



**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**

# *2016* ANNUAL REPORT





*PROFESSIONAL ASSET MANAGER AND PROMINENT  
PROVIDER OF INTEGRATED FINANCIAL SERVICES*

**专业**的资产经营管理者

**优秀**的综合金融服务商

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## 1. Company Profile

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

Currently, China Huarong has 31 branches with geographic coverage across 30 provinces, autonomous regions and municipalities in 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’s mission is to become “a professional asset manager and prominent provider of integrated financial services” and provides multi-licensed, multi-functional and comprehensive financial services in areas such as distressed asset management, asset management, banking, securities, trust, financial leasing, investment, futures and consumer finance.



In 2016, China Huarong was recognized as one of the “2016 Top 500 Enterprises in China” and “2016 Top 500 Service Enterprises in China” by the China Enterprise Confederation and China Enterprises Directors Association, “Top 500 Enterprises in China” by Fortune China Magazine, and “Top 500 Financial Enterprises in China” by NetEase Finance. China Huarong was awarded as “The Best Listed Company” by the Sixth China Securities Golden Bauhinia Awards, “Top 500 Asia Brands” by the Eleventh Asia Brand Ceremony, “Best Asset Management Company of the Year” on the Chinese Financial Institution Gold Medal List and “AAA-level Credit Enterprise in China” by the China Enterprise Credit Evaluation Center.

Looking forward, China Huarong will continue to “pursue business growth in a prudent manner, maintain flexibility under strict regulatory requirements, improve quality and control risks, develop collaboratively”, strengthen its core business of distressed asset management and operation, improve its function to provide comprehensive financial services and strengthen its efforts in business innovation and internationalization, continuously endeavor to become stronger, better and larger, in order to realize its strategic transformation towards a first-class AMC featuring “scientific governance, systematic management, strong core business, integrated operation and outstanding results”.

## 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”, “we” or “us”	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
“Group” or “our Group” or “China Huarong”	the Company and its subsidiaries
“H Share(s)”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
“HK\$” or “HK dollar”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“Huarong Consumer Finance”	Huarong Consumer Finance Co., Ltd.
“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”	March 21, 2017, 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 U.S.
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC



## 2. Definitions

“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, 2016
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“ROAA”	return on average assets
“ROAE”	return on average equity attributable to equity holders
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares
“Shareholder(s)”	holder(s) of the Share(s)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Subject Companies”	has the meaning as defined in the Prospectus
“Supervisors”	supervisor(s) of the Company
“U.S \$” or “U.S. dollars”	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 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 15, 2017, the second (regular) meeting of the second session of the Board considered and approved the 2016 Annual Report and the 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 2016 prepared by the Company 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 2016 of RMB1.506 (tax inclusive) per 10 shares. The profit distribution plan will be proposed to the 2016 Shareholders' general meeting for consideration and approval.

Board of Directors  
March 15, 2017

Mr. Lai Xiaomin, the legal representative of the Company, Mr. Wang Lihua, the vice president in charge of finance and Mr. Li Yonghua, the head of the financial department, hereby guarantee that the financial statements in this annual report are true, accurate and complete.

This report may contain forward-looking statements relating to risks and future plans. These forward-looking statements are based on information presently available to us and from other sources which we consider to be reliable. The forward-looking statements relating to the future events or the financial, business or other performance of the Company in the future are subject to uncertainties which could cause the actual results to differ materially. Investors are advised not to place undue reliance on these forward-looking statements. Future plans involved in these forward-looking statements do not represent any guarantee made by the Company to the investors. Investors are advised to pay attention to the investment risks. For details of the major risks faced and the relevant measures taken by the Company, please see "9. Management Discussion and Analysis — 9.4 Risk Management" in this annual report.

## 4. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Lai Xiaomin
Authorized representatives	Ke Kasheng, Hu Jianjun
Secretary to the Board	Hu Jianjun
Joint Company secretaries	Hu Jianjun, 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 Hong Kong Stock Exchange
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

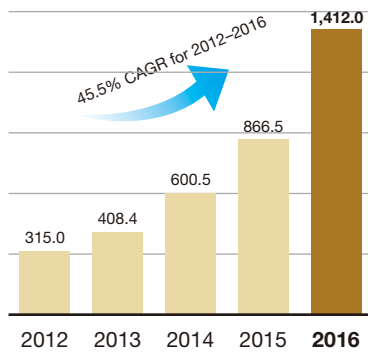
Registration number of financial license	J0001H111000001
Social credit code	911100007109255774
Legal advisors as to PRC Law and place of business	Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan, Central Road, Chaoyang District, Beijing, China
Legal advisors as to Hong Kong law and place 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

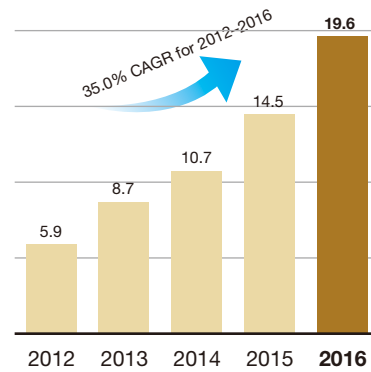
## Leading asset size

Total assets  
(in billions of RMB)



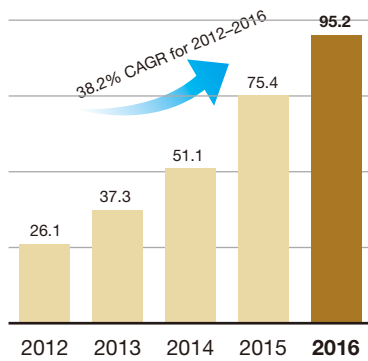
## Outstanding profitability

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



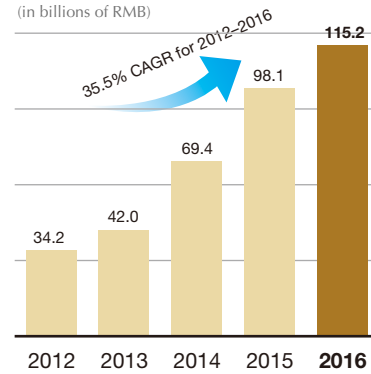
## Excellent growth

Total income  
(in billions of RMB)



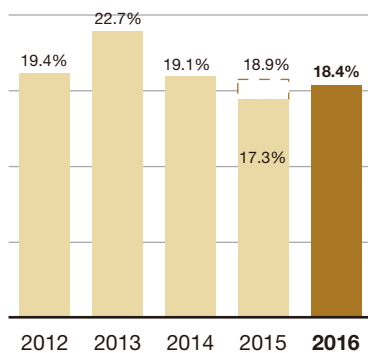
## Significant increase in Shareholders' equity

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



## Remarkable Shareholders' return

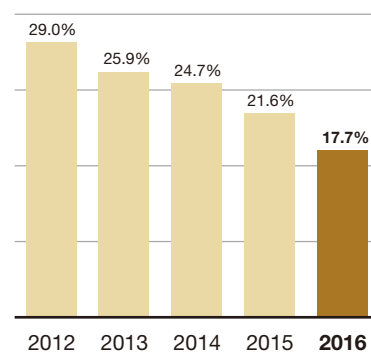
ROAE<sup>(1)</sup>



[---] Weighted ROAE

## Effective cost control

Cost-to-income ratio



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

## 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,				
	2016	2015	2014	2013	2012
	(in millions of RMB)				
Income from distressed debt assets classified as receivables	25,140.0	23,095.0	15,662.0	8,918.0	4,645.0
Fair value changes on distressed debt assets	3,852.3	1,637.3	886.2	509.1	249.8
Fair value changes on other financial assets	5,782.1	3,347.1	1,289.2	941.7	459.6
Interest income	16,444.1	14,067.1	12,047.6	10,075.6	9,686.5
Investment income	24,678.4	19,167.3	9,803.6	8,179.5	5,328.3
Commission and fee income	12,920.1	10,398.0	7,985.6	6,784.6	5,243.9
Net (losses)/gains on disposal of associates	2,027.7	427.4	128.0	14.3	(59.5)
Other income and other net gains or losses	4,363.0	3,246.6	3,258.5	1,896.6	509.7
<b>Total income</b>	<b>95,207.7</b>	<b>75,385.8</b>	<b>51,060.7</b>	<b>37,319.4</b>	<b>26,063.3</b>
Interest expense	(31,416.8)	(25,902.2)	(17,903.7)	(10,930.6)	(9,084.0)
Commission and fee expense	(1,035.9)	(945.3)	(452.5)	(328.4)	(211.1)
Operating expenses	(12,286.8)	(11,487.5)	(8,469.4)	(7,016.6)	(4,861.1)
Impairment losses on assets	(16,717.0)	(12,603.8)	(6,225.6)	(4,850.2)	(2,323.3)
<b>Total expenses</b>	<b>(61,456.5)</b>	<b>(50,938.8)</b>	<b>(33,051.2)</b>	<b>(23,125.8)</b>	<b>(16,479.5)</b>
Change in net assets attributable to other holders of consolidated structured entities	(3,376.3)	(2,456.6)	(1,307.2)	(554.8)	(571.0)
Share of results of associates and joint ventures	134.4	255.5	72.1	0.9	96.6
<b>Profit before tax</b>	<b>30,509.3</b>	<b>22,245.9</b>	<b>16,774.4</b>	<b>13,639.7</b>	<b>9,109.4</b>
Income tax expense	(7,400.8)	(5,295.1)	(3,743.6)	(3,546.5)	(2,122.8)
<b>Profit for the year</b>	<b>23,108.5</b>	<b>16,950.8</b>	<b>13,030.8</b>	<b>10,093.2</b>	<b>6,986.6</b>
Attributable to:					
Equity holders of the Company	19,613.5	14,482.1	10,656.2	8,659.6	5,892.2
Holders of perpetual capital instruments	455.8	174.0	0.7	—	—
Non-controlling interests	3,039.2	2,294.7	2,373.9	1,433.6	1,094.4
	<b>23,108.5</b>	<b>16,950.8</b>	<b>13,030.8</b>	<b>10,093.2</b>	<b>6,986.6</b>

## 5. Financial Summary

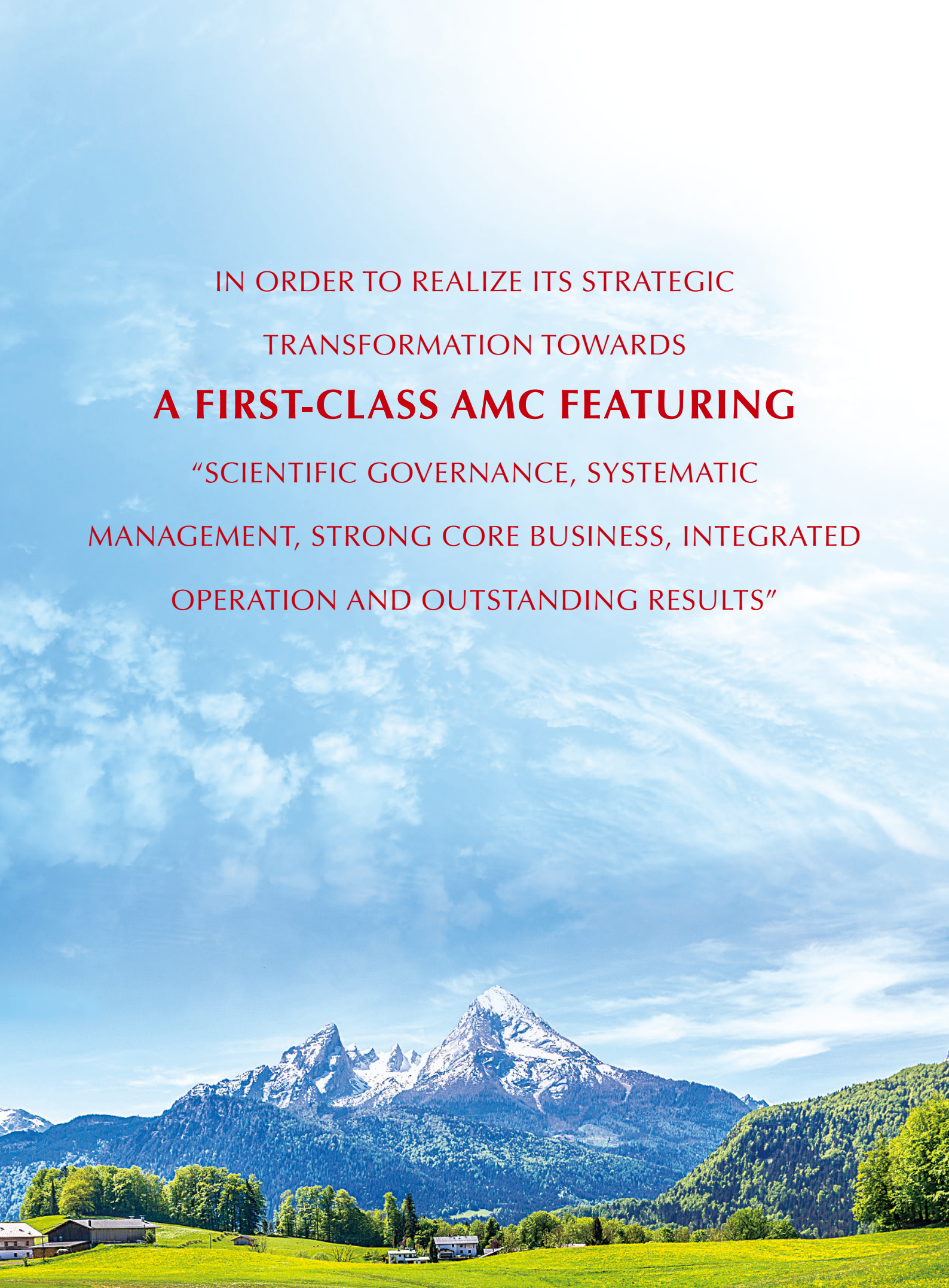
	As at December 31,				
	2016	2015	2014	2013	2012
(in millions of RMB)					
<b>Assets</b>					
Cash and balances with the central bank	27,259.8	24,982.1	26,945.3	21,152.0	16,897.8
Deposits with financial institutions	154,329.9	76,896.3	51,633.2	29,922.9	20,469.3
Financial assets designated as at fair value through profit or loss	95,167.3	85,458.2	33,115.2	20,264.0	16,125.6
Financial assets held under resale agreements	36,347.7	32,538.9	21,841.9	40,463.7	39,784.9
Available-for-sale financial assets	140,292.6	64,994.2	43,966.7	28,965.7	29,135.0
Financial assets classified as receivables	549,478.0	328,685.8	227,033.2	124,320.0	74,921.7
Loans and advances to customers	118,406.0	81,625.2	63,239.4	48,176.4	37,645.7
Finance lease receivables	84,991.3	71,672.5	63,494.3	55,546.3	47,645.2
Other assets	205,696.7	99,693.2	69,251.9	39,556.3	32,408.4
<b>Total assets</b>	<b>1,411,969.3</b>	866,546.4	600,521.1	408,367.3	315,033.6
<b>Liabilities</b>					
Deposits from financial institutions	6,962.5	15,468.2	13,660.0	16,017.9	11,889.3
Borrowings	511,308.6	295,031.8	239,885.2	136,131.1	89,759.9
Financial assets sold under repurchase agreements	56,390.6	30,361.9	26,203.1	33,988.6	48,146.0
Due to customers	172,405.9	139,998.9	117,246.1	87,885.9	70,051.8
Bonds and notes issued	243,075.2	143,053.8	48,002.1	17,886.2	3,487.0
Other liabilities	271,745.5	123,831.2	71,992.5	63,923.4	49,128.1
<b>Total liabilities</b>	<b>1,261,888.3</b>	747,745.8	516,989.0	355,833.1	272,462.1
<b>Equity</b>					
Equity attributable to equity holders of the Company	115,243.0	98,117.4	69,408.2	41,966.6	34,176.1
Perpetual Capital Instruments	15,030.3	6,454.1	1,450.7	—	—
Non-controlling interests	19,807.7	14,229.1	12,673.2	10,567.6	8,395.4
<b>Total equity</b>	<b>150,081.0</b>	118,800.6	83,532.1	52,534.2	42,571.5
<b>Total equity and liabilities</b>	<b>1,411,969.3</b>	866,546.4	600,521.1	408,367.3	315,033.6

## 5. Financial Summary

	As of or for the year ended December 31,				
	2016	2015	2014	2013	2012
<b>Financial Ratios</b>					
ROAE <sup>(1)</sup>	<b>18.4%</b>	17.3%	19.1%	22.7%	19.4%
ROAA <sup>(2)</sup>	<b>2.0%</b>	2.3%	2.6%	2.8%	2.6%
Cost-to-income ratio <sup>(3)</sup>	<b>17.7%</b>	21.6%	24.7%	25.9%	29.0%
Liability to total assets ratio <sup>(4)</sup>	<b>89.4%</b>	86.3%	86.1%	87.1%	86.5%
Basic earnings per share <sup>(5)</sup> (RMB yuan)	<b>0.50</b>	0.43	0.38	0.34	0.23
Diluted earnings per share <sup>(6)</sup> (RMB yuan)	<b>0.50</b>	0.43	N/A	N/A	N/A

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





IN ORDER TO REALIZE ITS STRATEGIC  
TRANSFORMATION TOWARDS  
**A FIRST-CLASS AMC FEATURING**

“SCIENTIFIC GOVERNANCE, SYSTEMATIC  
MANAGEMENT, STRONG CORE BUSINESS, INTEGRATED  
OPERATION AND OUTSTANDING RESULTS”



## 6. Chairman's Statement



**Lai Xiaomin**

Representative of the Twelfth NPC  
Chairman, Party Secretary and Legal  
Representative of China Huarong

## 6. Chairman's Statement

2016 was an extraordinary year for China Huarong. The Company successfully implemented its “three steps in five years” plan and commenced the implementation of its new five-year (2016–2020) development strategy of innovation and transformation. It was also the year during which the Company closely followed the national development strategy, fully implemented the “13th Five-Year” development plan, and effectively supported and served the real economy. During the year, under the guidance of the MOF, PBOC and CBRC, together with social support and the joint efforts of our employees, China Huarong adhered to the key principle of “making progress while maintaining stability, achieving the success against challenges, transforming innovatively, growing moderately and prioritizing profitability” and conducted its operations innovatively, prudently and efficiently. Our operating results reached a record high with total assets exceeding RMB1 trillion for the first time. China Huarong was recognized as one of the “2016 Top 500 Enterprises in China” and “Top 500 Enterprises in China” by Fortune China Magazine. We continued to pursue sound growth and development by implementing the principles of “energetic development of the state-owned economy, maximizing the value of state-owned capital, and preserving and increasing the value of state-owned assets”.

**Our operating results reached record highs, creating satisfactory returns for our Shareholders.** In 2016, all operating indicators of China Huarong were sound and stable. Net profit of the Group amounted to RMB23.11 billion, representing an increase of 36.3% compared to 2015. Total assets of the Group as at the end of the year amounted to RMB1,411.97 billion, representing an increase of 62.9% compared to the end of 2015. Our total equity amounted to RMB150.08 billion, representing an increase of 26.3% compared to the end of 2015. Our ROAA, ROAE and earnings per share for 2016 were 2.0%, 18.4% and RMB0.50, respectively, creating satisfactory returns to our Shareholders.

**We continued to enhance corporate governance and were enrolled in the three major stock indexes.** In 2016, China Huarong made major and substantive progress in its effort to return to the A shares market, and the application materials of its A share listing application were accepted by the CSRC. “*Adding the Finishing Touch and Set Sail — China Huarong's Documentary on its H-share Listing*”, which comprehensively summarized the experience of its H-share listing, was successfully published. As China Huarong (stock code: 2799) was enrolled into the Three Major Indexes, being the FTSE China 50, the Hang Seng China H-Financials Index and MSCI China, its international awareness and influence at home and abroad significantly improved, while its value and business development were highly recognized and positively evaluated by the Hong Kong capital market and international investors since its listing in Hong Kong.

**We focused on strengthening our core business of distressed asset management, thereby contributing to the transformation and upgrade of the real economy.** In 2016, China Huarong grasped market opportunities of “cutting overcapacity, destocking, deleveraging, reducing cost and shoring up weak growth areas” and “debt-to-equity swaps” in the structural reform of the supply side, strengthened our core business of distressed asset management, realized rapid growth in both revenue and business scale, and maintained its leading position in open-market acquisition of asset packages in terms of market share. We continued to optimize the acquisition and restructuring business and innovatively operated the reorganization business for distressed companies. We achieved good results in our asset-light businesses, such as securitization, establishment of funds and structuring, while new changes were made to structural adjustment and transformation promotion. We completed our five-year planning profit target for equity asset management ahead of schedule, and actively promoted participation in a new round of market oriented debt-to-equity swaps based on market principles and fund establishment.

## 6. Chairman's Statement

**We continued to build the financial services platform in line with the national strategy, creating prominent advantages for comprehensive financial services.** In 2016, by further leveraging our strengths in our core business of distressed assets management and our comprehensive financial services business. China Huarong actively kept in line with the national development strategy, enhanced the collaborative relationship with local governments and state-owned enterprises and integrated industry and finance through the establishment of multiple integrated financial services platforms. In line with several development strategies such as “the Belt and Road”, the establishments of free trade zones, the “Integration of Beijing, Tianjin and Hebei”, and the “Yangtze River Economic Belt”, to seek further growth, we established several subsidiaries, including Huarong Consumer Finance Co., Ltd. (華融消費金融股份有限公司), Huarong Jinshang Asset Management Co., Ltd. (華融晉商資產管理股份有限公司), Huarong Kunlun Qinghai Asset Management Co., Ltd. (華融崑崙青海資產管理股份有限公司), Huarong Innovation Investment Co., Ltd. (華融創新投資股份有限公司), Huarong Emerging Industry Investment Management Co., Ltd. (華融新興產業投資管理股份有限公司) and China Huarong (Macao) International Holdings Limited (中國華融(澳門)國際股份有限公司). As a result, we further improved our capability in providing comprehensive financial services.

**We achieved significant milestones in developing into a “debt financing based AMC” and maintained bonds and notes issuance as a regular funding channel.** In 2016, China Huarong was selected as a pilot enterprise for foreign debt scale management reform in 2016 by the NDRC and we took this opportunity to continually enhance our domestic and foreign debt issuances. We achieved new milestones in developing into a “debt financing based AMC” with the enhancement of our financing capability and further reduction of financing costs, which significantly enhanced liquidity management. In 2016, the Company domestic bonds issuances amounted to RMB35 billion and our foreign bonds issuances amounted to USD6 billion, which were over-subscribed by investors with positive evaluation. This represented the firm confidence of the international financial market on the development of the Chinese economy, China's economic policy and the strength of the China Huarong brand.

**We yielded fruitful results with our “core client strategy” and continued to enhance our internationalization process.** In 2016, China Huarong further implemented its “core client strategy” by adhering to its position as “a professional asset management operator and an excellent integrated financial services provider”. Throughout the year, we entered into 15 new strategic cooperation agreements and added more than 3,000 new customers. As of the end of 2016, the total number of our customers reached nearly ten thousand and our customer structure was further optimized. With a goal of developing Hong Kong, Macau and Taiwan, serving the Greater China, contributing to the national development strategy of “the Belt and Road” and making internal and external collaboration. China Huarong enhanced its expansion of international customers to speed up its internationalization progress through establishing long-term strategic and cooperative relationships with several overseas agencies.

**Our risk management was significantly enhanced and our internal management and compliance management were enhanced continuously.** In 2016, while maintaining steady growth in our operating results, China Huarong effectively applied the “five-five” risk management principles of “five early actions, five preventions, five remedies, five endeavors and five principles” and continued to implement comprehensive risk management, optimize group risk management structure and enhance internal management and compliance management. We built up a solid and effective “firewall”, “safety net” and “isolation strip” for risk management and continuously enhanced our ability to counteract risks. Our business operations have been running smoothly with risks under control. There were no significant project risks and liquidity risks. All risk indicators were in compliance with regulatory requirements.



## 6. Chairman's Statement

**We continued to fulfill the social responsibilities of a PRC state-owned enterprise and continued to enhance our social influence and brand reputation.** In 2016, China Huarong actively performed its social responsibilities and implemented the requirements of targeted poverty alleviation. During the year, we donated RMB6 million to targeted poverty alleviation projects, and provided more support to the development of old revolutionary base areas, ethnic minority areas, border areas and poverty-stricken areas, as well as donations to the poor. We were honored as “a good example for enterprise poverty alleviation in 2016” by the China Foundation for Poverty Alleviation, and we were selected to the feature in the *Blue Book of Enterprise Poverty Alleviation* (企業扶貧藍皮書) jointly issued by China Foundation for Poverty Alleviation and Chinese Academy of Social Sciences (CASS). China Huarong successfully organized a seminar on financial stability of the International Public AMC Forum (IPAF), which was highly praised by peers from Asian and European countries and regions. The Company was selected as one of the “2016 Top 500 Enterprises of China” and “2016 Top 500 Service Enterprises of China” by the China Enterprise Confederation and the China Enterprises Directors Association, as well as “Top 500 Enterprises in China” by Fortune China Magazine. The Company was also granted various recognitions and awards, such as the Chinese Financial Institution Gold Medal List — “Best AMC of the Year”, the “Best Listed Company” by the Sixth China Securities Golden Bauhinia Awards, “Top 500 Asian Brands” by the Eleventh Asia Brand Association and the title of “China AAA-level Credit Enterprise” by the China Enterprise Credit Evaluation Center. As a result, the Company's social influence and brand reputation reached new heights.

What's past is prologue. Looking back on 2016, taking our successful listing in Hong Kong as our new driving force and starting point, China Huarong achieved novel results and development in opening a new era of growth characterized by market orientation, diversity, comprehensiveness and globalization. Looking at 2017, to speed up the process of economic transformation and upgrading, China will fully deepen the structural reform of the supply side, which is expected to create significant opportunities for the development of the asset management industry. The mission and responsibility are profounding and significant for AMCs. Following the growth model of “innovation + prudence”, China Huarong will adhere to “making progress while maintaining stability, seeking development amidst the challenging environment, enhancing the quality and controlling the risk, creating synergetic development” in accordance with the requirements of state-owned enterprise reform of “good governance, incentive reinforcement, strong core business and efficiency improvement”. We will adhere to the strategy of “controlling our total output, fine-tuning our strategic structure, strengthening our core business, strengthening risk control, furthering classification and enhancing quality of services”, to take the strategic advantage of distressed asset management and leveraging the advantage of our comprehensive financial services under our “one body, two wings” framework, and to focus on the development of our core business of distressed asset management and operation, and strengthen our internal control and risk management. We will expand, consolidate and optimize our business, enhance quality, efficiency and competitiveness to grow ourselves as a first-class AMC. We will effectively support real economic development with improved operating results and superior financial services. We will continue to create value to the nation, society, Shareholders, customers and employees.

China Huarong's future will be even brighter.



Chairman: **Lai Xiaomin**

March 15, 2017

## 7. President's Statement



**Ke Kasheng**

Executive Director, President and  
Deputy Party Secretary of  
China Huarong

## 7. President's Statement

2016 is the first full fiscal year after China Huarong was listed in Hong Kong and also the year in which we launched our new five-year development strategy of innovation and transformation. For the past year, under the leadership of the management of the Company, the Group practically implemented the strategic decisions of the Board and proactively followed the supervision guidance by regulatory authorities, seized opportunities from economic restructuring and industrial transformation and upgrading, took full advantage of the counter-cyclical feature of our business to continually improve our capability of management of distressed assets and integrated financial services, and effectively strengthened our risk control to manage all challenges, thereby achieving new operating results at the beginning of the new five-year development strategy.

**Our asset size and profitability were continually enlarged and strengthened.** In 2016, the business development and execution capability of all our business units continually improved. The total assets of the distressed asset management business as at the end of the year reached RMB628.71 billion, representing an increase of 71.8% compared with the end of 2015, and the total income from the distressed asset management business amounted to RMB50.70 billion, contributing to more than 50% of total income, which further reflected the advantages of our core business. The total assets of our financial services business as at the end of the year reached RMB515.15 billion, representing an increase of 39.1% compared with 2015, and total income from financial services amounted to RMB24.45 billion, representing an increase of 4.2%, compared with 2015. The total assets of our asset management and investment business as at the end of the year reached RMB302.72 billion, representing an increase of 118.6% compared with 2015, and total income from the asset management and investment business amounted to RMB21.70 billion, representing an increase of 80.8%, compared with 2015. All of our three major business segments achieved synergistic development and rapid growth.

**Asset size and revenue of our distressed debt asset management business reached a record high.** In 2016, we seized the favorable opportunities of the increasing supply in the distressed asset market to further reinforce the expansion of our distressed asset management business, our core business. Our revenue from the distressed asset management business, and the asset size of our distressed assets as a proportion of the industry reached a record high. In 2016, profit before tax of our distressed asset business amounted to RMB15.89 billion, representing an increase of 33.1% compared with 2015, among which, new investments in our distressed asset management business were RMB348.02 billion, representing an increase of 55.1% compared with 2015, the scale of new investments in the acquisition-and-disposal model increased 83.8% compared with 2015. New investments in the acquisition-and-restructuring model were RMB241.35 billion, and our revenue reached RMB28.51 billion during the year. The revenue from assets of debt-to-equity swap(s) amounted to RMB3.14 billion in the year.

**We continuously improved our organizational structure and financial services portfolio.** In 2016, in accordance with national development strategies, we persisted in serving the real economy and proactively promoted our "core client strategy", and effectively improved our ability and level of customer service through strengthening the institutional layout and implementing the policy of supporting key customers. We completed the institutional layout in the Tianjin and Fujian Free Trade Zones, and established institutional platforms by cooperating with local governments. We had a comprehensive plan to form valid business interconnections between institutions of Huarong based in Hong Kong and institutions in the Pearl River Delta region and we also established Huarong (Macau), an international subsidiary. Our international business platform achieved new progress. The proportion of our business in national key industries, such as environmental protection, healthcare, new energy and new material industries etc., as well as strategic emerging industries showed an

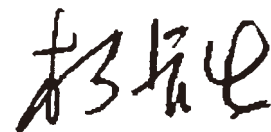
## 7. President's Statement

upward trend. We supported the development of the real economy and pushed for mergers and restructuring and resource integration, which fully demonstrated our operating principle of “Following the Communist Party of China and the Government’s Lead and Operating in Accordance with Market Rules”.

**Liquidity management became more prudent.** In 2016, the total amount of corporate bonds issued, the frequency of bond issuances and the types of bonds issued by the Company all increased significantly, while financing costs effectively decreased, and we made new progress in developing into a “debt financing based AMC”. The matching of the maturity of liabilities with assets of the Company was reasonable, and the pressure of repayment with liquidity assets was low in the short and/or medium term. The liquidity was in good condition.

**Comprehensive risk management and internal control systems were continuously enhanced.** In 2016, the Company continuously implemented comprehensive risk management, and risk management instruments such as risk appetite, risk limit management, authorization, classification of asset risks, and measurement of impairment of assets were effectively applied. The Group’s risk management and control structure was further optimized, with a proper bottom line for risk appetite effectively set up, internal control system and process establishment were further intensified, and a comprehensive risk management system adapted to the “new normal” of the economy, regulatory authority’s requirement and the Company’s business development was initially formed. Various businesses were stably developed, and associated risks were controllable. The Company actively implemented the risk management concept, adjusted and optimized risk assessment focus and implemented risk management and control accountability at various levels. As a result, each risk control indicator meets regulatory requirement. The internal control system was further established, compliance risk management was further strengthened, an expert review system was implemented, and the Group’s review and approval system was improved. The collateral management system was initially established at the Company’s level, the development concept of “technology leading the future” was thoroughly implemented, and a series of key information technology projects were completed.

2017 is a critical year for implementing the “13th five-year plan” and a year for deepening the structural reform of the supply side. The development of the financial industry is subject to new challenges from domestic and international situations, and management will earnestly implement various decisions and deployments of the Board, work in a sturdy and innovative manner, set clear objectives and responsibility, improve execution, form more systemic, scientific and efficient strategic implementation mechanisms, strive to create new competitive advantages and more outstanding operation results, and contribute to developing a first-class AMC with “scientific governance, systematic management, excellent core business, integrated operation and outstanding results”.



President: Ke Kasheng

March 15, 2017



A scenic view of rolling mountains under a blue sky with light clouds. The mountains are layered, with the foreground showing more detail and the background fading into a hazy blue. The sky is filled with soft, wispy clouds.

**SOUNDNESS INNOVATION**

**HARMONIOUS DEVELOPMENT**

## 8. Statement of Chairman of the Board of Supervisors



**Ma Zhongfu**

Chairman of the Board of Supervisors and  
Deputy Party Secretary of China Huarong

## 8. Statement of Chairman of the Board of Supervisors

In 2016, in line with the new trends and requirements of the national macro-economic development, China Huarong closely adhered to the structural reform of the supply side, played a unique role of financial asset management companies in implementing the five initiatives of “cutting overcapacity, destocking, deleveraging, reducing cost and shoring up weak growth areas” and continuously raised the capability of services for the real economy. The asset size of the Company exceeded RMB1 trillion with its operating performance steadily enhanced. The Company enhanced its internal management constantly and emphasized on risk prevention, various regulatory indicators of which met the requirements. The Company was successfully recognized as one of the “Top 500 Enterprises of China in 2016” and China Huarong (stock code: 2799) was enrolled in the major indexes in the Hong Kong capital market, including the “FTSE China 50”, which further strengthened the growth quality, the development capacity and the international influence of the Company.

With the appropriate leadership of the Shareholders’ General Meetings and the support of all the Shareholders, the Board and the senior management of the Company, the Board of Supervisors, for the purpose of promoting the Company’s standardized operation, insisted on issue-oriented and result-oriented management, adhered to perform its duties in compliance with the law and dedicate itself to the work, actively enhanced its communication and coordination with external regulatory authorities, Shareholders, the Party committee, the Board of Directors, the senior management and the Company. With the focus on risk supervision and key tasks of special supervision, the Board of Supervisors focused on the implementation of the Company’s innovation and development strategies, the execution of the annual operation plan and the demand of standardized operation and steady growth upon listing, to implement various supervision activities in a practical, thorough and detailed way, and perform its supervision duties with independence, professionalism and effectiveness. The Board of Supervisors strengthened the institutionalization, standardization, process and refinement of its work, to fully execute its function of checks and balances in the corporate governance structure, to serve the transformation, to promote the development, and to earnestly protect the legitimate interests of the Company, Shareholders, employees and other stakeholders.

In 2017, the Company will, based on deepening reforms of China, carry forward the “Four Comprehensive Strategies”, insist on “Innovation + Prudence”, strengthen internal control and management, and firmly promote the “Ten Strategic Restructurings” to make new achievements. The Board of Supervisors will uphold the working philosophy of “to be aware of and to take responsibility” to make new efforts for the Company to achieve steady, healthy and sustainable development and to make new contributions to promote the Company to become stronger and better while continuously expanding the width and depth of its work, and improving pertinence, professionalism, timeliness and effectiveness by keeping abreast of time, innovation, overall perspective, grasping key points, and focusing on new situations and issues.



Chief Supervisor: **Ma Zhongfu**

March 15, 2017



# 9. Management Discussion and Analysis



## 9.1 Economic, Financial and Regulatory Environment

In 2016, unplanned and unexpected international political and economic events i.e. “black swan” events occurred frequently. The situation was intricate, and protectionism rose against globalization, international trade and investment, which caused various degrees of influence on the global market and the development of countries around the world. Under such restless circumstances, economic development trends for each country differed. Among others, the U.S. economy showed a clear sign of recovery and the U.S. dollar entered an interest rate hike cycle. European political disturbance occurred repeatedly, and the economies were still weighed down by debt problems. Japan’s weak economic growth showed no significant improvement, and Japan continued to adopt an easy monetary policy. The economies of some emerging-market countries began to stabilize, but they still faced adjustment and transition pressure.

2016 is the first year of China’s “13th Five-Year Plan”. Under the circumstances of deep global adjustment, China’s economic operation maintained within a reasonable range, and growth stability was enhanced with a slow but steady increase and turn for the better during the year. Among others, the positive trend of the benefit of industrial enterprise was further consolidated, employment and price maintained stable in general, and stable increase was seen in the income of residents. The economic development quality and benefits were improved continuously, and structure was sustainably optimized, while the supporting role of innovation for development was increasing. The proportion of the services industry continuously increased and the contribution of consumption for growth continuously improved. The stable economic development environment created good conditions for further deepening reform, promoting economic structural adjustment and industry transition and upgrading.

## 9. Management Discussion and Analysis

Due to various factors and changing conditions both domestic and abroad, China's economic development is still facing challenges. The PRC government undertook "structural reform of the supply side" as the core line, moderately expanded total demand, firmly promoted reform, actively managed risks and challenges to keep economic and social development smooth and stable, which was a good start to its "13th Five-Year Plan". As a state-owned large-sized financial enterprise, the Company actively grasped strategic development opportunities brought about by the "structural reform of the supply side", and fully implemented the unique functions of the distressed assets management and comprehensive financial services business to strive to vitalize stock, which played a great role in maintaining stable operation and healthy development of economy and finance.

In March 2016, the CBRC promulgated the Notice on Regulating the Acquisitions of Distressed Assets by Financial Asset Management Companies (《關於規範金融資產管理公司不良資產收購業務的通知》) to specify the requirements on the means of acquisition of distressed assets and truthfulness of transfer of assets by financial asset management companies, which is of great significance in promoting the compliance management and healthy and long-term development of distressed assets. The State Council issued Opinions on Actively and Steadily Reducing the Leverage Ratio of Enterprises (《關於積極穩妥降低企業槓桿率的意見》) in September 2016, launching the new round of the market-oriented debt-to-equity swap. China specified the policy on debt-to-equity swap, and put forward a clear view that it supports AMCs to carry on the DES business, providing the Company with policy support and market opportunity to develop its business, so that the core business of distressed assets management can be stronger, better and bigger.

## 9. Management Discussion and Analysis



### 9.2 Analysis of Financial Statements

#### 9.2.1 Operating Results of the Group

In 2016, the net profit attributable to equity holders of the Company amounted to RMB19,613.5 million, representing an increase of RMB5,131.4 million, or

35.4%, compared to last year. ROAE and ROAA of the Group were 18.4% and 2.0%, respectively.

For the year ended December 31,

	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	25,140.0	23,095.0	2,045.0	8.9%
Fair value changes on distressed debt assets	3,852.3	1,637.3	2,215.0	135.3%
Fair value changes on other financial assets	5,782.1	3,347.1	2,435.0	72.7%
Interest income	16,444.1	14,067.1	2,377.0	16.9%
Investment income	24,678.4	19,167.3	5,511.1	28.8%
Commission and fee income	12,920.1	10,398.0	2,522.1	24.3%
Net gains on disposal of associates	2,027.7	427.4	1,600.3	374.4%
Other income and other net gains or losses	4,363.0	3,246.6	1,116.4	34.4%
<b>Total income</b>	<b>95,207.7</b>	<b>75,385.8</b>	<b>19,821.9</b>	<b>26.3%</b>
Interest expense	(31,416.8)	(25,902.2)	(5,514.6)	21.3%
Commission and fee expense	(1,035.9)	(945.3)	(90.6)	9.6%
Operating expenses	(12,286.8)	(11,487.5)	(799.3)	7.0%
Impairment losses on assets	(16,717.0)	(12,603.8)	(4,113.2)	32.6%
<b>Total expenses</b>	<b>(61,456.5)</b>	<b>(50,938.8)</b>	<b>(10,517.7)</b>	<b>20.6%</b>
Change in net assets attributable to other holders of consolidated structured entities	(3,376.3)	(2,456.6)	(919.7)	37.4%
Share of results of associates and joint ventures	134.4	255.5	(121.1)	(47.4%)
<b>Profit before tax</b>	<b>30,509.3</b>	<b>22,245.9</b>	<b>8,263.4</b>	<b>37.1%</b>
Income tax expense	(7,400.8)	(5,295.1)	(2,105.7)	39.8%
<b>Profit for the year</b>	<b>23,108.5</b>	<b>16,950.8</b>	<b>6,157.7</b>	<b>36.3%</b>
Attributable to:				
Equity holders of the Company	19,613.5	14,482.1	5,131.4	35.4%
Holders of perpetual capital instruments	455.8	174.0	281.8	162.0%
Non-controlling interests	3,039.2	2,294.7	744.5	32.4%
	<b>23,108.5</b>	<b>16,950.8</b>	<b>6,157.7</b>	<b>36.3%</b>



## 9. Management Discussion and Analysis

### 9.2.1.1 Total income

Total income of the Group increased by 26.3% from RMB75,385.8 million in 2015 to RMB95,207.7 million in 2016, mainly due to the increases of income from distressed debt assets classified as receivables, investment income, interest income, commission and fee income and fair value changes on other financial assets, fair value changes on distressed debt assets and net gains on disposal of associates.

