Class A-2 and Class B. The tenure of these securities is 6 years. The coupon rate of Class A-1 is 4.40% per annum, while those of Class A-2 and Class B are PBOC one-year fixed deposit rates plus 3.25% and 3.70% per annum.

(9) Huarong Financial Leasing set up an asset securitization trust of RMB4,961 million in November 2017. These asset-backed securities are comprised of Class A-1, Class A-2 Class A-3 and Class B. The tenure of these securities is 10 years. The coupon rate of Class A-1 is 5.30% per annum, while those of Class A-2, Class A-3 and Class B are PBOC one-year fixed deposit rates plus 4.06%, 4.30% and 4.50%, respectively, per annum.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

46. Other liabilities

	As at December 31, 2017	2016
Payables to interest holders of consolidated structured entities	**151,672,943**	158,364,835
Other payables	**55,429,436**	46,094,542
Account payable to financial institutions	**38,999,561**	—
Guarantee deposits received from customers	**13,461,006**	14,707,887
Amounts received in advance(1)	**8,910,599**	8,269,026
Interest payable	**8,827,933**	6,154,996
Account payable to brokerage clients	**5,002,905**	9,809,924
Employee benefits payable	**4,349,146**	4,146,139
Sundry taxes payable	**2,164,417**	1,226,954
Amounts due to China Trust Protection Fund	**1,648,000**	2,500,000
Bills payable(2)	**1,525,623**	3,059,486
Margin deposit received from securities customers	**450,628**	1,224,952
Dividends payable	**177,460**	108,791
Provisions(3)	**115,610**	116,131
Amount due to the MOF(4)	**—**	3,938,855
Others	**342,638**	376,398
Total	**293,077,905**	260,098,916

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

(2) These bank acceptance bills are payable to the suppliers by Huarong Financial Leasing for equipment purchased when conducting its financial leasing business.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

46. Other liabilities *(continued)*

(3) Movements of provisions

	Year ended December 31, 2017	2016
At beginning of the year	**116,131**	169,821
Provided for the year	**—**	6,000
Reversal	**(521)**	(59,690)
At end of the year	**115,610**	116,131

Provisions are made by the Group relating to litigation claims on the Group's entities as well as credit enhancement business undertaken by the Group.

(4) 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. As of December 31, 2017, the amount was fully repaid.

47. Share capital of the Company

	Year ended December 31, 2017	2016
Authorized, issued and fully paid		
At beginning and end of the year	**39,070,208**	39,070,208

	As at December 31, 2016 and 2017 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 Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

48. 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.

49. Surplus reserve

Under the PRC Laws, the Company and its domestic subsidiaries are required to transfer 10% of their net profit determined under the PRC Generally Accepted Accounting Principles to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital of the respective entity.

The surplus reserve of the Group disclosed represents only the surplus reserve appropriated by the Company.

50. 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 PRC GAAP, at no less than 1.5% of its risk assets at the end of the reporting period. A financial enterprise is allowed to comply with this requirement over a period of 5 years, if it is not probable to achieve the 1.5% requirement immediately.

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

For the year ended December 31, 2017, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB2,579 million (2016: RMB1,733 million) to general reserve pursuant to the regulatory requirements in the PRC. Among which, the Company transferred RMB1,356 million to general reserve for the year ended December 31, 2017 (2016: RMB283 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

51. Other reserves

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

	Actuarial (losses)/ gains on defined benefit obligations	Effective portion of cash-flow hedge[1]	Share of other comprehensive income/(expense) of associates and joint ventures	Fair value changes on available-for-sale financial assets	Exchange differences arising on translation of foreign operation	Income tax effects	Total
As at January 1, 2016	929	—	100,709	7,328,636	(73,238)	(1,881,523)	5,475,513
(Decrease)/increase during the year	(8,697)	—	(98,155)	(3,445,653)	(41,606)	1,190,414	(2,403,697)
As at December 31, 2016	**(7,768)**	**—**	**2,554**	**3,882,983**	**(114,844)**	**(691,109)**	**3,071,816**
(Decrease)/increase during the year	**(10,621)**	**280,665**	**(5,046)**	**(4,201,935)**	**(733,522)**	**799,093**	**(3,871,366)**
As at December 31, 2017	**(18,389)**	**280,665**	**(2,492)**	**(318,952)**	**(848,366)**	**107,984**	**(799,550)**

(1) The cash flow hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain and loss arising on changes in fair value of the hedging instrument that are recognized and accumulated under the heading of other reserves will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

52. Perpetual capital instruments

Movement of the perpetual capital instruments is as follows:

	Principal	Distribution	Total
Balance at January 1, 2016	6,450,000	4,112	6,454,112
Increase in perpetual capital instruments	9,973,523	—	9,973,523
Decrease in 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
Increase in perpetual capital instruments	**19,246,542**	**—**	**19,246,542**
Decrease in perpetual capital instruments	**(11,307,658)**	**—**	**(11,307,658)**
Profit attributable to holders of perpetual capital instruments	**—**	**1,140,525**	**1,140,525**
Distribution to holders of perpetual capital instruments	**—**	**(924,244)**	**(924,244)**
Balance at December 31, 2017	**22,912,407**	**273,014**	**23,185,421**

There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers. The perpetual capital instruments are callable. When the issuers elect to declare dividends, the distribution to the holders of perpetual capital instruments shall be made at the distribution rate as defined in the subscription agreements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

53. Cash and cash equivalents

Cash and cash equivalents with original maturity of less than 3 months comprise the following balances:

	As at December 31,	
	2017	**2016**
Cash on hand	**497,304**	428,735
Balances with central bank	**3,011,766**	3,675,129
Deposits with financial institutions	**143,957,757**	123,001,200
Placements with financial institutions	**9,300,000**	4,902,346
Financial assets held under resale agreements	**12,353,254**	6,847,580
Total	**169,120,081**	138,854,990

54. 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 year. 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.

55. 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 December 31, 2017, total claim amount of pending litigations was RMB1,212 million (December 31, 2016: RMB880 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 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

55. 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 December 31,	
	2017	2016
Within one year	**876,214**	589,729
In the second to the fifth year, inclusive	**1,948,494**	1,252,834
Over five years	**145,728**	233,249
Total	**2,970,436**	2,075,812

(3) Credit enhancement

As at December 31, 2017, the Group provided credit enhancement for counterparties involving in borrowing arrangements in the amount of RMB600 million (December 31, 2016: RMB300 million).

(4) Credit commitments

	As at December 31,	
	2017	2016
Bank bill acceptance	**18,027,091**	19,669,086
Loan commitments	**8,026,345**	13,006,722
Letters of guarantee issued	**1,681,561**	2,381,816
Undrawn credit card commitments	**5,764,808**	2,438,966
Letters of credit issued	**779,086**	728,255
Total	**34,278,891**	38,224,845

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

55. Contingent liabilities and commitments *(continued)*

(5) Other commitments

	As at December 31, 2017	2016
Contracted but not provided for – commitments for the acquisition of property and equipment	**235,683**	295,716

56. Transfers of financial assets

Repurchase agreements

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

	Carrying amount of pledged assets As at December 31,		Related liabilities As at December 31,	
	2017	2016	2017	2016
Held-for-trading debt securities	**16,399,125**	22,794,649	**13,675,132**	19,046,144
Held-to-maturity debt securities	**21,214,318**	20,578,541	**20,153,282**	19,405,600
Available-for-sale debt securities	**14,591,775**	16,229,508	**14,049,820**	15,538,851
Loans and advances to customers	**6,656,799**	2,535,453	**6,516,482**	2,400,000
Financial assets classified as receivables	**8,643,473**	—	**5,922,254**	—
Total	**67,505,490**	62,138,151	**60,316,970**	56,390,595

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

56. Transfers of financial assets *(continued)*

Asset-backed securities

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. As the underlying assets, the finance lease receivables did not meet the criteria of derecognition, the Group did not derecognize such finance lease receivables, and the consideration received was treated as financial liabilities. As at December 31, 2017, the carrying amount of such transferred but not derecognized finance lease receivables amounted to RMB16,901 million (December 31, 2016: RMB5,348 million), the carrying amount of the corresponding financial liabilities which are recognized as bonds and notes issued amounted to RMB8,088 million (December 31, 2016: RMB3,906 million).

Meanwhile, the Group enters into securitization transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. For the year ended December 31, 2017, the carrying amount of such transferred credit assets amounted to RMB3,010 million (the year ended December 31, 2016: RMB4,275 million). The Group has transferred substantially all the risks and rewards of these credit assets and therefore has derecognized these credit assets. As at December 31, 2017 the carrying amount of the corresponding asset-backed securities held by the Group amounted to RMB120 million (December 31, 2016: RMB290 million).

57. Related party transactions

(1) The MOF

As at December 31, 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. The entities controlled by the MOF are mainly financial institutions.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

57. Related party transactions *(continued)*

(1) The MOF *(continued)*

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

The Group had the following securities issued by or balances with the MOF:

	As at December 31,	
	2017	**2016**
Held-to-maturity investments	**7,362,677**	5,790,481
Available-for-sale financial assets	**549,150**	588,182
Financial assets held for trading	**330,590**	—
Interest receivable	**76,474**	—
Amount due to the MOF	**—**	3,938,855
Other payable	**39,696**	—

The Group had the following transactions with the MOF:

	Year ended December 31,	
	2017	**2016**
Investment income	**249,790**	235,343
Interest expense	**47,048**	124,393

(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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

57. Related party transactions *(continued)*

(3) Associates and joint ventures

The Group has the following balances and entered into the following transactions with associates and joint ventures. These transactions were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties:

The Group had the following securities issued by or balances with associates and joint ventures:

	As at December 31,	
	2017	**2016**
Financial assets classified as receivables	**8,257,799**	779,927
Available-for-sale financial assets	**585,137**	626,157
Interest receivable	**29,219**	51,381
Other assets	**150,625**	2,674,489

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

	Year ended December 31,	
	2017	**2016**
Investment income, gains and losses	**564,432**	129,549
Commission and fee income	**15,769**	30,268
Operating expenses	**26,141**	—

Trust asset management:

As at December 31, 2017, associates and joint ventures held a trust of RMB30 million issued by the Group(December 31, 2016: Nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

57. Related party transactions *(continued)*

(4) Annuity Scheme

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

	Year ended December 31, 2017	2016
Contribution to Annuity Schemes	**170,030**	139,621

(5) Key management personnel

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

	Year ended December 31, 2017	2016 (Restated)
Emoluments of key management personnel		
— Fees	**223**	40
— Salaries and other benefits	**5,716**	5,186
— Employer's contribution to pension scheme	**437**	417
— Discretionary and performance related incentive payments	**10,885**	9,577
Total (before tax)	**17,261**	15,220

The total compensation packages for the above key management personnel for the year ended December 31, 2017 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC.

The compensation of key management personnel for the year ended December 31, 2016 was not finalized at the time when the Group's 2016 consolidated financial statements were approved for issue and the amount of remuneration of directors, supervisors, other members of key management recognized in the consolidated statement of profit or loss for the year of 2016 was RMB13.36 million. The comparative figures for the year of 2016 have been restated accordingly after they had been finalized.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

57. Related party transactions *(continued)*

(5) Key management personnel *(continued)*

The number of key management personnel whose emoluments fall within the following bands is as follows:

	Year ended December 31,	
	2017	**2016**
HKD nil to HKD1,000,000	**13**	13
HKD1,500,001 to HKD2,000,000	**2**	2
HKD2,000,001 to HKD2,500,000	**4**	3
	19	18

58. Financial risk management

Overview

The Group's primary objectives of risk management are to ensure (1) the prudent operation and sound business development of the Group; (2) the execution of significant decisions to achieve business targets and ensure operational efficiency; and (3) that risk parameters are managed within a range consistent with the Group's strategies and business targets. Based on this, the Group has refined a particular philosophy of risk management culture and established a risk management model and an organizational structure. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The most significant types of risk to the Group include credit risk, market risk, liquidity risk and distressed assets risk. Market risk includes interest rate risk, foreign exchange risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies. The Board has established Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's overall risk exposures regularly.

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

Risk management framework *(continued)*

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures relating to risk management. Risk Management Department and other relevant functional units are responsible for monitoring financial risks.

58.1 Credit risk

(i) Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment of funds. The Group's major credit risks arise from deposits and placements with financial institutions, financial assets held under resale agreements, other financial assets classified as receivables, loans and advances to customers, finance lease receivables and other investment securities held by the Group. The nature of credit risk of distressed debt assets classified as receivables is similar to those mentioned above. Risk management of the distressed assets is detailed in note V. 58.4 together with other types of distressed assets.

The Group implements the following measures to mitigate credit risk:

- Referencing to external credit rating information to manage the credit quality of counterparties, and selecting counterparties with acceptable credit quality and repayment ability to balance credit risk and return; and

- Obtaining effective collateral from counterparties to mitigate risks.

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(i) Credit risk management *(continued)*

In particular, credit risk relating to investment securities such as debt securities and trust products is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits.

(ii) Impairment assessment

Credit assets are measured at amortized cost using effective interest method. The Group reviews the carrying amount of these assets at the end of each reporting period and recognizes impairment losses when there is objective evidence that the assets are impaired. The objective evidences of impairment are detailed in note III. 9.3.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial asset that is individually assessed for impairment and for which an impairment loss is or continues to be recognized is not included in collective assessment of impairment.

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(iii) 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 acquired from financial institutions and non-financial institutions, loans and advances to customers, finance lease receivables, investment securities, and treasury operations of its banking activities. At the end of the reporting period, maximum exposure to credit risk is as follows:

	As at December 31,	
	2017	2016
Balances with central bank	32,709,808	26,831,070
Deposits with financial institutions	162,881,077	154,329,885
Placements with financial institutions	9,822,736	4,902,346
Financial assets held for trading	49,844,932	76,983,771
Financial assets designated as at fair value through profit or loss	58,401,395	21,227,139
Financial assets held under resale agreements	41,238,105	36,347,736
Loans and advances to customers	158,221,948	118,405,979
Finance lease receivables	95,703,929	84,991,341
Available-for-sale financial assets	66,670,097	52,209,524
Held-to-maturity investments	64,451,200	44,884,175
Financial assets classified as receivables	701,192,438	549,477,957
Other assets	15,315,333	18,261,764
Subtotal	1,456,452,998	1,188,852,687
Credit enhancements	600,000	300,000
Credit commitments	34,278,891	38,224,845
Subtotal	34,878,891	38,524,845
Total	1,491,331,889	1,227,377,532

Distressed debt assets designated as at fair value through profit or loss may contain certain elements of credit risk. The risks that such assets are exposed to are detailed in note V. 58.4. The carrying amount of distressed debt assets designated as at fair value through profit or loss amounted to RMB150,807 million for the Group as at December 31, 2017 (December 31, 2016: RMB68,436 million).

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For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

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

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

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

	As at December 31,	
	2017	**2016**
Distressed debt assets classified as receivables	**368,428,387**	293,738,625
Loans and advances to customers	**162,011,199**	121,065,376
Finance lease receivables	**97,727,410**	86,629,749
Subtotal	**628,166,996**	501,433,750
Allowance for impairment losses		
Distressed debt assets classified as receivables	**(23,744,067)**	(23,666,452)
Loans and advances to customers	**(3,789,251)**	(2,659,397)
Finance lease receivables	**(2,023,481)**	(1,638,408)
Subtotal	**(29,556,799)**	(27,964,257)
Net carrying amount		
Distressed debt assets classified as receivables	**344,684,320**	270,072,173
Loans and advances to customers	**158,221,948**	118,405,979
Finance lease receivables	**95,703,929**	84,991,341
Total	**598,610,197**	473,469,493

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(iv) 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 December 31,			
	2017		2016	
Area	Gross amount	%	Gross amount	%
Central Region	**242,321,422**	**38.6**	180,840,550	36.1
Western Region	**132,890,359**	**21.2**	118,482,500	23.6
Yangtze River Delta	**107,950,391**	**17.2**	89,544,494	17.9
Pearl River Delta	**59,506,307**	**9.5**	42,974,885	8.6
Bohai Rim	**57,873,435**	**9.2**	41,916,111	8.4
Northeastern Region	**22,544,372**	**3.6**	23,669,942	4.6
Overseas	**5,080,710**	**0.7**	4,005,268	0.8
Total	**628,166,996**	**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.

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For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

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

Analyzed by industry

	As at December 31,			
	2017		2016	
Industry	Gross amount	%	Gross amount	%
Corporate business				
Real estate	**219,035,352**	**34.9**	167,220,440	33.4
Manufacturing	**71,026,579**	**11.3**	72,794,422	14.5
Water, environment and public utilities management	**91,918,236**	**14.6**	61,821,192	12.3
Construction	**39,571,693**	**6.3**	27,845,007	5.6
Leasing and commercial services	**36,547,676**	**5.8**	27,136,984	5.4
Transportation, logistics and postal services	**14,069,885**	**2.2**	14,114,519	2.8
Mining	**10,937,093**	**1.7**	10,749,567	2.1
Others	**97,602,480**	**15.5**	88,367,452	17.6
Subtotal	**580,708,994**	**92.3**	470,049,583	93.7
Personal business				
Loans for business operations	**10,556,064**	**1.7**	9,816,041	2.0
Mortgage	**11,390,788**	**1.8**	7,087,467	1.4
Personal consumption loans	**15,483,236**	**2.5**	6,405,757	1.3
Others	**2,504,521**	**0.4**	1,082,292	0.2
Subtotal	**39,934,609**	**6.4**	24,391,557	4.9
Loans to margin clients	**7,523,393**	**1.3**	6,992,610	1.4
Total	**628,166,996**	**100.0**	501,433,750	100.0

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For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(iv) 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 December 31, 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	16,274,741	20,864,969	11,189,113	48,328,823	16,500,821	6,119,621	1,638,705	24,259,147
Guaranteed	40,816,438	90,242,191	7,251,507	138,310,136	53,769,258	64,792,469	3,655,144	122,216,871
Collateralized	45,082,863	296,105,909	27,024,995	368,213,767	92,178,625	170,164,932	15,843,971	278,187,528
Pledged	21,370,496	48,813,229	3,130,545	73,314,270	40,610,930	35,120,492	1,038,782	76,770,204
Total	123,544,538	456,026,298	48,596,160	628,166,996	203,059,634	276,197,514	22,176,602	501,433,750

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

	Gross amount as at December 31, 2017						Gross amount as at December 31, 2016					
	Past due Up to 90 days	Past due 91 to 360 days	Past due 361 days to 3 years	Past due Over 3 years	Past due Total	Past due amount as a% of total gross amount	Past due Up to 90 days	Past due 91 to 360 days	Past due 361 days to 3 years	Past due Over 3 years	Past due Total	Past due amount as a% of total gross amount
Distressed debt assets classified as receivables	1,904,741	4,839,450	1,888,092	2,191,331	10,823,614	2.9	2,841,185	2,710,000	1,649,801	2,962,604	10,163,590	3.5
Loans and advances to customers	819,043	2,343,651	934,877	538,277	4,635,848	2.9	1,349,712	1,288,459	634,944	35,000	3,308,115	2.7
Finance lease receivables	591,873	892,303	1,274,437	238,788	2,997,401	3.1	872,947	989,274	733,117	103,589	2,698,927	3.1
Total	3,315,657	8,075,404	4,097,406	2,968,396	18,456,863	2.9	5,063,844	4,987,733	3,017,862	3,101,193	16,170,632	3.2

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

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

	As at December 31, 2017	As at December 31, 2016
Neither past due nor impaired	**609,401,143**	485,199,527
Past due but not impaired[1]	**7,689,546**	8,170,251
Impaired[2]	**11,076,307**	8,063,972
Subtotal	**628,166,996**	501,433,750
Allowance for impairment losses	**(29,556,799)**	(27,964,257)
Net carrying amount	**598,610,197**	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 December 31, 2017					Gross amount as at December 31, 2016				
	Past due Up to 90 days	Past due 91 to 360 days	Past due 361 days to 3 years	Past due Over 3 years	Past due Total	Past due Up to 90 days	Past due 91 to 360 days	Past due 361 days to 3 years	Past due Over 3 years	Past due Total
Distressed debt assets classified as receivables	**1,904,741**	**1,587,666**	**—**	**—**	**3,492,407**	2,841,185	2,000,091	—	—	4,841,276
Loans and advances to customers	**796,105**	**1,565,793**	**173,683**	**—**	**2,535,581**	1,044,042	530,412	61,572	—	1,636,026
Finance lease receivables	**589,998**	**606,983**	**464,577**	**—**	**1,661,558**	872,947	596,845	223,157	—	1,692,949
Total	**3,290,844**	**3,760,442**	**638,260**	**—**	**7,689,546**	4,758,174	3,127,348	284,729	—	8,170,251