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

	For the year ended December 31,			
	2016	2015	Change	in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	25,140.0	23,095.0	2,045.0	8.9%
Fair value changes on distressed debt assets	3,852.3	1,637.3	2,215.0	135.3%
Fair value changes on other financial assets	5,782.1	3,347.1	2,435.0	72.7%
Interest income	16,444.1	14,067.1	2,377.0	16.9%
Investment income	24,678.4	19,167.3	5,511.1	28.8%
Commission and fee income	12,920.1	10,398.0	2,522.1	24.3%
Net gains on disposal of associates	2,027.7	427.4	1,600.3	374.4%
Other income and other net gains or losses	4,363.0	3,246.6	1,116.4	34.4%
<b>Total income</b>	<b>95,207.7</b>	<b>75,385.8</b>	<b>19,821.9</b>	<b>26.3%</b>



Total income of the Group increased by

**26.3%**

from RMB75,385.8 million in 2015 to RMB95,207.7 million in 2016

## 9. Management Discussion and Analysis

### **9.2.1.1.1 Income from distressed debt assets classified as receivables**

Income from distressed debt assets classified as receivables represents acquisition-and-restructuring income of the Group generated from loans and distressed debts acquired from financial institutions and the distressed debt acquired from non-financial enterprises. Income from distressed debt assets classified as receivables of the Group increased by 8.9% from RMB23,095.0 million in 2015 to RMB25,140.0 million in 2016. In 2015 and 2016, income from distressed debt assets classified as receivables represented 30.6% and 26.4% respectively of our total income. The increase in income was primarily due to the Group's persistence on strengthening, perfecting and expanding its core business, the distressed assets business, and the consistent increase in the scale of distressed debt assets classified as receivables.

The annualized return on monthly average gross amount of distressed debt assets classified as receivables of the Group in 2016 is 12.1%, which represents a slight drop from 12.5% in 2015.

### **9.2.1.1.2 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 135.3% from RMB1,637.3 million in 2015 to RMB3,852.3 million in 2016. Income increased mainly because we actively grasped the favorable opportunities arising from the increase in the supply of distressed debt assets by accelerating the acquisition and disposal of assets so as to achieve a relatively large increment of value of the acquired assets through a diversity of management and operation measures.

### **9.2.1.1.3 Fair value changes on other financial assets**

Changes in fair value of other financial assets include (i) financial assets held for trading, and (ii) other financial assets designated at fair value through profit or loss from the Company and relevant subsidiaries. Fair value changes on other financial assets increased by 72.7% from RMB3,347.1 million in 2015 to RMB5,782.1 million in 2016. The increase in income was primarily due to an increase in the gains on the disposal of and in fair value from financial assets, including shares, bonds and equity instruments held by the Group.

## 9. Management Discussion and Analysis

### 9.2.1.1.4 Interest income

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

	For the year ended December 31,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers	6,657.8	5,573.4	1,084.4	19.5%
Finance lease receivables	5,522.1	5,450.7	71.4	1.3%
Deposits with financial institutions	1,866.6	1,070.9	795.7	74.3%
Financial assets held under resale agreements	1,758.7	1,307.7	451.0	34.5%
Balances with the central Bank	444.5	356.5	88.0	24.7%
Placements with financial institutions	194.4	307.9	(113.5)	(36.9%)
<b>Total interest income</b>	<b>16,444.1</b>	<b>14,067.1</b>	<b>2,377.0</b>	<b>16.9%</b>

The interest income of the Group increased by 16.9% from RMB14,067.1 million in 2015 to RMB16,444.1 million in 2016. In 2015 and 2016, the interest income accounted for 18.7% and 17.3% of its total income, respectively. The increase in income was mainly due to increases in loans and advances to customers, 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 19.5% from RMB5,573.4 million in 2015 to RMB6,657.8 million in 2016, primarily due to an increase in loans and advances to customers of the Group by 45.1% from RMB83,455.4 million as at December 31, 2015 to RMB121,065.4 million as at December 31, 2016. The growth of loans and advances to customers of our Group is mainly because, (i) Huarong Xiangjiang Bank's business developed steadily as both the corporate loans and personal loans businesses grew; and (ii) the personal loans business of Huarong Consumer Finance started operating.

The interest income of the Group from finance lease receivables increased by 1.3% from RMB5,450.7 million in 2015 to RMB5,522.1 million in 2016. The increase was mainly because the stable development of financial leasing business of Huarong Financial Leasing (partially offset by the effect of the "replacement of business tax by value-added tax"), which resulted in an increase in the total amount of finance lease receivables of 18.0% from RMB82,803.9 million as at December 31, 2015 to RMB97,704.2 million as at December 31, 2016.

## 9. Management Discussion and Analysis

### 9.2.1.1.5 Investment income

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

	For the year ended December 31,			
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Interest income from other financial assets classified as receivables	16,751.2	10,496.5	6,254.7	59.6%
Disposal income from available-for-sale financial assets	3,682.0	5,959.7	(2,277.7)	(38.2%)
Interest income from available-for-sale debt securities	1,622.9	755.1	867.8	114.9%
Interest income from held-to-maturity debt securities	1,311.2	1,002.5	308.7	30.8%
Dividend income from available-for-sale financial assets	1,299.6	896.6	403.0	44.9%
Others	11.5	56.9	(45.4)	(79.8)%
<b>Total investment income</b>	<b>24,678.4</b>	<b>19,167.3</b>	<b>5,511.1</b>	<b>28.8%</b>

Investment income of the Group increased by 28.8% from RMB19,167.3 million in 2015 to RMB24,678.4 million in 2016. In 2015 and 2016, the investment income of the Group accounted for 25.4% and 25.9% of its total income, respectively. The increase was mainly due to the expansion of investment business and the increase in other financial assets classified as receivables since the Group actively served the real economy and strengthened the core business, partially offset by decrease in disposal income from available-for-sale financial assets. Interest income from other financial assets classified as receivables increased by 59.6% from RMB10,496.5 million in 2015 to RMB16,751.2 million in 2016. Revenue from disposal of available-for-sale financial assets decreased by 38.2% from RMB5,959.7 million in 2015 to RMB3,682.0 million in 2016, primarily attributable to higher revenue of disposals of debt-to-equity swaps in 2015 due to market conditions.

## 9. Management Discussion and Analysis

### 9.2.1.1.6 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,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Asset management business	8,314.2	5,358.3	2,955.9	55.2%
Securities and futures business	2,221.8	2,690.9	(469.1)	(17.4%)
Trust business	1,475.2	1,397.8	77.4	5.5%
Banking business	834.0	916.2	(82.2)	(9.0%)
Fund management and other business	74.9	34.8	40.1	115.2%
<b>Total commission and fee income</b>	<b>12,920.1</b>	<b>10,398.0</b>	<b>2,522.1</b>	<b>24.3%</b>

Commission and fee income of the Group increased by 24.3% from RMB10,398.0 million in 2015 to RMB12,920.1 million in 2016, accounting for 13.8% and 13.6% of the total income in 2015 and 2016, respectively. The increase was mainly due to the increase in commission and fee income from the asset management business, which was partially offset by the income decrease in the securities and futures business.

Commission and fee income from the asset management business increased by 55.2% from RMB5,358.3 million in 2015 to RMB8,314.2 million in 2016, mainly due to the rapid development of the asset management business of the Group, resulting in a significant increase in the corresponding income from this service.

Commission and fee income from securities and futures business decreased by 17.4% from RMB2,690.9 million in 2015 to RMB2,221.8 million in 2016, primarily as a result of fluctuation in the securities market.

## 9. Management Discussion and Analysis

### 9.2.1.1.7 Other income and net gains or losses

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

	For the year ended December 31,			
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Revenue from properties development	2,837.6	2,160.3	677.3	31.4%
Rental income	278.2	184.5	93.7	50.8%
Net gains on exchange differences	236.6	274.3	(37.7)	(13.7%)
Government grants	233.6	87.8	145.8	166.1%
Others	777.0	539.7	237.3	43.9%
<b>Total other income and net gains or losses</b>	<b>4,363.0</b>	<b>3,246.6</b>	<b>1,116.4</b>	<b>34.4%</b>

Other income and net gains or losses of the Group increased by 34.4% from RMB3,246.6 million in 2015 to RMB4,363.0 million in 2016, mainly due to the increase in revenue from properties development of Huarong Real Estate.

### 9.2.1.2 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,			
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Interest expense	(31,416.8)	(25,902.2)	(5,514.6)	21.3%
Commission and fee expense	(1,035.9)	(945.3)	(90.6)	9.6%
Operating expenses	(12,286.8)	(11,487.5)	(799.3)	7.0%
Impairment losses on assets	(16,717.0)	(12,603.8)	(4,113.2)	32.6%
<b>Total expenses</b>	<b>(61,456.5)</b>	<b>(50,938.8)</b>	<b>(10,517.7)</b>	<b>20.6%</b>

Total expenses of the Group increased by 20.6% from RMB50,938.8 million in 2015 to RMB61,456.5 million in 2016, mainly came from the increase in interest expenses, impairment losses on assets and operating expenses.



## 9. Management Discussion and Analysis

### 9.2.1.2.1 Interest expense

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

	For the year ended December 31,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	(19,188.5)	(16,623.3)	(2,565.2)	15.4%
Bonds and notes issued	(7,639.5)	(4,522.3)	(3,117.2)	68.9%
Due to customers	(2,708.4)	(2,857.6)	149.2	(5.2%)
Financial assets sold under repurchase agreements	(768.6)	(843.2)	74.6	(8.8%)
Deposits from financial institutions	(440.6)	(649.0)	208.4	(32.1%)
Placements from financial institutions	(352.3)	(147.6)	(204.7)	138.7%
Amounts due to the MOF	(124.4)	(204.6)	80.2	(39.2%)
Borrowings from central bank	(24.8)	(1.4)	(23.4)	1,671.4%
Other liabilities	(169.7)	(53.2)	(116.5)	219.0%
<b>Total interest expense</b>	<b>(31,416.8)</b>	<b>(25,902.2)</b>	<b>(5,514.6)</b>	<b>21.3%</b>

Interest expense of the Group increased by 21.3% from RMB25,902.2 million in 2015 to RMB31,416.8 million in 2016. In 2015 and 2016, the interest expense accounted for 50.8% and 51.1% of the total expenses, respectively. The increase in interest expense was mainly due to increase in the scale of external financing to support business development by the Group.

Interest expense of bonds and notes issued of the Group increased by 68.9% from RMB4,522.3 million in 2015 to RMB7,639.5 million in 2016, mainly because the Group actively extended financing channels and the development of “debt financing based AMC” achieved significant results. Bonds and notes issued increased by 69.9% from RMB143,053.8 million as at December 31, 2015 to RMB243,075.2 million as at December 31, 2016.

The interest expense of borrowings of the Group increased by 15.4% from RMB16,623.3 million in 2015 to RMB19,188.5 million in 2016, primarily due to the increased borrowing scale of the Group in order to support its business development.

## 9. Management Discussion and Analysis

### 9.2.1.2.2 Commission and fee expense

For the year ended December 31				
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Securities and futures business	(489.4)	(676.2)	186.8	(27.6%)
Asset management business	(351.4)	(141.7)	(209.7)	148.0%
Banking business and others	(195.1)	(127.4)	(67.7)	53.1%
<b>Total commission and fee expense</b>	<b>(1,035.9)</b>	<b>(945.3)</b>	<b>(90.6)</b>	<b>9.6%</b>

Commission and fee expense of the Group increased by 9.6% from RMB945.3 million in 2015 to RMB1,035.9 million in 2016, mainly due to the corresponding increase of commission and fee expenses as a result of the stable development of the asset management business.

### 9.2.1.2.3 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,				
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Employee benefits	(5,090.3)	(4,178.5)	(911.8)	21.8%
Tax and surcharges	(1,625.7)	(2,939.4)	1,313.7	(44.7%)
Cost of properties development	(1,459.5)	(1,278.3)	(181.2)	14.2%
Others	(4,111.3)	(3,091.3)	(1,020.0)	33.0%
Including:				
Rentals	(594.7)	(326.0)	(268.7)	82.4%
Depreciation of property and equipment	(366.7)	(348.9)	(17.8)	5.1%
Amortization	(203.5)	(134.5)	(69.0)	51.3%
Depreciation of investment properties	(50.0)	(50.2)	0.2	(0.4%)
Auditor's remuneration	(20.6)	(12.0)	(8.6)	71.7%
<b>Total operating expenses</b>	<b>(12,286.8)</b>	<b>(11,487.5)</b>	<b>(799.3)</b>	<b>7.0%</b>

## 9. Management Discussion and Analysis

Operating expenses of the Group increased by 7.0% from RMB11,487.5 million in 2015 to RMB12,286.8 million in 2016. Operating expenses in 2015 and 2016 accounted for 22.6% and 20.0% of the total expenses, respectively, mainly came from increases in employee benefits, cost of properties development and other operating expenses and was partially offset by the decrease in tax and surcharges.

Employee benefits of the Group increased by 21.8% from RMB4,178.5 million in 2015 to RMB5,090.3 million in 2016, 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.

Tax and surcharges of the Group decreased by 44.7% from RMB2,939.4 million in 2015 to RMB1,625.7 million in 2016, primarily because: since the overall implementation of “replacing business tax with value-added tax” from May 1, 2016, the Group has ceased to pay business tax, and our business tax from January to April in 2016, and surcharges tax for the whole year were reviewed for the item of tax and surcharges.

### 9.2.1.2.4 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,			Change in percentage
	2016	2015	Change	
	(in millions of RMB, except for percentages)			
Distressed debt assets classified as receivables	(10,774.5)	(8,052.5)	(2,722.0)	33.8%
Other financial assets classified as receivables	(3,351.2)	(2,570.0)	(781.2)	30.4%
Loans and advances to customers	(1,271.4)	(824.7)	(446.7)	54.2%
Available-for-sale financial assets	(786.5)	(786.0)	(0.5)	0.1%
Finance lease receivables	(445.8)	(298.0)	(147.8)	49.6%
Other assets	87.6	(72.6)	(14.9)	20.5%
<b>Total</b>	<b>(16,717.0)</b>	<b>(12,603.8)</b>	<b>(4,113.2)</b>	<b>32.6%</b>

Impairment losses on assets of the Group increased by 32.6% from RMB12,603.8 million in 2015 to RMB16,717.0 million in 2016, 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.

## 9. Management Discussion and Analysis

### 9.2.1.3 Profit before tax

Profit before tax of the Group increased by 37.1% from RMB22,245.9 million in 2015 to RMB30,509.3 million in 2016.

### 9.2.1.4 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,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Profit before tax	30,509.3	22,245.9	8,263.4	37.1%
Income tax expense	(7,400.8)	(5,295.1)	(2,105.7)	39.8%
Effective tax rate	24.3%	23.8%	0.5%	N/A

Income tax expense increased by 39.8% from RMB5,295.1 million in 2015 to RMB7,400.8 million in 2016. The effective tax rate of the Group in 2015 and 2016 was 23.8% and 24.3%, respectively.

### 9.2.1.5 Segment results

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

## 9. Management Discussion and Analysis

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,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	50,695.6	40,648.4	10,047.2	24.7%
Financial services	24,450.0	23,463.2	986.8	4.2%
Asset management and investment	21,701.7	12,003.0	9,698.7	80.8%
Inter-segment elimination	(1,639.6)	(728.8)	(910.8)	125.0%
<b>Total</b>	<b>95,207.7</b>	<b>75,385.8</b>	<b>19,821.9</b>	<b>26.3%</b>

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,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	15,890.6	11,940.1	3,950.5	33.1%
Financial services	6,986.6	7,247.1	(260.5)	(3.6%)
Asset management and investment	7,678.7	3,089.3	4,589.4	148.6%
Inter-segment elimination	(46.6)	(30.6)	(16.0)	52.3%
<b>Total</b>	<b>30,509.3</b>	<b>22,245.9</b>	<b>8,263.4</b>	<b>37.1%</b>

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

	For the year ended	
	December 31,	
	2016	2015
Distressed asset management	31.3%	29.4%
Financial services	28.6%	30.9%
Asset management and investment	35.4%	25.7%

## 9. Management Discussion and Analysis

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

	As of December 31,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	628,712.6	365,998.2	262,714.4	71.8%
Financial services	515,150.5	370,251.1	144,899.4	39.1%
Asset management and investment	302,715.7	138,469.2	164,246.5	118.6%
Inter-segment elimination	(43,910.7)	(12,998.7)	(30,912.0)	237.8%
<b>Total</b>	<b>1,402,668.1</b>	<b>861,719.8</b>	<b>540,948.3</b>	<b>62.8%</b>

The total third party assets managed by the Group was RMB483,992.2 million and RMB707,636.8 million, respectively, as of December 31, 2015 and 2016.

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

	As of December 31,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	83,931.3	69,358.7	14,572.6	21.0%
Financial services	36,581.1	32,278.0	4,303.1	13.3%
Asset management and investment	26,177.5	16,241.1	9,936.4	61.2%
Inter-segment elimination	(529.1)	(127.8)	(401.3)	314.0%
<b>Total</b>	<b>146,160.8</b>	<b>117,750.0</b>	<b>28,410.8</b>	<b>24.1%</b>

The table below sets forth the pre-tax return on average net assets ("Pre-tax ROAE") for each of the Group's business 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 the net assets.

	For the year ended	
	December 31,	
	2016	2015
Distressed asset management	20.7%	20.6%
Financial services	20.3%	24.9%
Asset management and investment	36.2%	22.7%



## 9. Management Discussion and Analysis

Distressed asset management 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 business segment increased by 24.7% from RMB40,648.4 million in 2015 to RMB50,695.6 million in 2016. Profit before tax increased by 33.1% from RMB11,940.1 million in 2015 to RMB15,890.6 million in 2016. During the year, the Pre-tax ROAE of our distressed asset management segment remained stable with a slight increase, mainly because the Group made the most of its industry leading position, keeping the distressed asset management core business consistently at a relatively high income level.

The financial services business is an important integral part of the Group's integrated asset management business. During the year, financial services segment overcame unfavorable factors, such as the slowdown of economic growth and market fluctuation, and recorded an increase in total income of 4.2% from RMB23,463.2 million in 2015 to RMB24,450.0 million in 2016 and a decrease in profit before tax of 3.6% from RMB7,247.1 million in 2015 to RMB6,986.6 million in 2016 and its pre-tax ROAE remained stable in general.

The Group's asset management and investment business is a natural extension and supplement of its distressed asset management business and serves as an important platform for providing the Group's clients with a comprehensive array of diversified asset management, investment and financing services. During the year, the Group achieved a relatively rapid growth in the asset management and investment business. Total income from the asset management and investment segment increased by 80.8% from RMB12,003.0 million in 2015 to RMB21,701.7 million in 2016. Profit before tax increased by 148.6% from RMB3,089.3 million in 2015 to RMB7,678.7 million in 2016. Pre-tax ROAE increased from 22.7% in 2015 to 36.2% in 2016.

## 9. Management Discussion and Analysis

### 9.2.2 Financial Positions of Our Group

As of December 31, 2015 and 2016, the total assets of the Group amounted to RMB866,546.4 million and RMB1,411,969.3 million, respectively, representing an increase of 62.9%. Total liabilities amounted to RMB747,745.8 million and RMB1,261,888.3 million, respectively, representing an increase of 68.8%. Total equity amounted to RMB118,800.6 million and RMB150,081.0 million respectively, representing an increase of 26.3%.

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

	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
<b>Assets</b>				
Cash and balances with central bank	27,259.80	1.90%	24,982.10	2.90%
Deposits with financial institutions	154,329.90	10.90%	76,896.30	8.90%
Financial assets held for trading	87,731.30	6.20%	13,004.00	1.50%
Financial assets designated as at fair value through profit or loss	95,167.30	6.70%	85,458.20	9.90%
Loans and advances to customers	118,406.00	8.40%	81,625.20	9.40%
Finance lease receivables	84,991.30	6.00%	71,672.50	8.30%
Available-for-sale financial assets	140,292.60	9.90%	64,994.20	7.50%
Held-to-maturity investments	44,884.20	3.20%	34,358.00	4.00%
Financial assets classified as receivables	549,478.00	38.90%	328,685.80	37.90%
Other assets	109,428.90	7.90%	84,870.10	9.70%
<b>Total assets</b>	<b>1,411,969.3</b>	<b>100.0%</b>	<b>866,546.4</b>	<b>100.0%</b>
<b>Liabilities</b>				
Deposits from financial institutions	6,962.5	0.6%	15,468.2	2.1%
Financial assets sold under repurchase agreements	56,390.6	4.5%	30,361.9	4.1%
Borrowings	511,308.6	40.5%	295,031.8	39.5%
Due to customers	172,405.9	13.7%	139,998.9	18.7%
Bonds and notes issued	243,075.2	19.3%	143,053.8	19.1%
Other liabilities	271,745.5	21.4%	123,831.2	16.5%
<b>Total liabilities</b>	<b>1,261,888.3</b>	<b>100.0%</b>	<b>747,745.8</b>	<b>100.0%</b>
<b>Equity</b>				
Equity attributable to equity holders of the Company	115,243.0	76.8%	98,117.4	82.6%
Perpetual capital instruments	15,030.3	10.0%	6,454.1	5.4%
Non-controlling interests	19,807.7	13.2%	14,229.1	12.0%
<b>Total equity</b>	<b>150,081.0</b>	<b>100.0%</b>	<b>118,800.6</b>	<b>100.0%</b>
<b>Total equity and liabilities</b>	<b>1,411,969.3</b>	<b>100.0%</b>	<b>866,546.4</b>	<b>100.0%</b>

## 9. Management Discussion and Analysis

### 9.2.2.1 Assets

As of December 31, 2015 and 2016, the Group's total assets amounted to RMB866,546.4 million and RMB1,411,969.3 million, respectively, representing an increase of 62.9%. The Group's major assets consist of: (i) investment classified as receivables; (ii) deposits with financial institutions; (iii) available-for-sale financial assets; (iv) loans and advances to customers; (v) financial assets designated as at fair value through profit or loss; and (vi) finance lease receivables.

#### 9.2.2.1.1 Deposits with financial institutions

As of December 31, 2015 and 2016, the Group's deposits with financial institutions amounted to RMB76,896.3 million and RMB154,329.9 million, respectively, representing an increase of 100.7%, mainly due to the expansion of external financing for the business development of the Group and certain projects had not been fully used as of the end of the year.

#### 9.2.2.1.2 Financial Assets Held for Trading

As of December 31, 2015 and 2016, the Group's financial assets held for trading amounted to RMB13,004.0 million and RMB87,731.3 million, respectively, representing an increase of 574.6%, mainly due to the rapid increase in the investment scale of securities held by subsidiaries such as Huarong Securities.

#### 9.2.2.1.3 Financial assets designated as at fair value through profit or loss

As of December 31, 2015 and 2016, the Group's financial assets designated as at fair value through profit or loss amounted to RMB85,458.2 million and RMB95,167.3 million, respectively, representing an increase of 11.4%, mainly due to (i) the increase in acquisitions of distressed asset portfolio by the Company to capture favorable opportunities arising from the increase in the supply market of distressed assets, resulting in an increase in distressed assets held under the acquisition-and-disposal business as of the end of the year; and (ii) the structured product transactions resulting in a significant increase in the balance of relevant business assets held by the Group as of the end of the year.

## 9. Management Discussion and Analysis

### 9.2.2.1.4 Loans and advances to customers

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

	As at December 31,			Change in percentage
	2016	2015	Changes	
(in millions of RMB, except for percentages)				
Corporate loans and advances				
Loans and advances	<b>80,884.7</b>	63,265.4	17,619.3	27.8%
Discounted bills	<b>8,796.5</b>	16.1	8,780.4	54,536.7%
<b>Subtotal</b>	<b>89,681.2</b>	63,281.5	26,399.7	41.7%
Personal loans and advances				
Loans for business operations	<b>9,816.0</b>	7,086.6	2,729.4	38.5%
Mortgage	<b>7,087.5</b>	5,735.8	1,351.7	23.6%
Personal consumption	<b>6,405.8</b>	2,570.8	3,835.0	149.2%
Others	<b>1,082.3</b>	705.7	376.6	53.4%
<b>Subtotal</b>	<b>24,391.6</b>	16,098.9	8,292.7	51.5%
Loans to margin clients	<b>6,992.6</b>	4,075.0	2,917.6	71.6%
<b>Gross loans and advances</b>	<b>121,065.4</b>	83,455.4	37,610.0	45.1%
Allowance for impairment losses	<b>(2,659.4)</b>	(1,830.2)	(829.2)	45.3%
<b>Total</b>	<b>118,406.0</b>	81,625.2	36,780.8	45.1%

As of December 31, 2015 and 2016, the Group's loans and advances to customers amounted to RMB81,625.2 million and RMB118,406.0 million, respectively, representing an increase of 45.1%. The increase was mainly due to the stable development of Huarong Xiangjiang Bank's business and the commencement of Huarong Consumer Finance's business operations, hence maintaining a relatively fast growth in various loans businesses and consistent expansion of loans scale.

## 9. Management Discussion and Analysis

### 9.2.2.1.5 Finance lease receivables

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

	As at December 31,			Change in percentage
	2016	2015	Changes	
	(in millions of RMB, except for percentages)			
Minimum finance lease receivables				
Within 1 year (inclusive)	31,900.8	28,131.3	3,769.5	13.4%
1 year to 5 years (inclusive)	63,850.1	52,481.5	11,368.6	21.7%
Over 5 years	1,953.3	2,191.1	(237.8)	(10.9%)
<b>Subtotal</b>	<b>97,704.2</b>	<b>82,803.9</b>	<b>14,900.3</b>	<b>18.0%</b>
Unearned finance income	(11,074.5)	(9,931.2)	(1,143.3)	11.5%
Allowance for impairment losses	(1,638.4)	(1,200.2)	(438.2)	36.5%
Net amount of finance lease receivables	<b>84,991.3</b>	71,672.5	13,318.8	18.6%
Present value of minimum finance lease receivables				
Within 1 year (inclusive)	28,047.1	24,467.8	3,579.3	14.6%
1 year to 5 years (inclusive)	55,244.4	45,600.8	9,643.6	21.1%
Over 5 years	1,699.8	1,603.9	95.9	6.0%
<b>Total</b>	<b>84,991.3</b>	<b>71,672.5</b>	<b>13,318.8</b>	<b>18.6%</b>

As of December 31, 2015 and 2016, the Group's finance lease receivables amounted to RMB71,672.5 million and RMB84,991.3 million, respectively, representing an increase of 18.6%. The increase was mainly due to the continuous expansion of the leasing business of Huarong Financial Leasing by leveraging the advantages of its branding and its excellent business capability.

## 9. Management Discussion and Analysis

### 9.2.2.1.6 Available-for-sale financial assets

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

	As at December 31,			
	2016	2015	Changes	Change in percentage
(in millions of RMB, except for percentages)				
<b>Listed</b>				
Equity instruments	17,908.8	14,229.2	3,679.6	25.9%
Debt securities				
— Public sector and quasi-government bonds	23,275.6	6,790.7	16,484.9	242.8%
— Corporate bonds	7,348.0	4,785.1	2,562.9	53.6%
— Financial institution bonds	2,834.7	1,887.0	947.7	50.2%
— Government bonds	638.1	747.2	(109.1)	(14.6%)
Asset-backed securities	1,783.7	3,932.2	(2,148.5)	(54.6%)
Funds	152.1	2,045.5	(1,893.4)	(92.6%)
<b>Subtotal</b>	<b>53,941.0</b>	<b>34,416.9</b>	<b>19,524.1</b>	<b>56.7%</b>
<b>Unlisted</b>				
Funds	34,456.3	6,519.8	27,936.5	428.5%
Trust products	23,232.7	380.3	22,852.4	6,009.0%
Equity instruments	22,328.0	19,385.9	2,942.1	15.2%
Asset management plans	3,529.7	2,175.7	1,354.0	62.2%
Wealth management products	1,161.9	538.2	623.7	115.9%
Asset-backed securities	286.8	118.8	168.0	141.4%
Others	1,603.2	1,605.3	(2.1)	(0.1%)
<b>Subtotal</b>	<b>86,598.6</b>	<b>30,724.0</b>	<b>55,874.6</b>	<b>181.9%</b>
provisions for impairment	(247.0)	(146.7)	(100.3)	68.4%
<b>Subtotal</b>	<b>86,351.6</b>	<b>30,577.3</b>	<b>55,774.3</b>	<b>182.4%</b>
<b>Total</b>	<b>140,292.6</b>	<b>64,994.2</b>	<b>75,298.4</b>	<b>115.9%</b>

As of December 31, 2015 and 2016, the Group's available-for-sale financial assets amounted to RMB64,994.2 million and RMB140,292.6 million, respectively, representing an increase of 115.9%, which was mainly due to the Group's flexible adjustment of allocation of various products according to factors such as market conditions in order to increase investment return, resulting in an increase in the balance of equity instruments, bonds and trust products.



## 9. Management Discussion and Analysis

Equity instruments are the major component of our available-for-sale financial assets. As of December 31, 2015 and 2016, equity instruments amounted to RMB33,468.4 million and RMB39,989.8 million, respectively, representing an increase of 19.5%.

### 9.2.2.1.7 Held-to-maturity Investments

As of December 31, 2015 and 2016, the Group's Held-to-maturity investments amounted to RMB34,358.0 million and RMB44,884.2 million, respectively, representing an increase of 30.6%, mainly due to the increase in the investment scale of securities held by Huarong Xiangjiang Bank.

### 9.2.2.1.8 Financial assets classified as receivables

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

	As at December 31,			Change in percentage
	2016	2015	Changes	
	(in millions of RMB, except for percentages)			
Distressed debt assets				
Loans acquired from financial institutions	54,263.5	49,144.7	5,118.8	10.4%
Distressed debt assets acquired from non-financial enterprises	239,475.2	172,289.2	67,186.0	39.0%
Less: allowance for impairment losses	(23,666.5)	(19,382.4)	(4,284.1)	22.1%
<b>Subtotal</b>	<b>270,072.2</b>	<b>202,051.5</b>	<b>68,020.7</b>	<b>33.7%</b>
Other financial assets classified as receivables	287,227.4	130,373.3	156,854.1	120.3%
Less: allowance for impairment losses	(7,821.6)	(3,739.0)	(4,082.6)	109.2%
<b>Subtotal</b>	<b>279,405.8</b>	<b>126,634.3</b>	<b>152,771.5</b>	<b>120.6%</b>
<b>Total</b>	<b>549,478.0</b>	<b>328,685.8</b>	<b>220,792.2</b>	<b>67.2%</b>

As of December 31, 2015 and 2016, the Group's financial assets classified as receivables amounted to RMB328,685.8 million and RMB549,478.0 million, respectively, representing an increase of 67.2%. The increase was mainly due to (i) the Group's expansion of the acquisition-and-restructuring business in line with the Group's insistence on strengthening, perfecting and expanding the distressed asset business; and (ii) the significant increase in investment of other financial assets classified as receivables since the Group actively served the real economy.

## 9. Management Discussion and Analysis

As of December 31, 2015 and 2016, distressed debt assets classified as receivables which were impaired amounted to RMB3,301.1 million and RMB5,322.3 million, respectively, accounting for 1.49% and 1.81% of the gross amount of distressed debt assets classified as receivables.

### 9.2.2.2 Liabilities

Total liabilities of the Group include (i) borrowings; (ii) bonds and notes issued; and (iii) due to customers; and (iv) financial assets sold under repurchase agreements.

#### 9.2.2.2.1 Borrowings

As of December 31, 2015 and 2016, borrowings of the Group amounted to RMB295,031.8 million and RMB511,308.6 million, respectively, representing an increase of 73.3%. 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.

#### 9.2.2.2.2 Financial assets sold under repurchase agreements

As of December 31, 2015 and 2016, financial assets sold under repurchase agreements amounted to RMB30,361.9 million and RMB56,390.6 million, respectively, representing an increase of 85.7%. The increase was mainly due to the optimization of liabilities structure through appropriate adjustment of the strategy of short-term fund operation according to the market condition and liquidity need.

## 9. Management Discussion and Analysis

### 9.2.2.2.3 Due to customers

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

	As of December 31,			
	2016	2015	Changes	Change in percentage
	(in millions of RMB, except for percentages)			
Demand deposits				
Corporate	71,800.2	46,938.2	24,862.0	53.0%
Individual	16,545.4	13,510.9	3,034.5	22.5%
Time deposits				
Corporate	36,845.3	35,548.6	1,296.7	3.6%
Individual	24,407.5	20,553.8	3,853.7	18.7%
Pledged deposits	10,698.9	13,322.2	(2,623.3)	(19.7%)
Others	12,108.6	10,125.2	1,983.4	19.6%
<b>Total</b>	<b>172,405.9</b>	<b>139,998.9</b>	<b>32,407.0</b>	<b>23.1%</b>

As of December 31, 2015 and 2016, the amount due to customers of the Group was RMB139,998.9 million and RMB172,405.9 million, respectively, representing an increase of 23.1%. The increase was mainly attributable to active market expansion of Huarong Xiangjiang Bank by striving to attract quality customers, resulting in the significant increase in both corporate and personal deposits.

### 9.2.2.2.4 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,			
	2016	2015	Changes	Change in percentage
	(in millions of RMB, except for percentages)			
The Company	95,008.8	66,053.5	28,955.3	43.8%
Huarong Xiangjiang Bank	36,121.9	14,317.2	21,804.7	152.3%
Huarong Securities	14,376.9	8,662.6	5,714.3	66.0%
Huarong Financial Leasing	9,286.6	8,200.1	1,086.5	13.2%
Huarong Rongde	4,477.6	2,987.6	1,490.0	49.9%
Huarong Finance Co., Ltd	10,535.4	9,838.0	697.4	7.1%
Huarong Finance II Co., Ltd	72,968.0	32,672.7	40,295.3	123.3%
Huarong International Financial Holdings Limited	—	22.1	(22.1)	(100.0%)
Huarong Tianze Investment Limited	300.0	300.0	—	—
<b>Total</b>	<b>243,075.2</b>	<b>143,053.8</b>	<b>100,021.4</b>	<b>69.9%</b>

## 9. Management Discussion and Analysis

As of December 31, 2015 and 2016, the Group's bonds and notes issued amounted to RMB143,053.8 million and RMB243,075.2 million, respectively, representing an increase of 69.9%. 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 financial bonds of RMB35.0 billion in the current period; (ii) Huarong Xiangjiang Bank issued negotiable certificates of deposit of RMB40.0 billion in the current period; (iii) Huarong International issued mid-term U.S. dollar notes of USD5.5 billion in the current period; (iv) Huarong Securities issued financial bonds of RMB3.277 billion and subordinate bonds of RMB4.0 billion in the current period; (v) Huarong Financial Leasing issued asset-backed securities of RMB4.411 billion in the current period; and (vi) Huarong Rongde issued corporate bonds of RMB1.5 billion in the current period.

### 9.2.3 Contingent Liabilities

Due to the nature of business, the Group is 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 management 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 its management believes that the probability of loss is remote or that any resulting liabilities will not have a material adverse effect on our financial condition or business operations.

As at December 31, 2015 and 2016, the Group made provisions of RMB110.1 million and RMB110.1 million respectively. 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.

### 9.2.4 Difference between Financial Statements Prepared under the PRC GAAP and IFRS

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

## 9.3 Business Overview

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

## 9. Management Discussion and Analysis

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

	For the year ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
<b>Distressed asset management business</b>	<b>50,695.6</b>	<b>53.2%</b>	40,648.4	53.9%
Financial services business	24,450.0	25.7%	23,463.2	31.1%
Asset management and investment business	21,701.7	22.8%	12,003.0	15.9%
Inter-segment elimination	(1,639.6)	(1.7%)	(728.8)	(0.9%)
<b>Total</b>	<b>95,207.7</b>	<b>100.0%</b>	75,385.8	100.0%

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

	For the year ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
<b>Distressed asset management business</b>	<b>15,890.6</b>	<b>52.1%</b>	11,940.1	53.7%
Financial services business	6,986.6	22.9%	7,247.1	32.6%
Asset management and investment business	7,678.7	25.2%	3,089.3	13.9%
Inter-segment elimination	(46.6)	(0.2%)	(30.6)	(0.2%)
<b>Total</b>	<b>30,509.3</b>	<b>100.0%</b>	22,245.9	100.0%

In 2016, the total income from distressed asset management business, financial services business and asset management and investment business of the Group accounted for 53.2%, 25.7% and 22.8% of its total income, respectively, and the profit before tax of these segments accounted for 52.1%, 22.9% and 25.2% of our total profit before tax, respectively.

### 9.3.1 Distressed Asset Management Business

Distressed asset management business is the core business and the primary source of income and profit of the Group. In 2015 and 2016, total income from the distressed asset management business was RMB40,648.4 million and RMB50,695.6 million, respectively, accounting for 53.9% and 53.2% of our total income, respectively, its profit before tax was RMB11,940.1 million and RMB15,890.6 million, respectively, accounting for 53.7% and 52.1% of the total profit before tax of the Group, respectively.



## 9. Management Discussion and Analysis

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

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

	As of (and) for the year ended December 31,	
	2016	2015
	(in millions of RMB)	
<b>Distressed debt asset management business<sup>(1)</sup></b>		
Gross amount of distressed debt assets <sup>(2)</sup>	328,202.4	270,869.4
Less: Allowance for impairment of distressed debt assets <sup>(3)</sup>	(23,649.9)	(19,382.4)
Carrying amount of distressed debt assets	304,552.5	251,487.0
Acquisition cost of newly added distressed debt assets	348,022.9	224,408.4
Total income from distressed debt assets		
Operating income from distressed debt assets <sup>(4)</sup>	28,533.5	24,622.7
Financial advisory income from acquisition-and restructuring business	3,622.5	2,919.9
<b>Total</b>	<b>32,156.0</b>	<b>27,542.6</b>
<b>DES asset management business</b>		
Carrying amount of DES Assets	19,128.8	24,202.9
Dividend income from DES Assets	176.2	145.4
Acquisition cost of DES Assets disposed	1,699.9	2,039.5
Net gain from the disposal of DES Assets	2,959.9	5,523.5
<b>Distressed asset-based custody and agency services business</b>		
Income from asset management business	389.3	336.9
<b>Distressed asset-based special situations investments business</b>		
Income	2,381.9	3,036.7
<b>Distressed asset-based property development business</b>		
Income	3,426.1	2,502.2
<b>Other income<sup>(5)</sup></b>	<b>9,206.2</b>	<b>1,561.1</b>

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

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

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

(4) 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.

(5) Other income was primarily attributable to platform income related to other business of the distressed asset management segment.

## 9. Management Discussion and Analysis

### 9.3.1.1 Distressed debt asset management business

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 collateral 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.

#### 9.3.1.1.1 Sources for acquisition of distressed debt assets

Classified by the source of acquisition, the Company's distressed debt assets mainly include: (i) distressed assets acquired from financial institutions ("FI Distressed Assets"); and (ii) distressed assets from non-financial enterprises ("NFE Distressed Assets"). The table below sets forth some key financial indicators of distressed debt assets of the Company by acquisition sources as of the dates and for the years indicated.

	As of or for the year ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
<b>Acquisition cost of newly added distressed debt assets</b>				
FI Distressed Assets	117,350.7	33.7%	77,494.1	34.5%
NFE Distressed Assets	230,672.2	66.3%	146,914.3	65.5%
<b>Total</b>	<b>348,022.9</b>	<b>100.0%</b>	<b>224,408.4</b>	<b>100.0%</b>
<b>Gross amount of distressed debt assets at the end of the period<sup>(1)</sup></b>				
FI Distressed Assets	82,493.8	25.1%	94,518.0	34.9%
NFE Distressed Assets	245,708.6	74.9%	176,351.4	65.1%
<b>Total</b>	<b>328,202.4</b>	<b>100.0%</b>	<b>270,869.4</b>	<b>100.0%</b>
<b>Operating income from distressed debt assets for the period<sup>(2)</sup></b>				
FI Distressed Assets	6,867.0	24.1%	7,445.9	30.2%
NFE Distressed Assets	21,666.5	75.9%	17,176.8	69.8%
<b>Total</b>	<b>28,533.5</b>	<b>100.0%</b>	<b>24,622.7</b>	<b>100.0%</b>

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

(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.

## 9. Management Discussion and Analysis

### 9.3.1.1.1.1 FI Distressed Assets

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

	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
<b>Banks</b>				
Large Commercial Banks	57,469.6	49.0%	17,508.0	22.6%
Joint Stock Commercial Banks	35,165.6	30.0%	26,716.9	34.4%
City and rural commercial banks	8,115.2	6.9%	11,158.9	14.4%
Other banks	1,093.6	0.9%	279.9	0.4%
<b>Subtotal</b>	<b>101,844.0</b>	<b>86.8%</b>	<b>55,663.7</b>	<b>71.8%</b>
Non-bank financial institutions	15,506.7	13.2%	21,830.4	28.2%
<b>Total</b>	<b>117,350.7</b>	<b>100.0%</b>	<b>77,494.1</b>	<b>100.0%</b>

### 9.3.1.1.1.2 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.

#### 9.3.1.1.2 Business models of distressed debt asset management

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

## 9. Management Discussion and Analysis

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

	As of or for the year ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
<b>Acquisition cost of newly added distressed debt assets</b>				
Acquisition-and-disposal	106,676.2	30.7%	58,024.4	25.9%
Acquisition-and-restructuring	241,346.7	69.3%	166,384.0	74.1%
<b>Total</b>	<b>348,022.9</b>	<b>100.0%</b>	<b>224,408.4</b>	<b>100.0%</b>
<b>Gross amount of distressed debt assets at the end of the period</b>				
Acquisition-and-disposal <sup>(1)</sup>	59,595.0	18.2%	48,735.5	18.0%
Acquisition-and-restructuring <sup>(2)</sup>	268,607.4	81.8%	222,133.9	82.0%
<b>Total</b>	<b>328,202.4</b>	<b>100.0%</b>	<b>270,869.4</b>	<b>100.0%</b>
<b>Income from distressed debt assets</b>				
Acquisition-and-disposal <sup>(3)</sup>	3,650.6	11.4%	1,527.7	5.5%
Acquisition-and-restructuring	28,505.4	88.6%	26,014.9	94.5%
<b>Total</b>	<b>32,156.0</b>	<b>100.0%</b>	<b>27,542.6</b>	<b>100.0%</b>

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

### 9.3.1.1.2.1 Acquisition-and-disposal model

As a major participant of the primary market for distressed debt assets, the Company acquires packages of distressed assets in batches from financial institutions through public bidding or negotiated transfers. To maximize the recovery value of 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 collateral. 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.

## 9. Management Discussion and Analysis

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,	
	2016	2015
	(in millions of RMB, except for percentages)	
Gross amount of distressed debt assets at the beginning of the period	48,735.5	22,337.6
Acquisition cost of newly added distressed debt assets	106,676.2	58,024.4
Gross amount of distressed debt assets disposed	96,632.8	31,818.4
Gross amount of distressed debt assets at the end of the period <sup>(1)</sup>	59,595.0	48,735.5
Net gain or loss from disposal of distressed debt assets <sup>(2)</sup>		
Realized gain	2,834.5	1,335.8
Unrealized fair value changes	816.1	191.9
<b>Total</b>	<b>3,650.6</b>	<b>1,527.7</b>
IRR on completed projects <sup>(3)</sup>	15.9%	20.2%

- (1) Gross amount of acquisition-and-disposal distressed debt assets at the end of the period equals the Company's distressed debt 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 acquisition-and-disposal distressed debt assets equals the Company's fair value changes on distressed debt assets, as shown in the consolidated financial statements.
- (3) IRR, or the internal rate of return, on completed projects is the rate of return that makes the net present value of all cash inflows and outflows from all the acquisition-and-disposal projects completed in a given period from the time of acquisition to the time of disposal equal to zero.

## 9. Management Discussion and Analysis

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

	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta <sup>(1)</sup>	21,305.3	35.8%	16,890.0	34.7%
Pearl River Delta <sup>(2)</sup>	9,350.4	15.7%	8,335.9	17.1%
Bohai Rim Region <sup>(3)</sup>	10,862.6	18.2%	10,393.2	21.3%
Central Region <sup>(4)</sup>	5,682.6	9.5%	4,886.3	10.0%
Western Region <sup>(5)</sup>	9,580.8	16.1%	6,446.8	13.2%
Northeastern Region <sup>(6)</sup>	2,813.3	4.7%	1,783.3	3.7%
<b>Total</b>	<b>59,595.0</b>	<b>100.0%</b>	<b>48,735.5</b>	<b>100.0%</b>

(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, Bohai Rim Region, Western Region and Pearl River Delta.

### 9.3.1.1.2.2 Acquisition-and-restructuring model

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



## 9. Management Discussion and Analysis

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

	As of or for the year ended	
	December 31,	
	2016	2015
	(in millions of RMB, except for percentages)	
Number of new projects (quantity)	944	768
Number of existing projects as of the end of the period (quantity)	1,250	1,154
Gross amount of distressed debt assets <sup>(1)</sup>	268,607.4	222,133.9
Allowance for impairment losses <sup>(2)</sup>	(23,649.9)	(19,382.4)
Net carrying amount of distressed debt assets <sup>(3)</sup>	244,957.5	202,751.5
Acquisition cost of newly added distressed debt assets	241,346.7	166,384.0
Income from distressed debt assets		
Operating income from distressed debt assets <sup>(4)</sup>	24,882.9	23,095.0
Financial advisory income	3,622.5	2,919.9
<b>Total</b>	<b>28,505.4</b>	<b>26,014.9</b>
Annualized return on monthly average gross amount of distressed debt assets <sup>(5)</sup>	12.1%	12.5%
Impaired distressed debt assets <sup>(6)</sup>	5,322.3	3,301.1
Impaired distressed debt assets ratio <sup>(7)</sup>	1.98%	1.49%
Allowance to distressed debt assets ratio <sup>(8)</sup>	8.8%	8.7%
Impaired distressed debt assets coverage ratio <sup>(9)</sup>	444.35%	587.10%
Distressed debt assets collateral ratio <sup>(10)</sup>	36.0%	36.2%

- (1) Gross amount of distressed debt assets equals the Company's distressed debt assets 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 classified as receivables, as shown in the consolidated financial statements.
- (3) Net carrying amount of distressed debt assets equals the Company's distressed debt assets classified as receivables minus allowance for impairment losses for distressed debt assets, 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 assets equals income from distressed 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 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) 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.

## 9. Management Discussion and Analysis

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

	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Yangtze River Delta <sup>(1)</sup>	52,364.6	19.5%	42,771.6	19.3%
Pearl River Delta <sup>(2)</sup>	37,257.6	13.9%	31,568.3	14.2%
Bohai Rim Region <sup>(3)</sup>	29,214.2	10.9%	19,072.7	8.6%
Central Region <sup>(4)</sup>	52,549.9	19.6%	49,248.5	22.2%
Western Region <sup>(5)</sup>	80,232.6	29.9%	66,145.4	29.7%
Northeastern Region <sup>(6)</sup>	16,988.5	6.2%	13,327.4	6.0%
<b>Total</b>	<b>268,607.4</b>	<b>100.0%</b>	<b>222,133.9</b>	<b>100.0%</b>

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

	As of December 31,			
	2016		2015	
	Gross amount	Percentage	Gross amount	Percentage
	(in millions of RMB, except for percentages)			
Real estate	152,634.2	56.8%	146,157.2	65.8%
Manufacturing	35,830.9	13.3%	21,190.4	9.5%
Construction	12,271.0	4.6%	9,996.2	4.5%
Mining	6,121.0	2.3%	6,451.7	2.9%
Leasing and commercial services	12,264.4	4.6%	6,652.7	3.0%
Water, environment and public utilities management	13,701.0	5.1%	6,564.7	3.0%
Transportation, logistics and postal services	3,116.4	1.2%	3,116.5	1.4%
Others	32,668.5	12.1%	22,004.5	9.9%
<b>Total</b>	<b>268,607.4</b>	<b>100.0%</b>	<b>222,133.9</b>	<b>100.0%</b>

## 9. Management Discussion and Analysis

### 9.3.1.2 DES asset management business

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 gain from 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, 2016, the Company held Unlisted DES Assets in 173 DES Companies, with carrying amount of RMB9,862.6 million; and Listed DES Assets in 27 DES Companies, with carrying amount of RMB9,266.2 million.

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

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in millions of RMB, except for number of companies)</b>	
Composition of existing DES asset portfolio		
Number of DES companies	<b>200</b>	217
Including:		
Unlisted	<b>173</b>	189
Listed	<b>27</b>	28
Carrying amount	<b>19,128.8</b>	24,202.9
Including:		
Unlisted	<b>9,862.6</b>	11,104.9
Listed	<b>9,266.2</b>	13,098.0

## 9. 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; (iv) investment income from follow-on investments, which is the income from transfer of additional equities acquired through private placements of DES Companies; and (v) financial services income, which is the income from providing various financial services to the DES Companies through the Company's financial services subsidiaries. In addition, through the Company's DES Companies, the Company forms reliable and win-win cooperative relationships with local governments where the Company's DES Companies are located and the affiliated enterprises of the DES Companies to explore more business opportunities and income.

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

	<b>As of or for the year ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in millions of RMB,</b>	
	<b>except for number of companies)</b>	
Number of DES Companies disposed	17	14
Acquisition cost of DES Assets disposed	1,699.9	2,039.5
Net gain on DES Assets disposed	2,959.9	5,523.5
Exit multiple of DES Assets disposed <sup>(1)</sup>	2.7x	3.7x
Dividend Income from DES Companies	176.2	145.4

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

In 2016, the Company's net gain on DES Assets disposed was RMB2,959.9 million and the average exit multiple was 2.7 times.

## 9. Management Discussion and Analysis

### 9.3.1.3 Distressed asset-based custody and agency services

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 2015 and 2016, the income from such services of the Company amounted to RMB336.9 million and RMB389.3 million, respectively. As of December 31, 2015 and 2016, assets under such services of the Company amounted to RMB45,877.8 million and RMB113,856.1 million, respectively.

### 9.3.1.4 Distressed asset-based special situations investment

The Group's distressed asset-based special situations investment business invests through debt, equity or mezzanine instruments in assets with value appreciation potential and enterprises with short-term liquidity issues, which the Group has identified during the course of its distressed asset management business. Through 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.

## 9. 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,	
	2016	2015
	(in millions of RMB, except for percentages and times)	
Total assets	41,930.4	23,757.4
Third party assets under management	5,464.5	10,921.0
Income	2,381.9	3,036.7
Net profit	1,165.5	1,036.5
ROAA	3.5%	4.6%
ROAE	15.4%	17.8%
Total assets to ownership equity multiple	4.4x	3.9x
Cost-to-income ratio	18.7%	18.2%

### 9.3.1.5 Distressed asset-based property development business

The Group's distressed assets-based property development business restructures, invests in and develops high quality property projects acquired in the course of its distressed asset management business and generates profits from appreciation in the value of the related assets. Through its property development business, the Group discovered the value of existing property development 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 2015 and 2016, income of Huarong Real Estate amounted to RMB2,502.2 million and RMB3,426.1 million, respectively, including income from property development business of RMB2,160.3 million and RMB2,837.6 million, respectively.



## 9. Management Discussion and Analysis

### 9.3.2 Financial Services Business

By leveraging the Group's multiple financial licenses, the Group provides its clients with flexible, customized and diversified financing channels and financial products through a comprehensive financial services platform composed of Huarong Securities, Huarong Futures, Huarong Financial Leasing, Huarong Xiangjiang Bank and Huarong Consumer Finance. This creates a comprehensive financial service system which covers the different business life cycles and the entire value chain of clients. In 2015 and 2016, the total income from the Group's financial services business accounted for 31.1% and 25.7% of our total income, respectively.

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

	As of or for the year ended	
	December 31,	
	2016	2015
	(in millions of RMB)	
<b>Securities and Futures Business</b>		
Total income	7,053.6	7,435.0
Profit before tax	2,100.9	2,435.2
Total assets	135,750.3	75,828.3
Total equity	10,800.0	8,963.4
<b>Financial Leasing Business</b>		
Total income	5,924.2	5,625.5
Profit before tax	1,965.7	1,870.8
Total assets	118,467.1	83,698.4
Total equity	11,124.7	10,099.2
<b>Banking Service Business</b>		
Total income	11,382.2	10,402.7
Profit before tax	2,956.8	2,941.1
Total assets	260,185.6	211,124.5
Total equity	14,445.2	12,879.1
<b>Consumer Finance Business</b>		
Total Income	90.1	—
Profit before tax	(36.8)	—
Total assets	1,862.3	—
Total equity	563.2	—

## 9. Management Discussion and Analysis

### 9.3.2.1 Securities and futures business

The Group conducts securities business through Huarong Securities. The Group's securities business mainly includes proprietary trading, securities brokerage and wealth management, investment banking and asset management businesses. The financial information for Huarong Securities discussed in this section is consolidated financial information that includes the financial condition and results of operation of Huarong Futures, its subsidiary. Affected by the market fluctuation, total income of Huarong Securities decreased by 5.1% from RMB7,435.0 million in 2015 to RMB7,053.6 million in 2016 and profit before tax decreased by 13.7% from RMB2,435.2 million in 2015 to RMB2,100.9 million in 2016.

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

	As of or for the year ended December 31,		
	2016	2015	Regulatory requirements
Profitability indicators <sup>(1)</sup>			
Net profit margin <sup>(2)</sup>	22.4%	24.5%	—
ROAE <sup>(3)</sup>	15.5%	22.9%	—
ROAA <sup>(4)</sup>	1.5%	3.1%	—
Cost-to-income ratio	29.5%	26.6%	—
Risk control indicators <sup>(5)</sup>			
Net assets to total risks ratio	231.9%	617.5%	No less than 100%
Net capital to net assets ratio	131.3%	102.4%	No less than 40%
Net capital to liabilities ratio	63.8%	47.2%	No less than 8%
Net assets to liabilities ratio	48.6%	46.1%	No less than 20%
Equity securities and derivatives of proprietary trading to net capital ratio	24.6%	71.9%	No more than 100%
Fixed income securities of proprietary trading to net capital ratio	101.5%	102.4%	No more than 500%

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

(2) Net profit margin equals 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 during the period divided by the average of total assets as of the beginning and the end of the period.

(5) In 2016, risk control indicators are calculated in accordance with the latest regulatory requirements, and several indicators are calculated based on management data.

## 9. Management Discussion and Analysis

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

	For the year ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Proprietary trading	2,642.7	37.5%	3,100.7	41.7%
Securities brokerage and wealth management	2,326.1	33.0%	3,140.5	42.2%
Investment banking	1,416.2	20.1%	394.0	5.3%
Asset management	303.8	4.3%	405.8	5.5%
Others	364.8	5.1%	394.0	5.3%
<b>Total</b>	<b>7,053.6</b>	<b>100.0%</b>	<b>7,435.0</b>	<b>100.0%</b>

Proprietary trading: The income of Huarong Securities from proprietary trading decreased by 14.8% from RMB3,100.7 million in 2015 to RMB2,642.7 million in 2016. As of December 31, 2015 and 2016, the investment in proprietary trading amounted to RMB11,647.2 million and RMB12,318.9 million, respectively.

Securities brokerage and wealth management: The income of Huarong Securities from its securities brokerage and wealth management business decreased by 25.9% from RMB3,140.5 million in 2015 to RMB2,326.1 million in 2016. In 2016, the market share of the total trading volume of equity and funds was approximately 2.964%.

Investment banking: The income of Huarong Securities from its investment banking business increased by 259.4% from RMB394.0 million in 2015 to RMB1,416.2 million in 2016. According to the operating data on securities companies published by the Securities Association of China, Huarong Securities ranked 9th among the industry in terms of the consolidated net income from financial advisory services in 2016.

Asset management: The income of Huarong Securities from its asset management business decreased by 25.1% from RMB405.8 million in 2015 to RMB303.8 million in 2016. As of December 31, 2015 and 2016, the asset under the management of Huarong Securities was RMB172,840.0 million and RMB306,138.7 million, respectively.

## 9. Management Discussion and Analysis

### 9.3.2.2 Financial leasing business

The Group operates its financial leasing business through Huarong Financial Leasing. Huarong Financial Leasing mainly engages in financial leasing of equipment and provides customized financial solutions to clients, including sale and leaseback, direct leasing and operating leasing. As at December 31, 2016, Huarong Financial Leasing operated its financial leasing business in 31 provinces, autonomous and municipalities in China. As at December 31, 2016, Huarong Financial Leasing had total assets of RMB118,467.1 million, net assets of RMB11,124.7 million and ROAE of 13.9%, ranking sixth, sixth and sixth among the 52 financial leasing companies in China, respectively. As at December 31, 2015 and 2016, total amount of finance lease receivables of Huarong Financial Leasing was RMB82,803.9 million and RMB97,704.2 million, respectively. In 2015 and 2016, the net profit of Huarong Financial Leasing was RMB1,401.4 million and RMB1,471.6 million, respectively, representing a growth rate of 5.0% in 2016.

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,	
	2016	2015
Profitability indicators		
ROAA <sup>(1)</sup>	1.5%	1.8%
ROAE <sup>(2)</sup>	13.9%	16.1%
Net interest spread <sup>(3)</sup>	2.4%	2.3%
Net interest margin <sup>(4)</sup>	3.0%	3.0%
Cost-to-income ratio <sup>(5)</sup>	17.1%	16.8%
Asset quality indicators		
Non-performing asset ratio <sup>(6)</sup>	1.21%	1.06%
Provision coverage ratio <sup>(7)</sup>	155.8%	155.4%
Capital adequacy indicators		
Core capital adequacy ratio <sup>(8)</sup>	10.5%	12.5%
Capital adequacy ratio <sup>(8)</sup>	11.1%	13.0%

(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 owners for the period as a percentage of the average balance of equity attributable to owners at the beginning and end of the period.

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

## 9. Management Discussion and Analysis

- (4) Net interest margin equals net interest income divided by the average 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 asset ratio equals the balance of non-performing assets divided by finance lease receivables. Non-performing 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 estimated future cash flows of finance lease receivables that can be reliably estimated.
- (7) Provision coverage ratio equals the balance of asset impairment provisions divided by the balance of non-performing assets.
- (8) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBRC regulations.

The table below sets forth 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,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Sale and lease-back	4,728.4	79.8%	4,492.0	79.9%
Direct leasing	839.9	14.2%	968.7	17.2%
Others	355.9	6.0%	164.8	2.9%
<b>Total</b>	<b>5,924.2</b>	<b>100.0%</b>	<b>5,625.5</b>	<b>100.0%</b>

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,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	18,883.9	21.8%	21,336.4	29.3%
Water resources, environment and public facility management	35,077.7	40.5%	20,286.8	27.8%
Transportation, warehousing and postal services	7,232.4	8.3%	8,428.1	11.6%
Construction	4,569.3	5.3%	1,518.2	2.1%
Mining	2,007.4	2.3%	985.7	1.4%
Leasing and business services	2,329.4	2.7%	2,852.6	3.9%
Real estate	179.3	0.2%	240.6	0.3%
Others	16,350.3	18.9%	17,224.3	23.6%
<b>Total</b>	<b>86,629.7</b>	<b>100.0%</b>	<b>72,872.7</b>	<b>100.0%</b>

## 9. Management Discussion and Analysis

### 9.3.2.3 Banking Services business

The Group conducts its banking services business in China through Huarong Xiangjiang Bank. Huarong Xiangjiang Bank ranked 26th among the top 100 enterprises in Hunan province in 2016. As at December 31, 2015 and 2016, total assets of Huarong Xiangjiang Bank was RMB211,124.5 million and RMB260,185.6 million, respectively; total loans was RMB79,380.4 million and RMB113,609.5 million, respectively; total deposits was RMB140,072.5 million and RMB172,483.7 million, respectively. In 2015 and 2016, net profit of Huarong Xiangjiang Bank was RMB2,286.9 million and RMB2,337.3 million, respectively, with an increase of 2.2%.

As at December 31, 2016, the non-performing loans ratio and allowance to non-performing loans of Huarong Xianjiang Bank was 1.48% and 152.7%, respectively. Its core tier 1 capital adequacy ratio was 8.6% and its capital adequacy ratio was 11.5%, and all major businesses indicators of Huarong Xiangjiang Bank either satisfied or outperformed regulatory requirements. The rating of Huarong Xiangjiang Bank was “AA+” as assessed by China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級公司).

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

	As of or for the year ended	
	December 31, 2016	2015
Profitability indicators		
ROAA <sup>(1)</sup>	1.0%	1.2%
ROAE <sup>(2)</sup>	17.1%	19.1%
Net interest spread <sup>(3)</sup>	2.8%	2.8%
Net interest margin <sup>(4)</sup>	2.7%	2.8%
Cost-to-income ratio <sup>(5)</sup>	34.5%	38.3%
Asset quality indicators		
Non-performing loans ratio <sup>(6)</sup>	1.48%	0.99%
Allowance to non-performing loans <sup>(7)</sup>	152.7%	228.2%
Allowance to total loans <sup>(8)</sup>	2.3%	2.3%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio <sup>(9)</sup>	8.6%	9.5%
Capital adequacy ratio <sup>(9)</sup>	11.5%	13.2%
Other indicators		
Loan to deposit ratio <sup>(10)</sup>	65.9%	56.7%
Liquidity ratio <sup>(11)</sup>	36.6%	40.6%



## 9. 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 of shareholders' equity at the beginning and end of the period.
- (3) Net interest spread equals the difference between the average yield of interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net interest margin equals net interest income divided by the average balance of 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 loan divided by total loans and advances to customers.
- (7) Allowance to non-performing loans 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 advanced 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" (财智融). The balance of corporate loans of Huarong Xiangjiang Bank was RMB63,281.5 million and RMB90,876.4 million respectively as of December 31, 2015 and 2016, representing an increase of 43.6%, of which the balance of loans to small and micro enterprises was RMB20,942.6 million and RMB28,272.1 million, respectively, representing 33.1% and 31.1% of its balance of corporate loans, respectively; the balance of corporate deposits was RMB82,560.5 million and RMB108,723.3 million, representing an increase of 31.7%.

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 RMB16,098.9 million and RMB22,733.0 million respectively as at December 31, 2015 and 2016, representing an increase of 41.2%. The balance of retail deposits was RMB34,064.7 million and RMB40,952.9 million as of December 31, 2015 and 2016, representing an increase of 20.2%.

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,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Loans for business operations	9,816.0	43.2%	7,086.6	44.0%
Mortgage	7,087.5	31.2%	5,735.8	35.6%
Others	5,829.5	25.6%	3,276.5	20.4%
<b>Total</b>	<b>22,733.0</b>	<b>100.0%</b>	<b>16,098.9</b>	<b>100.0%</b>

## 9. Management Discussion and Analysis

Financial market business: As at December 31, 2015 and 2016, the balance of placements with financial institutions and financial assets held under resale agreements of Huarong Xiangjiang Bank was RMB16,150.6 million and RMB5,240.3 million, respectively, and the balance of placements from financial institutions and financial assets sold under repurchase agreements was RMB22,150.0 million and RMB22,559.1 million, respectively.

### 9.3.2.4 Consumer finance

In 2016, the Group established Huarong Consumer Finance to provide consumer finance services. Since its inception, Huarong Consumer Finance has strived to establish its market position by “setting up its base in Anhui, leveraging the Huarong platform, serving small and micro enterprises, covering all over China” (立足安徽、依托華融、服務小微、輻射全國). Huarong Consumer Finance aims to provide financial services to the general public, featuring small-sized loans, based on the Internet “big data”, and supported by its online to offline platform. It is the policy of Huarong Consumer Finance to carry on its retail banking business as a wholesale operation and integrate its online and offline services, to establish “small, quick and flexible” operations in order to enhance its role as a leading provider of financial services to the general public.

As at December 31, 2016, total loans of Huarong Consumer Finance was RMB1,658.5 million and total asset was RMB1,862.3 million.

### 9.3.3 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 business generates commission and fee income, as well as investment income through asset management, financial investments, international business and other businesses. The asset management and investment business of the Group enhances the overall profitability of the distressed asset management business and optimizes the business and income structure of the Group. Asset management and investment business is a natural extension and supplement of the distressed asset management business of the Group and serves as an important functional platform for providing the clients of the Group with diversified asset management, investment and financing services. As at December 31, 2015 and 2016, the total assets under the Group’s asset management and investment business was RMB138,469.2 million and RMB302,715.7 million, respectively, representing 16.1% and 21.6%, respectively, of our total assets. In 2015 and 2016, the income from asset management and investment business was RMB12,003.0 million and RMB21,701.7 million, respectively, representing 15.9% and 22.8%, respectively, of our total income.

## 9. Management Discussion and Analysis

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

	As at or for the year ended	
	December 31,	
	2016	2015
	(in millions of RMB)	
<b>Asset management</b>		
<b>Trust</b>		
Outstanding trust AUM	242,592.7	212,448.5
Total trust income	2,079.4	2,119.5
Including: trust commission and fee income	1,475.2	1,439.9
Profit before tax	1,149.5	993.1
<b>Private fund</b>		
Total committed capital	82,310.2	64,282.9
Total income	2,252.7	1,042.6
<b>Financial investments</b>		
Balance of financial investments <sup>(1)</sup>	70,117.8	36,742.4
Investment income from financial investments <sup>(2)</sup>	5,329.5	1,984.1
<b>International business</b>		
Total assets	134,871.2	60,451.1
Total income	9,516.2	5,547.3
Profit before tax	4,521.1	2,942.8
<b>Other businesses</b>		
Total income	2,523.9	1,309.5

(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 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 and available-for-sale financial assets attributable to the asset management and investment segment of the Company in consolidated financial statements.

## 9. Management Discussion and Analysis

### 9.3.3.1 Asset management business

The Group's asset management business mainly includes its trust business and private fund business.

#### 9.3.3.1.1 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 controls. It conducts whole-process risk management for trust projects through industry-leading business and risk management systems, comprehensively covering compliance risk, credit risk, market risk and operational risk in the trust business. As of 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, 2015 and 2016, the total trust assets under management of Huarong Trust was RMB212,448.5 million and RMB242,592.7 million, respectively, representing an increase of 14.2%. As of December 31, 2015 and 2016, we managed 387 and 384 existing trust projects, respectively.

In 2015 and 2016, the income generated from Huarong Trust's trust business was RMB1,439.9 million and RMB1,475.2 million, respectively.

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

	As of December 31,	
	2016	2015
	(in millions of RMB)	
Industry and commerce	33,078.4	39,143.0
Financial institutions	86,182.5	71,709.3
Securities investment	31,827.8	39,654.8
Infrastructure	34,293.6	30,064.3
Real estate	43,567.7	28,481.8
Others	13,642.7	3,395.3
<b>Total</b>	<b>242,592.7</b>	<b>212,448.5</b>

## 9. Management Discussion and Analysis

### 9.3.3.1.2 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, 2016, Huarong Yufu managed a total of 40 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 of or for the year ended	
	December 31,	
	2016	2015
	(in millions of RMB)	
Number of funds managed (unit)	40	36
Total committed capital	82,310.2	64,282.9
Total paid-in capital	47,918.7	29,684.5
Total income	2,252.7	1,042.6

## 9. Management Discussion and Analysis

### 9.3.3.2 Financial investment business

Financial investment business of the Group mainly refers to the fixed income investments and equity investments conducted by the Company. As at December 31, 2015 and 2016, the balance of our financial investments was RMB36,742.4 million and RMB70,117.8 million, respectively. In 2015 and 2016, income from financial investment business was RMB1,984.1 million and RMB5,329.5 million, respectively. The table below sets forth the breakdown of balance of our financial investment, by investment type, as at the dates indicated.

	As at December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Fixed income investments	63,761.1	91.0%	33,598.6	91.4%
Equity investments	6,356.7	9.0%	3,143.8	8.6%
<b>Total</b>	<b>70,117.8</b>	<b>100.0%</b>	<b>36,742.4</b>	<b>100.0%</b>

#### 9.3.3.2.1 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 established by independent third parties, limited liability partnerships and dedicated asset management plans. As of December 31, 2015 and 2016, the balance of the fixed income financial investment of the Company was RMB33,598.6 million and RMB63,761.1 million, respectively.

#### 9.3.3.2.2 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 exits in the capital markets.

As at December 31, 2015 and 2016, the balance of equity financial investments of the Company was RMB3,143.8 million and RMB6,356.7 million, respectively.



## 9. Management Discussion and Analysis

### 9.3.3.3 International business

The Group conducts its international business mainly through Huarong International. As the overseas investment and financing platform of the Group, Huarong International takes advantage of the developed capital markets and established legal environment in Hong Kong, penetrates the 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 movement of domestic and overseas funds and businesses.

As at December 31, 2015 and 2016, the total asset of Huarong International was RMB60,451.1 million and RMB134,871.2 million. The total income for 2015 and 2016 of Huarong International was RMB5,547.3 million and RMB9,516.2 million, and the profit before tax was RMB2,942.8 million and RMB4,521.1 million, respectively.

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

	As of December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Deposits with financial institutions	19,049.7	14.1%	7,605.9	12.6%
Financial assets held for trading	10,337.0	7.7%	3,417.2	5.7%
Financial assets designated as at fair value through profit or loss	13,945.6	10.3%	9,323.4	15.4%
Available-for-sale financial assets	11,839.2	8.8%	7,843.1	13.0%
Financial assets classified as receivables	28,566.4	21.2%	20,422.5	33.8%
Other assets	51,133.3	37.9%	11,839.0	19.6%
<b>Total</b>	<b>134,871.2</b>	<b>100.0%</b>	<b>60,451.1</b>	<b>100.0%</b>

### 9.3.3.4 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 2015 and 2016, the income from the Group's other businesses was RMB1,309.5 million and RMB2,523.9 million, respectively.

## 9. Management Discussion and Analysis

### 9.3.4 Business Synergy

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

In 2016, the Group 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 Head Office business department, the financing provided by all operation units amounted to RMB131,089.7 million and the total operating income of all operation units amounted to RMB6,283.7 million.

### 9.3.5 Major Investment and Acquisition

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

### 9.3.6 Development of Information Technology

#### Management of information technology

During the Reporting Period, the Company continued to enhance the upper structure of information technology, manage the overall plan, refine the management mechanism and play a leading and coordinating role of Information Technology Management Committee. During the year, we considered and passed major topics, such as the new articles of working rules of Information Technology Management Committee and Report on Company's Informatization Development. We promoted the research and exploration of technology innovation and application, with two technology risk research subjects of "Research and Practice on Comprehensive Risk Management Informatization Application System of Financial Asset Management Company" and "Business Continuity Management and Research on Disaster Recovery Plan" being awarded the 2nd and 3rd prize by CBRC, respectively. The Company also participated in the preparation for national standards of Data Management Specification and successfully organized and convened conferences for advice soliciting and practical application.

## 9. Management Discussion and Analysis

### Information System Establishment

During the Reporting Period, the Company continued to refine information application system to satisfy application needs for institutions at all levels. The Company completed the phase II construction of the financial accounting system and promotion of subsidiaries, and realized the multi-perspective data connection for performance management in the management accounting system. We also upgrade the comprehensive business systems of subsidiaries, increase the support of capital operation and management system for new businesses and reform the classification for asset risks in Risk Management System, so as to meet the regulatory requirements. We also strengthen resource sharing in Customer Information Management System and promote the coordinated marketing and development for our businesses.

### Management of information technology risks

During the Reporting Period, the Company further refined its information technology risks prevention system and upgraded the version of ISO 27001 information security management system. The Group conducted comprehensive evaluation on information technology risks and special inspection on information security based on the information security control measures set forth in ISO 27001 information security management system and regulatory requirements of the CBRC and did well in daily monitoring of information system. The Group has passed the information security management system certification test for 2016 conducted by China Information Security Certification Center (ISCCC) and obtained ISO 20000:2011 certificate. There was no significant event in relation to information security and technology risk during the Reporting Period.

### 9.3.7 Human Resources Management

In 2016, based on our business and the development strategy of being market-oriented, professional, diversified, comprehensive and global, the Group further reformed its human resources system, optimized the organization structure of its employees and exerted efforts in attracting market-oriented and professional talents. Through improving remuneration packages, incentive and disciplinary system and employee insurance systems, the Group managed to enhance its employees' sense of belonging and team spirit. Through establishing a multi-level, diversified and comprehensive training system which covers a wide range of areas and mixed businesses and provides integrated training programs, the Group managed to improve the capabilities of our staffs and committee the strategy of "talent powered company", in order to facilitate the transformation and development after listing.

### Employees

The Group had 11,365 employees as of December 31, 2016, including 2,465 employees working for the Company and 8,900 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, attorneys, Financial Risk Managers, Certified Practising Valuer, Certified International Internal Auditor, banking practice qualifications and securities practice qualifications.

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The table below sets forth a breakdown of the employees of the Group, by age, as of December 31, 2016:

	Number	% of total
Aged 35 and below	6,317	55.6%
Aged 36–45	2,743	24.1%
Aged 46–55	2,048	18.0%
Above 55	257	2.3%
<b>Total</b>	<b>11,365</b>	<b>100%</b>

The table below sets forth a breakdown of the employees of the Group, by education level, as of December 31, 2016:

	Number	% of total
Doctoral degree or doctoral candidate and above	199	1.8%
Master degree or master candidate	3,220	28.3%
Bachelor degree or undergraduate	6,220	54.7%
Junior college and below	1,726	15.2%
<b>Total</b>	<b>11,365</b>	<b>100%</b>

### Remuneration policy

Based on the strategies, business development and talent recruitment of the Group, the remuneration policy of the Group is formulated to maximize operation efficiency. A “performance-based” remuneration system is adopted to achieve our operation targets. 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 profit-based incentive system was further optimized. Remuneration is determined on the basis of matching profits and risks, balancing of long-term and short-term incentives. The Group has established a healthy and competitive remuneration management system based on its operating results and the principle of fairness.

### Training

In 2016, based on the Group’s trainings which follow the training concepts of “developing generalized training system”, “developing cadres” and “developing talents”, the Group established a multi-level, diversified and comprehensive training system which covers a wide range of areas and mixed businesses and provides integrated training programs. Highly practical training programs in respect of different business lines with essential contents were provided to different levels of employees in various forms, including on-site training such as system introduction, case studies, seminars, training of knowledge and skills and research, and sharing knowledge through platforms such as online colleges. In 2016, over 1,500 training programs were organized by the Group in domestic and overseas with more than 90,000 staffs being trained, representing an average of nearly 8 trainings per person, which provided sufficient human resources and intelligence security for the sound and sustainable development of the Group.

## 9. Management Discussion and Analysis

### 9.4 Risk Management

In 2016, the Group continued to promote the establishment of its comprehensive risk management system and improve the risk management of the Group. Through setting up proper risk appetite and adhering to risk tolerance, the Group strengthened the risk management of its subsidiaries, the establishment of internal control system as well as the management and control of procedure, and accelerated the construction of risk management system and data sorting. In 2016, the risk management level of the Group has been improved continuously and the risk management is effective and helpful, which provides a solid guarantee for the smooth operation of each business activity.

#### 9.4.1 Comprehensive Risk Management System

In 2016, the Group continued to improve the risk management structure of the Group, and formulated the 2016 Risk Appetite Policy (《2016年風險偏好政策》). The policy covered all levels and risk types of the Group and set up a bottom line for the balance of risks and profit to guide each level and business line of the Group to fulfill the objectives of a prudent, stable risk appetite and further the guidance to the subsidiaries to clarify their own bottom line for risk appetite and policy requirements. In accordance with the working principles of “solid progress and managing for efficiency”, the Group continued to supplement, improve, adjust and optimize planning project, and orderly implement the five-year plan for the comprehensive risk management system from 2014 to 2018. The Group adhered to the authorization policy of categorized management and dynamic adjustments and emphasized the assessment policy of the subsidiaries which focused on “cash flow” thereof, so as to fully leverage the guiding and conducting function of evaluation. By carrying out management regulations relating to provision for impairment and connected transactions of subsidiaries, the Group enhanced the risk-resisting ability of subsidiaries. The Group also accelerated the construction of risk management system and completed the design of risk database so as to improve the level of risk management.

#### 9.4.2 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. The three hierarchies within our corporate governance structure refer to the Board, the senior management, and the Board of Supervisors. The Group’s three tiers of professional teams specialized in risk management refer to the chief risk officer of the Group; the risk management department and other departments of the Group involved in risk management; and the chief risk officers or risk directors of the business departments of the Head Office, the Company Branches and the subsidiaries. The three lines of defense in operations refer to the three lines of defense in respect of risk management comprised of the business departments, the risk management department and other risk management related functional departments of the Group and the audit department of the Group. In 2016, the Group continuously improved risk management organization system, revised the Management Measures on Chief Risk Officer (《風險總監管理辦法》), conducted risk management professional trainings and strengthened risk management talent team construction.

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### 9.4.3 Credit risk management

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

In 2016, the Group focused on enhancing monitoring and management of project risks and further improved the management quality of credit risks by elaborating on post-project management requirements, regularly conducting off-site inspection, intensifying dynamic valuation and day-to-day management of collaterals. In addition to strengthening regular evaluation of assets quality, the Group carefully calculated and measured project risks, which is well prepared for risks mitigation.

In 2016, the Group has continually worked on the establishment of measures and tools of credit risk management and completed the establishment of internal rating system of credit risks. The Group improved its limit management mechanism, limit management requirements and system monitoring means. In accordance with the change of the national industry policy and regulatory requirements, the Group updated the negative list of business access on a timely basis and strengthened the management of business access. The Group enhanced risk asset preservation, clarified the target of risk mitigation, guided the business units to mitigate risks substantially and innovatively and standardized the identification of project risk conversion. The Group evaluated the effectiveness of risk mitigation based on reasonable quantified measurement and achieved effective disposal of risk assets.

### 9.4.4 Market Risk Management

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

In 2016, the Group has formulated the Provisional Management Measures for Classifying Trading Accounts and Non-trading Accounts (《交易賬戶和非交易賬戶劃分管理暫行辦法》) according to regulatory requirements and started classification of accounts. The operating assets measured by fair value were regularly evaluated, so as to accurately reflect the real value of assets and to reasonably measure the market risk of the Company during its business operations.

In respect of interest rate risk, the Group actively formulated response plans for market-based reform of interest rates, established related management measures, optimized interest rate structure, and improved the differential pricing management regarding to assets-based businesses. We manage interest risks through measures including flexibly controlling the duration and frequency of financing facilities and strengthening the matching between the duration of liabilities and assets.