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(vi) 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 December 31, 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	7,381,111	(4,907,664)	2,473,447	5,322,314	(3,663,130)	1,659,184
Loans and advances to customers						
— Individually assessed	1,849,358	(1,082,706)	766,652	1,385,489	(614,538)	770,951
— Collectively assessed	435,241	(176,763)	258,478	304,550	(101,307)	203,243
Finance lease receivables						
— Individually assessed	1,177,307	(717,892)	459,415	866,153	(491,926)	374,227
— Collectively assessed	233,290	(123,401)	109,889	185,466	(100,406)	85,060
Total	11,076,307	(7,008,426)	4,067,881	8,063,972	(4,971,307)	3,092,665

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(vi) 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 December 31,	
	2017	2016
Distressed debt assets classified as receivables		
Individually assessed and impaired	7,381,111	5,322,314
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	2.0	1.8
Fair value of collateral	11,700,594	8,762,222
Loans and advances to customers		
Individually assessed and impaired	1,849,358	1,385,489
Individually assessed and impaired as a % of total loans and advances to customers (%)	1.1	1.1
Collectively assessed and impaired	435,241	304,550
Collectively assessed and impaired as a % of total loans and advances to customers (%)	0.3	0.3
Fair value of collateral	4,710,352	3,118,101
Finance lease receivables		
Individually assessed and impaired	1,177,307	866,153
Individually assessed and impaired as a % of total finance lease receivables (%)	1.2	1.0
Collectively assessed and impaired	233,290	185,466
Collectively assessed and impaired as a % of total finance lease receivables (%)	0.2	0.2
Fair value of collateral*	25,600	215,953

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(vi) 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 December 31,					
	2017			2016		
Area	Gross amount	%	Impairment ratio %	Gross amount	%	Impairment ratio %
Central Region	**4,792,135**	**43.3**	**2.0**	4,420,276	54.8	2.4
Western Region	**1,955,944**	**17.7**	**1.5**	1,640,783	20.3	1.4
Yangtze River Delta	**2,007,159**	**18.1**	**1.9**	1,629,944	20.2	1.8
Pearl River Delta	**19,832**	**0.2**	**0.0**	1,328	0.0	0.0
Bohai Rim	**285,014**	**2.6**	**0.5**	84,099	1.0	0.2
Northeastern Region	**2,016,223**	**18.1**	**8.9**	287,542	3.7	1.2
Total	**11,076,307**	**100.0**	**1.8**	8,063,972	100.0	1.6

(vii) Credit quality of investment securities

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

	As at December 31, 2017	2016
Neither past due nor impaired[(1)]	**601,942,924**	477,905,787
Past due but not impaired[(2)]	**836,671**	1,017,929
Impaired[(3)]	**8,311,883**	3,608,320
Subtotal	**611,091,478**	482,532,036
Allowance for impairment losses		
— Individually assessed	**(3,655,588)**	(1,386,481)
— Collectively assessed	**(11,560,148)**	(6,435,162)
Net carrying amount	**595,875,742**	474,710,393

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(vii) Credit quality of investment securities (continued)

(1) Neither past due nor impaired investment securities

	As at December 31, 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	346,547	—	599,150	19,988,506	—	20,934,203	4,549,186	—	638,106	15,738,801	—	20,926,093
Public sector and quasi-government bonds	903,100	—	15,999,165	31,756,394	—	48,658,659	757,610	—	23,275,592	23,775,474	—	47,808,676
Financial institution bonds	2,401,265	—	6,735,082	10,197,297	—	19,333,644	684,287	—	2,834,686	4,954,109	—	8,473,082
Corporate bonds	28,071,002	—	33,601,429	2,509,003	—	64,181,434	48,329,744	—	7,347,996	415,791	—	56,093,531
Trust products	—	18,492,657	1,811,043	—	156,023,750	176,327,450	—	649,713	13,011,307	—	114,415,852	128,076,872
Wealth management products	10,386,791	7,670,492	4,885,716	—	13,219,119	36,162,118	10,413,218	2,129,900	1,161,872	—	12,286,958	25,991,948
Entrust loans	—	—	—	—	84,201,955	84,201,955	—	—	—	—	53,325,425	53,325,425
Debt instruments	—	1,515,559	—	—	93,503,897	95,019,456	—	—	—	—	83,735,941	83,735,941
Asset management plans	—	3,509,948	—	—	15,626,579	19,136,527	—	3,398,947	1,569,347	—	18,837,002	23,805,296
Convertible bonds	—	13,010,094	—	—	—	13,010,094	—	9,954,520	—	—	—	9,954,520
Structured products	—	14,202,645	—	—	—	14,202,645	—	5,094,059	300,090	—	—	5,394,149
Negotiable certificates of deposit	7,290,694	—	—	—	—	7,290,694	11,456,817	—	—	—	—	11,456,817
Asset-backed securities	445,533	—	3,038,512	—	—	3,484,045	792,909	—	2,070,528	—	—	2,863,437
Total	49,844,932	58,401,395	66,670,097	64,451,200	362,575,300	601,942,924	76,983,771	21,227,139	52,209,524	44,884,175	282,601,178	477,905,787

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

(vii) Credit quality of investment securities (continued)

(2) Past due but not impaired investment securities

	As at December 31, 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	—	—	—	—	786,671	786,671	—	—	—	—	100,000	100,000
Debt instruments	—	—	—	—	50,000	50,000	—	—	—	—	588,180	588,180
Asset management plans	—	—	—	—	—	—	—	—	—	—	329,749	329,749
Total	—	—	—	—	836,671	836,671	—	—	—	—	1,017,929	1,017,929

(3) Impaired investment securities

	As at December 31, 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	—	—	—	—	2,703,852	2,703,852	—	—	—	—	2,402,302	2,402,302
Entrust loans	—	—	—	—	938,000	938,000	—	—	—	—	881,467	881,467
Debt instruments	—	—	—	—	4,423,365	4,423,365	—	—	—	—	169,900	169,900
Asset management plans	—	—	—	—	246,666	246,666	—	—	—	—	154,651	154,651
Total	—	—	—	—	8,311,883	8,311,883	—	—	—	—	3,608,320	3,608,320

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.1 Credit risk *(continued)*

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

	As at December 31, 2017						As at December 31, 2016					
	AAA	AA	A	Below A	Unrated	Total	AAA	AA	A	Below A	Unrated	Total
Government bonds	5,959,838	—	—	—	14,974,365	20,934,203	8,194,585	—	—	—	12,731,508	20,926,093
Public sector and quasi-government bonds	—	—	—	—	48,658,659	48,658,659	29,780	—	—	—	47,778,896	47,808,676
Financial institution bonds	9,583,102	2,158,718	577,098	98,210	6,916,516	19,333,644	1,695,420	1,833,073	—	—	4,944,589	8,473,082
Corporate bonds	7,753,074	25,944,634	5,903,760	6,096,386	18,483,580	64,181,434	20,715,341	15,308,510	457,681	2,871,394	16,740,605	56,093,531
Trust products	—	—	—	—	179,817,973	179,817,973	—	—	—	—	130,579,174	130,579,174
Wealth management products	—	—	—	—	36,162,118	36,162,118	—	—	—	—	25,991,948	25,991,948
Entrust loans	—	—	—	—	85,139,955	85,139,955	—	—	—	—	54,206,892	54,206,892
Debt instruments	—	—	—	—	99,492,821	99,492,821	—	—	—	—	84,494,021	84,494,021
Asset management plans	—	—	—	—	19,383,193	19,383,193	—	—	—	—	24,289,696	24,289,696
Convertible bonds	111,887	19,023	22,383	20,187	12,836,614	13,010,094	—	—	—	—	9,954,520	9,954,520
Structured products	—	—	—	—	14,202,645	14,202,645	—	—	—	—	5,394,149	5,394,149
Negotiable certificates of deposit	—	—	—	—	7,290,694	7,290,694	—	—	—	—	11,456,817	11,456,817
Asset-backed securities	2,840,992	643,053	—	—	—	3,484,045	1,695,939	870,022	—	—	297,476	2,863,437
Total	26,248,893	28,765,428	6,503,241	6,214,783	543,359,133	611,091,478	32,331,065	18,011,605	457,681	2,871,394	428,860,291	482,532,036

(ix) Other financial assets

Other financial assets include deposits and placements 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.

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 Market risk

Market risk is the risk of loss, in respect of the Group's on-and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities.

The risk of fair value and cash flows changes due to interest rate changes are mainly related to the Group's fixed rates and floating rates financial instruments.

The Group manages its interest rate risk by:

- minimizing the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities; and

- regularly performing quantitative analysis, including periodic sensitivity analysis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 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 December 31, 2017						
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central bank	32,386,357	—	—	—	—	820,755	33,207,112
Deposits with financial institutions	134,243,736	22,978,132	4,379,079	1,280,130	—	—	162,881,077
Placements with financial institutions	7,593,752	2,111,368	117,616	—	—	—	9,822,736
Financial assets held for trading	11,338,028	937,998	5,293,231	23,775,791	8,499,884	17,412,777	67,257,709
Financial assets designated as at fair value through profit or loss	5,229,977	911,489	8,441,989	31,019,486	8,043,697	176,398,704	230,045,342
Financial assets held under resale agreements	17,730,464	1,953,385	7,490,908	14,063,348	—	—	41,238,105
Loans and advances to customers	30,386,439	9,777,978	58,869,896	42,656,424	16,531,211	—	158,221,948
Finance lease receivables	28,393,745	14,008,301	48,172,505	4,853,651	275,727	—	95,703,929
Available-for-sale financial assets	2,518,991	1,755,025	18,020,023	54,672,624	11,698,872	106,855,162	195,520,697
Held-to-maturity investments	6,303,675	7,106,682	11,380,953	22,063,275	17,596,615	—	64,451,200
Financial assets classified as receivables	16,670,522	26,757,032	181,333,199	462,107,434	14,324,251	—	701,192,438
Other financial assets	—	—	—	—	—	15,315,333	15,315,333
Total financial assets	292,795,686	88,297,390	343,499,399	656,492,163	76,970,257	316,802,731	1,774,857,626
Borrowings from central bank	(3,597,000)	—	(1,050,000)	—	—	—	(4,647,000)
Deposits from financial institutions	(2,902,963)	—	(5,735,391)	(1,520,000)	—	—	(10,158,354)
Placements from financial institutions	(2,101,560)	—	—	—	—	—	(2,101,560)
Financial assets sold under repurchase agreements	(41,180,284)	(11,014,972)	(6,337,654)	(1,784,060)	—	—	(60,316,970)
Borrowings	(41,312,187)	(86,227,175)	(262,526,635)	(355,505,895)	(27,485,370)	—	(773,057,262)
Financial liabilities designated as at fair value through profit or loss	—	—	(68,444)	(1,560,000)	—	(918,939)	(2,547,383)
Due to customers	(137,609,094)	(12,450,190)	(27,170,082)	(24,540,234)	—	(580,349)	(202,349,949)
Bonds and notes issued	(19,017,275)	(12,155,784)	(69,520,529)	(178,128,647)	(53,140,634)	—	(331,962,869)
Other financial liabilities	(287,373)	(4,891)	(6,611,307)	(9,896,004)	(33,130,741)	(174,504,928)	(224,435,244)
Total financial liabilities	(248,007,736)	(121,853,012)	(379,020,042)	(572,934,840)	(113,756,745)	(176,004,216)	(1,611,576,591)
Interest rate gap	44,787,950	(33,555,622)	(35,520,643)	83,557,323	(36,786,488)	140,798,515	163,281,035

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 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

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For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 Market risk *(continued)*

Interest rate risk *(continued)*

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield rate on the Group's profit before tax and other comprehensive income before tax, based on the Group's positions of interest-generating assets and interest- bearing liabilities at the end of the reporting period.