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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 favorable. The balance of the proceeds from listing will be remitted when the exchange rate is favorable and will be used to strengthen the distressed asset management business, to improve our integrated financial services platform and to develop our asset management and investment business. The proceeds from overseas U.S. dollar bonds issued by our overseas subsidiaries and the U.S. dollar borrowings of our overseas subsidiaries were used on investment assets denominated in US dollar or HK dollar, which was pegged to the US dollar. The denominated currencies of our assets and liabilities are basically the 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 condition, flow of funds, industry's cyclical changes, operating environment of capital market as well as latest policies from regulators on the operations, financial conditions and valuation of such listed companies, and set different transacting combination for different assets, whose values were monitored daily and Huarong Securities was engaged for its portfolio management. In addition, for equity assets of policy-oriented listed companies, we conducted timely information disclosure and market value management under the premise of compliance with regulatory requirements.

### 9.4.5 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 of assets at a reasonable market price to obtain funds due to the limited depth of the market or market fluctuations. The Group's liquidity risks arise primarily from the delay in payment by its debtors, mismatch of asset and liability structure, difficulty in asset monetization, operational loss, insufficient liquidity reserve and insufficient financing to support business development.

Actively implementing requirements on liquidity management from regulatory institutions, the Group has adopted a centralized liquidity management system to enhance the structure of its liquidity risk management. By focusing on asset and liability management, the Group maintained the mismatch of assets and liabilities at an acceptable liquidity risk level. Maximum leverage ratio was determined in accordance with regulatory requirements to effectively control leverage and to guarantee its long-term liquidation.

The Group monitored the maturity mismatch between assets and liabilities, and implemented liquidity management through cash flow forecasts and controls. With respect to asset management, the Group established the system of working capital plan, adopted transfer pricing method and other measures to

## 9. Management Discussion and Analysis

expedite the turnover of funds, and maintained fund positions at a reasonable level. With respect to liability management, external financing was centrally managed and efforts were made to explore more important financing channels from direct bank borrowings to financial bond offerings, 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 borrowing and the addition of market financing methods in terms of the maturity and types of borrowings.

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

### 9.4.6 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 2016, the Group continued to strengthen its management of operational risks, carried out educational activities relating to operational risks, sorted out the external regulations and the internal policies comprehensively, conducted thorough self-inspections on possible operational risks, and optimized the process of business control. The Group organized trainings on operational risks together with case studies, analysis and discussions to enhance the awareness and prevention ability of operational risks of staff.

The Group attached great importance to the development of prevention and control system of legal risks covering all processes and comprehensively strengthened the contract management. The Group also promoted innovation of the working mechanism for case management and has been optimizing its investigation on legal matters so as to fully prevent and control the legal risks in connection with its operations management activities. The Group also continuously conducted trainings on legal matters, case studies and legal education programs to promote the development of "the rule of law prevailing in Huarong" and cultivate the culture of legal compliance.

The Group further refined its information technology risks prevention system, optimized and upgraded ISO 27001 information security management system, and refined security management requirements for information technology projects. The Group fully conducted evaluation on information technology risks

## 9. Management Discussion and Analysis

and special inspection on information security. The Group has passed the information security management system certification test for 2016 of China Information Security Certification Center (ISCCC). There was no significant event in relation to information security and technological risks during the Reporting Period.

### 9.4.7 Reputational Risk Management

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

The Group placed importance on reputational risk management. It has established an advanced reputational risk management system to conduct spontaneous reputational risk management to ensure prompt discovery and proper handling of incidents which are in relation to or may lead to reputational risk of the Group.

In 2016, the Group has worked in accordance with the principles of proactive and prudent management and insisted on combining centralized control and classified management as well as daily management and special management, which achieved management and control with full involvement and division of duties and responsibility, monitoring in real time and regulated process, to reinforce the awareness of reputational risk management and further improve the ability of reputational risk management so as to safeguard and promote its social reputation, brand name and image. In 2016, the Group did not have any significant event of reputational risk.

### 9.4.8 Internal Controls

In 2016, the objectives of the internal controls of the Group are to ensure efficiency of operations, reliability of reports and compliance of operations. The Group has strictly implemented all regulatory requirements, continuously improved the organization structure of internal controls, enhanced system management and reinforced business control measures to cultivate a good internal control culture.

The Group has developed an organization structure and authorization system of clear hierarchies, reasonable job allocation and definite reporting order. A three-lines defense system of internal controls comprising operation management department, risk management department and internal audit department was formed. Units at all levels and each of the defense lines reinforced each other and worked together to develop business and prevent and control risks. In 2016, the Group revised the Internal Control Manual (《内部控制手册》) and its supporting document Risk Control Matrix (《风险控制矩阵》), formulated the Internal Control Appraisal Manual (《内部控制评价手册》) and Internal Control Deficiency Identification Standards (《内部控制缺陷认定标准》) and strengthened risk controls in the key segments of the process to ensure the efficiency of internal controls of the Company.

For more details about the internal control of the Group, please refer to “13. Internal Control”.

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### 9.4.9 Internal Audit

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

In 2016, the Group has duly performed its audit duties. To prevent risks and to promote efficiency, the Group conducted routine audits, special audits, economic responsibility audits and evaluation of internal control. The Group also sought to optimize the internal audit management system and improved the professional quality of the audit team as well as thoroughly completed the audit plan for the year by organized planning and effective implementation.

Improvement of the internal audit and management systems. The Group has conducted the reforms of internal audit, established a relatively independent and vertically managed internal audit and management which is applicable to financial holding groups. 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.

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.

Evaluation of internal control. The Group has evaluated the efficiency of its internal control by completing self-evaluation, onsite examination and special inspection on risk management, internal supervision, financial management, business operation and information exchange and put forward recommendations for improvement of internal control.

Strengthening of internal audit structure. The Group has strengthened its internal audit team by organizing trainings on laws and regulations, internal audit system and business knowledge. The Group has also improved audit technology and methods to develop an off-site audit system covering all lines of business. The Group has reallocated and organized the audit resources and highlighted the audit focus to enhance the audit level so as to improve the overall level of its internal audit.

## 9. Management Discussion and Analysis

### 9.4.10 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 procedures. Daily anti-money laundering management was conducted by the off-site supervision system, project management system and customer relationship management system. Together with audit and risk prevention and identification, the Company ensured the effective enforcement of the relevant laws and regulations and rules of the Company regarding anti-money laundering.

## 9.5 Capital Management

In accordance with the external regulatory requirements and the Company's own development strategies, the Company has continuously optimized its capital measurement, planning, utilizations, monitoring and efficiency assessment mechanisms, and optimized its internal capital allocation to ensure a sound and compliant capital base which is capable of supporting the steady development of the Company.

As at December 31, 2015 and 2016, the capital adequacy ratio of the Company was 14.75% and 12.86%, respectively.

As at December 31, 2015 and 2016, the leverage ratio of the Company was 6.1:1 and 9.1:1 respectively.

## 9.6 Outlook

In 2017, the continued rise of de-globalization, international trade and investment protectionism will have certain effects on international policy coordination, trade liberalization, and the movement of capital and labour. There are still uncertainties in economic development prospects, while global economic growth experienced a slow recovery. In relation to China, the key direction of China's policy will be stability-oriented, and macro-economic control will continue to adopt the combination of prudent monetary policy and proactive fiscal policies, further enhance exchange rate flexibility and increase prevention and control of financial risks in order to substantially advance the structural reform of the supply side.

The potential for economic growth in China is still huge in the long run. There is still much room for development in a new-type urbanization, service industry, high-end manufacturing and consumption upgrading. It is expected that Chinese multi-area reforms will have new initiatives and new breakthroughs in 2017. On one hand, China will promote "eliminating excessive capacity, clearing inventory, deleveraging, reducing costs and shoring up weakness", reform of the supply side in agriculture, focus on boosting the development of the real economy, and promote stable and healthy development of the real estate market. On the other hand, China will accelerate the reforms of state-owned enterprises, finance and taxation, finance and endowment insurance system.

## 9. Management Discussion and Analysis

In order to propel the structural reform of the supply side, concrete policies and measures such as securitization of distressed assets and debt-to-equity swaps were implemented, which will provide broader space for the development of the Company's core business, distressed assets management business, including acquisition of distressed assets, debt-to-equity swaps, restructuring of distressed companies and asset securitization businesses. The firm implementation of "the Belt and Road" will create significant opportunities for international businesses of the Company. Meanwhile, with the steady growth of Chinese economy, integrated financial services of the Company is provided with more extended market.

In face of opportunities and challenges in 2017, China Huarong will provide a strong support on deepening the structural reform of the supply side by combining with the needs for financial services required in the processes of promoting "eliminating excessive capacity, clearing inventory, deleveraging, reducing costs and shoring up weakness", transformation and update of traditional industries and transition of the new and old kinetic energy as well as taking advantage of our professional strengths in distressed assets management and integrated financial services. Firstly, the Company will manage to play an important role in reducing the size and ratios of distressed assets of financial institutions, enhancing the efficiency of social asset utilization and mitigating systematic risks in economy and finance through proactively leveraging our advantage in the distressed asset management business, our core business. Secondly, the Company will utilize a comprehensive products system which covers the whole life cycles and the entire value chain of the corporate clients to support the transformation and development of real economy by taking full advantage of integrated financial services. Thirdly, the Company will strive to set up acquisition funds for overseas distressed assets and develop acquisition-and-disposal overseas distressed assets business by actively focusing on global industrial structural layout and adjustments of industry chain as well as grasping favourable opportunities in the adjustment of the international market.



# 10. Changes in Share Capital and Information on Substantial Shareholders

## 10.1 Changes in Share Capital

The share capital of the Company as at December 31, 2016 is set out as follows:

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

## 10.2 Substantial Shareholders

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

As at 31 December 2016, 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 (%) <sup>(6)</sup>	Approximate percentage to the total share capital of the Company (%) <sup>(7)</sup>
MOF	Domestic Shares	Beneficial owner	12,376,355,544 (L)	88.24 (L)	31.68 (L)
	H Shares <sup>(1)</sup>	Beneficial owner	12,376,355,544 (L)	49.42 (L)	31.68 (L)
	H Shares <sup>(2)</sup>	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. <sup>(2)</sup>	H Shares	Interest of controlled corporation	1,716,504,000 (L)	6.85 (L)	4.39 (L)
Warburg Pincus & Co. <sup>(3)</sup>	H Shares	Interest of controlled corporation	2,060,000,000 (L)	8.23 (L)	5.27 (L)

## 10. Changes in Share Capital and Information on Substantial Shareholders

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of Shares of the Company (%) <sup>(6)</sup>	Approximate percentage to the total share capital of the Company (%) <sup>(7)</sup>
Warburg Pincus Financial International Ltd <sup>(3)</sup>	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) <sup>(4)</sup>	H Shares	Interest of controlled corporation	1,771,410,000 (L)	7.07 (L)	4.53 (L)
Ko Kwong Woon Ivan <sup>(5)</sup>	H Shares	Interest of controlled corporation	1,716,504,000 (L)	6.85 (L)	4.39 (L)
Siu Lai Sheung <sup>(5)</sup>	H Shares	Interest of controlled corporation	1,716,504,000 (L)	6.85 (L)	4.39 (L)
Fabulous Treasure Investments Limited <sup>(2)(4)(5)</sup>	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.

## 10. Changes in Share Capital and Information on Substantial Shareholders

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- (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, 2016.
  - (7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as at December 31, 2016.

## 10. Changes in Share Capital and Information on Substantial Shareholders

### 10.2.2 Substantial Shareholders

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

#### MOF

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

#### China Life Insurance (Group) Company (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. Its business scope includes life insurance, property insurance, pension insurance (corporate annuity), asset management, alternative investment, overseas business, e-commerce and various areas.

#### 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. Its business scope mainly includes development of mid-to-high end residential buildings, high-end office buildings, retail properties and service apartments, sales of properties and related business, engineering and landscape construction, property management, operation of hotels and clubhouses, and holding diversified portfolios of development projects and investment properties in various regions.

# 11. Directors, Supervisors and Senior Management

## 11.1 Directors

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

No.	Name	Gender	Age	Position	Term of office
<b>Current/Appointed Directors<sup>(1)</sup></b>					
1	Lai Xiaomin	M	54	Chairman of the Board and 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
2	Ke Kasheng	M	52	Executive Director and President	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
3	Wang Keyue	M	59	Vice Chairman of the Board and 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	Wang Lihua <sup>(2)</sup>	M	52	Executive Director and Vice President	The second session: From the date of approval by the CBRC to the election of the next session of the Board
5	Li Yi <sup>(3)</sup>	M	57	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
6	Wang Cong	F	54	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

## 11. Directors, Supervisors and Senior Management

No.	Name	Gender	Age	Position	Term of office
7	Dai Lijia	F	45	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	Zhou Langlang <sup>(4)</sup>	M	36	Non-executive Director	The second session: From the date of approval by the CBRC to the election of the next session of the Board
9	Song Fengming	M	70	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
10	Tse Hau Yin	M	69	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
11	Liu Junmin	M	67	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
12	Shao Jingchun <sup>(5)</sup>	M	60	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

## 11. Directors, Supervisors and Senior Management

No.	Name	Gender	Age	Position	Term of office
<b>Resigned Directors</b>					
1	Tian Yuming	M	52	Non-executive Director	From September 2012 to January 2017
2	Wang Sidong	M	55	Non-executive Director	From March 2015 to February 2017
3	Li Hui	M	48	Non-executive Director	From February 2015 to March 2016
4	Wu Xiaoqiu	M	58	Independent Non-executive Director	From March 2015 to November 2016

- (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 his directorship qualification is in the process of approval by 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 his directorship qualification is in the process of approval by the CBRC.
- (5) Mr. Shao Jingchun was considered and appointed as an independent non-executive Director of the Company at the 2015 annual general meeting of the Company on June 24, 2016 and he took office on November 11, 2016 upon the approval of the CBRC.



# 11. Directors, Supervisors and Senior Management

## 11.1.1 Executive Directors



**Mr. Lai Xiaomin**, aged 54, has been an executive Director and Chairman of the Board since September 27, 2012, and was accredited as a senior economist by PBOC in June 1993. Mr. Lai started his career at the Planning and Funding Department of PBOC in August 1983 and held various positions in PBOC and CBRC, including deputy director and director of the Central Funding Division of the Planning and Funding Department of PBOC from July 1987 to October 1994, director of the Banking Division II of the Planning and Funding Department of PBOC from October 1994 to May 1997, deputy director of the Credits Management Department of PBOC from May 1997 to August 1998, deputy director of the Banking Regulatory Department II of PBOC from August 1998 to April 2003, a deputy director level cadre of the Banking Regulatory Department II of CBRC from April 2003 to July 2003, head of the preparation team of CBRC Beijing Office from July 2003 to September 2003, director of CBRC Beijing Office from September 2003 to December 2005, director of the General Office (Party Committee Office) of CBRC from December 2005 to January 2009. Mr. Lai joined the Company in January 2009 and served as the President of the Company till September 2012. Mr. Lai also serves as the vice chairman of both China Enterprise Confederation and China Enterprise Directors Association since June 2009, and vice chairman of both the China Council for the Promotion of International Trade and China Chamber of International Commerce and the vice chairman of National Internet Finance Association of China since November 2011. Mr. Lai graduated from Jiangxi College of Finance and Economics (now known as Jiangxi University of Finance and Economics), majoring in national economic planning, in July 1983, and obtained a bachelor's degree in economics. He published several books such as the *Research of Securitization of the Non-performing loans in PRC Banking* (《中國銀行業不良貸款證券化研究》), *Post-crisis Era — Research on Model Selection of Financial Controlling Company* (《後危機時代 — 金融控股公司模式選擇研究》), *Significant Transformation of Strategies — Theories and Practices of Innovation and Development of China Huarong* (《戰略大轉型 — 中國華融創新發展理論與實踐》), *Adding the Finishing Touch and Set Sail — China Huarong's Documentary on its H-share Listing* (《畫龍點睛·揚帆起航 — 中國華融H股上市紀實》). He also graduated from the Party School of Central Committee of the C.P.C, majoring in economics (economic management), in January 2011 with a postgraduate certificate. Mr. Lai used to serve as the chief spokesman of CBRC and is now a representative of the Twelfth National People's Congress of the PRC.



**Mr. Ke Kasheng**, aged 52, has been an executive Director and President of the Company since September 27, 2012, and was accredited as a senior economist by PBOC in November 1999. Mr. Ke started his career at the Currency Issue Department of Guangdong Branch of PBOC in July 1984 and held various positions in PBOC and CBRC, including deputy chief and chief of the Currency Issue Department of Guangdong Branch of PBOC from June 1989 to April 1992, deputy director of the General Office of Guangdong Branch of PBOC from April 1992 to April 1996, director of the Comprehensive Planning Division of Guangdong Branch of PBOC from April 1996 to November 1996, president of Shantou Branch of PBOC from November 1996 to April 2000, director of the Internal Audit Division and vice president of Guangzhou Branch of PBOC from April 2000 to July 2003, member of the preparation team and deputy director of CBRC Guangdong Office from July 2003 to May 2006, director of the Non-banking Financial Institution Regulatory Department of CBRC from May 2006 to September 2012. Mr. Ke graduated from the Central Institute of Finance and Economics (now known as the Central University of Finance & Economics), majoring in finance, in July 1984, and obtained a bachelor's degree in economics, graduated from the graduate school of Aichi University of Japan in March 1995, majoring in business operation, and obtained a master's degree in business operation, and graduated from Cheung Kong Graduate School of Business in September 2007 with an MBA degree for senior management.



**Mr. Wang Lihua**, aged 52, was appointed as our executive Director on October 31, 2016, and his directorship qualifications are in the process of the approval of the CBRC, and he has been a vice president of the Company since October 2012 and 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 since then. 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.

## 11. Directors, Supervisors and Senior Management

### 11.1.2 Non-executive Directors



**Mr. Wang Keyue**, aged 59, had been the vice president of the Company from March 2009 to September 2016 and an executive Director and vice president of the Company from 27 September 2012 to 9 September 2016. He has been vice chairman of the Board and non-executive Director of the Company since 9 September 2016. He was accredited as a senior economist by Industrial and Commercial Bank of China Limited ("ICBC") in December 1994. Mr. Wang started his career in December 1976 and held various positions in PBOC and ICBC, including the head of the Publicity and Education Section and deputy director of the General Office of Langfang Sub-branch of PBOC from October 1982 to November 1984, deputy director and director of the Business Department of Langfang Central Sub-branch of ICBC, president of Langfang Sub-branch of ICBC and president of Langfang Branch of ICBC from November 1984 to September 1998, and vice president of Hebei Branch of ICBC from September 1998 to April 2000. Mr. Wang joined the Company in April 2000 as the general manager of Shijiazhuang Office, and then served as the general manager of the Asset Management Department III from August 2002 to March 2006, general manager of Beijing Office from March 2006 to October 2007, assistant to President from October 2007 to March 2009 (concurrently serving as the general manager of Beijing Office from October 2007 to March 2009), and vice president from March 2009 to September 2016 (concurrently serving as chairman of the Board of Directors of Huarong Rongde from April 2009 to January 2011 and chairman of the Board of Directors of Huarong Financial Leasing from January 2009 to September 2012). Mr. Wang graduated from Correspondence College of the Party School of the Central Committee of the C.P.C in December 1994, majoring in economics, and then completed postgraduate courses in economic laws at Capital University of Economics and Business in June 1997 and postgraduate courses in finance at Southwestern University of Finance and Economics in February 1999.



**Mr. Li Yi**, aged 57, 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, member staff 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, deputy director of the Tariff Division of the Department for Tax Affairs from September 1997 to February 1998. He practiced as deputy county magistrate of Xinhua County, Hunan Province from March 1998 to February 2000 (during which he studied as a part-time postgraduate at Economics and Management School of Hunan Normal University from September 1998 to July 2000). He worked in the MOF, serving successively as deputy director of the Agricultural Tax Division of the Department for Tax System and Tax Rules from February 2000 to June 2000, deputy director of the Agricultural Tax Division of the Department for Tax Affairs from June 2000 to August 2006, secretary of the Department for Tax Affairs (level of director) from September 2006 to August 2014 and deputy director of the Information and Network Center from August 2014 to January 2017 (level of deputy director general).

## 11. Directors, Supervisors and Senior Management



**Ms. Wang Cong**, aged 54, has been a non-executive Director of the Company since 27 September 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 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 45, has been a non-executive Director of the Company since 27 September 2012. Ms. Dai worked 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.



**Mr. Zhou Langlang**, aged 36, was appointed as our non-executive Director on September 13, 2016, and his directorship qualification is in the process of the approval of the CBRC. Mr. Zhou has been a managing director of Warburg Pincus Asia LLC since 2005 and is currently a director of Datong International 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.

## 11. Directors, Supervisors and Senior Management

### 11.1.3 Independent Non-executive Directors



**Mr. Song Fengming**, aged 70, 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 69, has been an independent non-executive Director of the Company since 23 March 2015. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Mr. Tse is a former president of the HKICPA and a former member of the audit committee of the HKICPA. 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.

## 11. Directors, Supervisors and Senior Management



**Mr. Liu Junmin**, aged 67, has been an independent non-executive Director of the Company since 23 June 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 60, PhD in law, has been an independent non-executive Director of the Company since 11 November 2016. Mr. Shao is a professor of the Law School of Peking University. Mr. Shao served as a lecturer of the faculty of law and senior judge training center 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, the director of the international economic law institute and the chairman of the council of Peking University since 2001; He has been a director of WTO legal study center of Peking University since 2002.



# 11. Directors, Supervisors and Senior Management

## 11.2 Supervisors

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

No.	Name	Gender	Age	Position	Term of office
<b>Current Supervisors<sup>(1)</sup></b>					
1	Ma Zhongfu	M	50	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	64	External Supervisor	The first session: From April 2015 to February 2017 The second session: From February 2017 to the election of the new session of the Board of Supervisors
3	Xu Li	F	58	External Supervisor	The second session: From February 2017 to the election of the new session of the Board of Supervisors
4	Zheng Shengqin	F	53	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	Mao Biao Yong	M	51	Employee Representative Supervisor	The second session: From February 2017 to the election of the new session of the Board of Supervisors
<b>Resigned Supervisors</b>					
1	Sui Yunsheng	M	61	Chairman of the Board of Supervisors and Shareholder Representative Supervisor	From September 2012 to October 2016
2	Wang Qi	F	60	External Supervisor	From September 2012 to February 2017
3	Xu Dong	M	51	Employee Representative Supervisor	From March 2015 to February 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; and 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.

## 11. Directors, Supervisors and Senior Management



**Mr. Ma Zhongfu**, aged 50, has been the chairman of the Board of Supervisors of the Company 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 64, has been an external Supervisor of the Company 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 has served as chairman of the Board of Directors of Grandchina International Consulting Co., Ltd. from 2000 to 2014. She also served as an independent non-executive director of Sinotex Investment & Development Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600061) from August 2011 to March 2013, 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 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 58, has been an external Supervisor of the Company 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.



## 11. Directors, Supervisors and Senior Management



**Ms. Zheng Shengqin**, aged 53, has been an employee representative supervisor of the Company 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. Mao Biaoyong**, aged 51, has been an employee representative Supervisor of the Company since February 2017. He was accredited as a senior economist by the Company in 2003. Mr. Mao held various positions in the ICBC, from July 1988 to March 2000, including deputy chief and chief of the Hainan Branch, vice president of the Yangpu Branch, vice president of the Haikou Branch and deputy director and deputy director (director level) of the Asset Risk Management Division of the Hainan Branch. Mr. Mao joined the Company in March 2000 and served as senior manager of the Haikou Office, senior manager of the Asset Management Department III of the Company, deputy general manager of the Zhengzhou Office, deputy general manager and secretary of Disciplinary Committee of the Haikou Office, and deputy general manager of the International Business Department of the Company until August 2006. Mr. Mao served as deputy general manager of Huarong Rongde from August 2006 to March 2011, head of the Secretariat (general manager level) of the Operating Decision-making Committee of the Company from March 2011 to June 2013, general manager of the Hebei Branch from June 2013 to April 2014, deputy general manager (general manager level) of the Business Review Department of the Company from April 2014 to February 2015, deputy general manager (general manager level) of the Risk Management Department of the Company from February 2015 to February 2016, and director and general manager of Huarong Jinshang Asset Management Co., Ltd. from February 2016 to August 2016. He has served as general manager of the Risk Management Department since August 2016. Mr. Mao graduated from the Department of System Engineering and Applied Mathematics of Chinese People's Liberation Army National University of Defense Technology with a bachelor's degree in applied mathematics in July 1988. He also studied monetary banking in the School of Finance of Renmin University of China from September 1993 to July 1996 and obtained a master's degree.

# 11. Directors, Supervisors and Senior Management

## 11.3 Senior Management

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

No.	Name	Gender	Age	Position	Beginning of the term of office
<b>Existing senior management</b>					
1	Ke Kasheng	M	52	President	September 2012
2	Li Yuping	M	54	Member of senior management	September 2012
3	Wang Lihua	M	52	Vice President	October 2012
4	Xiong Qiugu	M	56	Vice President	October 2012
5	Hu Jiliang	M	52	Vice President	November 2014
6	Wang Wenjie	M	55	Vice President	November 2014
7	Hu Ying	F	52	Assistant to President	December 2015
8	Yang Guobing	M	51	Assistant to President	December 2015
9	Hu Jianjun	M	53	Secretary to the Board	November 2014
<b>Resigned senior management</b>					
1	Liang Zhijun	M	61	Vice President	From March 2007 to June 8, 2016
2	Zhang Lin	F	61	Vice President	From March 2009 to June 8, 2016

## 11. Directors, Supervisors and Senior Management

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**Mr. Ke Kasheng**, aged 52, has been an executive Director and President of the Company since September 2012. Details about the experience of Mr. Ke, please see “Executive Directors”.



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**Mr. Li Yuping**, aged 54, has been a member of the senior management of the Company 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.



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**Mr. Wang Lihua**, aged 52, was appointed as an executive Director of the Company on October 31, 2016, pending for the approval of the CBRC on his qualification of executive Director, and has been the Vice President of the Company since October 2012. Details about the experience of Mr. Wang, please see “Executive Directors”.



## 11. Directors, Supervisors and Senior Management



**Mr. Xiong Qiugu**, aged 56, 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.



**Mr. Hu Jiliang**, aged 52, 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, deputy general manager of Hangzhou Office and general manager of Huarong Financial Leasing from August 2004 to December 2009, marketing director, chairman of the board of directors and general manager of Huarong Financial Leasing from December 2009 to January 2014, and assistant to President from September 2012 to November 2014. Mr. Hu graduated from Hangzhou Cadre's Institute of Finance and Management majoring in banking management in 1997, and graduated from The University of Hong Kong with an MBA degree in August 2003.

## 11. Directors, Supervisors and Senior Management



**Mr. Wang Wenjie**, aged 55, 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.



**Ms. Hu Ying**, aged 52, 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 July 2015 (concurrently serving as general manager of Shanghai Branch from January 2013 to July 2015), assistant to President of the Company as appointed by the Board of Directors from July 2015 to December 2015 and concurrently served as general manager of Shanghai Branch and Zhejiang Branch and she took office in December 2015 upon the approval of the CBRC on her qualification of assistant to President. 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 has been the assistant to President of the Company since May 2016. Ms. Hu graduated from Zhejiang Gongshang University majoring in business administration with an MBA degree in July 2009.

## 11. Directors, Supervisors and Senior Management



**Mr. Yang Guobing**, aged 51, 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), assistant to President and chief risk officer of the Company as appointed by the Board of Directors from July 2015 to December 2015 (concurrently serving as the general manager of the Planning and Finance Department of the Company from July 2015 to November 2015 and the general manager of the Risk Management Department of the Company from July 2015 to December 2015), and he took office in December 2015 upon the approval of the CBRC on his qualification of assistant to President. 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 since September 2016. 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.



**Mr. Hu Jianjun**, aged 53, has been Secretary to the Board of the Company since November 2014. He was accredited as a senior economist by ICBC in September 1997 and qualified as a PRC certified financial analyst in September 2007. Mr. Hu started his career in Dusiqian Office of Nanchang Branch of PBOC in February 1979. From July 1984 to December 2001, Mr. Hu held various positions in ICBC, including deputy director of the Deposits Division of Jiangxi Branch, president of Yingtan Branch, and director of the Planning and Financing Division of Jiangxi Branch. Mr. Hu joined the Company in December 2001, serving successively as deputy general manager of Nanchang Office, deputy general manager of Xi'an Office, and general manager of Nanchang Office till January 2010, general manager of Customer Marketing Department, director of the President Office, director of the Board Office and general manager of Beijing Branch from January 2010 to November 2014. Mr. Hu studied at Jiangxi Banking School (now known as Jiangxi Normal University) from September 1982 to July 1984 and completed a correspondence program in accounting offered by Jiangxi University of Finance and Economics in July 1997. He graduated from University of South Australia with an MBA degree in public affairs management in September 2003.



## 11. Directors, Supervisors and Senior Management

### 11.4 Changes in Directors, Supervisors and Senior Management

#### 11.4.1 Changes in Directors

On September 9, 2016, the Company appointed Mr. Wang Keyue as the Vice Chairman of the Company and re-designated Mr. Wang Keyue from executive Director to non-executive Director. Please refer to the announcement dated September 9, 2016 for details.

On October 31, 2016, the Company appointed Mr. Wang Lihua as an executive Director. His directorship qualification is in the process of approval by the CBRC. Please refer to the announcement dated October 31, 2016 for details.

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

On September 13, 2016, the Company appointed Mr. Zhou Langlang as a non-executive Director. His directorship qualification is in the process of approval by the CBRC. Please refer to the announcement dated September 13, 2016 for details.

On June 24, 2016, the Company appointed Mr. Shao Jingchun as an independent non-executive Director. He took office on November 11, 2016 upon the approval of the CBRC on his directorship qualification. Please refer to the announcements dated June 24, 2016 and November 17, 2016 for details.

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

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

Since March 3, 2016, Mr. Li Hui ceased to be a non-executive Director due to change of personal work arrangements. Please refer to the announcement dated March 4, 2016 for details.

Since November 11, 2016, Mr. Wu Xiaoqiu ceased to be an independent non-executive Director due to relevant regulatory requirements regarding leaders and cadres in universities and his own intention. Please refer to the announcements dated March 31, 2016 and November 17, 2016 for details.



# 11. Directors, Supervisors and Senior Management

## 11.4.2 Changes in Supervisors

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

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

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

On October 31, 2016, Mr. Sui Yunsheng ceased to be chairman of the Board of Supervisors and a shareholder representative Supervisor of the first session of the Board of Supervisors because he has reached the age for retirement. Please refer to the announcement dated October 31, 2016 for details.

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

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

## 11. Directors, Supervisors and Senior Management

### 11.4.3 Changes in Senior Management

On June 8, 2016, Mr. Liang Zhijun and Ms. Zhang Lin were approved to retire from their respective positions as vice president of the Company due to age. Please refer to the announcement dated June 8, 2016 for details.

### 11.4.4 Annual Remuneration

#### Remuneration of Directors, Supervisors and senior management

For details of the remuneration of the Directors, Supervisors and senior management of the Company, please see “18. Audit Report and Financial Statements — V. Explanatory Notes — 15. Emoluments of Directors and Supervisors” and “18. Audit Report and Financial Statements — V. Explanatory Notes — 56. Related party transactions”. The total compensation packages for the above Directors, Supervisors and President of the Company for 2016 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

For details of the emoluments of the five highest paid individuals of the Company during the Reporting Period, please see “18. Audit Report and Financial Statements — V. Explanatory Notes — 16. Five highest paid individuals”.

# 12. Corporate Governance Report

## 12.1 Summary

During the Reporting Period, in compliance with the Company Law of the PRC, Securities Law of the PRC, the Listing Rules, the Articles of Association and other laws, regulations and regulatory documents, the Company constantly enhanced its corporate governance structure, construction of governance mechanism and corporate governance level. Efforts were also made to optimize risk management and internal control, and continuously improve information disclosure and investor relations management to 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 the Sixth China Securities Golden Bauhinia Awards.

### 12.1.1 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 code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules and adopted the applicable recommended best practices according to actual situations.

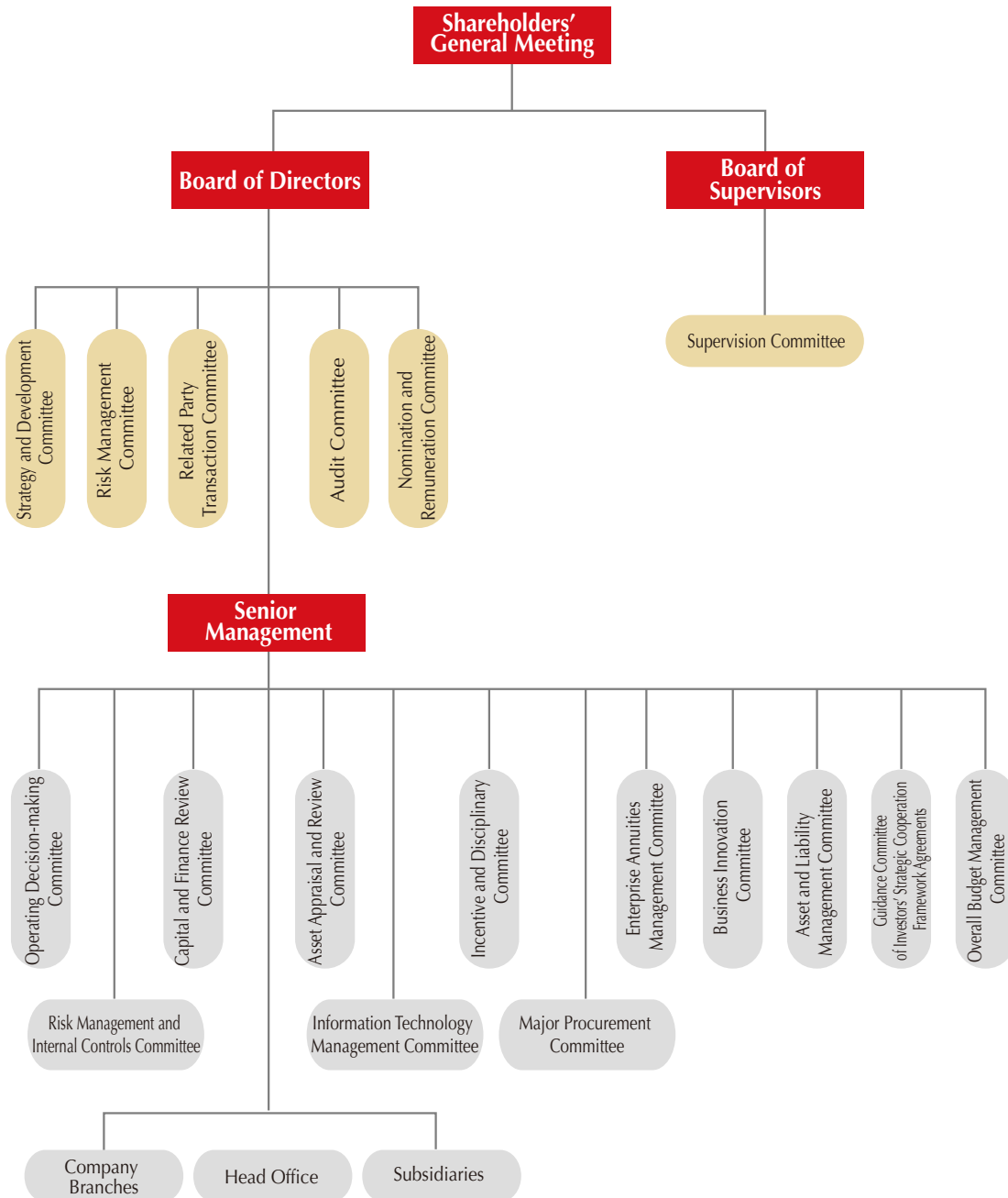
#### Corporate governance function

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, procedural rules of Board meetings and the terms of reference of all special committees of the Board in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; (3) reviewed and modified the code of conduct for Directors, Supervisors and employees; (4) constantly assessed and optimized corporate governance and performed their duties in strict compliance with all requirements on corporate governance.

## 12. Corporate Governance Report

### 12.1.2 Corporate Governance Structure

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



## 12. Corporate Governance Report

### 12.1.3 Amendment of the Articles of Association

During the Reporting Period, due to the partial exercise of the over-allotment option and changes in the registered capital and principal activities, the Company published an announcement dated May 5, 2016 to amend the Articles of Association. For details, please refer to the relevant announcement of the Company dated May 5, 2016. The Company intended to apply for the initial public offering and listing of RMB ordinary shares (A Shares). To meet corporate governance and operational requirements of the Company after the listing of A Shares, the Articles of Association were amended in accordance with the laws, administrative regulations, department rules and regulatory documents such as the Company Law of the PRC, the Guidelines for the Articles of Association of Listed Companies (《上市公司章程指引》), with reference to the actual conditions of the Company. On September 13, 2016, the third extraordinary general meeting for 2016 of the Company considered and approved the resolution on amendments to the Articles of Association. The amended Articles of Association would be effective on the date of issuance and listing of A Shares. Please refer to the circular dated July 29, 2016 for details.

## 12.2 Shareholders' General Meetings

### 12.2.1 Responsibilities of the Shareholders' General Meeting

The Shareholders' general meeting is the organ of authority of the Company and shall exercise the following functions and powers: (1) to decide the Company's operating policies and annual investment plans; (2) to elect and replace the Directors and Supervisors who are not representative of the employees of the Company and to determine the emoluments of Directors and Supervisors; (3) to consider and approve the reports of the Board; (4) to consider and approve the reports of the Board of Supervisors; (5) to consider and approve the annual financial budget and final accounts of the Company; (6) to consider and approve the profit distribution plan and loss recovery plan of the Company; (7) to consider and approve any motion raised by Shareholder(s), individually or jointly holding 3% or more of the total issued Shares of the Company with voting rights; (8) to resolve on any increase or decrease in registered capital of the Company; (9) to resolve on the issuance of corporate bonds, any class of shares, warrants or other marketable securities of the Company and their listing; (10) to resolve on matters related to merger, division, dissolution, liquidation or change of organization of the Company; (11) to amend the Articles of Association, the rules of procedures of the Shareholders' general meeting, and the meetings of the Board and the Board of Supervisors; (12) to decide the engagement, dismissal or 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

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

### 12.2.2 Details of Shareholders' General Meetings

During the Reporting Period, the Company held five Shareholders' general meetings in Beijing, including an annual general meeting and four extraordinary general meetings and considered and approved 35 resolutions, 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:

- the final accounts plan and the profit distribution plan of the Company for 2015;
- the fixed assets investment budget of the Company for 2016;
- the report of the Board and the report of the Board of Supervisors of the Company for 2015;
- the resolution on the election of Directors and Supervisors of the Company;
- the proposal on the initial public offering of A Shares and the listing of the Company and related matters; and
- the amendments to the Articles of Association and the procedural rules of the Shareholders' general meetings, Board meetings and meetings of the Board of Supervisors.

### 12.2.3 Shareholders' Rights

#### Right to propose to convene extraordinary general meeting

Shareholders who individually or jointly hold 10% or more of the shares of the Company with voting rights shall have the right to request the Board to convene an extraordinary general meeting or class meeting in writing.

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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 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



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Company. Shareholders may raise their enquiry or proposal to the Board Office by mail to the registered address of the Company, or by email to the Company. In addition, Shareholders may contact Computershare Hong Kong Investor Services Limited, the share registrar of the H Shares of the Company, regarding any enquiry on shares or rights (if any), the contact information of which is set out in Corporate Information in this annual report.

### Other rights

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

### 12.2.4 Attendance of Directors at Shareholders' General Meetings

Directors' attendance at shareholders' general meetings in 2016 is set out in the following table:

<b>Members of the Board</b>	<b>Number of meetings attended/required to attend</b>	<b>Attendance rate</b>
<b>Executive Directors</b>		
Lai Xiaomin	4/5	80%
Ke Kasheng	1/5	20%
<b>Non-executive Directors</b>		
Wang Keyue	5/5	100%
Tian Yuming	5/5	100%
Wang Cong	5/5	100%
Dai Lijia	5/5	100%
Li Hui	1/1	100%
Wang Sidong	1/5	20%
<b>Independent non-executive Directors</b>		
Song Fengming	4/5	80%
Wu Xiaoqiu	0/5	0%
Tse Hau Yin	5/5	100%
Liu Junmin	4/5	80%
Shao Jingchun	N/A	N/A

Notes:

1. Please see "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management" for changes in Directors.
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.
4. The attendance rate for Mr. Shao Jingchun is not applicable as no meeting was convened by the Company during his term of office.

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### 12.2.5 Independence from Controlling Shareholders

The Company is independent from its controlling Shareholders in operation, personnels, 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.

### 12.3 Board of Directors

#### 12.3.1 Composition and Responsibilities of the Board

From January 1, 2016 to March 3, 2016, the Board had twelve Directors, including three executive Directors, namely Mr. Lai Xiaomin (chairman), Mr. Ke Kasheng and Mr. Wang Keyue; five non-executive Directors, namely Mr. Tian Yuming, Ms. Wang Cong, Ms. Dai Lijia, Mr. Wang Sidong and Mr. Li Hui; and four independent non-executive Directors, namely Mr. Song Fengming, Mr. Wu Xiaoqiu, Mr. Tse Hau Yin and Mr. Liu Junmin. On September 9, 2016, Mr. Wang Keyue was appointed as the vice chairman of the Company and was transferred from executive Director to non-executive Director. On June 24, 2016, Mr. Shao Jingchun was appointed as an independent non-executive Director of the Company and his qualification has been approved by the CBRC on November 11, 2016. Mr. Li Hui ceased to be a non-executive Director of the Company due to change of personal work arrangements since March 3, 2016. Mr. Wu Xiaoqiu ceased to be an independent non-executive Director of the Company since November 11, 2016. On February 14, 2017, in the first extraordinary general meeting and the first meeting of the second session of Board for 2017, the Directors of the second session of the Board and the chairman, vice chairman of the second session of the Board were elected, the members of the second special committees were also appointed. As of the Latest Practicable Date, the Board had ten Directors, including two executive Directors, namely Mr. Lai Xiaomin (chairman) and Mr. Ke Kasheng; four non-executive Directors, namely Mr. Wang Keyue (vice chairman), Mr. Li Yi, Ms. Wang Cong and Ms. Dai Lijia; and four independent non-executive Directors, namely Mr. Song Fengming, Mr. Tse Hau Yin, Mr. Liu Junmin and Mr. Shao Jingchun. The directorship qualifications of Mr. Wang lihua and Mr. Zhou Langlang are in the process of the approval of the CBRC. 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

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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; (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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### 12.3.2 Board Meetings

In 2016, the Board had conducted ten meetings, including four regular meetings and six extraordinary meetings. 88 resolutions were passed and five work reports were reviewed at the meetings, including 19 resolutions on operation and management matters, 30 resolutions on system establishment, four resolutions on personnel management, and 35 other resolutions. The major issues are as follows:

- the final accounts plan and the profit distribution plan of the Company for 2015;
- the work report of the Board of Directors of the Company for 2015;
- the appointment of accounting firm of the Company for 2016;
- the proposal on the initial public offering of the A Shares and the listing of the Company and relevant matters;
- the amendments to the terms of reference of the special committees of the Board; and
- the amendments to rules and regulations of the Company, including the terms of reference of the independent Directors and the administrative measures for information disclosure.

In addition, the Board conducted self-evaluation on the effectiveness of the internal control of the Group during the Reporting Period. For details, please see "13. Internal Control".

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### 12.3.3 Attendance of Board Meetings

Directors' attendance at Board meetings in 2016:

Members	Number of meetings attended/required to attend	Attendance rate
<b>Executive Directors</b>		
Lai Xiaomin	9/10	90%
Ke Kasheng	2/10	20%
<b>Non-executive Directors</b>		
Wang Keyue	9/10	90%
Tian Yuming	10/10	100%
Wang Cong	10/10	100%
Dai Lijia	9/10	90%
Li Hui	N/A	N/A
Wang Sidong	7/10	70%
<b>Independent non-executive Directors</b>		
Song Fengming	10/10	100%
Wu Xiaoqiu	1/8	13%
Tse Hau Yin	10/10	100%
Liu Junmin	9/10	90%
Shao Jingchun	2/2	100%

Notes:

1. Please see "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management" for changes in Directors.
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 Li Hui is not applicable as no meeting was convened by the Company during his term of office.

### 12.4 Special Committees of the Board

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

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### 12.4.1 Strategy and Development Committee

From January 1, 2016 to March 3, 2016, the Strategy and Development Committee had twelve Directors. The chairman was acted by Mr. Lai Xiaomin (chairman of the Board). The members included two executive Directors, namely Mr. Ke Kasheng and Mr. Wang Keyue, five non-executive Directors, namely Mr. Tian Yuming, Ms. Wang Cong, Ms. Dai Lijia, Mr. Wang Sidong and Mr. Li Hui, and four independent non-executive Directors, namely Mr. Song Fengming, Mr. Wu Xiaoqiu, Mr. Tse Hau Yin and Mr. Liu Junmin. On March 3, 2016, Mr. Li Hui, a non-executive Director, resigned as member of the Strategy and Development Committee of the Board. On November 11, 2016, Mr. Wu Xiaoqiu, an independent non-executive Director, resigned as member of the Strategy and Development Committee of the Board. As of December 31, 2016, the Strategy and Development Committee of the Company had ten Directors. On February 14, 2017, members of the second session of the Strategy and Development Committee of the Board were appointed at the first meeting of the second session of the Board. As of the Latest Practicable Date, the Strategy and Development Committee of the Company had ten Directors. The chairman was acted by Mr. Lai Xiaomin (chairman of the Board). The members included Mr. Ke Kasheng, our executive Director, four non-executive Directors, namely Mr. Wang Keyue, Mr. Li Yi, Ms. Wang Cong and Ms. Dai Lijia, and four independent non-executive Directors, namely 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 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 2016, the Strategy and Development Committee had convened six meetings to consider 15 resolutions, including 2015 final accounts, the issuance of financial bonds of the Company and the business plan of the Company for 2016.

Attendance at Strategy and Development Committee meetings in 2016:

Members	Number of meetings attended/required to attend	Attendance rate
Lai Xiaomin	5/6	83%
Ke Kasheng	2/6	33%
Wang Keyue	6/6	100%
Tian Yuming	6/6	100%
Wang Cong	6/6	100%
Dai Lijia	6/6	100%
Wang Sidong	5/6	83%
Li Hui	N/A	N/A
Song Fengming	6/6	100%
Wu Xiaoqiu	1/4	25%
Tse Hau Yin	6/6	100%
Liu Junmin	5/6	83%

Notes:

1. Please see "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management" for changes in Directors.
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 Li Hui is not applicable as no meeting was convened by the Company during his term of office.

### 12.4.2 Risk Management Committee

From January 1, 2016 to September 9, 2016, the Risk Management Committee comprised six Directors. The chairman was acted by Ms. Dai Lijia, a non-executive Director. The members included Mr. Wang Keyue, an executive Director, three non-executive Directors, namely Mr. Tian Yuming, Ms. Wang Cong and Mr. Wang Sidong, and Mr. Wu Xiaoqiu, an independent non-executive Director. On September 9, 2016, Mr. Wang Keyue was appointed as the Vice Chairman of the Company and was transferred from executive Director to non-executive Director. On November 11, 2016, Mr. Wu Xiaoqiu, an independent non-executive Director, has tendered his resignation as member of the Risk Management Committee of the Board. As of December 31, 2016, the Risk Management Committee of the Company had five Directors. On February 14,



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2017, members of the second session of the Risk Management Committee of the Board were appointed at the first meeting of the second session of the Board. As of the Latest Practicable Date, the Risk Management Committee of the Company had three Directors. The chairman was acted by Ms. Dai Lijia, a non-executive Director. The members included 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 2016, the Risk Management Committee convened five meetings to consider 11 resolutions, including reviewing and listening to the 2015 risk report of the Company, 2016 risk preference policies and 2016 work ideas and work arrangement of the Risk Management Committee of the Board.

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Attendance at Risk Management Committee meetings in 2016:

Members	Number of meetings attended/required to attend	Attendance rate
Dai Lijia	5/5	100%
Wang Keyue	4/5	80%
Tian Yuming	5/5	100%
Wang Cong	5/5	100%
Wang Sidong	2/5	40%
Wu Xiaoqiu	3/5	60%

Notes:

1. Please see "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management" for changes in Directors.
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.

### 12.4.3 Related Party Transaction Committee

From January 1, 2016 to March 3, 2016, the Related Party Transaction Committee comprised six Directors. The chairman was acted by Mr. Tian Yuming, a non-executive Director. The members included an executive Director, namely Mr. Ke Kasheng, three non-executive Directors, namely Ms. Wang Cong, Ms. Dai Lijia and Mr. Li Hui and an independent non-executive Director, namely Mr. Song Fengming. On March 3, 2016, Mr. Li Hui, a non-executive Director, resigned as member of the Related Party Transaction Committee of the Board. As of December 31, 2016, the Related Party Transaction Committee comprised five Directors. On February 14, 2017, members of the second session of the Related Party Transaction Committee of the Board were appointed at the first meeting of the second session of the Board. As of the Latest Practicable Date, the Related Party Transaction Committee of the Company had four Directors. The chairman was acted by Mr. Shao Jingchun, an independent non-executive Director. The members included a non-executive Director, namely Mr. Li Yi, two independent non-executive Directors, namely Mr. Song Fengming and Mr. Tse Hau Yin.

The major duties of the Related Party Transaction Committee include, but not limited to, the following: to review basic management systems for related party transactions, oversee its implementation and make recommendations thereon to the Board; to identify related parties of the Company and report to the Board and the Board of Supervisors and inform relevant parties of the Company in a timely manner; to make a preliminary review to the related party transactions as approved by the Board or the Shareholders' general meeting and submit it to the Board for approval; to consider and approve related party transactions and other matters thereof under the scope of authorization by the Board; to accept records and filings of related

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party transactions, and review the information disclosure matters in relation to the material related party transactions of the Company; to consider and approve the annual report on the management of related party transactions and report to the Board; 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 2016, the Related Party Transaction Committee convened three meetings to consider five resolutions, including the reviewing and listening to the 2015 related party transactions report, the resolution in relation to the amendment to the Administrative Measures for Related Party Transactions of the Company, and the work plan of the Related Party Transaction Committee for 2016.

Attendance at Related Party Transaction Committee meetings in 2016:

<b>Members</b>	<b>Number of meetings attended/required to attend</b>	<b>Attendance rate</b>
Tian Yuming	3/3	100%
Ke Kasheng	1/3	33%
Wang Cong	3/3	100%
Dai Lijia	3/3	100%
Li Hui	3/3	100%
Song Fengming	3/3	100%

Notes:

1. Please see "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management" for changes in Directors.
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.

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### 12.4.4 Audit Committee

From January 1, 2016 to November 11, 2016, the Audit Committee comprised six Directors. The chairman was acted by Mr. Tse Hau Yin, an independent non-executive Director. The members included two non-executive Directors, namely Mr. Tian Yuming and Ms. Dai Lijia, and three independent non-executive Directors, namely Mr. Song Fengming, Mr. Wu Xiaoqiu and Mr. Liu Junmin. On November 11, 2016, Mr. Wu Xiaoqiu, an independent non-executive Director, has tendered his resignation as member of the Audit Committee of the Board. As of December 31, 2016, the Audit Committee of the Company had five Directors. On February 14, 2017, members of the second session of the Audit Committee of the Board were appointed at the first meeting of the second session of the Board. As of the Latest Practicable Date, the Audit Committee of the Company had seven Directors. The chairman was acted by Mr. Tse Hau Yin, an independent non-executive Director. The members included three non-executive Directors, namely Mr. Li Yi, Ms. Wang Cong and Ms. Dai Lijia, and three independent non-executive Directors, namely Mr. Song Fengming, Mr. Liu Junmin and Mr. Shao Jingchun.

The major duties of the Audit Committee include, but not limited to, the following: to supervise the internal control, the core businesses and the formulation and implementation of management procedures and systems of the Company, and to assess the compliance and validity of the Company's significant operating activities; to supervise the financial information of the Company and its disclosure, the major financial policies of the Company and its implementation, as well as the financial operation; to monitor the authenticity of financial reports and the effectiveness of the financial reporting procedures implemented by the management; to review the basic audit management procedures and rules, medium-to-long term audit plan, annual work plans and internal audit system design, and make recommendations to the Board; to supervise and appraise the internal audit work of the Company, supervise the implementation of the Company's internal audit system, and appraise the working procedure and effectiveness of the internal audit department; to propose the appointment or replacement of the external auditor to the Board for consideration, take appropriate measures to supervise the work of the external auditor, review the external auditor's reports, and ensure the final responsibility of the external auditor to the Board and the Audit Committee; to review the annual audit reports and other specific opinions provided by the accounting firm, review audited financial and accounting reports, other financial and accounting reports and other disclosable financial information; to make judgments on the truthfulness, completeness and accuracy of the information contained in such audited financial reports and submit the same to the Board for consideration; to coordinate communication between the internal audit department and the external auditor; and to perform such other duties as stipulated by laws, regulations, regulatory documents, the requirements of the securities regulatory authorities of the place(s) procedures where the shares of the Company are listed and the Articles of Association and other matters as authorized by the Board.

In 2016, the Audit Committee convened six meetings to consider 33 resolutions, including reviewing the 2015 annual report, the 2015 annual results announcement and the 2016 interim financial review report of the Company.

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Attendance at Audit Committee meetings in 2016:

<b>Members</b>	<b>Number of meetings attended/ required to attend</b>	<b>Attendance rate</b>
Tse Hau Yin	6/6	100%
Tian Yuming	5/6	83%
Dai Lijia	6/6	100%
Song Fengming	6/6	100%
Wu Xiaoqiu	0/5	0%
Liu Junmin	6/6	100%

Notes:

1. Please see “11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management” for changes in Directors.
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.

### 12.4.5 Nomination and Remuneration Committee

From January 1, 2016 to November 11, 2016, the Nomination and Remuneration Committee comprised six Directors. The chairman was acted by Mr. Song Fengming, an independent non-executive Director. The members included two non-executive Directors, namely Mr. Tian Yuming and Ms. Wang Cong, and three independent non-executive Directors, namely Mr. Wu Xiaoqiu, Mr. Tse Hau Yin and Mr. Liu Junmin. On November 11, 2016, Mr. Wu Xiaoqiu, an independent non-executive Director, has tendered his resignation as member of the Nomination and Remuneration Committee of the Board. As of December 31, 2016, the Nomination and Remuneration Committee of the Company comprised five Directors. On February 14, 2017, members of the second session of the Nomination and Remuneration Committee of the Board were appointed at the first meeting of the second session of the Board. As of the Latest Practicable Date, the Nomination and Remuneration Committee of the Company had five Directors. The chairman was acted by Mr. Song Fengming, an independent non-executive Director. The members included two non-executive Directors, namely Mr. Li Yi and Ms. Wang Cong, and two independent non-executive Directors, namely Mr. Liu Junmin and Mr. Shao Jingchun.

The primary duties of the Nomination and Remuneration Committee include, but not limited to, the following: to review the strategic development plan of human resources and make recommendations thereon to the Board; to provide recommendations to the Board regarding the candidates for Directors, presidents and secretary to the Board; to formulate the procedures and criteria for the selection and appointment of Directors, chairman and members of Board committees and senior management, and make recommendations thereon to the Board; to conduct a preliminary review of the qualifications of candidates for Directors and

## 12. Corporate Governance Report

senior management, and make recommendations thereon to the Board; to nominate candidates for chairman (other than the Strategy and Development Committee) and members of Board committees; to formulate the appraisal method and remuneration packages of Directors, and appraise the performance and behavior of Directors, report the same to the Board, and upon consent of the Board, submit the same to the Shareholders' general meeting for approval; to formulate and review the appraisal method and remuneration packages of the senior management and the head of the internal audit department of the Company, appraise the performance and behavior of the senior management, and report the same to the Board for approval; to review major human resources and remuneration packages policies and management systems submitted by the senior management, which are subject to approval from the Board or the Shareholders' general meeting, and submit the same to the Board for approval, and to supervise the implementation thereof; 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 2016, the Nomination and Remuneration Committee convened six meetings to consider twelve resolutions, including reviewing and listening to the resolution on nominating Shao Jingchun as the candidate for independent Directors of the Company, 2015 remuneration scheme of Directors, and 2015 remuneration scheme of senior management of the Company.

Attendance at Nomination and Remuneration Committee meetings in 2016:

<b>Members</b>	<b>Number of meetings attended/required to attend</b>	<b>Attendance rate</b>
Song Fengming	6/6	100%
Tian Yuming	5/6	83%
Wang Cong	6/6	100%
Wu Xiaoqiu	2/5	40%
Tse Hau Yin	5/6	83%
Liu Junmin	6/6	100%

Notes:

1. Please see "11. Directors, Supervisors and Senior Management — 11.4 Changes in Directors, Supervisors and Senior Management" for changes in Directors.
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.

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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.

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 Board. 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.



## 12. Corporate Governance Report

### 12.5 Board of Supervisors

#### 12.5.1 Duties of the Board of Supervisors

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

#### 12.5.2 Composition of the Board of Supervisors

From January 1, 2016 to October 31, 2016, the Company had five Supervisors, including a Shareholder representative Supervisor, namely Mr. Sui Yunsheng, two external Supervisors, namely Ms. Wang Qi and Ms. Dong Juan, two employee representative Supervisors, namely Ms. Zheng Shengqin and Mr. Xu Dong. On October 31, 2016, Mr. Sui Yunsheng has resigned as a chairman of the Board of Supervisors and Shareholder Representative Supervisor of the Company as he reached the statutory retirement age. On the same date, at the fourth extraordinary general meeting of the Company in 2016, Mr. Ma Zhongfu was elected as a Shareholder representative Supervisor of the Company and he was elected as a Chairman of the Board of Supervisors by the Board of Supervisors. As of December 31, 2016, the Company had five Supervisors, including a Shareholder representative Supervisor, namely Mr. Ma Zhongfu, two external Supervisors, namely Ms. Wang Qi and Ms. Dong Juan, two employee representative Supervisors, namely Ms. Zheng Shengqin

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and Mr. Xu Dong. On January 23, 2017, the Company held the third meeting of the second session of the employee representative meeting and Ms. Zheng Shengqin and Mr. Mao Biao Yong were elected as employee representative Supervisors of the second session of the Board of Supervisors. On February 14, 2017, the Company held the first extraordinary general meeting for 2017 to elect Mr. Ma Zhongfu as a Shareholder representative Supervisor of the second session of the Board of Supervisors, and Ms. Xu Li and Ms. Dong Juan as external Supervisors of the second session of the Board of Supervisors. On February 15, 2017, the Company held the first meeting of the second session of the Board of Supervisors and Mr. Ma Zhongfu was elected as the chairman of the second session of the Board of Supervisors. As of the Latest Practicable Date, the Company had five Supervisors, including a Shareholder representative Supervisor, namely Mr. Ma Zhongfu, two external Supervisors, namely Ms. Dong Juan and Ms Xu Li, two employee representative Supervisors, namely Ms. Zheng Shengqin and Mr. Mao Biao Yong. 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.

### 12.5.3 Chairman of the Board of Supervisors

As of October 31, 2016, Mr. Sui Yunsheng had been the chairman of the Board of Supervisors. Since October 31, 2016, Mr. Ma Zhongfu has been the chairman of the Board of Supervisors. The chairman of the Board of Supervisors is responsible for the operation of the Board of Supervisors in accordance with the Articles of Association.

### 12.5.4 Operation of the Board of Supervisors

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

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### 12.5.5 Meetings of the Board of Supervisors

The Board of Supervisors convened seven meetings in 2016, and considered and approved 27 resolutions, mainly including:

The Work Report of the Board of Supervisors for 2015, the Final Accounts of the Company for 2015, the Profit Distribution Plan of the Company for 2015, the Work Plan of the Board of Supervisors for 2016, the 2015 Annual Report of the Company, the 2016 Interim Report of the Company, the Evaluation Report on the Internal Control of the Company for 2015, the Evaluation Report on the Internal Control of the Company for the First Half of 2016, the Appraisal Report on the Performance of the Directors and Senior Management of the Company for 2015, the Appraisal Report on the Performance of the Supervisors of the Company for 2015, the Nomination of Candidates for Shareholder Representative Supervisors and External Supervisors of the Second Session of the Board of Supervisors of the Company, the Adjustment of Members of the Supervision Committee of the Board of Supervisors, the Remuneration Packages for Supervisors in 2015, the amendments to the Procedural Rules of the Board of Supervisors, etc..

### 12.5.6 Supervisors' attendance at meetings of the Board of Supervisors

Supervisors	Number of meetings attended/required to attend	Attendance rate
<b>Supervisors</b>		
Ma Zhongfu	3/3	100%
Wang Qi	7/7	100%
Dong Juan	7/7	100%
Zheng Shengqin	7/7	100%
Xu Dong	7/7	100%
<b>Supervisors resigned during the Reporting Period</b>		
Sui Yunsheng	4/4	100%

Notes:

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

### 12.5.7 Special Committee of the Board of Supervisors

During the Reporting Period, the Board of Supervisors has established the Supervision Committee, which assists the Board of Supervisors to perform its duties under the authority of the Board of Supervisors, is accountable to the Board of Supervisors, and reports its work to the Board of Supervisors.

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From January 1, 2016 to October 31, 2016, the Supervision Committee of the Board of Supervisors comprised five Supervisors. The chairman was acted by Mr. Sui Yunsheng, chairman of the Board of Supervisors, and the members included Ms. Wang Qi and Ms. Dong Juan, external Supervisors, and Ms. Zheng Shengqin and Mr. Xu Dong, employee representative Supervisors. On October 31, 2016, Mr. Sui Yunsheng resigned from his position as the Chairman of the Supervision Committee of the Board of Supervisors since he reached the mandatory retirement age. On December 13, 2016, at the meeting of the Board of Supervisors, Mr. Ma Zhongfu was elected as chairman of the Supervision Committee of the Board of Supervisors. As of December 31, 2016, the Supervision Committee of the Board of Supervisors comprised five Supervisors. The chairman was acted by Mr. Ma Zhongfu, chairman of the Board of Supervisors, and the members included Ms. Wang Qi and Ms. Dong Juan, external Supervisors, Ms. Zheng Shengqin and Mr. Xu Dong, employee representative Supervisors.

On January 23, 2017, the Company held the third meeting of the second session of the employee representative meeting to elect the employee representative Supervisors of the second session of the Board of Supervisors. Mr. Xu Dong ceased to be an employee representative Supervisor and ceased to be a member of the Supervision Committee of the Board of Supervisors due to work arrangement. On February 14, 2017, the Company held the first extraordinary general meeting for 2017 to elect the Shareholder representative Supervisors and external Supervisors of the second session of the Board of Supervisors. Ms. Wang Qi ceased to be an external Supervisor and ceased to be a member of the Supervision Committee of the Board of Supervisors due to the expiry of her term of office.

On February 15, 2017, the Company held the first meeting of the second session of the Board of Supervisors to adjust the Special Committee of the Board of Supervisors. As of the Latest Practicable Date, the Special Committee of the second session of the Board of Supervisors was adjusted to Performance and Finance Supervision Committee, which comprises Ms. Dong Juan (director), Ms. Xu Li, Ms. Zheng Shengqin and Mr. Mao Biaoyong, and Risk Internal Control and Subsidiary Management and Supervision Committee, which comprises Ms. Xu Li (director), Ms. Dong Juan, Ms. Zheng Shengqin and Mr. Mao Biaoyong.

The major duties of the Supervision Committee of the Board of Supervisors include: (1) to formulate the measures for supervising the financial activities of the Company and perform relevant examination; (2) 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; (3) to formulate the measures for supervising the operating decisions, risk management and internal control of the Company as needed and perform relevant examination; (4) to review the financial reports of the Company and report to the Board of Supervisors; (5) to assess the internal control report of the Company and report to the Board of Supervisors; (6) to assess the performance of the Board and senior management and its members and report to the Board of Supervisors; (7) to assess the performance of the Supervisors and report to the Board of Supervisors; (8) to review the investigation reports on material issues relating to the annual operating and financial conditions of the Company submitted to the office of the Board of Supervisors, and report to the Board of Supervisors; and (9) to perform other duties as authorized by the Board of Supervisors.

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In 2016, the Supervision Committee convened five meetings to mainly review the following: the Work Report of the Board of Supervisors for 2015, the Final Accounts of the Company for 2015, the Profit Distribution Plan of the Company for 2015, the Work Plan of the Board of Supervisors for 2016, the 2015 Annual Report of the Company, the 2016 Interim Report of the Company, the Evaluation Report on the Internal Control of the Company for 2015, the Evaluation Report on the Internal Control of the Company for the First Half of 2016, etc.

### 12.5.8 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: regulation on Shenzhen-Hong Kong Stock Connect and information disclosure of listed companies in both Shenzhen and Hong Kong, overview of HKAS and its material amendments and updates, auditing and performance report preparation and matters of particular concern, discloseable transactions, connected transactions, management and control of insider information and insider trading and their information disclosure, etc..

## 12.6 Chairman of the Board and President

In accordance with A.2.1 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules and the Articles of Association, the chairman of the Board and the president 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.

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

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

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### 12.7 Senior Management

#### 12.7.1 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 9 members. For details of its composition and the biography of members, please see “11. Directors, Supervisors and Senior Management — 11.3 Senior Management”. There is a strict separation of powers between the senior management and the Board. The senior management determines the operation management and decisions within its terms of reference as authorized by the Board. The 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.

#### 12.7.2 Supervision and Evaluation on the Performance of Senior Management

The Board of Supervisors supervises the performance of the duties of the Board, senior management and its members by way of attending meetings, conducting survey, reviewing information, and carrying out work interviews in accordance with the Provisional 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暫行辦法》); and evaluates the performance of the Directors and senior management during the year by reviewing the minutes of Shareholders’ general meetings, Board meetings and meetings of the special committees of the Board, reviewing the annual performance reports of Directors and senior management, reviewing the Board’s evaluation of Directors and the performance appraisal on senior management, and carrying out work interviews in accordance with 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》).

#### 12.7.3 Remuneration of Directors and Senior Management

For the remuneration policy of the Directors and senior management, please see “14. Report of the Board of Directors” — “14.26 Remuneration Policy of Directors, Supervisors and Senior Management”.

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### 12.8 Communication with Shareholders

#### 12.8.1 Investor Relations and Information Disclosure

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. During the Reporting Period, the Company communicated and interacted with Shareholders and potential investors through various channels, such as reception of investors, participation in investors investigate and survey, large scale international investor summits in order to assist them in making rational investment decisions, to protect the legal interests of investors and to enhance the transparency of the Company.

#### 12.8.2 Contacts of Board of Directors' office

The office established under the Board, i.e. the Board Office, is responsible for assisting the 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

### 12.9 Inside Information Management

During the Reporting Period, the Company regulated 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. During the Reporting Period, there were no incidents of insider trading of Shares by taking advantage of the inside information.



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### 12.10 Auditor's remuneration

Pursuant to the proposal approved by the annual general meeting of the Company, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the external auditors for 2016.

During the Reporting Period, the audit service fee for the audit of financial statements and internal control paid to Deloitte Touche Tohmatsu and its member institutions by the Group was RMB20.6 million in total.

### 12.11 Responsibilities of Directors for Financial Statements

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

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

Being the highest decision-making body of risk management of the Company, the Board of Directors is accountable to the Shareholders' general meeting on the effectiveness of the comprehensive risk management. The major duties of the Board include: finalizing the 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 form, the execution condition of the risk preferences, the adequacy of the Group'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.

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### 12.13 Securities Transactions by Directors, Supervisors and Relevant Employees

The Company has formulated the Code for Securities Transactions by Directors, Supervisors and Relevant Employees which regulates the securities transactions by Directors, Supervisors and relevant employees and is of no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Companies 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.

### 12.14 Independence of Independent Non-executive Directors

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

### 12.15 Training for Directors

During the Reporting Period, According to the Provisions of The Training System for the Directors, Supervisors and Senior Management (《董事、監事和高級管理人員培訓制度》), 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 major trainings organized by the Company and attended by the Directors are as follows:

From April 26 to April 28 in 2016, Directors Ms. Wang Cong, Ms. Dai Lijia and Mr. Tian Yuming participated in the Fortieth seminar on Joint Members to Strengthen Continuing Professional Development by the Hong Kong Institute of Chartered Secretaries (the “HKICS”), main content of which includes risk management and governance control.

From July 13 to July 15 in 2016, Directors Mr. Lai Xiaomin, Ms. Wang Cong, Ms. Dai Lijia and Mr. Liu Junmin participated in the Forty-first seminar on Joint Members to Strengthen Continuing Professional Development by HKICS, main content of which includes merging and financing of the companies listed in domestic and overseas, and advanced seminar for secretary of the board of A+H share company in China.

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In July 19, 2016, Directors Mr. Lai Xiaomin, Mr. Wang Keyue, Mr. Tian Yuming, Ms. Wang Cong and Ms. Dai Lijia participated in the special training on the information disclosure of the companies listed in Hong Kong by our Hong Kong legal counsel.

From November 8 to November 11 in 2016, Directors Mr. Lai Xiaomin and Mr. Wang Keyue participated in the advanced seminar on corporate regulation for the companies listed outside of China by HKICS.

From December 19 to December 21 in 2016, Directors Ms. Wang Cong and Ms. Dai Lijia, participated in the Forty-second seminar on Joint Members to Strengthen Continuing Professional Development by HKICS, main content of which includes Shenzhen-Hong Kong Stock Connect and the regulations on listing information disclosure of the two economies, the overview of “the Research Report on Shareholder’s Communication”, preparation on financial auditing and performance report, transactions to be disclosed, connected transactions, internal information and internal control and their disclosure, etc.

Apart from the trainings above organized by the Company, the Directors also participated in trainings organized by other organizations. For instance, Mr. Tse Hau Yin, an independent non-executive Director, participated in trainings organized by organizations including KPMG, PricewaterhouseCoopers, Davis Polk & Wardwell LLP, McKinsey & Company, the Hong Kong Monetary Authority, CBRC, IIA, the Hong Kong Association of Banks etc. in 2016.

### 12.16 Liability Insurance for Directors

The Company maintained liability insurance for Directors in 2016 to provide protection against claims arising from the lawful discharge of duties by Directors, thus encouraging Directors to fully perform their duties.

### 12.17 Joint Company Secretaries

The Board secretary and one of the joint company secretaries, Mr. Hu Jianjun 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. Hu 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 provider. In respect of corporate governance, the Listing Rules and other applicable laws and regulations related to the Company and other matters, Mr. Ngai will contact Mr. Hu, and Mr. Hu will be responsible for reporting to the Board and/or chairman of the Board. The relevant professional trainings that each of Mr. Hu 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.

## 13. Internal Control

### 13.1 Statement of the Board in Relation to Internal Control Responsibilities

The Board is responsible for the establishment and implementation of a sound and effective internal control system, and the evaluation of its effectiveness. The Company has established a sound internal control governance structure. The Board has set up the Audit Committee, Risk Management Committee and Related Party Transaction Committee to supervise and review work concerning risk management, internal control, related party transactions and intra-group transactions. The Board of Supervisors oversees the internal control 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 improved the evaluation system of internal control, adopted an implementation plan for internal control assessment for 2016, which has defined the scope, procedures and methods of internal control assessment, and actively conducted on-site tests and assessments of internal controls.

The internal control assessment of the Company for 2016 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 while certain matters which needed to be addressed did not have any substantial impact on the operations and management of the Company. The Company pays great attention to the matters to be addressed and will implement rectification measures.

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

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

## 13. Internal Control

### 13.3 Establishment of Internal Control Management System

During the Reporting Period, the Company earnestly implemented regulatory requirements, further improved the establishment of internal control based on current organization chart and management mechanism, enhanced system management and strengthened its operational control measures and enhanced the establishment of its internal control culture so as to set up a sound and long-term mechanism of internal control.

The Company closely monitored changes in external regulatory laws and regulations to constantly improve structural system management, and re-arranged 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.

The Company has established Evaluation Manual of Internal Control and Identification Standards for Internal Control Defects to promote the effective implementation of internal control, standardize the evaluation of internal control and provide favorable safeguard for its implementation in an orderly manner.

The Company enhanced the establishment of its internal control culture, and increased performance ability and internal control awareness of its internal control managers through measures including trainings, investigation, examination and evaluation, to improve the effectiveness of internal control.

### 13.4 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 and procedures, and implemented the following measures:

1. The Group has revised the Administrative Measures on Compliance Risk (《合規風險管理辦法》) to specify the scope of duties in respect of the prevention and control of sanctions risks for the legal and compliance departments of the Group.
2. The Group has compiled the compliance operational handbook and compliance review manual to regulate operating procedures of the Company and to identify and highlight relevant compliance issues on preventing sanctions risks.
3. The Group has compiled the Questionnaire on Due Diligence Investigation in respect of Sanctions and Export Control of Investees (《關於投資對象受制裁及出口管制情況的盡職調查問卷》) and issued it to all units of the Group as a basic tool of due diligence investigation on sanctions risks.
4. The Group has prepared the Commitment Letter of Sanctions Risk Control (《制裁風險控制承諾函》) and issued it to all units of the Group as basic tools of sanctions risks control.

## 13. Internal Control

5. 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.
6. 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.
7. The proceeds of the Group from the global offering have been deposited into a bank account separated from other funds of the Group, and such proceeds have not been provided to the Subject Companies. In the future, the Group will manage all other funds raised through the Hong Kong Stock Exchange in the same manner as mentioned above.
8. The Group has no present intention to undertake in any future business that would cause the Group or Relevant Persons to violate or become a target of sanctions laws of the United States, 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.
9. 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.

### 13.5 Internal Control Measures for Excluded DES Companies

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

1. 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.

## 13. Internal Control

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. For the disposal of the Excluded DES Companies, please see “14.19. 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 measures and policies for the Excluded DES Companies on a regular basis.

### 13.6 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 pay greater attention to the policy direction on the reforms of state-owned enterprises and financial systems, quickly grasp opportunities arising from active market conditions and increase its efforts to overcome market challenges. Leveraging on DES enterprises and other investment opportunities in the market, the Company will strive to obtain sufficient project-related information through comprehensive due diligence, and carefully assess potential risks of the projects, including sanctions risk, in order to expand its equity investment business effectively through reasonable and objective evaluation and market-oriented approaches.

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



# 14. Report of the Board of Directors

## 14.1 Principal Business

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

The major risks and uncertainties that the Group may be exposed to are set out in "9. Management Discussion and Analysis — 9.4 Risk Management". After the closing of the financial year, there was a transition within the Board of Directors and the Board of Supervisors, the details of which are set out in "12. Corporate Governance Report — 12.3 Board of Directors — 12.3.1 Composition and Responsibilities of the Board" and "12. Corporate Governance Report — 12.5 Board of Supervisors — 12.5.2 Composition of the Board of Supervisors" respectively.

Meanwhile, the environmental policies of the Group are set out in "14.6 Social Responsibility Report (Namely Environmental, Social and Governance Report)" of this report of the Board of Directors. The compliance with relevant laws and regulations with significant impact on the Group are set out in "14.30 Compliance with Relevant Laws and Regulations" of this report of the Board of Directors. Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in "9. Management Discussion and Analysis — 9.3 Business Overview — 9.3.7 Human Resources Management", and "14.10 Major Clients" and "14.11 Major suppliers" of this report of the Board of Directors, respectively.

## 14.2 Profit and Dividend Distribution

The profit and financial condition of the Group for the year ended December 31, 2016 are set out in "9. Management Discussion and Analysis — 9.2 Analysis of Financial Statements".

The Board of Directors proposed to distribute cash dividends for 2016 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, 2016. Shareholders of domestic shares and H shares whose names appeared on our register of members as at the record date will be distributed RMB1.506 (tax inclusive) for every 10 shares with the total cash dividend distributed amounting to approximately RMB5.88 billion, representing approximately 30.0% of the net profit attributable to the Shareholders of the Company on a consolidated basis of the Group for 2016 and 37.7% of the distributable net profit attributable to the Shareholders of the Company on a consolidated basis of the Group for 2016.

## 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

# 14. Report of the Board of Directors

names appear on the H Share register of members of the Company when distributing dividends of 2016. 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 2016 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 2016 annual dividend.
- (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 a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares when distributes the 2016 annual dividend.
- (3) 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 a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty when distributes the 2016 annual dividend.
- (4) 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 a tax rate of 20%, or 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 2016 annual dividend.

## 14. Report of the Board of Directors

The dividend distribution plan for 2016 of the Company is subject to consideration and approval by the Shareholders' general meeting for 2016. Please refer to the circular of 2016 AGM regarding the arrangement details of the declaration and distribution of the dividend for the year.

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.

### 14.3 Reserves

Reserves of the Group for the year ended December 31, 2016 are set out in the Consolidated Statement of Changes in Equity in the consolidated financial statements.

### 14.4 Distributable Reserves

Details of distributable reserves of the Group for the year ended December 31, 2016 are set out in the Consolidated Statement of Financial Position in the consolidated financial statements.

### 14.5 Financial Highlights

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2016 are set out in the "5. Financial Summary" section.

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

As a large-scale state-owned financial enterprise, China Huarong has been dedicating itself to the provision of a stable financial environment for social development and mitigation of the financial risks. We insist to "share the fruitful results with the society" while accomplishing innovative and rapid development. With a foundation built on the effective communications with stakeholders, the Company deploys resources with high quality of the enterprise and responds proactively to the demands from all walks of the society with action, sticking firmly to financial businesses to serve the needs of the state and the society. We have been innovating our services in order to enjoy a win-win situation with our clients. By upholding the "people oriented" principle, the Company establishes itself as a harmonious home together with its employees. Environmental preservation is always our concern. We use our financial instruments to promote the upgrade in green industries. We are committed to social contribution by building a platform for philanthropy and public welfare.

## 14. Report of the Board of Directors

In 2016, with an aim to further enhance the efficiency of the Environmental, Social and Governance (ESG) management, the Company established an ESG management system. Further to the implementation of projects for upgrades in internal management, we established an ESG indicator system covering all business units as the first step. As such quantifiable indicators were set up for key areas of the core content, including those in respect of the environment, society and staff. We conducted effective assessment of the current management of the Company based on performance, and used it as a base for the further improvement in the efficiency of ESG management. In the future, the Company will strengthen the ESG management system in a gradual manner by enhancing the relevance and increasing the coverage of ESG management in all business areas. For details regarding ESG of China Huarong, please refer to the Social Responsibility Report of China Huarong 2016 independently published by the Company, which can be accessed or downloaded at the websites of the Company and the Hong Kong Stock Exchange.

### 14.7 Donation

Total donations made by the Group for 2016 amounted to RMB14.969 million.

### 14.8 Property and Equipment

None of the properties held by the Group had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. For the details in relation to the changes in property and equipment of the Group for the year ended December 31, 2016, please see “18. Audit Report and Financial Statements — V. Explanatory Notes — 33. Property and equipment”.

### 14.9 Pension Plan

According to the relevant PRC regulations, the employees of the Group participated in the basic social pension insurance plan implemented by the local-level labor 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-level labor and social security departments will pay basic social pension to the employees upon their retirement.