This sensitivity analysis is performed by assuming that:

- Interest income and expenses are changed by 100 basis points when interest generating assets and interest bearing liabilities within one year are reset or reinvested/replaced with similar assets or liabilities when they become matured. No changes in fair value are assumed in this assessment for financial assets at fair value to profit or loss.

- The fair value of available-for-sale financial assets are changes in respond to this change of 100 basis points.

Interest rate sensitivity analysis

	Year ended December 31,			
	2017		2016	
	Profit before tax	Other comprehensive income before tax	Profit before tax	Other comprehensive income before tax
+ 100 basis points	**16,385**	**(1,092,867)**	850,328	(1,183,355)
- 100 basis points	**(16,385)**	**1,135,006**	(850,328)	1,243,133

Foreign exchange risk

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 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 December 31, 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	33,187,874	19,180	57	1	33,207,112
Deposits with financial institutions	132,192,971	14,193,078	12,716,517	3,778,511	162,881,077
Placements with financial institutions	9,300,000	522,736	—	—	9,822,736
Financial assets held for trading	54,658,801	9,768,600	2,602,817	227,491	67,257,709
Financial assets designated as at fair value through profit or loss	202,309,255	12,598,033	15,138,054	—	230,045,342
Financial assets held under resale agreements	41,238,105	—	—	—	41,238,105
Loans and advances to customers	153,819,249	143,327	4,259,372	—	158,221,948
Finance lease receivables	94,537,258	1,166,671	—	—	95,703,929
Available-for-sale financial assets	153,288,840	28,769,421	13,151,492	310,944	195,520,697
Held-to-maturity investments	64,451,200	—	—	—	64,451,200
Financial assets classified as receivables	651,096,380	32,119,010	17,977,048	—	701,192,438
Other financial assets	11,459,182	774,809	2,979,017	102,325	15,315,333
Total financial assets	1,601,539,115	100,074,865	68,824,374	4,419,272	1,774,857,626
Borrowings from central bank	(4,647,000)	—	—	—	(4,647,000)
Deposits from financial institutions	(10,158,354)	—	—	—	(10,158,354)
Placements from financial institutions	(2,100,000)	—	—	(1,560)	(2,101,560)
Financial assets sold under repurchase agreements	(56,574,698)	(3,742,272)	—	—	(60,316,970)
Borrowings	(704,632,252)	(47,865,403)	(20,550,388)	(9,219)	(773,057,262)
Financial liabilities designated as at fair value through profit or loss	(2,012,075)	(522,736)	(12,572)	—	(2,547,383)
Due to customers	(201,959,728)	(389,646)	(575)	—	(202,349,949)
Bonds and notes issued	(203,997,179)	(119,202,040)	—	(8,763,650)	(331,962,869)
Other financial liabilities	(219,882,021)	(940,052)	(3,613,171)	—	(224,435,244)
Total financial liabilities	(1,405,963,307)	(172,662,149)	(24,176,706)	(8,774,429)	(1,611,576,591)
Net exposure	195,575,808	(72,587,284)	44,647,668	(4,355,157)	163,281,035

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For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 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

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 Market risk *(continued)*

Foreign exchange risk *(continued)*

Foreign exchange rate sensitivity analysis

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

	Year ended December 31,			
	2017		2016	
	Profit before tax	Other comprehensive income before tax	Profit before tax	Other comprehensive income before tax
5% appreciation	**4,009,932**	**(758,725)**	2,367,022	(1,146,963)
5% depreciation	**(4,009,932)**	**758,725**	(2,367,022)	1,146,963

Price risk

Certain financial assets included in financial assets held for trading and the available-for-sale financial assets are subject to price risk which may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may be caused by factors relating to the financial instrument itself or the issuer, and it also may be caused by market factors.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.2 Market risk *(continued)*

Price risk *(continued)*

The following table illustrates the potential impact of an increase or decrease of 10 percent in price on financial assets at fair value through profit or loss and available-for-sale financial assets measured at fair value on the Group's profit before tax and other comprehensive income before tax.

	Year ended December 31,			
	2017		2016	
	Profit before tax	Other comprehensive income before tax	Profit before tax	Other comprehensive income before tax
+10 percent	**3,844,818**	**3,008,751**	5,722,307	1,891,343
-10 percent	**(3,844,818)**	**(3,008,751)**	(5,722,307)	(1,891,343)

58.3 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 Group manages its liquidity risk by:

- optimizing assets and liabilities structure;
- implementing a centralized liquidity management system by pooling Group-wide funds and maintaining an efficient internal fund transfer mechanism within the Group; and
- regularly performing quantitative analysis.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.3 Liquidity risk *(continued)*

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 December 31, 2017							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central bank	29,698,071	3,509,071	—	—	—	—	—	33,207,142
Deposits with financial institutions	3,937,433	122,413,216	23,842,907	7,413,173	4,441,714	1,405,117	—	163,453,560
Placements with financial institutions	—	—	7,628,457	2,119,082	120,539	—	—	9,868,078
Financial assets held for trading	19,031,428	9,811,222	2,172,060	1,135,116	6,272,059	27,117,105	5,724,660	71,263,650
Financial assets designated as at fair value through profit or loss	176,192,869	3,729,253	144,234	1,711,400	10,575,703	43,587,206	1,790,023	237,730,688
Financial assets held under resale agreements	551,518	—	17,366,704	2,189,103	8,316,347	14,855,465	—	43,279,137
Loans and advances to customers	3,586,056	—	12,351,987	11,727,502	53,228,746	74,670,753	37,755,834	193,320,878
Finance lease receivables	1,742,850	—	3,486,960	5,795,863	25,516,199	70,497,814	2,540,505	109,580,191
Available-for-sale financial assets	95,265,324	—	4,000,557	1,519,493	31,088,872	63,242,892	12,349,744	207,466,882
Held-to-maturity investments	—	—	5,557,950	6,200,816	15,226,585	27,093,241	19,806,678	73,885,270
Financial assets classified as receivables	6,304,744	—	16,853,863	48,933,092	264,884,779	499,858,942	16,188,999	853,024,419
Other financial assets	725,401	3,211,453	128,711	633,052	5,617,380	3,095,242	35,235	13,446,474
Total financial assets	337,035,694	142,674,215	93,534,390	89,377,692	425,288,923	825,423,777	96,191,678	2,009,526,369
Borrowings from central bank	—	—	(3,609,044)	(8,465)	(1,057,344)	—	—	(4,674,853)
Deposits from financial institutions	—	(403,012)	(2,505,532)	(81,648)	(6,017,197)	(1,629,359)	—	(10,636,748)
Placements from financial institutions	—	—	(2,145,723)	—	—	—	—	(2,145,723)
Financial assets sold under repurchase agreements	—	—	(41,389,415)	(11,196,133)	(6,547,429)	(1,796,044)	—	(60,929,021)
Borrowings	—	(25,713,262)	(12,070,664)	(85,855,302)	(296,740,209)	(395,185,849)	(32,826,940)	(848,392,226)
Financial liabilities designated as at fair value through profit or loss	(918,939)		(7,287)	(13,869)	(133,088)	(1,583,977)		(2,657,160)
Due to customers	—	(129,939,469)	(8,437,156)	(12,841,051)	(28,509,595)	(27,544,320)	—	(207,271,591)
Bonds and notes issued	—	—	(9,476,732)	(10,796,727)	(45,673,223)	(220,764,441)	(56,412,478)	(343,123,601)
Other financial liabilities	(13,540,722)	(18,694,107)	(11,104,385)	(1,302,849)	(44,096,974)	(121,234,499)	(40,807,948)	(250,781,484)
Total financial liabilities	(14,459,661)	(174,749,850)	(90,745,938)	(122,096,044)	(428,775,059)	(769,738,489)	(130,047,366)	(1,730,612,407)
Net position	322,576,033	(32,075,635)	2,788,452	(32,718,352)	(3,486,136)	55,685,288	(33,855,688)	278,913,962

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V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.3 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

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.4 Risk management of distressed assets

58.4.1 Overview

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

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

58.4.2 Risk management of distressed debt assets

The Group exercises standardized management procedures, including project initiation, due diligence investigation, design and approval of recovery plan and continuous monitoring and management. The Group enhances its risk management by strengthening investigation, review and approval procedures before taking up distressed assets, and monitoring measures after taking up the distressed assets; enhancing risk mitigation effect through collateral; and continuously upgrading the management system of distressed assets.

Specifically, the risks to which distressed debts initially designated as financial assets at fair value through profit or loss mainly comprise valuation risk, legal title risk and to certain extent credit risk; while the risks to which distressed debts initially classified as receivables mainly comprise credit risk.

(i) Valuation risk

Valuation risk is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed debt assets designated as at fair value through profit or loss, due to variance in factors including future cash flows, collection period, discount rate, disposal cost and etc. Measures the Group takes to minimize the valuation risk include:

- Perform investigation strictly on the parties involved in the transaction (including the debtors and the guarantors), collateral provided, repayment sources and etc.; and

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V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.4 Risk management of distressed assets *(continued)*

58.4.2 Risk management of distressed debt assets *(continued)*

(i) Valuation risk *(continued)*

- Adopt conservative estimation on incurrence rate, discount rate, and disposal cost when performing valuation and review the difference between actual results and estimation after the completion of the disposal of distressed assets to improve the accuracy of future estimations.