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

### 14.10 Major Clients

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

## 14. Report of the Board of Directors

### 14.11 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 2016.

### 14.12 Share Capital and Public Float

As at December 31, 2016, the Company had a total of 39,070,208,462 Shares in issue and 611 registered Shareholders. Please see "10. Changes in Share Capital and Information on Substantial Shareholders" for details. 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.

### 14.13 Pre-emptive Right and Share Option Arrangement

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

### 14.14 Purchase, Sale and Redemption of Shares

For the year ended December 31, 2016, neither the Company nor its subsidiaries has purchased, sold or redeemed any Shares of the Company.

### 14.15 Issuance of Securities

For details of debt securities issued by the Company, please see "18. Audit Report and Financial Statements — V. Explanatory Notes — 43. Bonds and notes issued".

In addition, the Company considered and approved the resolutions related to proposed A Shares offering at the extraordinary general meeting, domestic share class meeting and H share class meeting convened on September 13, 2016. The Company has already submitted application materials including A Share prospectus to the CSRC for the purpose of A Share offering and has received a notice of acceptance in respect of the Company's application for A Share offering issued by the CSRC on December 23, 2016. Please refer to the Company's relevant announcements dated September 13, 2016 and December 23, 2016, respectively, for details, and the Company will disclose further details and progress related to 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.

## 14. Report of the Board of Directors

### 14.16 Material Interests and Short Positions

For details of material interests and short positions of the Shareholders, please see “10. Changes in Share Capital and Information on Substantial Shareholders — 10.2 Substantial Shareholders — 10.2.1 Interests and Short Positions held by the Substantial Shareholders and Other Persons”.

### 14.17 Use of Proceeds

On October 30, 2015, the Group was listed on the Main Board of the Hong Kong Stock Exchange and the proceeds from the listing amounted to HK\$19,696.7 million. As of December 31, 2016, 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, 2016, the balance for the proceeds amounted to RMB2,707.8 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.

### 14.18 Borrowings

The borrowings of the Group as at December 31, 2016 amounted to approximately RMB511.31 billion. For the details of our borrowings, please see “18. Audit Report and Financial Statements — V. Explanatory Notes — 40. Borrowings”.

### 14.19 Disposal of Equity in Excluded DES Companies

The Group has commenced the disposal plan of the Excluded DES Companies. As of December 31, 2016, 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. The disposal processes of three Excluded DES Companies have commenced, two of which have been disposed and one of which has obtained approval for the disposal plan and evaluation report, and signed equity disposal agreement. During the Reporting Period, KE Kasheng and WANG Keyue, our executive Directors, took charge of the disposal process and supervised the disposal. Our independent non-executive Directors conducted official supervision of relevant acts of KE Kasheng and WANG Keyue, our executive Directors. In March 2017, KE Kasheng, 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 KE Kasheng, our executive Director, and for which our independent non-executive Director proposed certain corresponding issues to KE Kasheng, our executive Director. In March 2017, KE Kasheng, our executive Director, reported such disposal plans and progress to Audit Committee of the Board.

## 14. Report of the Board of Directors

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 Calculation due to restrictions from the Protection of State Secret Laws.

### 14.20 Directors, Supervisors and Senior Management

For the details of the Directors, Supervisors and senior management of the Company, please see “11. Directors, Supervisors and Senior Management”. For the daily operations of the Board, please see “12. Corporate Governance Report”.

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

As of December 31, 2016, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares and underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

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

None of the Directors and Supervisors or their associated entities had any beneficial interests, directly or indirectly, in any transactions, arrangements or contracts of significance (except service contracts) concerning the business of the Group entered into with the Company or any of its controlling companies, subsidiaries or fellow subsidiaries in 2016.

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



## 14. Report of the Board of Directors

### 14.23 Material Contracts with Controlling Shareholders

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

### 14.24 Management Contracts

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

### 14.25 Interests of Directors in Businesses Competing with the Company

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

### 14.26 Remuneration Policy of Directors, Supervisors and Senior Management

The remuneration policy of Directors, Supervisors and senior management of the Company is in compliance with the Interim Administrative Measures for the Remuneration of Representatives of Central Financial Enterprises (《中央金融企業負責人薪酬管理暫行辦法》) issued by the MOF. The remuneration policy of Directors, Supervisors and senior management consists of incentives and restrictions based on their performance and risks and responsibilities of their respective positions, and is subject to government supervision and adjustment according to market condition. 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.

### 14.27 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.

### 14.28 Indemnity from Directors, Supervisors and Senior Management

During the Reporting Period, the Company maintained liability insurance for Directors, Supervisors and senior management 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.

## 14. Report of the Board of Directors

### 14.29 Connected Transactions and Related Party Transactions

For details of the related party transactions based on the IFRS during the Reporting Period, please see “18. Audit Report and Financial Statements — V. Explanatory Notes — 56. Related Party Transactions”. As confirmed by the Company, 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.

### 14.30 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 Company and reviewing laws and compliance policies as well as the implementation of relevant laws and policies on a regular basis. 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.

### 14.31 Major Subsidiaries

Details of the major subsidiaries of the Group are set out in “18. Audit Report and Financial Statements — V. Explanatory Notes — 61. Particulars of main subsidiaries”.

### 14.32 Auditors

The consolidated financial statements of the Company for 2016 prepared under the IFRS and PRC GAAP have been audited by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively.

### 14.33 Statement for Changes of Auditors in the Past Three Years

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

By Order of the Board  
**Lai Xiaomin**  
Chairman

March 15, 2017

# 15. Report of the Board of Supervisors

In 2016, pursuant to PRC laws and regulations, the Articles of Association and other relevant regulatory requirements, the Board of Supervisors faithfully performed its statutory duties and launched extensive supervisory activities to safeguard the legitimate rights and interests of shareholders, the Company, employees and other stakeholders according to laws, and strengthened the Group's management and control, and maintained sustainable and sound development in accordance with law by further improving the level of internal control, risk management and financial management of the Company.

## 15.1 Major Work Completed

The Board of Supervisors convened meetings according to laws. In 2016, the Board of Supervisors held seven meetings to review and approve 27 resolutions, including reports of the Board of Supervisors for 2015, working plan of the Board of Supervisors for 2016, final accounts for 2015, profit distribution plan for 2015, election of Mr. Ma Zhongfu as chairman of the Board of Supervisors, nomination of Shareholder representative Supervisors and external Supervisors for the second session of the Board of Supervisors. The Supervision Committee of the Board of Supervisors held five meetings to review 14 resolutions, including the performance appraisal reports of Directors and senior management for 2015, performance assessment report of Supervisors for 2015 of the Company.

**Performance supervision.** The Board of Supervisors strengthened its supervision over the Board and senior management's lawful operation and decision-making procedures for major issues by paying attention to their standard operation. It also reinforced its supervision on the implementation of resolutions of the Shareholders' general meetings by the Board, the implementation of resolutions of the Board by senior management and the performance of loyal diligent duty by the Board, senior management and their members. The Company organized the evaluation of annual performance of Directors and senior management according to regulatory requirements, and reported evaluation results in accordance with relevant requirements.

**Financial supervision.** The Board of Supervisors supervised the regular reports with focusing on the truthfulness, accuracy and completeness of financial reports; enhanced regular communication with external auditors; listened to audit plan, implemented the reports from Audit Committee of the Board and the Board of Supervisors to carry out the work effectively and independently; organized special investigations on the basic financial management of certain subsidiaries, and put forward relevant advices to improve the basic financial management of the Company.

**Internal control supervision.** The Board of Supervisors mainly focused on the construction, operation and implementation of the Company's internal control system; paid attention to key procedures, including review and approval, supports from information technology, as well as the performance of duties by important departments of internal control (such as finance and compliance); organized self-inspection on the legal governance, construction and operation of subsidiaries, and organized special supervision and investigations on the construction and operation of internal control system of certain subsidiaries, so as to further improve the Company's internal control management.

## 15. Report of the Board of Supervisors

Risk supervision. The Board of Supervisors particularly focused on the construction and implementation of overall risk management system of the Company. It paid attention to the establishment and implementation of annual risk preference, assets risk classification and impairment provision, as well as the implementation of related risk management policies of CBRC and the level of regulatory indicators. The Board of Supervisors also organized special investigations on the risk prevention for subsidiaries, provided relevant opinions and suggestions so as to promote the strict implement of regulatory requirements by the Company, calculated impairment provision in a scientific and careful manner and constantly promoted risk management.

Self-construction. During the Reporting Period, all members from the Board of Supervisors with devotion performed duties with due diligence, took an active part in meetings, reviewed resolutions earnestly, carried out extensive investigations and supervision and put forward advices timely. They constantly sought improvement in capacity of performing their duties through organizing subject-based learning and participating in relevant professional trainings. They also organized annual performance reviews to assess their performance, and reported review results according to relevant regulations.

### 15.2 Independent opinions on relevant matters

#### 15.2.1 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.

#### 15.2.2 Financial Reports

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

#### 15.2.3 Evaluation Report of the Board on Internal Control

The Board of Supervisors reviewed the annual evaluation report of the Board on internal control for 2016 and had no objections.

## 15. Report of the Board of Supervisors

### 15.2.4 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.

### 15.2.5 Use of Proceeds

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

### 15.2.6 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 environment and society governance reports) for 2016 of the Board and had no objections.

By order of the Board of Supervisors  
**Ma Zhongfu**  
*Chairman of the Board of Supervisors*

March 15, 2017

# 16. Significant Events

## 16.1 Material Litigation and Arbitration

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

During the Reporting Period, we were involved in various unresolved litigation matters. For example, as of December 31, 2016, 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 RMB232 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 RMB20.779 billion. We believe that we have made full accrual allowance for the potential losses arising from unresolved legal proceedings and that none of such legal proceedings, individually or in aggregate, would have a material adverse impact on the business, financial condition and results of operations of the Company.

## 16.2 Major Acquisition and Disposal of Assets and Merger

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

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

The controlling shareholder and other related parties have not used the funds of the Company.

## 16.4 Implementation of Share Incentive Scheme

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

## 16. Significant Events

### 16.5 Major Contracts and Their Implementation

#### 16.5.1 Major Custodies, Underwriting and Leasing

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

#### 16.5.2 Material Guarantees

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

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

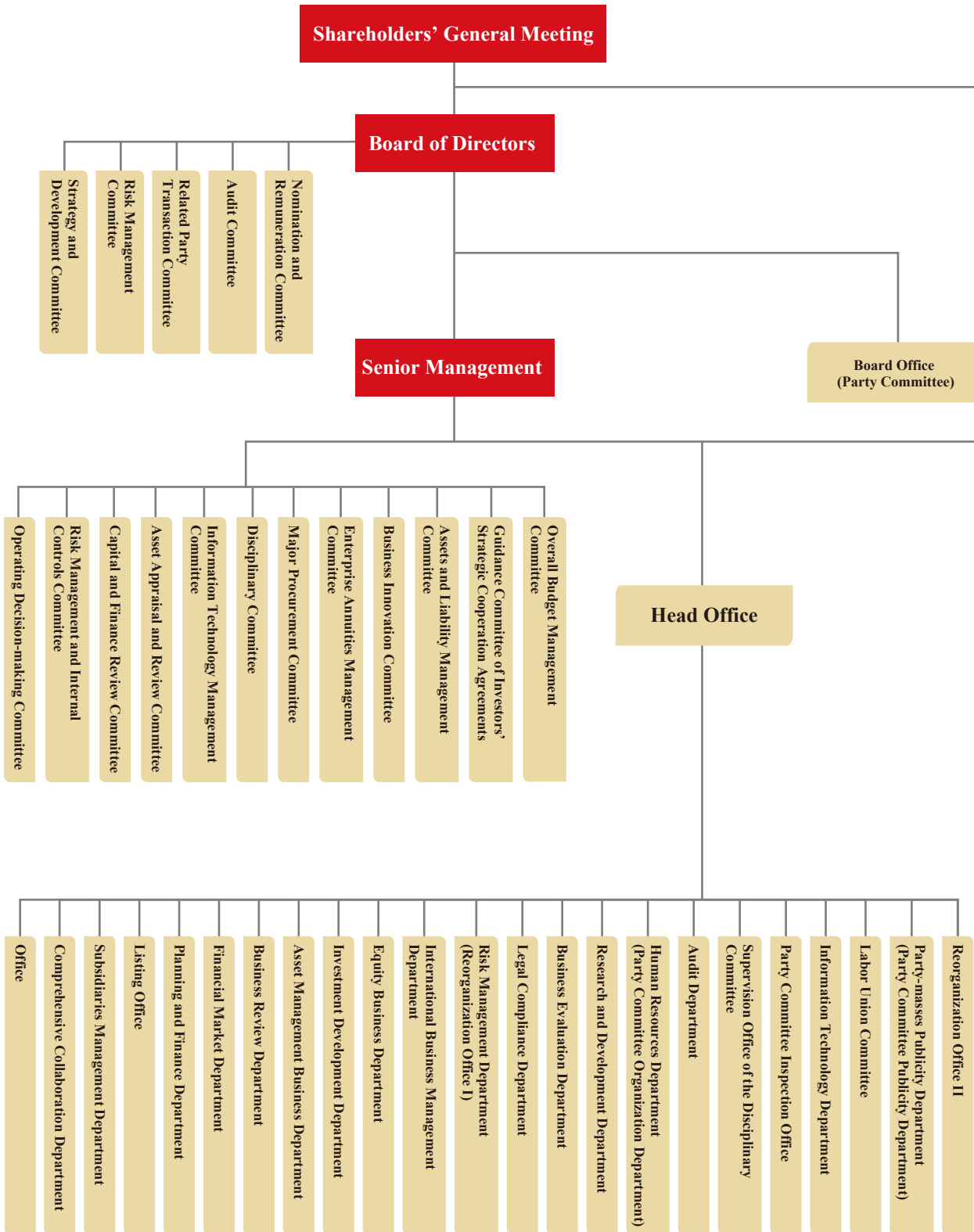
During the Reporting Period, none of the Company or any of the Directors, Supervisors and senior management was subject to any investigation or administrative punishment by securities regulatory authorities, reprimand by any stock exchange, as well as punishment by other regulatory authorities with any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

### 16.7 Events after the Reporting Period

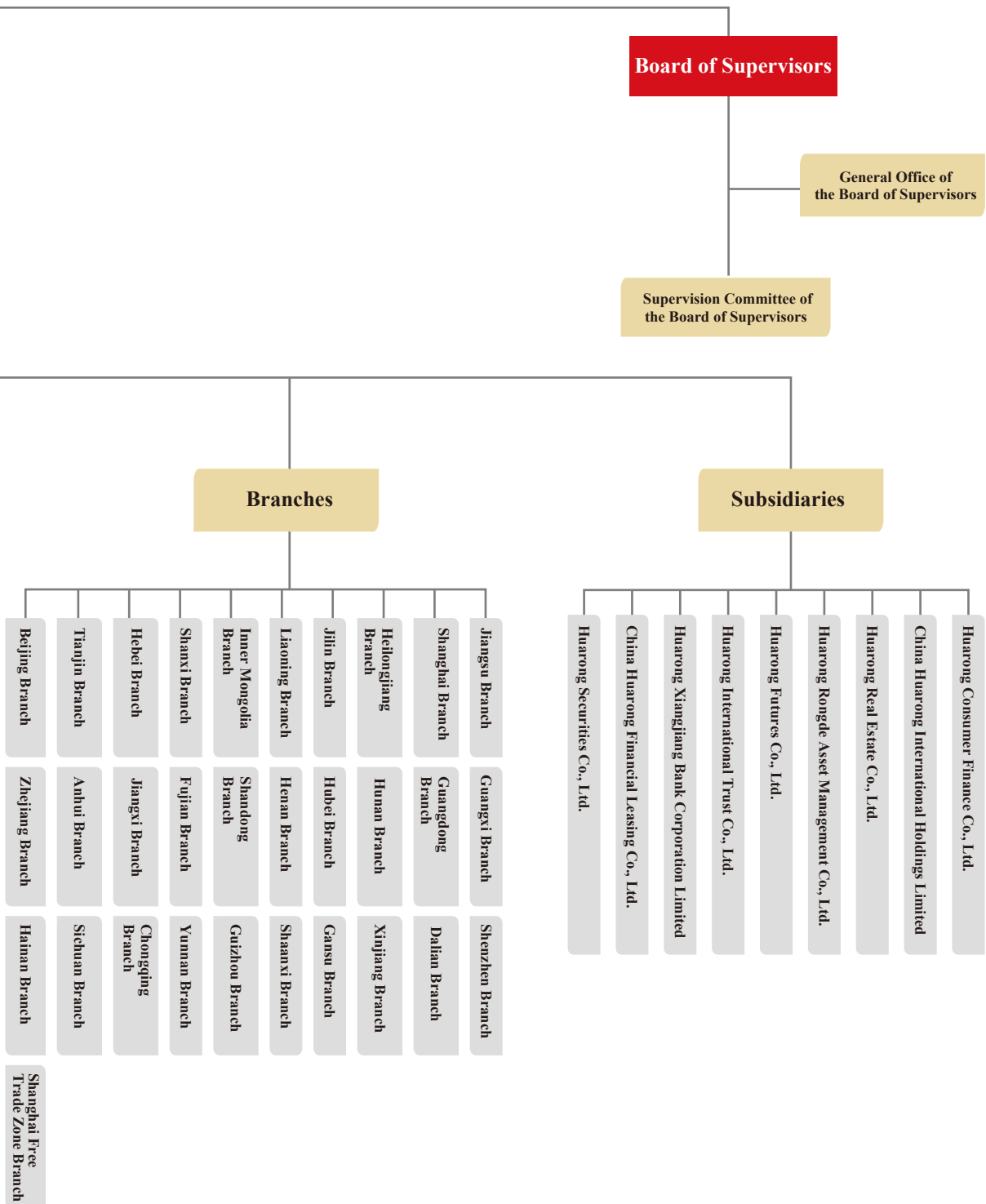
For details of events after the Reporting Period, please refer to “18. Audit Report and Financial Statements — VI. Events after the Reporting Period”.



# 17. Organizational Chart



# 17. Organizational Chart



# 18. Audit Report and Financial Statements

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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# Independent Auditor's Report



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

## 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 168 to 327, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of 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, 2016, 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
<p>Impairment of financial assets that are subject to credit risk exposure</p> <p>Financial assets including loans and advances to customers, finance lease receivables, and financial assets classified as receivables are exposed to credit risk and therefore are subject to regular impairment assessment. These financial assets altogether accounted for approximately 53% of the total assets of the Group. The management of the Group exercises significant judgements when determining both the timing of recognition and the estimation of the size of any allowance for impairment losses of these financial assets.</p> <p>Because of the significance of these judgements and the importance of these financial assets to the Group, the audit of impairment loss allowance on these financial assets is a key area of focus.</p> <p>Please refer to notes V.23, 24 and 27 respectively to the consolidated financial statements for details of these financial assets.</p>	<p>Our procedures in relation to impairment loss allowance on the financial assets that are subject to credit risk exposure included the following principal procedures:</p> <ul style="list-style-type: none"> <li>• We tested the controls over impairment assessment and provision estimate;</li> <li>• We selected samples on the credit review performed by the Group and reviewed the assumptions used including the expected future cash flows from customers or counterparties and the realization of collateral held;</li> <li>• We recalculated the provision and compared the results with those estimated by the Group;</li> <li>• For the financial assets collectively assessed for impairment loss, we understood the impairment estimation methods used by the Group and evaluated the appropriateness of the critical assumptions used in the impairment estimation methods.</li> </ul>

# Independent Auditor's Report

## Key audit matter

## How our audit addressed the key audit matter

### Valuation of financial instruments with unobservable inputs

The valuation of certain Group's financial instruments is based on unobservable inputs which involves significant management judgement.

The Group's financial instruments measured at fair value with unobservable inputs mainly included financial assets designated as at fair value through profit or loss and available-for-sale financial assets. In total, they accounted for approximately 12% of the total asset of the Group.

Please refer to note V. 21, 25 and 58 respectively to the consolidated financial statements for details of these financial assets and their fair value hierarchy.

Our procedures in relation to valuation of financial instruments with unobservable inputs included the following principal procedures:

- We tested the controls over financial instrument valuation process;
- We selected samples and checked the appropriateness of the valuation methods used and evaluated the assumptions used in those methods;
- We recalculated fair value estimates and compared the results to the Group's valuations and investigated significant differences, if any;
- For significant financial instruments, we used 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

Consolidation of structured entities  
The management of the Group made significant judgments to assess whether the Group has the power on and is exposed to significant variable returns from structured entities to determine whether or not it has control over the structured entities.

Due to the significance of these structured entities to the Group and the uncertainty inherent in these judgments, this is considered as a key audit matter.

Please refer to note V. 30 to the consolidated financial statements for details of these consolidated structured entities.

## How our audit addressed the key audit matter

Our procedures in relation to consolidation of structured entities included the following principal procedures:

- We obtained and evaluated the management's consideration regarding consolidation of the structured entities that the Group holds an interest;
- We reviewed the terms of the relevant contracts, considered the returns of the underlying assets, and assessed the Group's power on and the exposure to the variability of returns from the structured entities;
- We assessed the adequacy of the disclosures in the consolidated financial statements.

## 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 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.



# Independent Auditor's Report

## 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

## Independent Auditor's Report

- 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.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

## Independent Auditor's Report

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 Mr. Shi Chung Fai.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
March 15, 2017

# Consolidated Statement of Profit or Loss

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

		Year ended December 31,	
	Note V	2016	2015
Income from distressed debt assets			
classified as receivables	1	<b>25,140,048</b>	23,094,980
Fair value changes on distressed debt assets	2	<b>3,852,330</b>	1,637,250
Fair value changes on other financial assets	3	<b>5,782,109</b>	3,347,102
Interest income	4	<b>16,444,090</b>	14,067,083
Investment income	5	<b>24,678,434</b>	19,167,342
Commission and fee income	6	<b>12,920,129</b>	10,397,992
Net gains on disposals of associates		<b>2,027,719</b>	427,405
Other income and other net gains or losses	7	<b>4,362,862</b>	3,246,609
<b>Total</b>		<b>95,207,721</b>	75,385,763
Interest expenses	8	<b>(31,416,755)</b>	(25,902,179)
Commission and fee expenses	9	<b>(1,035,945)</b>	(945,318)
Operating expenses	10	<b>(12,286,782)</b>	(11,487,552)
Impairment losses on assets	11	<b>(16,717,039)</b>	(12,603,781)
<b>Total</b>		<b>(61,456,521)</b>	(50,938,830)
Change in net assets attributable to other holders			
of consolidated structured entities	30	<b>(3,376,316)</b>	(2,456,555)
Share of results of associates and joint ventures		<b>134,419</b>	255,562
Profit before tax		<b>30,509,303</b>	22,245,940
Income tax expense	12	<b>(7,400,772)</b>	(5,295,142)
<b>Profit for the year</b>		<b>23,108,531</b>	16,950,798
Profit attributable to:			
Equity holders of the Company		<b>19,613,458</b>	14,482,053
Holders of perpetual capital instruments		<b>455,825</b>	173,982
Non-controlling interests		<b>3,039,248</b>	2,294,763
		<b>23,108,531</b>	16,950,798
Earnings per share attributable to equity holders			
of the Company			
(Expressed in RMB Yuan per share)			
— Basic	13	<b>0.50</b>	0.43
— Diluted	13	<b>0.50</b>	0.43

# Consolidated Statement of Other Comprehensive Income

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Year ended December 31,	
	2016	2015
Profit for the year	23,108,531	16,950,798
Other comprehensive (expense)/income:		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit obligations	(8,697)	(759)
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	(3,312,028)	2,421,040
Income tax effect	1,146,980	(651,695)
	(2,165,048)	1,769,345
Share of other comprehensive (expense)/income of associates	(96,404)	64,687
Exchange differences arising on translation of foreign operations	(207,741)	(69,031)
Other comprehensive (expense)/income for the year, net of income tax	(2,477,890)	1,764,242
Total comprehensive income for the year	20,630,641	18,715,040
Total comprehensive income attributable to:		
Equity holders of the Company	17,209,761	16,150,148
Holders of perpetual capital instruments	455,825	173,982
Non-controlling interests	2,965,055	2,390,910
	20,630,641	18,715,040

# Consolidated Statement of Financial Position

As at December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

		As at December 31,	
	Note V	2016	2015
<b>Assets</b>			
Cash and balances with central bank	17	<b>27,259,805</b>	24,982,130
Deposits with financial institutions	18	<b>154,329,885</b>	76,896,262
Placements with financial institutions	19	<b>4,902,346</b>	9,298,706
Financial assets held for trading	20	<b>87,731,296</b>	13,004,002
Financial assets designated as at fair value through profit or loss	21	<b>95,167,253</b>	85,458,189
Financial assets held under resale agreements	22	<b>36,347,736</b>	32,538,933
Loans and advances to customers	23	<b>118,405,979</b>	81,625,232
Finance lease receivables	24	<b>84,991,341</b>	71,672,497
Available-for-sale financial assets	25	<b>140,292,637</b>	64,994,231
Held-to-maturity investments	26	<b>44,884,175</b>	34,357,970
Financial assets classified as receivables	27	<b>549,477,957</b>	328,685,840
Interests in associates and joint ventures	28	<b>9,564,011</b>	6,692,635
Investment properties	32	<b>1,828,408</b>	1,070,209
Property and equipment	33	<b>7,145,821</b>	5,026,771
Deferred tax assets	34	<b>9,301,184</b>	4,826,597
Other assets	35	<b>40,339,463</b>	25,416,214
<b>Total assets</b>		<b>1,411,969,297</b>	866,546,418
<b>Liabilities</b>			
Borrowings from central bank	36	<b>1,987,000</b>	20,000
Deposits from financial institutions	37	<b>6,962,544</b>	15,468,153
Placements from financial institutions	38	<b>4,278,497</b>	964,936
Financial assets sold under repurchase agreements	39	<b>56,390,595</b>	30,361,861
Borrowings	40	<b>511,308,643</b>	295,031,782
Due to customers	41	<b>172,405,868</b>	139,998,873
Tax payable	42	<b>4,680,635</b>	3,223,251
Deferred tax liabilities	34	<b>700,372</b>	552,760
Bonds and notes issued	43	<b>243,075,227</b>	143,053,839
Other liabilities	44	<b>260,098,916</b>	119,070,361
<b>Total liabilities</b>		<b>1,261,888,297</b>	747,745,816

# Consolidated Statement of Financial Position

As at December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	As at December 31,	
		2016	2015
Equity			
Share capital	45	<b>39,070,208</b>	39,070,208
Capital reserve	46	<b>18,320,682</b>	18,404,795
Surplus reserve	47	<b>3,615,201</b>	2,441,087
General reserve	48	<b>10,304,363</b>	8,571,665
Other reserves	49	<b>3,071,816</b>	5,475,513
Retained earnings		<b>40,860,728</b>	24,154,082
Equity attributable to equity holders of the Company		<b>115,242,998</b>	98,117,350
Perpetual capital instruments	50	<b>15,030,256</b>	6,454,112
Non-controlling interests		<b>19,807,746</b>	14,229,140
Total equity		<b>150,081,000</b>	118,800,602
Total equity and liabilities		<b>1,411,969,297</b>	866,546,418

The consolidated financial statements on page 168 to 327 were approved and authorized for issue by the Board of Directors on March 15, 2017 and are signed on its behalf by:

CHAIRMAN

PRESIDENT



# Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Equity attributable to equity holders of the Company							Perpetual capital instruments	Non-controlling interests	Total
		Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Subtotal			
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 to non-controlling interests		—	—	—	—	—	—	—	—	(765,935)	(765,935)
Issuance of perpetual capital instruments	50	—	—	—	—	—	—	—	9,973,523	—	9,973,523
Redemption of perpetual capital instruments	50	—	—	—	—	—	—	—	(1,450,000)	—	(1,450,000)
Distribution relating to perpetual capital instruments	50	—	—	—	—	—	—	—	(403,204)	—	(403,204)
Appropriation to surplus reserve	47	—	—	1,174,114	—	—	(1,174,114)	—	—	—	—
Appropriation to general reserve	48	—	—	—	1,732,698	—	(1,732,698)	—	—	—	—
Disposal of subsidiaries		—	—	—	—	—	—	—	—	(101,052)	(101,052)
Acquisition of additional interests 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
As at January 1, 2015		32,695,870	9,078,345	1,631,898	4,677,946	3,807,418	17,516,675	69,408,152	1,450,723	12,673,239	83,532,114
Profit for the year		—	—	—	—	—	14,482,053	14,482,053	173,982	2,294,763	16,950,798
Other comprehensive income		—	—	—	—	1,668,095	—	1,668,095	—	96,147	1,764,242
Total comprehensive income for the year		—	—	—	—	1,668,095	14,482,053	16,150,148	173,982	2,390,910	18,715,040
Share issued	45	6,374,338	9,375,299	—	—	—	—	15,749,637	—	—	15,749,637
Dividend distribution	14	—	—	—	—	—	(3,140,710)	(3,140,710)	—	(565,693)	(3,706,403)
Issuance of perpetual capital instruments	50	—	—	—	—	—	—	—	5,000,000	—	5,000,000
Distribution relating to perpetual capital instruments	50	—	—	—	—	—	—	—	(170,593)	—	(170,593)
Appropriation to surplus reserve	47	—	—	809,189	—	—	(809,189)	—	—	—	—
Appropriation to general reserve	48	—	—	—	3,893,719	—	(3,893,719)	—	—	—	—
Acquisition of subsidiaries		—	—	—	—	—	—	—	—	497,930	497,930
Acquisition of additional interests in subsidiaries		—	(56,929)	—	—	—	—	(56,929)	—	(19,739)	(76,668)
Others		—	8,080	—	—	—	(1,028)	7,052	—	(747,507)	(740,455)
As at December 31, 2015		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

# Consolidated Statement of Cash Flows

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Year ended December 31,	
	2016	2015
OPERATING ACTIVITIES		
Profit before tax	<b>30,509,303</b>	22,245,940
Adjustments for:		
Impairment losses on assets	<b>16,717,039</b>	12,603,781
Depreciation of property and equipment and investment properties	<b>416,682</b>	399,163
Amortization of intangible assets and other assets	<b>203,502</b>	134,482
Share of results of associates and joint ventures	<b>(134,419)</b>	(255,562)
Fair value changes on financial assets	<b>(2,730,853)</b>	(1,831,459)
Interest income arising from impaired financial assets	<b>(233,110)</b>	(190,372)
Investment income	<b>(19,477,394)</b>	(15,843,603)
Interest expenses of bonds and notes issued and other borrowings	<b>11,945,329</b>	6,159,821
Change in net assets attributable to other holders of consolidated structured entities	<b>3,376,316</b>	2,456,555
Net gains on disposal of associates	<b>(2,027,719)</b>	(427,405)
Net losses/(gains) on disposal of property and equipment	<b>98</b>	(611)
Net foreign exchange gains	<b>(202,742)</b>	(163,580)
Net provision of contingent liabilities	<b>(53,690)</b>	52,360
Operating cash flows before movements in working capital	<b>38,308,342</b>	25,339,510
Net increase in loans and advances to customers	<b>(38,008,628)</b>	(25,338,905)
Net increase in finance lease receivables	<b>(13,764,648)</b>	(8,476,141)
Net (increase)/decrease in balances with central bank and deposits with financial institutions	<b>(13,558,902)</b>	65,057
Net increase in financial assets at FVTPL	<b>(83,717,750)</b>	(46,943,839)
Net decrease/(increase) in placements with financial institutions	<b>1,198,706</b>	(676,326)
Net increase in financial assets held under resale agreements	<b>(11,113,080)</b>	(5,452,404)
Net increase in financial assets classified as receivables	<b>(115,036,148)</b>	(57,617,074)
Net decrease in available-for-sale financial assets	<b>1,653,256</b>	1,519,678
Net increase in due to customers	<b>32,376,326</b>	22,752,801
Net increase/(decrease) in borrowings from central bank	<b>1,967,000</b>	(60,000)
Net (decrease)/increase in placements and deposits from financial institutions	<b>(5,191,908)</b>	662,061
Net increase in financial assets sold under repurchase agreements	<b>25,816,229</b>	4,158,762
Net increase in borrowings of financial institution subsidiaries	<b>114,346,919</b>	43,863,862
Other changes in operating receivables	<b>(20,404,757)</b>	(10,617,283)
Other changes in operating payables	<b>28,681,626</b>	22,568,709
Cash used in operations	<b>(56,447,417)</b>	(34,251,532)
Income tax paid	<b>(9,123,383)</b>	(6,955,400)
NET CASH USED IN OPERATING ACTIVITIES	<b>(65,570,800)</b>	(41,206,932)

## Consolidated Statement of Cash Flows

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Year ended December 31,	
	2016	2015
INVESTING ACTIVITIES		
Cash receipts from disposals of financial assets	257,259,277	73,568,864
Cash receipts from interest income arising from financial assets	17,266,929	15,266,470
Cash receipts from dividend income	1,449,695	811,737
Cash receipts from disposals of associates and consolidated structured entities	3,469,875	574,254
Cash receipts from disposals of property and equipment, and other assets	103,796	96,043
Cash payments for purchases of financial assets	(463,536,954)	(153,195,128)
Cash payments for investment in associates and joint ventures	(5,840,854)	(4,258,169)
Cash payments for pledge deposits in bank	(3,548,797)	(2,008,674)
Cash payments for purchases of property and equipment, investment properties and other assets	(839,631)	(1,745,088)
Net cash outflow on acquisitions of subsidiaries	(1,969,326)	(47,697)
Net cash outflow on disposals of subsidiaries	(130,782)	—
NET CASH USED IN INVESTING ACTIVITIES	(196,316,772)	(70,937,388)

# Consolidated Statement of Cash Flows

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note V	Year ended December 31,	
		2016	2015
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		—	16,147,367
Contribution from non-controlling interests of subsidiaries of the Company and consolidated structured entities		<b>121,424,071</b>	17,281,987
Cash payments for acquisition of additional interests in subsidiaries		<b>(350,829)</b>	(76,668)
Issue of perpetual capital instruments		<b>9,973,523</b>	5,000,000
Redemption of perpetual capital instruments		<b>(1,450,000)</b>	—
Proceeds of borrowings of non-financial institution subsidiaries		<b>197,825,281</b>	36,061,354
Repayments of borrowings of non-financial institution subsidiaries		<b>(95,773,540)</b>	(26,628,634)
Cash receipts from bonds and notes issued		<b>130,275,008</b>	105,594,470
Cash payments for transaction cost of bonds and notes issued		<b>(272,293)</b>	(629,078)
Cash repayments for bonds and notes redeemed		<b>(33,648,904)</b>	(11,558,350)
Interest paid for bonds and notes issued and other borrowings		<b>(12,443,431)</b>	(5,427,587)
Dividends paid		<b>(1,932,619)</b>	(2,443,569)
Cash payments for distribution to holders of perpetual capital instruments		<b>(403,204)</b>	(170,593)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>313,223,063</b>	133,150,699
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>51,335,491</b>	21,006,379
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>86,728,444</b>	65,273,390
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>791,055</b>	448,675
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	51	<b>138,854,990</b>	86,728,444
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:</b>			
Interest received		<b>39,843,203</b>	37,997,024
Interest paid		<b>(18,806,340)</b>	(22,949,572)
Net interest income		<b>21,036,863</b>	15,047,452

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## I. GENERAL INFORMATION

China Huarong Asset Management Co., Ltd (the “Company”) was transformed from the former China Huarong Asset Management Corporation (the “Former Huarong”) which was a wholly state-owned financial enterprise established in the People’s Republic of China (the “PRC”) by the Ministry of Finance (the “MOF”) on November 1, 1999 as approved by the State Council of the PRC (the “State Council”). On September 28, 2012, the Company was established after the completion of the financial restructuring of the Former Huarong as approved by the State Council.

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

The Company 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; bankrupt 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, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## II. APPLICATION OF 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 current year:

Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### II. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

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

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Insurance Contract <sup>1</sup>
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 7	Disclosure Initiative <sup>4</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses <sup>4</sup>
Amendments to IAS 40	Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle <sup>5</sup>

1 Effective for annual periods beginning on or after January 1, 2018, with early application permitted.

2 Effective for annual periods beginning on or after January 1, 2019, with early application permitted.

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 2017, with early application permitted.

5 Effective for annual periods beginning on or after January 1 2017 or January 1 2018, as appropriate.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## II. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

Except for the following new IFRSs, directors of the Company are of the view that the application of these revised but not yet effective IFRSs is unlikely to have a significant impact on the consolidated financial statements:

### *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 IAS 39 Financial Instruments: Recognition and Measurement are 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 of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of 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, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- 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 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## II. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

### **IFRS 9 Financial Instruments** (continued)

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

- 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 effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. 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, 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale financial assets, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortized cost.

### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued which 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.
- 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## II. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

### **IFRS 15 Revenue from Contracts with Customers** (continued)

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 2016, 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 directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected/and the amounts of revenue recognized are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detail review. In addition, the application of IFRS 15 in the future 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 the current lease guidance including 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 (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## II. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

### *IFRS 16 Leases (continued)*

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, 2016, the Group has non-cancellable operating lease commitments of RMB2,076 million as disclosed in note V.53. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence 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 upon the application of IFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## 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, 2016

(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 if and only if the Company has all the following: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee 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 Company loses control of the subsidiary. 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, 2016

(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 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 including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, 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, 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 previous 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, 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, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## 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, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-Based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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 of the acquisition-date amounts 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 entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. 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 or, when applicable, on the basis specified in another IFRS.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 4. Business combinations *(continued)*

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.

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. If the recoverable amount of the cash-generating unit 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). Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 6. Investments 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, investments in associates or joint ventures are 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. 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 6. Investments in associates and joint ventures *(continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the group retains an interest in the former associate or joint venture and the retained interest is a financial asset, 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 in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part 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) when the equity method is discontinued.

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

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 8. Foreign currency transactions

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.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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 at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at a rate that approximates the exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

#### 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 or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## 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")*

Financial assets at FVTPL have two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

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.

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 interest income arising from financial assets at FVTPL is also included in fair value changes of such assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 9. Financial instruments *(continued)*

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

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities 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.

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. 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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 9. Financial instruments (continued)

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

##### *Available-for-sale financial assets (continued)*

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

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.

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;

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 9. Financial instruments *(continued)*

#### 9.3 Impairment of financial assets *(continued)*

- (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.

#### ***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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 9. Financial instruments (continued)

#### 9.3 Impairment of financial assets (continued)

##### *Impairment of financial assets measured at amortized cost (continued)*

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.

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. The impairment loss on such financial asset is not reversed once it is recognized.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 9. Financial instruments *(continued)*

#### 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 instrument

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 9. Financial instruments (continued)

#### 9.5 Financial liabilities and equity instrument (continued)

##### *Financial liabilities at FVTPL*

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

The criteria for a financial liability to be classified as held for trading or designated as at FVTPL are the same as those for a financial asset to be classified as held for trading or designated as at FVTPL.

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

##### *Other financial liabilities*

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.

##### *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; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 9. Financial instruments *(continued)*

#### 9.5 Financial liabilities and equity instrument *(continued)*

##### *Equity instruments*

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

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

##### *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.

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 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 9. Financial instruments *(continued)*

#### 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.

#### 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 re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at FVTPL, and treated as a standalone derivative if (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of each reporting period, it designates the entire hybrid instrument as a financial asset or financial liability at FVTPL.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 transaction costs.

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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 12. Property and equipment *(continued)*

#### **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).

### 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 include trading seat fee, computer software and licenses, etc. An intangible asset is measured initially at cost.

When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the end of the reporting period, and makes adjustments when necessary. An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 14. Intangible assets (continued)

#### 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 cost less accumulated amortization and accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. 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).

### 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 asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, 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.

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.

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 for which the estimates of future cash flows have not been adjusted.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 15. Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(continued)*

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.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

### 18. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. Specific recognition criteria for different nature of revenue are disclosed 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 Fair value changes on distressed debt assets

Gains or losses from disposal of distressed debt assets designated as at FVTPL and unrealized fair value changes on such assets, both of which are accounted for as fair value changes on distressed debt assets. Any interest income arising from distressed debt assets designated as at FVTPL is also included in fair value changes of such assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 18. Revenue recognition *(continued)*

#### 18.3 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for interest income from distressed debt assets and investment securities, are recognized within “interest income” and “interest expense” 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.

#### 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.

Fee from leasing business is 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 Investment income

Investment income includes interest income, dividends income and disposal gain/loss 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 18. Revenue recognition *(continued)*

#### 18.6 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.

#### 18.7 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.

##### *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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 19. Taxation *(continued)*

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.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 20. Leasing *(continued)*

#### 20.2 The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

#### 20.3 Leasehold land and building

When a lease includes both 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 lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the 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 the inception of the lease.

To the extent the allocation of the lease 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 lease is generally classified as a finance lease and accounted for as property and equipment.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

#### **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.

#### **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.

#### **Post-retirement benefits**

The Group pays supplementary post-retirement benefits to employees in Mainland China who retired prior to December 31, 2012.

Post-retirement benefits include supplemental pension payments and medical expense coverage.

The liability related to the above post-retirement benefit obligations existing at the end of each reporting period is calculated by independent actuaries using the projected unit credit method and is recorded as a liability. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of post-retirement benefit obligations are recognized in "other comprehensive income" immediately when they occur. Except for the actuarial changes, other changes are recognized in "operating expenses" immediately when they occur.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 22. Employee benefits *(continued)*

#### Early retirement benefits

The Group pays early retirement benefits to those employees who accepted an early retirement arrangement.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above early retirement obligations existing at the end of each reporting period is calculated by independent actuaries using the projected unit credit method and is recorded as a liability. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The gains or losses of remeasurement or amendments of early retirement benefit obligations are charged or credited to "operating expenses" when they occur.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the critical judgments and key estimation uncertainties that the management has 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 and/or in the next twelve months.

### 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. 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 the counterparty, 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, 2016, the total fair value of level 2 and level 3 financial assets that are measured at fair value on a recurring basis amounted to RMB238,482 million (December 31, 2015: RMB128,767 million).

### 3. 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, 2016, available-for-sale instruments amounted to RMB140,293 million with an impairment loss of RMB787 million (December 31, 2015: RMB64,994 million, with an impairment loss of RMB786 million).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## **IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** *(continued)*

### **4. Impairment of held-to-maturity investments**

The determination of whether a held-to-maturity financial asset is impaired requires significant judgment. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account. As at December 31, 2016, the carrying amount of held-to-maturity investments was RMB44,884 million (December 31, 2015: RMB34,358 million) and there were no impairment losses as at the end of both years.

### **5. 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.27, note V.23 and note V.24).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## IV. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### 6. Taxes

There are certain transactions and activities for which the ultimate tax determination is subject to the final approval of annual tax return the Group filed with relevant tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made. (Details of the Group's current income tax and deferred income tax are included in note V.12 and note V.34).

### 7. 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.30.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES

### 1. 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.27).

Interest income accrued on impaired financial assets included in income from distressed debt assets classified as receivables amounted to RMB183 million for the year of 2016 (2015: RMB139 million).

### 2. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets designated by the Group as at FVTPL during the year (see note V.21).

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.

### 3. Fair value changes on other financial assets

	Year ended December 31,	
	2016	2015
Fair value changes on financial assets held for trading	2,447,887	1,193,942
Fair value changes on financial assets designated as at FVTPL	3,334,222	2,153,160
Total	5,782,109	3,347,102



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 4. 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,	
	2016	2015
Loans and advances to customers		
Corporate loans and advances	4,990,526	4,203,148
Personal loans and advances	1,202,451	934,812
Loans to margin clients	464,792	435,412
Finance lease receivables	5,522,059	5,450,687
Financial assets held under resale agreements	1,758,728	1,307,686
Deposits with financial institutions	1,866,649	1,070,911
Balances with central bank	444,513	356,536
Placements with financial institutions	194,372	307,891
Total	16,444,090	14,067,083
Including: Interest income accrued on impaired financial assets	43,502	49,935

#### 5. Investment income

	Year ended December 31,	
	2016	2015
Interest income from		
Other financial assets classified as receivables	16,751,246	10,496,544
Available-for-sale debt securities	1,622,890	755,064
Held-to-maturity debt securities	1,311,154	1,002,494
Net realized gains from disposals of available-for-sale financial assets	3,682,011	5,959,709
Dividend income from available-for-sale financial assets	1,299,610	896,586
Others	11,523	56,945
Total	24,678,434	19,167,342
Including: Interest income accrued on impaired other financial assets classified as receivables	6,109	1,880

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 6. Commission and fee income

	Year ended December 31,	
	2016	2015
Asset management business	8,314,193	5,358,335
Securities and futures business	2,221,836	2,690,877
Trust business	1,475,226	1,397,760
Banking business	834,043	916,226
Fund management and other business	74,831	34,794
<b>Total</b>	<b>12,920,129</b>	<b>10,397,992</b>

### 7. Other income and other net gains or losses

	Year ended December 31,	
	2016	2015
Revenue from properties development	2,837,574	2,160,258
Rental income	278,248	184,545
Net gains on exchange differences	236,576	274,317
Government grants	233,579	87,780
Others	776,885	539,709
<b>Total</b>	<b>4,362,862</b>	<b>3,246,609</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 8. Interest expenses

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

	Year ended December 31,	
	2016	2015
Borrowings	(19,188,493)	(16,623,286)
Bonds and notes issued	(7,639,536)	(4,522,284)
Due to customers	(2,708,408)	(2,857,623)
Financial assets sold under repurchase agreements	(768,599)	(843,213)
Deposits from financial institutions	(440,597)	(648,964)
Placements from financial institutions	(352,254)	(147,567)
Amount due to the MOF	(124,393)	(204,605)
Borrowings from central bank	(24,805)	(1,419)
Other liabilities	(169,670)	(53,218)
Total	(31,416,755)	(25,902,179)

### 9. Commission and fee expenses

	Year ended December 31,	
	2016	2015
Securities and futures business	(489,454)	(676,175)
Asset management business	(351,414)	(141,731)
Banking business and others	(195,077)	(127,412)
Total	(1,035,945)	(945,318)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 10. Operating expenses

	Year ended December 31,	
	2016	2015
Employee benefits <sup>(1)</sup>	(5,090,298)	(4,178,503)
Business tax and surcharges	(1,625,726)	(2,939,416)
Cost of properties development and purchases	(1,459,549)	(1,278,310)
Others <sup>(2)</sup>	(4,111,209)	(3,091,323)
Including:		
Rental and management fee for the leases	(594,730)	(326,045)
Depreciation of property and equipment	(366,709)	(348,923)
Depreciation of investment properties	(49,973)	(50,240)
Amortization	(203,502)	(134,482)
<b>Total</b>	<b>(12,286,782)</b>	<b>(11,487,552)</b>

(1) It includes defined contribution plans such as pension scheme, unemployment insurance and corporate annuity scheme that are set up by the Company and certain other Group entities. The Group made contributions to the plans and the contributions are expensed in profit or loss when incurred. The Group has no further obligation if the plans do not have sufficient assets for payment to employees.

(2) Principal auditors' remuneration for the year ended December 31, 2016 was RMB21 million (2015: RMB12 million).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 11. Impairment losses on assets

	Year ended December 31,	
	2016	2015
Distressed debt assets classified as receivables	(10,774,533)	(8,052,504)
Other financial assets classified as receivables	(3,351,233)	(2,569,954)
Loans and advances to customers	(1,271,383)	(824,709)
Available-for-sale financial assets	(786,501)	(785,950)
Finance lease receivables	(445,804)	(297,988)
Other assets	(87,585)	(72,676)
<b>Total</b>	<b>(16,717,039)</b>	<b>(12,603,781)</b>

### 12. Income tax expense

	Year ended December 31,	
	2016	2015
Current income tax		
PRC Enterprise Income tax	(10,006,473)	(7,841,388)
Hong Kong Profits Tax	(617,414)	(111,474)
Over-provision in prior years	43,120	50,898
Deferred income tax	3,179,995	2,606,822
<b>Total</b>	<b>(7,400,772)</b>	<b>(5,295,142)</b>

The statutory income tax rate applicable to PRC enterprise was 25% for the year of 2016 (2015: 25%).

The preferential income tax rate applicable to PRC enterprises within the scope of the western development area was 15% for the year of 2016 (2015: 15%).

Hong Kong Profits Tax was computed at 16.5% of the estimated assessable profit for the year of 2016 (2015: 16.5%).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 12. Income tax expense (continued)

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

	Year ended December 31,	
	2016	2015
Profit before tax	<b>30,509,303</b>	22,245,940
Income tax calculated at the tax rate of 25%	<b>(7,627,326)</b>	(5,561,485)
Tax effect of income not taxable for tax purpose <sup>(1)</sup>	<b>181,005</b>	234,592
Tax effect of expenses not deductible for tax purpose <sup>(2)</sup>	<b>(192,157)</b>	(163,708)
Tax effect of different tax rate of subsidiaries	<b>346,168</b>	144,561
Over-provision in prior years	<b>43,120</b>	50,898
Effect of unused tax losses and deductible temporary differences not recognized as deferred tax assets	<b>(151,582)</b>	—
Income tax expense	<b>(7,400,772)</b>	(5,295,142)

(1) Non-taxable income mainly includes interest income on treasury bonds and dividend income.

(2) Non-deductible expenses mainly include entertainment expenses in excess of the tax deduction limits and interest arising from amount due to the MOF according to the PRC tax regulations.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 13. 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,	
	2016	2015
Earnings:		
Profit attributable to equity holders of the Company	<b>19,613,458</b>	14,482,053
Effect of dilutive potential profit attributable to equity holders of the Company:		
Interest expense on convertible notes issued by a subsidiary, net of tax	—	582
Adjusted profit attributable to equity holders of the Company	—	(642)
Earnings for the purpose of calculating diluted earnings per share	<b>19,613,458</b>	14,481,993
Number of shares:		
Weighted average number of shares in issue (in thousand)	<b>39,070,208</b>	33,761,321
Effect of dilutive potential ordinary shares (in thousand) — Over-allotment option	—	146
Weighted average number of shares in issue for the purpose of diluted earnings per share (in thousand)	<b>39,070,208</b>	33,761,467
Basic earnings per share (RMB Yuan)	<b>0.50</b>	0.43
Diluted earnings per share (RMB Yuan)	<b>0.50</b>	0.43

The calculation of diluted earnings per share for the year ended December 31, 2016 considered the impact of convertible bonds issued by Huarong International Financial Holdings Limited before they were fully converted.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 14. Dividends

	Year ended December 31,	
	2016	2015
Special dividend <sup>(2)</sup>	—	1,247,752
Final dividend for 2014 <sup>(3)</sup>	—	1,892,958
Total	—	3,140,710

- (1) Distribution of final dividend for 2015

There was no other dividend except for the special dividend approved after the required appropriations for the statutory surplus reserve and the general reserve on the net profit of the Company for the year of 2015 as determined under the generally accepted accounting principles of the PRC ("PRC GAAP"), at the annual general meeting held on June 24, 2016.

- (2) Special dividend

At the third extraordinary general meeting for 2015 held on June 14, 2015, the shareholders approved the proposal on a cash dividend in respect of the period from July 1, 2015 to September 30, 2015 (the "Special Dividend Period") distributed to shareholders on the Company's register of members as of the last day of the Special Dividend Period in an amount equal to the audited net profit of the Company for the Special Dividend Period, after the required appropriations to the statutory surplus reserve and the general reserve ("Distributable Profits"). The Company's Distributable Profits are determined in accordance with the PRC GAAP and IFRSs, whichever is lower. The amount of special dividend was determined to be RMB1,248 million.

The above dividend had been recognized as distribution during the year ended December 31, 2015.

- (3) Distribution of final dividend for 2014

A cash dividend of RMB1,893 million in total for the year of 2014 was approved, after the required appropriations for the statutory surplus reserve and the general reserve on the net profit of the Company for the year of 2014 as determined under the PRC GAAP, at the annual general meeting held on July 6, 2015.

The above dividend had been recognized as distribution during the year ended December 31, 2015.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 15. Emoluments of directors and supervisors

	Year ended December 31, 2016			Total (before tax)
	Fees	Paid remuneration and other benefits	Employer's contribution to pension scheme	
Executive directors				
LAI Xiaomin	—	554	39	593
KE Kasheng	—	490	29	519
WANG Keyue	—	509	35	544
Non-executive directors				
TIAN Yuming <sup>(1)</sup>	—	—	—	—
WANG Cong <sup>(1)</sup>	—	—	—	—
DAI Lijia <sup>(1)</sup>	—	—	—	—
LI Hui <sup>(1)(2)</sup>	—	—	—	—
WANG Sidong <sup>(1)</sup>	—	—	—	—
Independent non-executive directors				
SONG Fengming	250	—	—	250
WU Xiaoqiu <sup>(3)</sup>	63	—	—	63
TSE Hau Yin	250	—	—	250
LIU Junmin	250	—	—	250
SHAO Jingchun <sup>(4)</sup>	42	—	—	42
Supervisors				
SUI Yunsheng <sup>(5)</sup>	—	86	17	103
MA Zhongfu <sup>(6)</sup>	—	297	7	304
WANG Qi <sup>(7)</sup>	—	—	—	—
DONG Juan <sup>(8)</sup>	—	—	—	—
ZHENG Shengqin	20	1,474	29	1,523
XU Dong	20	1,326	23	1,369
<b>Total</b>	<b>895</b>	<b>4,736</b>	<b>179</b>	<b>5,810</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 15. Emoluments of directors and supervisors (continued)

	Year ended December 31, 2015 (Restated)			Total (before tax)
	Fees	Paid remuneration and other benefits	Employer's contribution to pension scheme	
Executive directors				
LAI Xiaomin	—	722	47	769
KE Kasheng	—	722	36	758
WANG Keyue	—	653	41	694
Non-executive directors				
TIAN Yuming <sup>(1)</sup>	—	—	—	—
WANG Cong <sup>(1)</sup>	—	—	—	—
DAI Lijia <sup>(1)</sup>	—	—	—	—
LI Hui <sup>(1)(2)</sup>	—	—	—	—
WANG Sidong <sup>(1)(9)</sup>	—	—	—	—
Independent non-executive directors				
SONG Fengming	250	—	—	250
WU Xiaoqiu <sup>(3)</sup>	207	—	—	207
TSE Hau Yin <sup>(10)</sup>	208	—	—	208
LIU Junmin <sup>(11)</sup>	146	—	—	146
Supervisors				
SUI Yunsheng	—	709	42	751
WANG Qi <sup>(7)</sup>	—	—	—	—
DONG Juan <sup>(8)</sup>	—	—	—	—
ZHENG Shengqin	20	1,337	19	1,376
XU Dong <sup>(12)</sup>	15	941	19	975
<b>Total</b>	<b>846</b>	<b>5,084</b>	<b>204</b>	<b>6,134</b>

(1) These non-executive directors did not receive any fees from the Group.

(2) LI Hui was appointed as non-executive director in February 2015 and resigned from that position in March 2016.

(3) WU Xiaoqiu was appointed as independent non-executive director in March 2015 and resigned from that position in November 2016.

(4) SHAO Jingchun was appointed as independent non-executive director in November 2016.

(5) SUI Yunsheng ceased to be the chairman of the Board of Supervisors in May 2016.

(6) MA Zhongfu was appointed as the chairman of the Board of Supervisors in July 2016.

(7) WANG Qi was appointed as external supervisor in February 2012, in accordance with the relevant requirements and upon her own request, she waived any emoluments from the Group in 2015 and 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 15. Emoluments of directors and supervisors *(continued)*

- (8) DONG Juan was appointed as external supervisor in April 2015, in accordance with the relevant requirements and upon her own request, she waived any emoluments from the Group in 2015 and 2016.
- (9) WANG Sidong was appointed as non-executive director in March 2015.
- (10) TSE Hau Yin was appointed as independent non-executive director in March 2015.
- (11) LIU Junmin was appointed as independent non-executive director in June 2015.
- (12) XU Dong was appointed as employee representative supervisor in March 2015.

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 or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as the directors of the Company. The emoluments of supervisors shown above only included fees for their services as supervisors. Lai Xiaomin acted as the Chairman of the Board of the Company during the years of 2015 and 2016.

The total compensation packages for these directors and supervisors for the year ended December 31, 2016 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 announcement date of 2015 consolidated financial statements, the above compensation package for the Directors, Supervisors and Senior Management for the year ended December 31 2015 had not been finalized and the amount of remuneration of Directors, Supervisors and Senior Management recognized in the consolidated income statement for the year of 2015 was RMB3 million. The comparative figures for the year of 2015 have been restated to RMB6 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.16 below as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for WANG Qi and DONG Juan, none of the directors or supervisors waived any emoluments during the year. Bonus was determined based on the performance of individuals by the Group on a discretionary basis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 16. Five highest paid individuals

The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended December 31, 2016 were as follows:

	Year ended December 31,	
	2016	2015
Salaries and other benefits	4,085	4,125
Employer's contribution to pension scheme	265	369
Discretionary and performance related incentive payments	18,186	20,444
<b>Total</b>	<b>22,536</b>	<b>24,938</b>

Among the five individuals with the highest emoluments in the Group, none of them was a director nor supervisor during the year of 2015 and 2016. The number of these five individuals whose emoluments fall within the following bands is as follows:

	Year ended December 31,	
	2016	2015
RMB3,000,001 to RMB3,500,000 yuan	—	1
RMB3,500,001 to RMB4,000,000 yuan	2	1
RMB4,000,001 to RMB4,500,000 yuan	2	—
RMB5,500,001 to RMB6,000,000 yuan	1	2
RMB6,000,001 to RMB6,500,000 yuan	—	1
	<b>5</b>	<b>5</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 17. Cash and balances with central bank

	As at December 31,	
	2016	2015
Cash	428,735	426,926
Mandatory reserve deposits with central bank <sup>(1)</sup>	22,964,487	19,416,305
Surplus reserve deposits with central bank <sup>(2)</sup>	3,675,129	4,947,934
Other deposits with central bank	191,454	190,965
<b>Total</b>	<b>27,259,805</b>	<b>24,982,130</b>

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, 2016, the RMB mandatory reserve deposits placed with the PBOC were mainly based on 13.5% (December 31, 2015: 14%) of eligible RMB deposits of Huarong Xiangjiang Bank; foreign currency mandatory reserve deposits were mainly based on 5% (December 31, 2015: 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.

### 18. Deposits with financial institutions

	As at December 31,	
	2016	2015
Banks	145,636,190	73,522,540
Clearing settlement funds <sup>(1)</sup>	4,736,006	2,718,690
Other financial institutions	3,957,689	655,032
<b>Total</b>	<b>154,329,885</b>	<b>76,896,262</b>

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

- (2) The Group had deposits with financial institutions that were pledged for borrowings as at December 31, 2016 amounting to RMB5,557 million (December 31, 2015: RMB2,009 million).

- (3) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at December 31 2016, the bank balances and clearing settlement fund held on behalf of customers by the Group amounted to RMB12,189 million (December 31, 2015: RMB10,327 million). The Group has recognized the corresponding amount in accounts payable to brokerage clients and margin deposit received from securities customers (see note V.44).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 19. Placements with financial institutions

The Group's placements as at December 31, 2016 and 2015 were conducted with commercial banks.

### 20. Financial assets held for trading

	As at December 31,	
	2016	2015
Listed investments:		
Debt securities <sup>(1)</sup>		
— Government bonds	4,549,186	—
— Public sector and quasi-government bonds	757,610	2,330,185
— Financial institution bonds	684,287	571
— Corporate bonds	48,041,854	5,866,487
Equity instruments	6,418,254	3,988,484
Funds	1,126,865	195,453
Negotiable certificates of deposit	11,456,817	—
Asset-backed securities	792,909	—
Subtotal	73,827,782	12,381,180
Unlisted investments:		
Wealth management products	10,413,218	—
Funds	2,989,317	584,250
Debt securities	287,890	—
Equity instruments	213,089	38,572
Subtotal	13,903,514	622,822
Total	87,731,296	13,004,002

(1) Listed debt securities included those traded in interbank and stock exchange in Mainland China.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

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

	As at December 31,	
	2016	2015
Listed investments:		
Equity instruments	4,573,622	219,950
Unlisted investments:		
Distressed debt assets	68,436,032	65,564,484
Convertible bonds	9,954,520	5,241,300
Structured products <sup>(1)</sup>	5,094,059	4,082,059
Asset management plans	3,398,947	200,000
Wealth management products <sup>(2)</sup>	2,129,900	2,164,691
Equity instruments	930,460	386,216
Trust products	649,713	7,599,489
Subtotal	90,593,631	85,238,239
Total	95,167,253	85,458,189

(1) A Group entity entered into a series of structured transactions that are managed on 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.

(2) This mainly represents wealth management products issued by banking institutions outside the Group.

#### 22. Financial assets held under resale agreements

	As at December 31,	
	2016	2015
By collateral type:		
Bonds	36,287,736	20,160,745
Bills	—	9,072,252
Others	60,000	3,305,936
Total	36,347,736	32,538,933

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 22. Financial assets held under resale agreements *(continued)*

As at December 31, 2016, the Group received pledged securities with a fair value of approximately RMB76,427 million (December 31, 2015: RMB62,471 million). None of them could be resold or repledged by the Group in the absence of default by their owners (December 31, 2015: RMB13,131 million). As at December 31, 2016, the Group did not repledge the securities (December 31, 2015: fair value of RMB3,905 million). The Group has an obligation to return the pledged securities to their counterparties on the maturity dates of the resale agreements.

### 23. Loans and advances to customers

	As at December 31,	
	2016	2015
Corporate loans and advances		
— Loans and advances	<b>80,884,667</b>	63,265,392
— Discounted bills	<b>8,796,542</b>	16,085
Subtotal	<b>89,681,209</b>	63,281,477
Personal loans and advances		
— Loans for business operations	<b>9,816,041</b>	7,086,627
— Mortgage	<b>7,087,467</b>	5,735,751
— Personal consumption loans	<b>6,405,757</b>	2,570,830
— Others	<b>1,082,292</b>	705,669
Subtotal	<b>24,391,557</b>	16,098,877
Loans to margin clients	<b>6,992,610</b>	4,075,095
Gross loans and advances	<b>121,065,376</b>	83,455,449
Less: Allowance for impairment losses		
— Individually assessed	<b>(614,538)</b>	(289,333)
— Collectively assessed	<b>(2,044,859)</b>	(1,540,884)
Subtotal	<b>(2,659,397)</b>	(1,830,217)
Net loans and advances to customers	<b>118,405,979</b>	81,625,232



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 23. Loans and advances to customers (continued)

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

	Identified impaired loans and advances				Total	Identified impaired loans and advances to customers as a % of total 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		
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	
At December 31, 2015						
Gross loans and advances	82,671,471	94,560	689,418	783,978	83,455,449	0.94%
Allowances for impairment loss	(1,501,062)	(39,822)	(289,333)	(329,155)	(1,830,217)	
Net loans and advances to customers	81,170,409	54,738	400,085	454,823	81,625,232	

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, 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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 23. Loans and advances to customers (continued)

	Individually assessed allowance	Collectively assessed allowance	Total
At January 1, 2015	197,131	1,012,745	1,209,876
Provided for the year	391,412	1,202,013	1,593,425
Reversal for the year	(128,660)	(640,056)	(768,716)
Recovery of loans and advances written off in previous years	9,874	—	9,874
Write-offs	(133,967)	(30,340)	(164,307)
Unwinding of discount on allowance	(46,457)	(3,478)	(49,935)
At December 31, 2015	289,333	1,540,884	1,830,217

### 24. Finance lease receivables

	As at December 31,	
	2016	2015
Minimum finance lease receivables:		
Within 1 year (inclusive)	<b>31,900,780</b>	28,131,292
1–5 years (inclusive)	<b>63,850,148</b>	52,481,477
Over 5 years	<b>1,953,318</b>	2,191,124
Gross amount of finance lease receivables	<b>97,704,246</b>	82,803,893
Less: Unearned finance income	<b>(11,074,497)</b>	(9,931,246)
Net amount of finance lease receivables	<b>86,629,749</b>	72,872,647
Less: Allowance for impairment losses	<b>(1,638,408)</b>	(1,200,150)
Carrying amount of finance lease receivables	<b>84,991,341</b>	71,672,497
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	<b>28,047,143</b>	24,467,831
1–5 years (inclusive)	<b>55,244,371</b>	45,600,821
Over 5 years	<b>1,699,827</b>	1,603,845
Total	<b>84,991,341</b>	71,672,497

Certain amount of finance lease receivables were pledged by the Group as security for borrowings as at the end of the year.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 24. Finance lease receivables (continued)

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

	Individually assessed allowance	Collectively assessed allowance	Total
At January 1, 2016	376,433	823,717	1,200,150
Provided for the year	123,039	322,765	445,804
Write-offs	(8,146)	—	(8,146)
Recovery of finance lease receivables written off in previous years	600	—	600
At December 31, 2016	491,926	1,146,482	1,638,408
At January 1, 2015	259,510	639,262	898,772
Provided for the year	113,533	184,455	297,988
Recovery of finance lease receivables written off in previous years	3,390	—	3,390
At December 31, 2015	376,433	823,717	1,200,150

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 25. Available-for-sale financial assets

	As at December 31,	
	2016	2015
Listed investments:		
Equity instruments	17,908,839	14,229,222
Debt securities <sup>(1)</sup>		
— Government bonds	638,106	747,165
— Public sector and quasi-government bonds	23,275,592	6,790,747
— Financial institution bonds	2,834,686	1,887,007
— Corporate bonds	7,347,996	4,785,079
Asset-backed securities	1,783,739	3,932,157
Funds	152,051	2,045,515
Subtotal	53,941,009	34,416,892
Unlisted investments:		
Funds	34,456,320	6,519,859
Trust products	23,232,734	380,334
Equity instruments <sup>(2)</sup>	22,327,994	19,385,864
Asset management plans	3,529,761	2,175,715
Wealth management products	1,161,872	538,162
Asset-backed securities	286,789	118,792
Others <sup>(3)</sup>	1,603,176	1,605,279
Subtotal	86,598,646	30,724,005
Less: Allowance for impairment losses	(247,018)	(146,666)
Subtotal	86,351,628	30,577,339
Total	140,292,637	64,994,231

(1) Listed debt securities included those traded in interbank and stock exchange in Mainland China.

(2) Included in the balance is equity instruments of RMB9,507 million as at December 31, 2016 (December 31, 2015: RMB10,715 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.

(3) This included an investment in designated accounts established and managed by China Securities Finance Corporation Limited ("CSFC") for a collective investment together with other securities companies for the purpose of maintaining stability in the PRC stock markets according to relevant contracts signed with CSFC. Risks and income arising from the investment shall be shared by the participating securities companies in proportion to their respective contribution. Huarong Securities Co., Ltd., a Group entity, contributed RMB1,590 million into the designated account during 2015. The fair value of the investments in designated accounts amounted to RMB1,603 million as of December 31, 2016 (December 31, 2015: 1,605 million) and was determined based on the valuation provided by the CSFC.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 26. Held-to-maturity investments

	As at December 31,	
	2016	2015
Government bonds	15,738,801	13,985,888
Public sector and quasi-government bonds	23,775,474	14,535,096
Financial institution bonds	4,954,109	5,666,584
Corporate bonds	415,791	170,402
Total	44,884,175	34,357,970

#### 27. Financial assets classified as receivables

	As at December 31,	
	2016	2015
Distressed debt assets		
Loans acquired from financial institutions	54,263,464	49,144,697
Other debt assets acquired from non-financial institutions	239,475,161	172,289,240
Subtotal	293,738,625	221,433,937
Less: Allowance for impairment losses		
— Individually assessed	(3,663,130)	(2,498,717)
— Collectively assessed	(20,003,322)	(16,883,757)
	(23,666,452)	(19,382,474)
Subtotal	270,072,173	202,051,463
Other financial assets classified as receivables		
Trust products	116,918,154	55,307,269
Debt instruments	84,494,021	42,417,666
Entrust loans <sup>(1)</sup>	54,206,892	21,745,955
Asset management plans	19,321,402	6,202,476
Wealth management products	12,286,958	4,700,000
Subtotal	287,227,427	130,373,366
Less: Allowance for impairment losses		
— Individually assessed	(1,386,481)	(367,671)
— Collectively assessed	(6,435,162)	(3,371,318)
	(7,821,643)	(3,738,989)
Subtotal	279,405,784	126,634,377
Total	549,477,957	328,685,840

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 27. Financial assets classified as receivables (continued)

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

	Individually assessed allowance	Collectively assessed allowance	Total
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
As at January 1, 2015	2,041,231	10,601,265	12,642,496
Provided for the year	989,049	13,113,544	14,102,593
Reversal for the year	(23,455)	(3,456,680)	(3,480,135)
Unwinding of discount on allowance	(140,437)	—	(140,437)
Transfer-out	—	(3,054)	(3,054)
As at December 31, 2015	2,866,388	20,255,075	23,121,463

### 28. Interests in associates and joint ventures

	As at December 31,	
	2016	2015
Interests in associates		
Carrying amount of unlisted companies	4,420,852	4,575,120
Carrying amount of listed companies	2,173,347	2,097,743
Subtotal	6,594,199	6,672,863
Interests in joint ventures		
Carrying amount of unlisted companies	2,969,812	19,772
Total	9,564,011	6,692,635
Fair value of listed companies	1,571,157	2,478,688

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 28. Interests in associates and joint ventures (continued)

Details of the Group's principal associates are as follows:

Name of entity	Place of incorporation/ establishment	Principal place of business	Share capital	Proportion of ownership held		Proportion of voting rights held		Principal activities
			as at	by the Group		by the Group		
			December 31, 2016 (In'000)	At December 31,		At December 31,		
			2016	2015	2016	2015		
				%	%	%	%	
Ruikong (Holdings) Limited <sup>(1)</sup> (瑞控控股有限公司)	Hong Kong	Hong Kong/ Netherlands	USD1,228,010	22.59	16.35	22.59	16.35	Investment holding

- (1) Ruikong (Holdings) Limited does not have a formal English name. The above English name is for identification purpose only. A 16.35% share of this company was subscribed by Huarong International Holding Limited, a subsidiary of the Company on December 7, 2015 with a cash consideration of USD200 million. Huarong International Holding Limited increased its stake in 2016 with a cash consideration of USD100 million. The Group holds 22.59% share of Ruikong (Holdings) Limited on December 31, 2016.

The directors of the Company consider that Ruikong (Holdings) Limited has no significant impact on the Group's financial position as at December 31, 2016 and 2015 and the financial performance and cash flows for the year of 2016 and 2015. Therefore the financial information of Ruikong (Holdings) Limited has not been disclosed separately.

#### Aggregate information of associates that are not individually material

	Year ended December 31,	
	2016	2015
The Group's share of (losses)/profits from continuing operations	(125,848)	255,790
The Group's share of total comprehensive income	(189,310)	97,215
Aggregate carrying amounts of the Group's interests in these associates	6,594,199	6,672,863

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 29. 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 Corporation Limited, Huarong Rongde Asset Management Co., Ltd., China Huarong Financial Leasing Co., Ltd., and Huarong Securities Co., Ltd.. General information about these subsidiaries has been set out in note V.61. Summarized financial information about these subsidiaries and entities controlled by them, before intra-group eliminations, are as follows:

#### Huarong Xiangjiang Bank Corporation Limited

	As at December 31,	
	2016	2015
Total assets	<b>260,185,641</b>	211,124,519
Total liabilities	<b>245,740,446</b>	198,245,417
Equity attributable to equity holders of the company	<b>14,386,570</b>	12,802,488
Non-controlling interests	<b>58,625</b>	76,614
Total equity	<b>14,445,195</b>	12,879,102
Non-controlling interests of the subsidiary	<b>7,052,297</b>	6,275,780

	Year ended December 31,	
	2016	2015
Total revenue	<b>11,382,153</b>	10,402,738
Profit before tax	<b>2,956,782</b>	2,941,148
Total comprehensive income	<b>2,208,791</b>	2,407,506
Profit attributable to non-controlling interests of the subsidiary	<b>1,140,892</b>	1,116,434
Dividend distribution to non-controlling interests	<b>301,988</b>	301,988

	Year ended December 31,	
	2016	2015
Net cash flow (used in)/from operating activities	<b>(4,338,082)</b>	5,351,498
Net cash flow used in investing activities	<b>(21,059,286)</b>	(17,450,360)
Net cash flow from financing activities	<b>20,286,119</b>	11,945,290
Net cash flow	<b>(5,111,249)</b>	(153,572)



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 29. Non-controlling interests in the subsidiaries of the Group (continued)

##### Huarong Rongde Asset Management Co., Ltd.

	As at December 31,	
	2016	2015
Current assets	39,163,813	23,278,413
Non-current assets	2,766,539	478,960
Current liabilities	19,033,889	12,963,450
Non-current liabilities	13,371,016	4,720,515
Equity attributable to the equity holders of the company	5,257,402	4,623,408
Perpetual capital instruments	3,850,000	1,450,000
Non-controlling interests	418,045	—
Total equity	9,525,447	6,073,408
Non-controlling interests of the subsidiary	2,139,763	1,881,727
Equity attributable to:		
Holders of perpetual capital instruments	3,850,000	1,450,000

	Year ended December 31,	
	2016	2015
Total revenue	2,381,922	3,036,657
Profit before tax	1,542,934	1,374,769
Total comprehensive income	1,146,345	1,066,138
Profit attributable to non-controlling interests of the subsidiary	474,345	421,858
Dividend distribution to non-controlling interests	170,940	150,590

	Year ended December 31,	
	2016	2015
Net cash flow (used in)/from operating activities	(9,970,436)	4,652,368
Net cash flow used in investing activities	(1,989,774)	(4,314,394)
Net cash flow from financing activities	16,244,158	1,065,789
Net cash flow	4,283,948	1,403,763

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 29. Non-controlling interests in the subsidiaries of the Group (continued)

#### China Huarong Financial Leasing Co., Ltd.

	As at December 31,	
	2016	2015
Current assets	52,552,383	34,280,743
Non-current assets	65,914,760	49,417,614
Current liabilities	60,046,692	35,759,814
Non-current liabilities	47,295,753	37,839,309
Total equity	11,124,698	10,099,234
Non-controlling interests of the subsidiary	2,233,839	2,027,926

	Year ended December 31,	
	2016	2015
Total revenue	5,924,156	5,625,454
Profit before tax	1,965,687	1,870,771
Total comprehensive income	1,466,139	1,400,293
Profit attributable to non-controlling interests of the subsidiary	295,507	281,391
Dividend distribution to non-controlling interests	88,484	67,829

	Year ended December 31,	
	2016	2015
Net cash flow from/(used in) operating activities	20,003,678	(3,643,430)
Net cash flow used in investing activities	(6,347,278)	(453,047)
Net cash flow from financing activities	2,076,000	6,001,731
Net cash flow	15,732,400	1,905,254

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 29. Non-controlling interests in the subsidiaries of the Group (continued)

##### Huarong Securities Co., Ltd.

	As at December 31,	
	2016	2015
Current assets	125,571,490	42,470,292
Non-current assets	10,178,848	33,357,977
Current liabilities	110,359,485	36,186,229
Non-current liabilities	14,590,860	30,678,688
Equity attributable to equity holders of the company	10,741,615	8,797,531
Non-controlling interests	58,378	165,821
Total equity	10,799,993	8,963,352
Non-controlling interests of the subsidiary	1,958,196	1,622,265

	Year ended December 31,	
	2016	2015
Total revenue	7,053,636	7,435,014
Profit before tax	2,100,868	2,435,150
Total comprehensive income	1,391,565	1,924,498
Profit attributable to non-controlling interests of the subsidiary	276,471	331,923
Dividend distribution to non-controlling interests	106,947	—

	Year ended December 31,	
	2016	2015
Net cash flow from/(used in) operating activities	13,499,179	(3,299,642)
Net cash flow (used in)/from investing activities	(15,040,228)	1,203,656
Net cash flow from financing activities	1,430,449	8,408,925
Net cash flow	(110,600)	6,312,939

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 30. 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 shall 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 shall 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 also 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 shall 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, 2016, interests in these consolidated structured entities held by the Company amounted to RMB8,607 million (December 31, 2015: RMB3,580 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, 2016 and 2015, 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 change in net assets attributable to other holders of consolidated structured entities in the consolidated statement of profit or loss and as other liabilities in the consolidated statement of financial position respectively. The payables to interest holders of consolidated structured entities amounted to RMB158,365 million as at December 31, 2016 (December 31, 2015: RMB37,232 million). The change in net assets attributable to other holders of consolidated structured entities amounted to RMB3,376 million for the year ended December 31, 2016 (December 31, 2015: RMB2,457 million).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 31. Interests in unconsolidated structured entities

The Group served as general partner, manager or trustee of structured entities, therefore had power over them. Except for the structured entities the Group has consolidated as detailed in note V.30, in the opinion of the directors of the Company, the variable returns the Group exposed to over the structured entities that the Group has interests in are not significant. The Group therefore did not consolidate these structured entities.

The Group classified the investments in these unconsolidated structured entities as financial assets classified as receivables, available-for-sale financial assets or interests in associates and joint ventures as appropriate. The Group's interests in and exposure to these unconsolidated structured entities are not significant.

The size of assets under management, carrying amount and maximum exposure to loss of the Group's investments to unconsolidated structured entities are as follows:

	December 31, 2016				Income Type
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	
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	4,224,086	132,169	132,169	39,939	
				33,766	Commission and fee income
				6,173	Investment income
Total	266,423,858	6,366,226	6,366,226	1,092,499	

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 31. Interests in unconsolidated structured entities (continued)

	December 31, 2015				Income Type
	Size of assets under management	Carrying amount	Maximum exposure to loss	Income from structured entity	
Trust products	194,108,547	1,340,800	1,340,800	1,290,241	
				1,276,734	Commission and fee income
				13,507	Investment income
Private equity funds	24,180,529	533,886	533,886	63,367	
				29,885	Commission and fee income
				33,482	Investment income
Asset management plans	4,912,045	175,272	175,272	40,230	
				22,169	Commission and fee income
				18,061	Investment income
Total	223,201,121	2,049,958	2,049,958	1,393,838	

Meanwhile, the Group also holds interests in the unconsolidated structured entities initiated by independent third parties through investments. As at December 31, 2016, the carrying amount and maximum exposure to loss are RMB228,760 million (December 31, 2015: RMB90,624 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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 32. Investment properties

	Year ended December 31,	
	2016	2015
Cost		
At beginning of the year	1,292,742	1,103,025
Purchases	3,689	—
Transfer in	830,648	192,236
Transfer out	(27,338)	(2,519)
At end of the year	2,099,741	1,292,742
Accumulated depreciation		
At beginning of the year	222,533	125,842
Charge for the year	49,973	50,240
Transfer in	—	47,828
Transfer out	(1,173)	(1,377)
At end of the year	271,333	222,533
Net book value		
At beginning of the year	1,070,209	977,183
At end of the year	1,828,408	1,070,209

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.