The Group has established an independent valuation process for financial assets and financial liabilities. The Operation Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Finance Department records these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

(ii) Legal title risk

Legal title risk is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. Measures the Group takes to minimize the legal title risk include:

- Set up alert management system to ensure the expiry of legal claim periods related to distressed assets are managed effectively;

- Set up periodic revisiting mechanism to interview debtors and monitor the conditions of collateral. Maintain regular investigation report properly to ensure the Group has access to the most updated information; and

- Set up reporting mechanism of significant event to ensure immediate recovery action be taken when certain risk elements emerge.

(iii) Credit risk

In addition to distressed debt assets classified as receivables, certain distressed debt assets designated as at fair value through profit or loss may also be subject to credit risk. Depending on the status of the obligor of distressed debt assets that are designated as at fair value through profit or loss, the Group may decide to pursue repayment from the obligor instead of disposing of it to third party, credit risk arises in such situation. Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation.

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.4 Risk management of distressed assets *(continued)*

58.4.2 Risk management of distressed debt assets *(continued)*

(iii) Credit risk *(continued)*

Measures the Group takes to minimize the credit risk of distressed assets include:

- Manage the creditworthiness of counterparties using independent credit rating on the counterparties as reference;
- Select counterparties with appropriate creditworthiness and repayment capability; and
- Require counterparties to provide collateral to cover the credit exposure.

58.4.3 Risk management of assets obtained through debt-to-equity swap

Certain equity classified as available-for-sale investments were obtained through debt-to-equity swap. Risk related to these equity instruments is the risk of loss arising from movements in the value of equity shares due to price changes or decline in value of the investees.

Measures the Group takes to minimize the risk related to these equity instruments include:

- Strengthen continuous monitoring, analysis and management of equity values;
- Gain better understanding of macro-economic policies reinforced by the government and assess their impact on the equity investments; and
- Track the value changes dynamically and identify the appropriate timing for disposal to realize the maximum value of equity shares.

58.4.4 Determination of fair value

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 or realizable value of the underlying assets. 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 December 31, 2017 was 11% (December 31, 2016: 11%).

V. EXPLANATORY NOTES *(continued)*

58. Financial risk management *(continued)*

58.4 Risk management of distressed assets *(continued)*

58.4.5 Impairment assessment

The Group performs impairment assessment on distressed debt assets classified as receivables and equity investments classified as available-for-sale financial assets. Assessment procedures for distressed debt assets classified as receivables are similar to those set out in note V.58.1.

For equity investments classified as available-for-sale financial assets that are measured at fair value, objective evidence of impairment includes significant or prolonged decline in the fair value of the investments.

For equity investments classified as available-for-sale financial assets that are measured at cost, objective evidence of impairment includes significant financial difficulty of the investee or issuer or macro-economic conditions that have a negative impact on the business operation of the investee.

58.5 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 December 31, 2017 and 2016, the Company complied with the regulatory requirements on the minimum CAR.

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V. EXPLANATORY NOTES *(continued)*

59. Fair value of financial instruments

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

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

	As at December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	**36,192,769**	**29,458,977**	**1,605,963**	**67,257,709**
Financial assets designated as at fair value through profit or loss	**2,255,406**	**10,919,926**	**216,870,010**	**230,045,342**
Available-for-sale financial assets	**30,087,513**	**36,160,070**	**120,995,507**	**187,243,090**
Total assets	**68,535,688**	**76,538,973**	**339,471,480**	**484,546,141**

	As at December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities designated as at fair value through profit or loss	**—**	**—**	**(2,547,383)**	**(2,547,383)**
Total liabilities	**—**	**—**	**(2,547,383)**	**(2,547,383)**

	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 the years ended December 31, 2017 and 2016.

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V. EXPLANATORY NOTES *(continued)*

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

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

The following table gives information about the fair value of the financial assets and financial liabilities and their fair value hierarchy.

Financial assets	Fair value as at December 31, 2017	2016	Fair value hierarchy
1) Financial assets held for trading			
Debt securities	**31,721,914**	54,320,827	
— Government bonds traded in stock exchange	**295,385**	4,329,416	Level 1
— Government bonds traded in inter-bank market	**51,162**	219,770	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	**903,100**	757,610	Level 2
— Financial institution bonds traded in stock exchange	**2,038,598**	418,732	Level 1
— Financial institution bonds traded in inter-bank market	**362,667**	265,555	Level 2
— Corporate bonds traded in stock exchange	**23,535,155**	44,929,802	Level 1
— Corporate bonds traded in inter-bank market	**2,986,977**	3,112,052	Level 2
— Unlisted corporate bonds	**1,548,870**	287,890	Level 2
Shares	**7,575,268**	6,631,343	
— Listed Shares	**7,280,806**	6,418,254	Level 1
— Unlisted Shares	**294,462**	213,089	Level 3
Funds	**9,837,509**	4,116,182	
— Listed	**3,042,825**	1,126,865	Level 1
— Unlisted	**5,483,183**	2,989,317	Level 2
— Unlisted	**1,311,501**	—	Level 3
Wealth management products	**10,386,791**	10,413,218	Level 2
Negotiable certificates of deposit	**7,290,694**	11,456,817	Level 2
Asset-backed securities	**445,533**	792,909	Level 2
Subtotal	**67,257,709**	87,731,296	

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V. EXPLANATORY NOTES *(continued)*

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

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

Financial assets	Fair value as at December 31, 2017	2016	Fair value hierarchy
2) Financial assets designated as at fair value through profit or loss			
Distressed debt assets	**150,807,178**	68,436,032	Level 3
Convertible bonds	**13,010,094**	9,954,520	Level 3
Structured products	**418,947**	—	Level 2
Structured products	**13,783,698**	5,094,059	Level 3
Asset management plans issued by financial institutions	**2,830,487**	3,398,947	Level 2
Asset management plans issued by financial institutions	**679,461**	—	Level 3
Wealth management products issued by banks and other financial institutions	**7,670,492**	2,129,900	Level 2
Equity instruments	**20,836,769**	5,504,082	
— Equity investments in listed companies	**2,255,406**	—	Level 1
— Equity investments in listed companies (Restricted share units)	**1,118,630**	4,573,622	Level 3
— Equity investments in unlisted companies	**17,462,733**	930,460	Level 3
Trust products issued by financial institutions	**18,492,657**	649,713	Level 3
Debt instruments with embedded derivatives	**1,515,559**	—	Level 3
Subtotal	**230,045,342**	95,167,253	
3) Available-for-sale financial assets			
Debt securities	**56,934,826**	34,096,380	
— Government bonds traded in stock exchange	**86,368**	32,602	Level 1
— Government bonds traded in inter-bank market	**12,406,109**	605,504	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	**4,105,838**	23,275,592	Level 2
— Financial institution bonds traded in stock exchange	**3,393,240**	259,605	Level 1
— Financial institution bonds traded in inter-bank market	**3,341,842**	2,575,081	Level 2
— Corporate bonds traded in stock exchange	**21,753,183**	6,376,619	Level 1

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V. EXPLANATORY NOTES *(continued)*

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

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

Financial assets	Fair value as at December 31, 2017	2016	Fair value hierarchy
3) Available-for-sale financial assets *(continued)*			
— Corporate bonds traded in inter-bank market	**6,901,370**	971,377	Level 2
— Other Corporate bonds	**4,946,876**	—	Level 3
Shares	**18,423,188**	30,482,757	
Listed shares	**8,952,926**	17,908,839	
— Unrestricted shares	**4,797,295**	12,092,556	Level 1
— Restricted shares	**4,155,631**	5,816,283	Level 3
Unlisted shares	**9,470,262**	12,573,918	Level 3
Funds	**73,483,419**	34,608,371	
— Listed	**57,427**	152,051	Level 1
— Unlisted*	**1,480,683**	842,463	Level 2
— Unlisted*	**71,945,309**	33,613,857	Level 3
Wealth management products issued by banks or other financial institutions	**4,885,716**	1,161,872	Level 2
Others	**33,515,941**	30,436,199	
— Asset management plans	**6,237,674**	3,529,761	Level 3
— Asset-backed securities, subordinate tranche	**307,737**	286,789	Level 3
— Asset-backed securities, senior tranche	**3,038,512**	1,783,739	Level 2
— Trust products issued by financial institutions	**23,932,018**	23,232,734	Level 3
— Others	**—**	1,603,176	Level 2
Subtotal	**187,243,090**	130,785,579	
Total	**484,546,141**	313,684,128	

Financial liabilities	Fair value as at December 31, 2017	2016	Fair value hierarchy
Financial liabilities designated as at fair value through profit or loss			
Interest of other holders of consolidated structured entities	**(2,012,075)**	—	Level 3
Structured products	**(535,308)**	—	Level 3
Total	**(2,547,383)**	—	

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

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

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

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

Valuation methods for financial instruments

For Level 1 financial instruments, fair values are unadjusted quotes in active markets for identical assets.

For Level 2 financial instruments, valuations are generally calculated based on the fair value of the underlying investments which are debt securities or publicly traded equity instruments in each portfolio or obtained from third party pricing services agent such as China Central Depository & Clearing Co., Ltd. which are based on the discounted cash flow model. All significant inputs are observable, directly or indirectly from the market.

For Level 3 financial instruments, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, discount rate, etc.

59.2 Reconciliation of Level 3 fair value measurements

	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Financial liabilities designated at FVTPL
As at January 1, 2017	213,089	89,638,406	79,053,342	—
Recognized in profit or loss	38,385	1,661,573	(7,183)	(19,130)
Recognized in other comprehensive income	—	—	287,970	—
Fair value changes transfer out upon disposals	(24,512)	(3,268,570)	(2,409,301)	—
Purchases	1,465,793	232,703,322	75,376,813	(2,528,253)
Settlements/disposals	(86,792)	(103,864,721)	(30,053,596)	—
Transfer-out	—	—	(1,252,538)	—
As at December 31, 2017	1,605,963	216,870,010	120,995,507	(2,547,383)
Changes in unrealized gains/(losses) for the year included in profit or loss for assets and liabilities held at the end of the year	13,919	1,152,275	(429,184)	(19,130)

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V. EXPLANATORY NOTES *(continued)*

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

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

	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Financial liabilities designated at FVTPL
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 disposals	—	(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 and liabilities held at the end of the year	—	2,372,630	—	—

Certain available-for-sale financial instruments were transferred out from Level 3 fair value measurement as certain restricted shares became unrestricted during the year.

59.3 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 value of those financial assets and financial liabilities that are not measured in the consolidated statement of financial position at their fair value on a recurring basis. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central bank, deposits with financial institutions, placements with financial institutions, financial assets held under resale agreements, finance lease receivables, borrowings from central bank, deposits from financial institutions, placements from financial institutions, financial assets sold under repurchase agreements, due to customers are not included in the tables below.

	Year ended December 31,			
	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	**158,221,948**	**160,731,326**	118,405,979	120,483,766
Held-to-maturity investments	**64,451,200**	**63,171,064**	44,884,175	45,076,229
Financial assets classified as receivables	**701,192,438**	**737,354,462**	549,477,957	581,512,646
Total	**923,865,586**	**961,256,852**	712,768,111	747,072,641
Financial liabilities				
Borrowings	**(773,057,262)**	**(776,084,854)**	(511,308,643)	(556,462,712)
Bonds and notes issued	**(331,962,869)**	**(329,977,905)**	(243,075,227)	(242,572,261)
Total	**(1,105,020,131)**	**(1,106,062,759)**	(754,383,870)	(799,034,973)

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V. EXPLANATORY NOTES *(continued)*

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

59.3 Fair value of financial assets and financial liabilities that are not measured on a recurring basis *(continued)*

	As at December 31, 2017	2016	Fair value Hierarchy	Valuation Technique
Financial assets				
Loans and advances to customers	**160,731,326**	120,483,766	Level 3	Discounted cash flows
Held-to-maturity investments	**63,171,064**	45,076,229	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Financial assets classified as receivables	**737,354,462**	581,512,646	Level 3	Discounted cash flows
Total	**961,256,852**	747,072,641		
Financial liabilities				
Borrowings	**(776,084,854)**	(556,462,712)	Level 3	Discounted cash flows
Bonds and notes issued	**(157,389,217)**	(102,352,956)	Level 1	Quoted ask prices in an active market
Bonds and notes issued	**(163,105,218)**	(139,719,305)	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Bonds and notes issued	**(9,483,470)**	(500,000)	Level 3	Discounted cash flows
Total	**(1,106,062,759)**	(799,034,973)		

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V. EXPLANATORY NOTES *(continued)*

60. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Bonds and notes issued Note V.45	Financial liabilities designated as at fair value through profit or loss Note V.22	Interests payable	Payables to interest holders of consolidated structured entities Note V.46	Dividends payable Note V.46	Total
As at January 1, 2017	140,593,519	243,075,227	—	1,890,346	158,364,835	108,791	544,032,718
Financing cash flows	92,952,921	89,959,531	2,528,253	(22,486,578)	(14,515,564)	(6,761,781)	141,676,782
Non-cash changes							
Fair value adjustments	—	—	19,130	—	—	—	19,130
Foreign exchange translation	(1,017,594)	(7,156,802)	—	—	—	—	(8,174,396)
Interest expenses	—	6,084,913	—	22,832,843	—	—	28,917,756
Interest capitalization	—	—	—	861,221	—	—	861,221
Change in net assets attributable to other holders of consolidated structured entities	—	—	—	—	7,823,672	—	7,823,672
Dividends declared	—	—	—	—	—	6,830,450	6,830,450
As at December 31, 2017	232,528,846	331,962,869	2,547,383	3,097,832	151,672,943	177,460	721,987,333

Only cash flows of borrowings of non-financial institution subsidiaries are considered as financing activities in the presentation of consolidated statement of cash flows.

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V. EXPLANATORY NOTES *(continued)*

61. Acquisition of subsidiaries

Huarong Investment Stock Corporation Ltd.

Pursuant to the subscription agreement between Huarong Investment Stock Corporation Ltd. (the "HISC") (stock code: 2277, formerly known as Chun Sing Engineering Holdings Limited), and Right Select International Limited, a subsidiary of the Group, the latter subscribed for additional 580 million ordinary shares of HISC for a consideration of HKD232 million (equivalent to RMB206 million) on 28 February 2017. After the completion of this subscription, the equity interest of the Group in HISC increased from 27.99% to 50.99% and accordingly HISC was reclassified from an associate to a subsidiary and consolidated in these financial statements thereafter.

Consideration paid

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
Property and equipment	78,516
Other assets	2,088,154
Other liabilities	(2,792,811)
Net assets	698,076

Goodwill arising on the acquisition:

Consideration paid	205,506
Plus: Fair value of previously held 27.99% equity interests in HISC	398,433
Plus: Non-controlling interests	342,127
Less: Net assets acquired	(698,076)
Goodwill arising on acquisition	247,990
Foreign currency exchange difference	(13,975)
Goodwill as at December 31, 2017	234,015

The non-controlling interests at the acquisition date was measured at the proportionate share of the fair value of identifiable net assets of HISC. This fair value was estimated by an independent valuer applying an asset-based approach.

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V. EXPLANATORY NOTES *(continued)*

61. Acquisition of subsidiaries *(continued)*

Huarong Investment Stock Corporation Ltd. *(continued)*

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

The fair value of trade and other receivables of HISC at the date of acquisition amounted to RMB335 million. The gross contractual amounts of those trade and other receivables acquired amounted to RMB335 million at the date of acquisition.

Impairment testing on goodwill

As at December 31, 2017, the recoverable amounts of the cash-generating unit of HISC have been determined based on a fair value calculation using cash flow projection based on financial budget approved by management covering a five-year period, and a discount rate of 13.6% cost of equity. The cash flows beyond the five year period are estimated at a 2.5% terminal growth rate. No impairment loss was considered necessary.

Net cash inflow on acquisition of HISC

	December 31, 2017
Cash consideration paid	(205,506)
Less: cash and cash equivalent balances acquired	1,324,217
	1,118,711

Included in the profit for the year 2017 is RMB195 million attributable to the additional business generated by HISC. Revenue for the year 2017 includes RMB701 million generated from HISC.

Had the acquisition been completed on January 1, 2017, total group revenue for the year would have been RMB128,157 million, and profit for the year would have been RMB26,626 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017, nor is it intended to be a projection of future results.

Other than the acquisition of HISC, the Group also acquired another subsidiary during the year but its impacts of the financial position, performance and cash flows of the consolidated financial statements are considered insignificant and therefore the details are not disclosed.

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V. EXPLANATORY NOTES *(continued)*

61. Acquisition of subsidiaries *(continued)*

Hilton Garden Inn and Hilton Fashion District

On December 5, 2016, Fashion Garden Holding Company LLC, a subsidiary of Huarong International, acquired 100% of two hotel properties, Hilton Garden Inn and Hilton Fashion District, located in New York city, NY , USA for a consideration of USD286 million (equivalent to RMB1,970 million). This acquisition has been accounted for using the acquisition method. Both hotels were acquired to continue operating as Hilton branded hotels.

Consideration transferred

Cash	1,969,512

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

Cash and deposits with financial institutions	186
Property and equipment	1,967,730
Other assets	5,186
Other liabilities	(3,590)
Net assets	1,969,512

No goodwill was recognized on the acquisition.

Net cash outflow on acquisition of Hilton Garden Inn and Hilton Fashion District:

Cash consideration paid	(1,969,512)
Less: cash and cash equivalent balances acquired	186
	(1,969,326)

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V. EXPLANATORY NOTES *(continued)*

62. 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

	December 31, 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 several subsidiaries during the year ended 31 December, 2017, but their impacts of the financial position, performance and cash flows of the consolidated financial statements are considered insignificant and therefore the details are not disclosed.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Particulars of principal subsidiaries

Details of the Company's subsidiaries as at December 31, 2017 are set out below:

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2017 (In '000)	Proportion of ownership held by the Group At December 31, 2017	2016	Proportion of voting rights held by the Group At December 31, 2017	2016	Principal activities
				%	%	%	%	
Subsidiaries of the Company								
Huarong Xiangjiang Bank Corporation Limited (華融湘江銀行股份有限公司)[(1) (2)]	Changsha, PRC	October 2010	7,750,432	**40.53**	50.98	**50.67**	50.98	Bank
Huarong Securities Co., Ltd. (華融證券股份有限公司)[(1) (2)]	Beijing, PRC	September 2007	5,840,703	**71.99**	81.77	**71.99**	81.77	Securities
China Huarong Financial Leasing Co., Ltd. (華融金融租賃股份有限公司)[(2)]	Hangzhou, PRC	December 2001	5,926,761	**79.92**	79.92	**79.92**	79.92	Leasing
Huarong Rongde Asset Management Co., Ltd. (華融融德資產管理有限公司)	Beijing, PRC	June 2006	1,788,000	**59.30**	59.30	**59.30**	59.30	Asset Management
Huarong International Trust Co., Ltd. (華融國際信託有限責任公司)[(1) (2)]	Urumqi, PRC	August 2002	3,035,653	**76.79**	98.40	**76.79**	98.40	Trust
Huarong Real Estate Co., Ltd. (華融置業有限責任公司)	Zhuhai, PRC	May 1994	1,850,000	**100.00**	100.00	**100.00**	100.00	Real Estate Industry
Huarong Huitong Asset Management Co., Ltd. (華融匯通資產管理有限公司)	Beijing, PRC	September 2010	906,700	**100.00**	100.00	**100.00**	100.00	Asset Management
Huarong Zhiyuan Investment & Management Co., Ltd. (華融致遠投資管理有限責任公司)	Beijing, PRC	November 2009	691,000	**100.00**	100.00	**100.00**	100.00	Asset Management
Huarong Consumer Finance Co., Ltd. (華融消費金融股份有限公司)[(2)]	Hefei, PRC	January 2016	600,000	**55.00**	55.00	**55.00**	55.00	Personal Consumption Loan
Other Group's entities								
Huarong Futures Co., Ltd. (華融期貨有限責任公司)[(2)]	Haikou, PRC	September 1993	320,000	**92.50**	92.50	**92.50**	92.50	Futures Broking
Huarong Tianze Investment Limited (華融天澤投資有限公司)	Shanghai, PRC	November 2012	420,000	**100.00**	100.00	**100.00**	100.00	Investment Holding

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Particulars of principal subsidiaries *(continued)*

Details of the Company's subsidiaries as at December 31, 2017 are set out below: *(continued)*

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2017 (In '000)	Proportion of ownership held by the Group At December 31, 2017	2016	Proportion of voting rights held by the Group At December 31, 2017	2016	Principal activities
				%	%	%	%	
Huarong Yufu Equity Investment Fund Management Co., Ltd. (華融渝富股權投資基金管理有限公司)	Chongqing, PRC	July 2010	557,883	**72.80**	72.80	**72.80**	72.80	Investment Holding
Huarong Qianhai Wealth Management Co., Ltd. (華融前海財富管理股份有限公司)	Shenzhen, PRC	September 2014	481,618	**68.00**	68.00	**68.00**	68.00	Wealth Management
China Huarong International Holdings Limited (華融國際控股有限公司)	Hong Kong, PRC	January 2013	422,949	**100.00**	100.00	**100.00**	100.00	Investment Holding
China Huarong Western Development Investment Co., Ltd. (華融西部開發投資股份有限公司)	Yinchuan, PRC	December 2014	900,000	**60.00**	60.00	**60.00**	60.00	Asset Management
Huarong International Financial Holdings Limited (華融國際金融控股有限公司)[2]	Bermuda, UK	November 1993	3,588	**51.00**	51.00	**51.00**	51.00	Securities
Huarong Investment Stock Corporation Ltd. (華融投資股份有限公司)	Cayman Islands	July 2014	18,160	**50.99**	27.99	**50.99**	27.99	Investment Management
Huarong Guangdong FTA Investment Holdings Limited (華融廣東自貿區投融資控股有限公司)	Guangdong, PRC	November 2015	500,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong (Tianjin FTA) Investment Co., Ltd. (華融(天津自貿區)投資股份有限公司)	Tianjin, PRC	November 2015	500,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong Gannan Finance Investment Limited (華融贛南產融投資有限責任公司)	Ganzhou, PRC	November 2015	266,670	**75.00**	75.00	**75.00**	75.00	Investment Management

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Particulars of principal subsidiaries *(continued)*

Details of the Company's subsidiaries as at December 31, 2017 are set out below: *(continued)*

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2017 (In '000)	Proportion of ownership held by the Group At December 31, 2017	Proportion of ownership held by the Group At December 31, 2016	Proportion of voting rights held by the Group At December 31, 2017	Proportion of voting rights held by the Group At December 31, 2016	Principal activities
				%	%	%	%	
Huarong Huaqiao Asset Management Co., Ltd. (華融華僑資產管理股份有限公司)	Shantou, PRC	December 2015	500,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong Capital Management Co., Ltd. (華融資本管理有限公司)	Beijing, PRC	March 2016	300,000	**100.00**	100.00	**100.00**	100.00	Investment Management
Huarong Jinshang Asset Management Co., Ltd. (華融晉商資產管理股份有限公司)[2]	Taiyuan, PRC	February 2016	3,000,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong Kunlun Qinghai Asset Management Co., Ltd. (華融昆侖青海資產管理股份有限公司)[2]	Xining, PRC	June 2016	1,000,000	**75.00**	75.00	**75.00**	75.00	Investment Management
Huarong Emerging Industry Investment Management Co., Ltd. (華融新興產業投資管理股份有限公司)	Beijing, PRC	November 2016	1,000,000	**51.00**	63.75	**51.00**	63.75	Investment Management
Huarong Innovation Investment Co., Ltd. (華融創新投資股份有限公司)	Beijing, PRC	January 2016	500,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong (Fujian Free Trade Test Area) Investment Co., Ltd. (華融(福建自貿試驗區)投資股份有限公司)	Xiamen, PRC	June 2016	500,000	**51.00**	51.00	**51.00**	51.00	Investment Management
China Huarong (Macao) International Co., Ltd. 中國華融(澳門)國際股份有限公司	Macau, PRC	November 2016	233,000	**51.00**	51.00	**51.00**	51.00	Investment Management
Huarong Zhong Guancun Financial Assets Exchange Center Co., Ltd. 華融中關村金融資產交易中心股份有限公司	Beijing, PRC	January 2017	392,000	**74.00**	—	**74.00**	—	Investment Management
Huarong Ruitong Equity Investment Co., Ltd. 華融瑞通股權投資管理有限公司	Beijing, PRC	January 2017	300,000	**100.00**	—	**100.00**	—	Investment Management

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

63. Particulars of principal subsidiaries *(continued)*

The English names of these subsidiaries are for identification purpose only.

The above table lists the principal subsidiaries of the Company. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

(1) During the year, there are changes in the Group's ownership interests in certain subsidiaries due to the fact that the Group does not subscribe new shares issued by these subsidiaries. Details of the impact of these changes are presented below:

Name of entity	Equity attribute to the Company after new shares issue	Equity attribute to the Company before new shares issue	Difference adjusted to capital reserve
Huarong Xiangjiang Bank*	8,059,241	8,194,619	(135,378)
Huarong Securities	9,863,268	9,547,062	316,206
Huarong Trust	7,002,456	6,615,495	386,961
Total	24,924,965	24,357,176	567,789

* Subsequent to capital injections made by shareholders other than the Group during the year ended 31 December 2017, the paid-in capital of Huarong Xiangjiang Bank increased to RMB7,750 million and accordingly the equity interests held by the Company decreased from 50.98% to 40.53%. Based on a resolution on capital injection to Huarong Xiangjiang Bank (《華融湘江銀行股份有限公司2017年增股方案》) approved in the first extraordinary general meeting of shareholders during the year and agreements signed among the shareholders, the Company has the right to decide significant matters such as financial policies and business plan of Huarong Xiangjiang Bank.

Although the Group only has 40.53% of ownership in Huarong Xiangjiang Bank, according to the articles of association and the agreements, the directors conclude that the Group has the power to direct the relevant operation plan and financial policies of Huarong Xiangjiang Bank and has control over Huarong Xiangjiang Bank.

(2) These subsidiaries are regulated financial institutions, therefore, they have to comply with regulatory requirements on related party transactions or capital requirements. As a result, the ability of the Group to access assets held by these subsidiaries to settle liabilities is restricted. As at December 31, 2017, the aggregate balance of total assets of these subsidiaries before consolidation eliminations amounted to RMB665,219 million (December 31, 2016: RMB577,549 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Statement of financial position and changes in equity of the Company

STATEMENT OF FINANCIAL POSITION

	As at December 31, 2017	2016
Assets		
Cash and balances with central bank	**1,426**	1,408
Deposits with financial institutions	**50,764,072**	41,669,723
Placements with financial institutions	**5,330,000**	3,500,000
Financial assets held for trading	**95,356**	303,521
Financial assets designated as at fair value through profit or loss	**140,902,467**	59,174,833
Financial assets held under resale agreements	**2,788,750**	2,460,000
Available-for-sale financial assets	**44,298,832**	65,166,855
Held-to-maturity investments	**18,313,559**	3,332,270
Financial assets classified as receivables	**326,359,860**	277,976,538
Amounts due from subsidiaries	**52,410,187**	39,624,906
Interests in associates	**2,886,729**	928,657
Interests in subsidiaries	**24,989,837**	22,889,837
Interests in consolidated structured entities	**11,504,570**	8,607,187
Investment properties	**550,694**	574,315
Property and equipment	**774,466**	850,471
Deferred tax assets	**8,942,712**	7,409,716
Other assets	**4,652,379**	2,157,756
Total assets	**695,565,896**	536,627,993

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Statement of financial position and changes in equity of the Company *(continued)*

STATEMENT OF FINANCIAL POSITION *(continued)*

	As at December 31, 2017	2016
Liabilities		
Placements from financial institutions	—	2,000,000
Financial assets sold under repurchase agreements	**19,803,889**	13,898,800
Borrowings	**440,545,310**	288,950,010
Tax payable	**2,633,945**	2,780,035
Bonds and notes issued	**95,749,099**	95,706,324
Other liabilities	**36,455,773**	42,121,861
Total liabilities	**595,188,016**	445,457,030
Equity		
Share capital	**39,070,208**	39,070,208
Capital reserve	**17,374,712**	17,247,077
Surplus reserve	**5,299,688**	3,615,201
General reserve	**6,682,665**	5,326,415
Other reserves	**341,879**	2,223,492
Retained earnings	**31,608,728**	23,688,570
Total equity	**100,377,880**	91,170,963
Total equity and liabilities	**695,565,896**	536,627,993

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EXPLANATORY NOTES *(continued)*

64. Statement of financial position and changes in equity of the Company *(continued)*

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Total
As at January 1, 2017	39,070,208	17,247,077	3,615,201	5,326,415	2,223,492	23,688,570	91,170,963
Profit for the year	—	—	—	—	—	16,844,868	16,844,868
Other comprehensive expense	—	—	—	—	(1,881,613)	—	(1,881,613)
Total comprehensive income for the year	—	—	—	—	(1,881,613)	16,844,868	14,963,255
Appropriation to surplus reserve	—	—	1,684,487	—	—	(1,684,487)	—
Appropriation to general reserve	—	—	—	1,356,250	—	(1,356,250)	—
Dividends paid to shareholders	—	—	—	—	—	(5,883,973)	(5,883,973)
Others	—	127,635	—	—	—	—	127,635
As at December 31, 2017	39,070,208	17,374,712	5,299,688	6,682,665	341,879	31,608,728	100,377,880

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Total
As at January 1, 2016	39,070,208	17,167,555	2,441,087	5,043,363	5,470,862	13,404,600	82,597,675
Profit for the year	—	—	—	—	—	11,741,136	11,741,136
Other comprehensive expense	—	—	—	—	(3,247,370)	—	(3,247,370)
Total comprehensive income for the year	—	—	—	—	(3,247,370)	11,741,136	8,493,766
Appropriation to surplus reserve	—	—	1,174,114	—	—	(1,174,114)	—
Appropriation to general reserve	—	—	—	283,052	—	(283,052)	—
Others	—	79,522	—	—	—	—	79,522
As at December 31, 2016	39,070,208	17,247,077	3,615,201	5,326,415	2,223,492	23,688,570	91,170,963

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

VI. EVENTS AFTER THE REPORTING PERIOD

On March 20, 2018, the Board of Directors of Company was resolved to make the following profit appropriations of the Company for the year ended December 31, 2017:

(i) An appropriation of RMB1,684 million to the statutory surplus reserve;

(ii) An appropriation of RMB2,833 million to the general reserve; and

(iii) cash dividend distribution of RMB6,599 million in aggregate.

The appropriation of statutory surplus reserve has already been recognized in these consolidated financial statements, while the appropriation to the general reserve and dividend distribution was subject to shareholders' approval.

VII. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on March 20, 2018.

16. Confirmation from Directors and Senior Management regarding the Annual Report

Pursuant to the regulations and requirements such as the Securities Law of the People's Republic of China, the Articles of Association of China Huarong Asset Management Co., Ltd., and the Administrative Rules for the Information Disclosure of China Huarong Asset Management Co., Ltd., the Board, Audit Committee of the Board and senior management have arrived at the following opinions upon thorough consideration and review of the annual report for 2017 of the Company:

1. The Company strictly complied with China Accounting Standards for Business Enterprises and the 2017 annual report of the Company fairly reflected the financial conditions and operating results of the Company during the year.

2. The 2017 financial report of the Company prepared in accordance with PRC GAAP and IFRS have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with China Auditing Standards and International Standards on Auditing. Standard auditors' reports and unqualified opinions were issued.

3. The Company believes there is no false information, misleading statements or material omission in the 2017 annual report of the Company, and individually and collectively accept responsibility for the truthfulness, accuracy and completeness of the information contained herein.

Directors and senior management:

Name	**Position**
Wang Lihua	Executive Director and Vice President
Li Yi	Non-executive Director
Wang Cong	Non-executive Director
Dai Lijia	Non-executive Director
Zhou Langlang	Non-executive Director
Song Fengming	Independent Non-executive Director
Tse Hau Yin	Independent Non-executive Director
Liu Junmin	Independent Non-executive Director
Shao Jingchun	Independent Non-executive Director
Li Yuping	Member of senior management
Xiong Qiugu	Vice President
Hu Jiliang	Vice President
Wang Wenjie	Vice President
Hu Ying	Assistant to President
Yang Guobing	Assistant to President
Li Yingchun	Secretary to the Board

17. List of Domestic and Overseas Entities

17.1 Head Office

China Huarong Asset Management Co., Ltd.
Address: No. 8 Financial Street, Xicheng District, Beijing
Postal code: 100033
Tel: 010-59619088
Fax: 010-59618000

17.2 Branches

China Huarong Asset Management Co., Ltd. — Beijing Branch
Address: No. 293 Fuchengmennei Main Street, Xicheng District, Beijing
Postal code: 100034
Tel: 010-66511186
Fax: 010-66511257

China Huarong Asset Management Co., Ltd. — Tianjin Branch
Address: No. 2–3 Jianshan Road, Hexi District, Tianjin
Postal code: 300211
Tel: 022-28310107
Fax: 022-28310013

China Huarong Asset Management Co., Ltd. — Hebei Branch
Address: No. 368 Zhongshan East Road, Chang'an District, Shijiazhuang, Hebei Province
Postal code: 050011
Tel: 0311-89291718
Fax: 0311-89291706

China Huarong Asset Management Co., Ltd. — Shanxi Branch
Address: No. 52 Kangle Street, Yingze District, Taiyuan, Shanxi Province
Postal code: 030001
Tel: 0351-4603076
Fax: 0351-4602761

17. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Inner Mongolia Branch
Address: Financial Building, No. 54 Xinhua Street, Hohhot, Inner Mongolia Autonomous Region
Postal code: 010020
Tel: 0471-5180597
Fax: 0471-6967697

China Huarong Asset Management Co., Ltd. — Liaoning Branch
Address: No. 142 Ningshan Middle Road, Huanggu District, Shenyang, Liaoning Province
Postal code: 110036
Tel: 024-86284760
Fax: 024-86284760

China Huarong Asset Management Co., Ltd. — Jilin Branch
Address: No. 917 Tongzhi Street, Changchun, Jilin Province
Postal code: 130061
Tel: 0431-89291189
Fax: 0431-88948454

China Huarong Asset Management Co., Ltd. — Heilongjiang Branch
Address: No. 55 Pinghuai Street, Nangang District, Harbin, Heilongjiang Province
Postal code: 150008
Tel: 0451-82718079
Fax: 0451-82718507

China Huarong Asset Management Co., Ltd. — Shanghai Branch
Address: 10/F, No. 15 Zhongshan Dong Er Road, Huangpu District, Shanghai
Postal code: 200002
Tel: 021-63289900
Fax: 021-63280161

China Huarong Asset Management Co., Ltd. — Jiangsu Branch
Address: No. 42 Beijing East Road, Xuanwu District, Nanjing, Jiangsu Province
Postal code: 210008
Tel: 025-57710682
Fax: 025-83612051

17. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Zhejiang Branch
Address: No. 19-1, 19-2 Kaiyuan Road, Shangcheng District, Hangzhou, Zhejiang Province
Postal code: 310001
Tel: 0571-87836736
Fax: 0571-87836704

China Huarong Asset Management Co., Ltd. — Anhui Branch
Address: No. 211 Shouchun Road, Luyang District, Hefei, Anhui Province
Postal code: 230001
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Fax: 0551-62662566

China Huarong Asset Management Co., Ltd. — Jiangxi Branch
Address: No. 2 Tie Street, Donghu District, Nanchang, Jiangxi Province
Postal code: 330008
Tel: 0791-86648987
Fax: 0791-86649000

China Huarong Asset Management Co., Ltd. — Fujian Branch
Address: No. 112 Gutian Road, Gulou District, Fuzhou, Fujian Province
Postal code: 350005
Tel: 0591-83351118
Fax: 0591-83320266

China Huarong Asset Management Co., Ltd. — Shandong Branch
Address: No. 89 Jingsan Road, Jinan, Shandong Province
Postal code: 250001
Tel: 0531-86059702
Fax: 0531-86059731

China Huarong Asset Management Co., Ltd. — Henan Branch
Address: No. 216 West Main Street, Zhengzhou, Henan Province
Postal code: 450000
Tel: 0371-55619115
Fax: 0371-55619100

17. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Hubei Branch
Address: Te No. 1 Tiyu Street, Wuchang District, Wuhan, Hubei Province
Postal code: 430060
Tel: 027-88318257
Fax: 027-88318257

China Huarong Asset Management Co., Ltd. — Hunan Branch
Address: No. 976 Wuyi Avenue, Changsha, Hunan Province
Postal code: 410005
Tel: 0731-84845000
Fax: 0731-84845008

China Huarong Asset Management Co., Ltd. — Guangdong Branch
Address: 10/F, Block B, Zhuguang International Business Center, No. 3 Qingyi Street, Machang Road, Tianhe District, Guangzhou, Guangdong Province
Postal code: 510627
Tel: 020-83650286
Fax: 020-83287052

China Huarong Asset Management Co., Ltd. — Guangxi Branch
Address: No. 38-3 Minzu Avenue, Qingxiu District, Nanning, Guangxi Zhuang Autonomous Region
Postal code: 530022
Tel: 0771-5858778
Fax: 0771-5871108

China Huarong Asset Management Co., Ltd. — Hainan Branch
Address: No. 53-1 Longkun North Road, Haikou, Hainan Province
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Tel: 0898-66700041
Fax: 0898-66700042

China Huarong Asset Management Co., Ltd. — Sichuan Branch
Address: 21/F, 20/F, 19/F, Jinli Zongfu Building, No. 35 Zongfu Road, Jinjiang District, Chengdu, Sichuan Province
Postal code: 610016
Tel: 028-86516567
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17. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Chongqing Branch
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Postal code: 400025
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Fax: 023-67719840

China Huarong Asset Management Co., Ltd. — Yunnan Branch
Address: No. 1 Jinjiang Road, Jinxing Community, Panlong District, Kunming, Yunnan Province (No. 338 Wanhong Road)
Postal code: 650224
Tel: 0871-65700939
Fax: 0871-65700888

China Huarong Asset Management Co., Ltd. — Guizhou Branch
Address: 20-23F, Fuzhong Business Building, No. 78 Xinhua Road, Guiyang, Guizhou Province
Postal code: 550002
Tel: 0851-85512971
Fax: 0851-85502443

China Huarong Asset Management Co., Ltd. — Shaanxi Branch
Address: No. 92 Dongguan Main Street, Beilin District, Xi'an, Shaanxi Province
Postal code: 710048
Tel: 029-89539190
Fax: 029-89539168

China Huarong Asset Management Co., Ltd. — Gansu Branch
Address: No. 225 Wudu Road, Chengguan District, Lanzhou, Gansu Province
Postal code: 730030
Tel: 0931-8500280
Fax: 0931-8500280

China Huarong Asset Management Co., Ltd. — Xinjiang Branch
Address: No. 280 Renmin Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region (6–9/F)
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Fax: 0991-2826694

17. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Dalian Branch
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Tel: 0411-83703882
Fax: 0411-83696111

China Huarong Asset Management Co., Ltd. — Shenzhen Branch
Address: 3/F, Wuyi Building, No. 232 Nanyuan Road, Futian District, Shenzhen, Guangdong Province
Postal code: 518031
Tel: 0755-83631999
Fax: 0755-83630463

China Huarong Asset Management Co., Ltd. — SFTZ Branch
Address: 7/F, No. 15 Zhongshan Dong Er Road, Huangpu District, Shanghai
Postal code: 200002
Tel: 021-63265959
Fax: 021-63265700

17.3 Principal Operating Subsidiaries

Huarong Securities Co., Ltd.
Address: No. 18 Chaoyangmen North Street, Chaoyang District, Beijing
Postal code: 100020
Tel: 010-85556993
Fax: 010-85556660

China Huarong Financial Leasing Co., Ltd.
Address: 6–7/F, Office Building of the World Trade Center, No. 122 Shuguang Road, Hangzhou, Zhejiang Province
Postal code: 310007
Tel: 0571-87950988
Fax: 0571-87950511

17. List of Domestic and Overseas Entities

Huarong Xiangjiang Bank Corporation Limited
Address: South Building, Wanjingcaizhi Center, No. 208 Xiangfu East Road II, Changsha, Hunan Province
Postal code: 410007
Tel: 0731-89828781
Fax: 0731-89828806

Huarong International Trust Co., Ltd.
Address: 7/F, Block A, CPIC Plaza, No. 28 Fengsheng Lane, Tai Ping Qiao Main Street, Xicheng District, Beijing
Postal code: 100032
Tel: 010-58315950
Fax: 010-58315933

Huarong Futures Co., Ltd.
Address: 3/F, No. 53-1 Longkun North Road, Haikou, Hainan Province
Postal code: 570105
Tel: 0898-66779479
Fax: 0898-66779397

Huarong Rongde Asset Management Co., Ltd.
Address: 9/F, Excel Center, No. 6 Wudinghou Street, Xicheng District, Beijing
Postal code: 100033
Tel: 010-59400399
Fax: 010-59315388

Huarong Real Estate Co., Ltd.
Address: Jia No. 2, Baiwanzhuang Street, Xicheng District, Beijing
Postal code: 100037
Tel: 010-57649123
Fax: 010-57649111

China Huarong International Holdings Limited
Address: China Huarong Tower, No. 60 Gloucester Road, Wan Chai, Hong Kong
Tel: 00852-31985678
Fax: 00852-31985796

Huarong Consumer Finance Co., Ltd.
Address: Block A, Xiangyuan Square, No. 310 Suixi Road, Luyang District, Hefei, Anhui Province
Postal code: 230001
Tel: 0551-62882391
Fax: 0551-62988015

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