As at December 31, 2016, the fair value of the Group's investment properties amounted to RMB4,133 million (December 31, 2015: RMB3,231 million).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 33. Property and equipment

	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	—	—	—	—	—	—



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 33. Property and equipment (continued)

	Buildings	Machinery equipment	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Costs						
As at January 1, 2015	3,323,469	956,721	758,886	201,730	138,699	5,379,505
Purchases	18,863	313,404	153,981	24,582	1,147,579	1,658,409
Disposals	(22,044)	(54,798)	(68,883)	(12,729)	—	(158,454)
Acquisition of subsidiaries	626	—	617	107	—	1,350
Transfer in	97,653	—	8,140	—	2,519	108,312
Transfer out	(208,479)	—	—	—	(128,663)	(337,142)
As at December 31, 2015	3,210,088	1,215,327	852,741	213,690	1,160,134	6,651,980
Accumulated depreciation						
As at January 1, 2015	643,282	99,186	489,121	132,445	—	1,364,034
Charge for the year	149,723	58,418	114,879	26,674	—	349,694
Disposals	(7,412)	(552)	(44,261)	(10,821)	—	(63,046)
Transfer in	1,885	—	—	—	—	1,885
Transfer out	(52,150)	—	—	—	—	(52,150)
As at December 31, 2015	735,328	157,052	559,739	148,298	—	1,600,417
Allowance for impairment losses						
As at January 1, 2015	—	24,792	—	—	—	24,792
As at December 31, 2015	—	24,792	—	—	—	24,792
Net book values						
As at January 1, 2015	2,680,187	832,743	269,765	69,285	138,699	3,990,679
As at December 31, 2015	2,474,760	1,033,483	293,002	65,392	1,160,134	5,026,771
Including:						
Net book value of assets pledged for borrowings as at						
December 31, 2015	20,146	—	—	—	—	20,146

As at December 31, 2016, properties that the Group have not obtained certificate of land use right or certificate of property ownership amounted to RMB181 million (December 31, 2015: RMB111 million). The directors of the Company do not anticipate the aforesaid matters to have any adverse effect on the Group's operations.

As at December 31, 2016, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB397 million (December 31, 2015: RMB243 million).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 34. 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,						
	2016			2015			
Deferred tax assets	<b>9,301,184</b>			4,826,597			
Deferred tax liabilities	<b>(700,372)</b>			(552,760)			
Total	<b>8,600,812</b>			4,273,837			

	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, 2016	(1,926,767)	(283,696)	367,103	(479,992)	6,666,769	(69,580)	4,273,837
Credit/(charge) to profit or loss	—	(325,338)	13,343	(154,576)	3,552,757	93,809	3,179,995
Credit to other comprehensive income	<b>1,146,980</b>	—	—	—	—	—	<b>1,146,980</b>
As at December 31, 2016	<b>(779,787)</b>	<b>(609,034)</b>	<b>380,446</b>	<b>(634,568)</b>	<b>10,219,526</b>	<b>24,229</b>	<b>8,600,812</b>
As at January 1, 2015	(1,275,072)	60,194	412,268	(526,738)	3,819,907	58,009	2,548,568
Credit/(charge) to profit or loss	—	(343,890)	(45,165)	46,746	2,846,862	102,269	2,606,822
Charge to other comprehensive income	(651,695)	—	—	—	—	—	(651,695)
Acquisition of a subsidiary	—	—	—	—	—	(229,858)	(229,858)
As at December 31, 2015	(1,926,767)	(283,696)	367,103	(479,992)	6,666,769	(69,580)	4,273,837

As at December 31, 2016, the Group's unused tax losses and deductible temporary differences not recognized as deferred tax assets amounted to RMB502 million and RMB115 million respectively (December 31, 2015: Nil), the unused tax losses will be expired in 5 years.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 35. Other assets

	As at December 31,	
	2016	2015
Inventories <sup>(1)</sup>	16,418,914	10,590,924
Other receivables	11,644,326	7,338,060
Interest receivable	3,562,579	1,821,644
Receivable from disposal of investments <sup>(2)</sup>	2,200,953	—
Payment in advance	1,550,591	1,119,329
Foreclosed asset	1,191,633	649,692
Land use rights <sup>(3)</sup>	937,708	913,870
Clearing and settlement receivables	620,677	1,053,489
Deductible value-added tax	533,412	759,719
Intangible assets	447,548	372,957
Prepaid expense	445,780	476,118
Dividends receivable	34,747	11,406
Others	750,595	309,006
<b>Total</b>	<b>40,339,463</b>	<b>25,416,214</b>

(1) The Group's inventories represent the property and land development costs from real estate projects of Huarong Real Estate Co., Ltd., a Group entity. Certain amounts of inventories were collateralized by the Group for borrowings.

(2) Amount included sale proceeds from disposal of 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.

(3) As at December 31, 2016, there was no land use right pledged by the Group for borrowing (December 31, 2015: RMB27 million).

#### 36. Borrowings from central bank

	As at December 31,	
	2016	2015
Due within 1 year	1,987,000	20,000
<b>Total</b>	<b>1,987,000</b>	<b>20,000</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 37. Deposits from financial institutions

	As at December 31,	
	2016	2015
Banks	2,275,153	13,006,887
Other financial institutions	4,687,391	2,461,266
Total	6,962,544	15,468,153

### 38. Placements from financial institutions

	As at December 31,	
	2016	2015
Banks	3,678,497	364,936
Other financial institutions	600,000	600,000
Total	4,278,497	964,936

### 39. Financial assets sold under repurchase agreements

	As at December 31,	
	2016	2015
Bonds	53,990,595	24,500,411
Loans and advances to customers	2,400,000	1,800,000
Financial assets held under resale agreements	—	3,874,246
Finance lease receivables	—	187,204
Total	56,390,595	30,361,861

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES *(continued)*

#### 40. Borrowings

	As at December 31,	
	2016	2015
Unsecured loans	425,073,875	262,365,609
Guaranteed loans	44,229,871	13,508,519
Pledged loans	39,807,397	18,385,074
Loans secured by properties	2,197,500	772,580
<b>Total</b>	<b>511,308,643</b>	<b>295,031,782</b>

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

	As at December 31,	
	2016	2015
Finance lease receivables	40,335,567	23,433,826
Deposits with financial institutions (note V.18)	5,557,471	2,008,674
Other assets — inventories	4,399,492	787,734
Held-to-maturity investments	2,836,974	—
Available-for-sale financial assets	683,117	—
Other assets — land use rights	—	27,237
Property and equipment	—	20,146
<b>Total</b>	<b>53,812,621</b>	<b>26,277,617</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 40. Borrowings (continued)

Borrowings mainly arise from the non-banking business of the Group

	As at December 31,	
	2016	2015
Carrying amount repayable*:		
Within one year	<b>252,983,366</b>	162,484,814
More than one year, but not exceeding two years	<b>73,714,065</b>	50,580,179
More than two years, but not exceeding five years	<b>152,509,206</b>	50,825,301
More than five years	<b>26,411,930</b>	26,086,850
Subtotal	<b>505,618,567</b>	289,977,144
Carrying amount of borrowings that contain a repayment on demand clause repayable*:		
Within one year	—	—
More than one year, but not exceeding two years	—	605,851
More than two years, but not exceeding five years	<b>5,690,076</b>	4,448,787
Subtotal	<b>5,690,076</b>	5,054,638
Total	<b>511,308,643</b>	295,031,782

\* 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,	
	2016	2015
Within one year	<b>248,515,982</b>	149,091,960
More than one year, but not exceeding two years	<b>73,714,065</b>	41,576,224
More than two years, but not exceeding five years	<b>151,669,205</b>	49,213,120
More than five years	<b>25,687,031</b>	26,059,200
Total	<b>499,586,283</b>	265,940,504

In addition, the Group has variable-rate borrowings which carry interest based on borrowing or deposit benchmark interest rate of PBOC, Shanghai Inter-bank Offered Rate ("SHIBOR"), Hong Kong Inter-bank Offered Rate ("HIBOR"), London Inter-bank Offered Rate ("LIBOR") or prime rate.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 40. 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,	
	2016	2015
Fixed-rate borrowings	1.96%–11.75%	1.53%–11.29%
Variable-rate borrowings	2.13%–7.40%	4.70%–7.80%

#### 41. Due to customers

	As at December 31,	
	2016	2015
Demand deposits		
Corporate customers	71,800,158	46,938,230
Individual customers	16,545,386	13,510,873
Time deposits		
Corporate customers	36,845,258	35,548,602
Individual customers	24,407,465	20,553,849
Pledged deposits	10,698,908	13,322,212
Others	12,108,693	10,125,107
Total	172,405,868	139,998,873

The balance of the Group arises from its banking business.

#### 42. Tax payable

	As at December 31,	
	2016	2015
Enterprise income tax	4,174,327	3,142,603
Hong Kong profits tax	506,308	80,648
Total	4,680,635	3,223,251

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016  
(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 43. Bonds and notes issued

	As at December 31		Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
	2016	2015					
<b>The Company</b>							
Financial bonds	—	5,990,904	RMB6,000 million	3 years	November 2013	5.55% fixed rate	Interest payable annually
Financial bonds	5,589,547	5,584,076	RMB6,000 million	5 years	November 2013	5.66% fixed rate	Interest payable annually <sup>(1)</sup>
Financial bonds	9,986,744	9,972,605	RMB10,000 million	3 years	December 2014	4.60% fixed rate	Interest payable annually
Financial bonds	9,920,414	9,911,705	RMB10,000 million	5 years	December 2014	4.80% fixed rate	Interest payable annually <sup>(2)</sup>
Financial bonds	17,472,450	17,449,340	RMB17,500 million	3 years	July 2015	4.01% fixed rate	Interest payable annually
Financial bonds	17,166,744	17,144,839	RMB17,500 million	5 years	July 2015	4.21% fixed rate	Interest payable annually <sup>(3)</sup>
Financial bonds	9,965,172	—	RMB10,000 million	5 years	March 2016	3.39% fixed rate	Interest payable annually
Financial bonds	12,454,344	—	RMB12,500 million	3 years	November 2016	3.35% fixed rate	Interest payable annually
Financial bonds	12,453,414	—	RMB12,500 million	5 years	November 2016	3.54% fixed rate	Interest payable annually
Subtotal	95,008,829	66,053,469	RMB102,000 million				
<b>Huarong Xiangjiang Bank Co., Ltd.</b>							
Subordinate bonds	1,495,015	1,494,339	RMB1,500 million	10 years	November 2012	6.30% fixed rate	Interest payable annually <sup>(4)</sup>
Tier II capital bonds	2,990,737	2,989,580	RMB3,000 million	10 years	June 2015	6.00% fixed rate	Interest payable annually <sup>(5)</sup>
Negotiable certificates of deposit	—	9,833,286	RMB10,000 million	3–12 months	September–December 2015	2.83%–3.39%	Interest payable on maturity date <sup>(6)</sup>
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 <sup>(7)</sup>
Subtotal	36,121,880	14,317,205	RMB46,470 million				



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 43. Bonds and notes issued (continued)

	As at December 31		Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
	2016	2015					
Huarong Securities Co., Ltd.							
Subordinate bonds	1,500,000	1,500,000	RMB1,500 million	4 years	July 2013	6.25% fixed rate	Interest payable annually
Financial bonds	600,000	600,000	RMB600 million	3 years	August 2014	6.80% fixed rate	Interest payable annually
Financial bonds	1,500,000	1,500,000	RMB1,500 million	3 years	March 2015	5.70% fixed rate	Interest payable annually
Financial bonds	2,000,000	2,000,000	RMB2,000 million	3 years	April 2015	4.90% fixed rate	Interest payable annually
Financial bonds	1,500,000	1,500,000	RMB1,500 million	3 years	May 2015	5.39% fixed rate	Interest payable annually
Beneficiary certificates	—	300,000	RMB300 million	2 years	June 2015	5.60% fixed rate	Interest payable on maturity date <sup>(8)</sup>
Beneficiary certificates	—	62,550	RMB63 million	181 days	August 2015	3.80% fixed rate	Interest payable on maturity date <sup>(9)</sup>
Financial bonds	—	1,200,000	RMB1,200 million	90 days	November 2015	3.15% fixed rate	Interest payable on maturity date <sup>(10)</sup>
Subordinate bonds	1,000,000	—	RMB1,000 million	4 years	April 2016	4.10% fixed rate	Interest payable annually
Financial bonds	6,940	—	RMB7 million	2 years	July 2016	4.80% fixed rate	Interest payable semi-annually
Financial bonds	160,000	—	RMB160 million	2 years	July 2016	3.50% fixed rate	Interest payable semi-annually
Financial bonds	130,000	—	RMB130 million	2 years	August 2016	3.50% fixed rate	Interest payable semi-annually
Subordinate bonds	1,000,000	—	RMB1,000 million	3 years	August 2016	3.50% fixed rate	Interest payable annually
Financial bonds	1,730,000	—	RMB1,730 million	184 days	November 2016	3.30% fixed rate	Interest payable on maturity date
Financial bonds	300,000	—	RMB300 million	1 years	November 2016	3.30% fixed rate	Interest payable semi-annually
Financial bonds	400,000	—	RMB400 million	1 years	November 2016	3.50% fixed rate	Interest payable semi-annually
Financial bonds	100,000	—	RMB100 million	1 years	November 2016	3.50% fixed rate	Interest payable on maturity date
Financial bonds	450,000	—	RMB450 million	182 days	November 2016	3.35% fixed rate	Interest payable semi-annually
Subordinate bonds	2,000,000	—	RMB2,000 million	2 years	December 2016	4.20% fixed rate	Interest payable annually
Subtotal	14,376,940	8,662,550	RMB15,940 million				

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 43. Bonds and notes issued (continued)

	As at December 31		Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
	2016	2015					
<b>China Huarong Financial Leasing Co., Ltd.</b>							
Financial bonds	—	399,578	RMB400 million	3 years	September 2013	floating rate	Interest payable annually <sup>(11)</sup>
Financial bonds	398,922	398,311	RMB400 million	5 years	September 2013	floating rate	Interest payable annually <sup>(12)</sup>
Leasing asset — backed securities	—	122,064	RMB644 million	6 years	December 2014	fixed and floating rates	Interest payable quarterly <sup>(13)</sup>
Financial bonds	997,679	996,216	RMB1,000 million	3 years	June 2015	floating rate	Interest payable annually <sup>(14)</sup>
Leasing asset — backed securities	1,324,964	2,304,546	RMB2,855 million	6 years	October 2015	floating rate	Interest payable quarterly <sup>(15)</sup>
Financial bonds	1,994,851	1,992,340	RMB2,000 million	3 years	December 2015	3.76% fixed rate	Interest payable annually
Financial bonds	1,989,535	1,987,132	RMB2,000 million	5 years	December 2015	4.00% fixed rate	Interest payable annually
Leasing asset — backed securities	2,580,593	—	RMB4,411 million	6 years	April 2016	floating rate	Interest payable quarterly <sup>(16)</sup>
Subtotal	9,286,544	8,200,187	RMB13,710 million				
<b>Huarong Rongde Asset Management Co., Ltd.</b>							
Corporation bonds	2,991,322	2,987,609	RMB3,000 million	3 years	September 2015	4.95% fixed rate	Interest payable annually
Corporation bonds	1,486,303	—	RMB1,500 million	5 years	April 2016	3.80% fixed rate	Interest payable annually
Subtotal	4,477,625	2,987,609	RMB4,500 million				
<b>Huarong Finance Co., Ltd., subsidiary of China Huarong International Holdings Limited</b>							
U.S. dollar bonds	2,105,455	1,967,600	USD300 million	3 years	July 2014	3.00% fixed rate	Interest payable annually
U.S. dollar bonds	8,429,981	7,870,400	USD1,200 million	5 years	July 2014	4.00% fixed rate	Interest payable annually
Subtotal	10,535,436	9,838,000	USD1,500 million				

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 43. Bonds and notes issued (continued)

	As at December 31		Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
	2016	2015					
Huarong Finance II Co., Ltd., subsidiary of China Huarong International Holdings Limited							
Mid-term U.S. dollar notes	4,217,868	3,938,611	USD600 million	3 years	January 2015	3.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	8,453,138	7,900,106	USD1,200 million	5 years	January 2015	4.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	9,823,661	9,182,926	USD1,400 million	10 years	January 2015	5.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,469,278	3,242,556	USD500 million	3 years	November 2015	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	3,458,475	3,232,301	USD500 million	5 years	November 2015	3.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	5,532,450	5,176,208	USD800 million	10 years	November 2015	5.00% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,853,302	—	USD700 million	3 years	June 2016	2.75% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,214,295	—	USD900 million	5 years	June 2016	3.25% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,177,979	—	USD900 million	10 years	June 2016	4.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	6,928,684	—	USD1,000 million	3 years	November 2016	2.875% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	9,359,358	—	USD1,350 million	5 years	November 2016	3.625% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	4,479,485	—	USD650 million	10 years	November 2016	4.875% fixed rate	Interest payable semi-annually
Subtotal	72,967,973	32,672,708	USD10,500 million				

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 43. Bonds and notes issued (continued)

	As at December 31		Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
	2016	2015					
Huarong International Financial Holdings Limited, subsidiary of China Huarong International Holdings Limited							
Convertible notes	—	22,111	HKD500 million	3 years	February 2014	0.00%	(17)
Huarong Tianze Investment Co., Ltd, subsidiary of Huarong Zhiyuan Investment & Management Co., Ltd.							
Corporation bonds	300,000	300,000	RMB300 million	3 years	December 2015	5.25% fixed rate	Interest payable on maturity date
Total	243,075,227	143,053,839					

- (1) The Company's subsidiary Huarong Xiangjiang Bank Corporation Limited purchased a total of RMB400 million in principal amount in November 2013, which has been eliminated in the consolidated financial statements.
- (2) The Company's subsidiary Huarong Xiangjiang Bank Corporation Limited purchased a total of RMB55 million in principal amount in December 2014, which has been eliminated in the consolidated financial statements.
- (3) The Company's subsidiary Huarong Xiangjiang Bank Corporation Limited purchased a total of RMB300 million in principal amount in July 2015, which has been eliminated in the consolidated financial statements.
- (4) Huarong Xiangjiang Bank Corporation Limited has the right to exercise early redemption partially or fully on November 29, 2017. If no early redemption is exercised, the coupon rate of the bonds will remain fixed at 6.3% per annum.
- (5) Huarong Xiangjiang Bank Corporation Limited 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% per annum.
- (6) The series of negotiable certificates of deposits had been repaid in full as at December 31, 2016.
- (7) It consists of a series of negotiable certificates of deposits issued at discount with an aggregate amount of RMB31.97 billion during the year ended December 31, 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 43. Bonds and notes issued (continued)

- (8) According to stipulations in the prospectus of the beneficiary certificates, Huarong Securities Co., Ltd. has the right to buy back the beneficiary certificates at any time during the period from 12 months since the issuance date to two days before the maturity date. Huarong Securities Co., Ltd. bought back the beneficiary certificates on June 30, 2016.
- (9) The beneficiary certificates matured on February 15, 2016, and had been repaid in full.
- (10) The financial bonds matured on February 24, 2016, and had been repaid in full.
- (11) The financial bonds matured on September 12, 2016, and had been repaid in full.
- (12) Floating rate is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.7% and reset annually.
- (13) The underlying finance lease receivables have been recovered in due course and therefore the corresponding liabilities have been settled in advance.
- (14) Floating rate is determined based on the PBOC one-year fixed deposit rate on the issue date plus 3.05% and reset annually.
- (15) Floating rate for the A-1 class leasing asset-backed securities is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.25%. Floating rate for the B-1 class leasing asset-backed securities is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.98%. As part of the underlying finance lease receivables have been recovered in due course and therefore the corresponding liabilities have been settled in advance.
- (16) Floating rate for the A class leasing asset-backed securities is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.10% and reset annually. Floating rate for the B class leasing asset-backed securities is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.95% and reset annually.
- (17) The notes are convertible at the option of the noteholders into ordinary shares of Huarong International Financial Holdings Limited within 36 months from the date of issuance of the convertible notes at the initial conversion price of HKD5.00 per conversion share. Any convertible notes not converted will be redeemed on February 18, 2017 at the outstanding principal amounts. The conversion price for the convertible notes was adjusted to HKD0.5 per share on April 9, 2014, upon completion of the issue of bonus shares. The principal amount of the convertible notes amounting to HKD30 million had been converted in full in January 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 44. Other liabilities

	As at December 31,	
	2016	2015
Payables to interest holders of consolidated structured entities	158,364,835	37,232,180
Other payables	46,094,542	31,934,551
Guarantee deposits received from customers	14,707,887	15,080,185
Amounts received in advance <sup>(1)</sup>	8,269,026	3,712,717
Account payable to brokerage clients	9,809,924	9,562,634
Interest payable	6,154,996	4,950,593
Employee benefits payable	4,146,139	3,475,495
Amount due to the MOF <sup>(2)</sup>	3,938,855	7,710,062
Bills payable <sup>(3)</sup>	3,059,486	1,095,350
Amounts due to China Trust Protection Fund	2,500,000	1,000,000
Sundry taxes payable	1,226,954	784,051
Margin deposit received from securities customers	1,224,952	596,006
Provisions <sup>(4)</sup>	116,131	169,821
Dividends payable	108,791	1,275,475
Others	376,398	491,241
<b>Total</b>	<b>260,098,916</b>	<b>119,070,361</b>

- (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) Amount due to the MOF represents outstanding balance of consideration arising from the purchase of assets in the policy business portfolio from the MOF. The amount is repayable in five equal installments of RMB3.94 billion each over a five-year period, representing an effective annual interest rate of 2.16%, starting from 2012.
- (3) These are bank acceptance bills paid by China Huarong Financial Leasing Co., Ltd to the suppliers for equipment purchased when conducting its financial leasing business.
- (4) Movements of provisions

	Year ended December 31,	
	2016	2015
At beginning of the year	169,821	117,461
Provided for the year	6,000	52,360
Reversal	(59,690)	—
At end of the year	116,131	169,821

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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 45. Share capital of the Company

	Year ended December 31,	
	2016	2015
Authorized, issued and fully paid		
At beginning of the year	39,070,208	32,695,870
Issue of H shares <sup>(1)</sup>	—	6,374,338
At end of the year	39,070,208	39,070,208

	As at December 31, 2015 and 2016	
	Number of shares (thousands)	Nominal value
Registered, issued and fully paid		
Domestic shares	14,026,355	14,026,355
H shares	25,043,853	25,043,853
Total	39,070,208	39,070,208

A summary of movements of the Company's issued shares (in thousands of shares) during the year ended December 31, 2015 is as follows:

	2015			As at December 31,
	As at January 1,	Conversion/ Issuance <sup>(1)</sup>	Transfer <sup>(2)</sup>	
<b>Shareholders</b>				
MOF	25,335,870	(24,752,711)	(583,159)	—
China Life Insurance (Group)				
Company	1,650,000	(1,650,000)	—	—
Others	5,710,000	(5,693,704)	(16,296)	—
Domestic share holders				
— MOF	—	12,376,355	—	12,376,355
— China Life Insurance (Group)				
Company	—	1,650,000	—	1,650,000
H share holders	—	24,444,398	599,455	25,043,853
Total	32,695,870	6,374,338	—	39,070,208

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 45. Share capital of the Company *(continued)*

- (1) In October 2015, the Company listed on The Stock Exchange of Hong Kong Limited and issued 6,374,338,000 H shares in total (including over-allotment of 604,458,000 H shares issued subsequent to the listing date) with a par value of RMB1 per share at offer price of HKD3.09 per share for a total consideration of equivalent RMB16,147 million. The issuance of H shares was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP with verification report De Shi Bao (Yan) Zi (15) No.1814. issued on December 24, 2015.
- (2) In accordance with the relevant PRC regulations regarding the transfer and disposal of state-owned shares, the state-owned shareholders are required to transfer certain shares or pay the equivalent cash to the National Council for Social Security Fund (the "NCSSE"), in proportion to their respective holdings in the Company, of a total amount equivalent to certain number of shares offered pursuant to the Company's H share offering. Under this arrangement, the MOF and COFCO (Hong Kong) Limited transferred 599,455,512 shares in total to the NCSSE.

During the year of 2016, there was no change in the Company's share capital.

As at December 31, 2016, 1,150,000,000 domestic shares and 5,693,703,862 H shares were subject to lock-up restriction (December 31, 2015: 14,026,355,544 domestic shares and 18,070,059,406 H shares).

### 46. 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.

### 47. Surplus reserve

Under PRC Laws, the Company and its domestic subsidiaries are required to transfer 10% of their net profit determined under the PRC GAAP 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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 48. 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. The financial enterprise is allowed to meet this requirement over a 5 year period.

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

For the year ended December 31, 2016, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB1,733 million (2015: RMB3,894 million) to general reserve pursuant to the regulatory requirements in the PRC. Among which, the Company transferred RMB283 million to general reserve for the year ended December 31, 2016 (2015: RMB2,854 million).

### 49. Other reserves

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

	Year ended December 31,	
	2016	2015
At beginning of the year	5,475,513	3,807,418
Net changes arising on revaluation of available-for-sale financial assets	(3,155,365)	2,658,138
Cumulative gains reclassified to profit or loss upon disposal of available-for-sale financial assets	(964,162)	(1,074,978)
Cumulative losses reclassified to profit or loss on impairment of available-for-sale financial assets	673,874	699,393
Income tax effects	1,190,414	(610,963)
Share of other comprehensive income of associates	(98,155)	66,295
Exchange differences arising on translation of foreign operations	(41,606)	(69,031)
Actuarial losses on defined benefit obligations	(8,697)	(759)
At end of the year	3,071,816	5,475,513

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 49. Other reserves *(continued)*

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

	Actuarial (losses)/gains on defined benefit obligations	Fair value changes on available- for-sale financial assets	Share of other comprehensive income of associates	Exchange differences arising on translation of foreign operations	Income tax effects	Total
As at January 1, 2015	1,688	5,046,083	34,414	(4,207)	(1,270,560)	3,807,418
(Decrease)/increase during the year	(759)	2,282,553	66,295	(69,031)	(610,963)	1,668,095
As at December 31, 2015	929	7,328,636	100,709	(73,238)	(1,881,523)	5,475,513
(Decrease)/increase during the year	(8,697)	(3,445,653)	(98,155)	(41,606)	1,190,414	(2,403,697)
As at December 31, 2016	(7,768)	3,882,983	2,554	(114,844)	(691,109)	3,071,816

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 50. Perpetual capital instruments

Movement of the Perpetual Capital Instruments is as follows:

	Principal	Distribution	Total
Balance at January 1, 2015	1,450,000	723	1,450,723
Issuance of perpetual capital instruments <sup>(1)</sup>	5,000,000	—	5,000,000
Profit attributable to holders of perpetual capital instruments	—	173,982	173,982
Distribution to holders of perpetual capital instruments	—	(170,593)	(170,593)
Balance at December 31, 2015	6,450,000	4,112	6,454,112
Issuance of perpetual capital instruments <sup>(2)</sup>	<b>9,973,523</b>	—	<b>9,973,523</b>
Redemption of perpetual capital instruments <sup>(3)</sup>	<b>(1,450,000)</b>	—	<b>(1,450,000)</b>
Profit attributable to holders of perpetual capital instruments	—	<b>455,825</b>	<b>455,825</b>
Distribution to holders of perpetual capital instruments	—	<b>(403,204)</b>	<b>(403,204)</b>
Balance at December 31, 2016	<b>14,973,523</b>	<b>56,733</b>	<b>15,030,256</b>

(1) Huarong Huitong Asset Management Co., Ltd. issued perpetual capital instruments with the face value of RMB5,000 million during the year of 2015.

(2) These perpetual capital instruments were issued by the subsidiaries of the Company during the year of 2016.

(3) Huarong Rongde Asset Management Co., Ltd. redeemed perpetual capital instruments of RMB1,450 million issued in the year of 2014 during the year of 2016.

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, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 51. Cash and cash equivalents

Cash and cash equivalents with original maturity of less than 3 months comprise the following balances:

	As at December 31,	
	2016	2015
Cash on hand	428,735	426,926
Balances with central bank	3,675,129	4,947,934
Deposits with financial institutions	123,001,200	59,126,605
Placements with financial institutions	4,902,346	8,100,000
Financial assets held under resale agreements	6,847,580	14,126,979
<b>Total</b>	<b>138,854,990</b>	<b>86,728,444</b>

### 52. Major non-cash transaction

For the year ended December 31, 2016, equity instruments amounting to RMB2,932 million (December 31, 2015: RMB1,090 million) were swapped with equity instruments held by the Group with carrying value of RMB1,346 million (2015: RMB494 million), including disposal of interest in associates with carrying value of RMB1,297 million (2015: RMB339 million).

### 53. 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, 2016, total claim amount of pending litigations was RMB880 million (December 31, 2015: RMB369 million) for the Group, and total provision of RMB110 million (December 31, 2015: 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, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 53. 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,	
	2016	2015
Within one year	589,729	202,958
In the second to the fifth year, inclusive	1,252,834	942,860
Over five years	233,249	247,069
Total	2,075,812	1,392,887

##### (3) Credit enhancement

As at December 31, 2016, the Group provided credit enhancement for counterparties involving in borrowing arrangements in the amount of RMB300 million (December 31, 2015: RMB1,542 million).

##### (4) Credit commitments

	As at December 31,	
	2016	2015
Bank bill acceptance	19,669,086	25,745,112
Loan commitments	13,006,722	6,091,551
Letters of guarantee issued	2,381,816	3,312,998
Undrawn credit card commitments	2,438,966	1,446,288
Letters of credit issued	728,255	486,227
Total	38,224,845	37,082,176

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

##### (5) Other commitments

	As at December 31,	
	2016	2015
Contracted but not provided for — commitments for the acquisition of property and equipment	295,716	321,077

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 54. Transfers of financial assets

#### Repurchase agreements

The Group entered into sales agreements with certain counterparties on its financial assets, in which the Group was subject to simultaneous agreements with commitments to repurchase these financial assets at specified future dates and prices. As stipulated in the repurchase agreements, there is no transfer of legal ownership of these financial assets to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these financial assets during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these financial assets and therefore these financial assets have not been 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		Related liabilities	
	As at December 31,		As at December 31,	
	2016	2015	2016	2015
Held-for-trading debt securities	22,794,649	3,614,587	19,046,144	1,719,271
Held-to-maturity debt securities	20,578,541	18,630,028	19,405,600	18,231,900
Available-for-sale debt securities	16,229,508	5,259,721	15,538,851	4,549,240
Loans and advances to customers	2,535,453	2,160,975	2,400,000	1,800,000
Finance lease receivables	—	517,670	—	187,204
Financial assets held under resale agreements	—	3,904,808	—	3,874,246
Total	62,138,151	34,087,789	56,390,595	30,361,861

#### Securities lending arrangements

Huarong Securities Co., Ltd., a Group entity, entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds, which are secured by client's securities and cash deposits held as collateral. The clients have obligations to return these securities and pay interest to the Group at specified future dates. The Group has retained substantially all the risks and rewards of these equity securities and exchange-traded funds lent and therefore has not derecognized these securities. The carrying amount of securities lent amounted to RMB8 million as at December 31, 2016 (December 31, 2015: RMB27 million). These securities are classified as available-for-sale financial assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 54. 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, 2016, the carrying amount of such transferred but not derecognized finance lease receivables amounted to RMB5,348 million (December 31, 2015: RMB3,043 million), the carrying amount of the corresponding financial liabilities which recognized as bonds and notes issued amounted to RMB3,906 million (December 31, 2015: RMB2,427 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, 2016, the carrying amount of such transferred credit assets amounted to RMB4,275 million (the year ended December 31, 2015: RMB11,204 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, 2016 the carrying amount of the corresponding asset-backed securities held by the Group amounted to RMB290 million (December 31, 2015: RMB648 million).

### 55. 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 55. Segment information *(continued)*

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

#### **Distressed asset management operations**

The distressed asset management segment comprises relevant business operated by the Company and certain of its subsidiaries, including distressed asset management, debt equity swap asset management, custody and agency services for distressed assets, distressed asset-based special situations investment and distressed asset-based property development.

#### **Financial services operations**

The Group's financial services segment comprises relevant business of the Group, including the provision of financial services in sectors such as banking, securities and futures, financial leasing and consumer finance. These operations are mainly carried out by the subsidiaries of the Company.

#### **Asset management and investment operations**

The asset management and investment segment comprises relevant business operated by the Company and certain of its subsidiaries, mainly including trust and other asset management business, financial investment, international business and other business.

No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

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



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 55. Segment information (continued)

##### Asset management and investment operations (continued)

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, 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	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	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 disposal of associates	(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
As at December 31, 2016					
Segment assets	628,712,579	515,150,506	302,715,707	(43,910,679)	1,402,668,113
Including: Interests in associates and joint ventures	265,444	—	9,298,567	—	9,564,011
Deferred tax assets	—	—	—	—	9,301,184
Total assets	—	—	—	—	1,411,969,297
Segment liabilities	544,781,261	478,569,397	276,538,211	(43,381,579)	1,256,507,290
Deferred tax liabilities	—	—	—	—	700,372
Tax payable	—	—	—	—	4,680,635
Total liabilities	—	—	—	—	1,261,888,297

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 55. Segment information (continued)

## Asset management and investment operations (continued)

Year ended December 31, 2015	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets					
classified as receivables	23,094,980	—	—	—	23,094,980
Fair value changes on distressed debt assets	1,637,250	—	—	—	1,637,250
Fair value changes on other financial assets	(3,616)	889,190	2,461,528	—	3,347,102
Interest income	680,407	13,366,977	136,287	(116,588)	14,067,083
Investment income	8,244,289	5,297,734	5,753,625	(128,306)	19,167,342
Commission and fee income	3,852,231	3,787,695	2,990,540	(232,474)	10,397,992
Net gains on disposal of associates	172,602	—	254,803	—	427,405
Other income and other net gains or losses	2,970,235	121,607	406,209	(251,442)	3,246,609
Total	40,648,378	23,463,203	12,002,992	(728,810)	75,385,763
Interest expenses	(13,736,202)	(8,196,529)	(4,221,740)	252,292	(25,902,179)
Commission and fee expenses	(108,916)	(790,737)	(87,820)	42,155	(945,318)
Operating expenses	(5,863,282)	(4,296,376)	(1,731,720)	403,826	(11,487,552)
Impairment losses on assets	(8,980,077)	(1,594,796)	(2,028,908)	—	(12,603,781)
Total	(28,688,477)	(14,878,438)	(8,070,188)	698,273	(50,938,830)
Change in net assets attributable to other					
holders of consolidated structured entities	(14,363)	(1,352,955)	(1,089,237)	—	(2,456,555)
Share of results of associates and joint ventures	(5,450)	15,257	245,755	—	255,562
Profit before tax	11,940,088	7,247,067	3,089,322	(30,537)	22,245,940
Income tax expense					(5,295,142)
Profit for the year					16,950,798
Capital expenditure	114,410	1,600,548	30,130	—	1,745,088
Depreciation and amortization	169,252	336,000	28,393	—	533,645
As at December 31, 2015					
Segment assets	365,998,222	370,251,131	138,469,172	(12,998,704)	861,719,821
Including: Interests in associates and joint ventures	1,230,531	128,694	5,333,410	—	6,692,635
Deferred tax assets					4,826,597
Total assets					866,546,418
Segment liabilities	296,639,517	337,973,110	122,228,063	(12,870,885)	743,969,805
Deferred tax liabilities					552,760
Tax payable					3,223,251
Total liabilities					747,745,816

# Notes to the Consolidated Financial Statements

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## V. EXPLANATORY NOTES (continued)

### 56. Related party transactions

#### (1) The MOF

As at December 31, 2016, the MOF directly owned 63.36% (December 31, 2015: 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.

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 balances with the MOF:

	As at December 31,	
	2016	2015
Held-to-maturity investments	5,790,481	5,747,571
Available-for-sale financial assets	588,182	93,500
Amount due to the MOF	3,938,855	7,710,062
Dividends payable	—	966,877

The Group had the following transactions with the MOF:

	Year ended December 31,	
	2016	2015
Interest expense	124,393	204,605
Investment income	235,343	222,737

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(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 56. Related party transactions *(continued)*

#### (2) Government related entities

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

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

#### (3) Annuity Scheme

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

	Year ended December 31,	
	2016	2015
Contribution to Annuity Schemes	139,621	114,166

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 56. Related party transactions (continued)

##### (4) 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,	
	2016	2015 (Restated)
Emoluments of key management personnel		
— Salaries and other benefits	3,737	4,176
— Employer's contribution to pension scheme	340	434
— Discretionary and performance related incentive payments		
	5,982	5,772
Total (before tax)	10,059	10,382

The total compensation packages for the above key management personnel for the year ended December 31, 2016 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, 2015 was not decided at the time when the Group's 2015 consolidated financial statements were released and the amount of remuneration of directors and other members of key management recognized in the consolidated income statement for the year of 2015 was RMB9.57 million. The comparative figures for the year of 2015 have been restated accordingly after they had been finalized.

The number of key management personnel whose emoluments fall within the following bands is as follows:

	Year ended December 31,	
	2016	2015
RMB nil to RMB500,000	2	2
RMB500,001 to RMB1,000,000	7	11
RMB1,500,001 to RMB2,000,000	1	1
RMB2,000,001 to RMB2,500,000	2	—
	12	14

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. 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.

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.

#### 57.1 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 them is detailed in note V. 57.4 together with other types of distressed assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.1 Credit risk *(continued)*

##### (i) Credit risk management *(continued)*

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.

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 the 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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,	
	2016	2015
Balances with central bank	26,831,070	24,555,204
Deposits with financial institutions	154,329,885	76,896,262
Placements with financial institutions	4,902,346	9,298,706
Financial assets held for trading	76,983,771	8,197,243
Financial assets designated as at fair value through profit or loss	21,227,139	19,287,539
Financial assets held under resale agreements	36,347,736	32,538,933
Loans and advances to customers	118,405,979	81,625,232
Finance lease receivables	84,991,341	71,672,497
Available-for-sale financial assets	52,209,524	18,635,613
Held-to-maturity investments	44,884,175	34,357,970
Financial assets classified as receivables	549,477,957	328,685,840
Other assets	18,261,764	4,936,630
Subtotal	1,188,852,687	710,687,669
Credit enhancements	300,000	1,542,300
Credit commitments	38,224,845	37,082,176
Subtotal	38,524,845	38,624,476
Total	1,227,377,532	749,312,145

Distressed debt assets designated as at fair value through profit or loss may contain certain elements of credit risk. The risks such assets exposed to are detailed in note V. 57.4. The carrying amount of distressed debt assets designated as at fair value through profit or loss amounted to RMB68,436 million for the Group as at December 31, 2016 (December 31, 2015: RMB65,564 million).



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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 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,	
	2016	2015
Distressed debt assets classified as receivables	293,738,625	221,433,937
Loans and advances to customers	121,065,376	83,455,449
Finance lease receivables	86,629,749	72,872,647
Subtotal	501,433,750	377,762,033
Allowance for impairment losses		
Distressed debt assets classified as receivables	(23,666,452)	(19,382,474)
Loans and advances to customers	(2,659,397)	(1,830,217)
Finance lease receivables	(1,638,408)	(1,200,150)
Subtotal	(27,964,257)	(22,412,841)
Net carrying amount		
Distressed debt assets classified as receivables	270,072,173	202,051,463
Loans and advances to customers	118,405,979	81,625,232
Finance lease receivables	84,991,341	71,672,497
Total	473,469,493	355,349,192

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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

Area	As at December 31,			
	2016		2015	
	Gross amount	%	Gross amount	%
Central Region	180,840,550	36.1	141,184,107	37.4
Western Region	118,482,500	23.6	81,992,398	21.7
Yangtze River Delta	89,544,494	17.9	73,911,940	19.6
Pearl River Delta	42,974,885	8.6	33,322,391	8.8
Bohai Rim	41,916,111	8.4	26,922,579	7.1
Northeastern Region	23,669,942	4.6	20,428,618	5.4
Overseas	4,005,268	0.8	—	—
Total	501,433,750	100.0	377,762,033	100.0

Notes:

Central Region:	Including Shanxi, Henan, Hunan, Hubei, Anhui, Jiangxi, Hainan.
Western Region:	Including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Guangxi, Gansu, Qinghai, Xinjiang, Ningxia, Inner Mongolia, Tibet.
Yangtze River Delta:	Including Shanghai, Jiangsu, Zhejiang.
Pearl River Delta:	Including Guangdong, Fujian.
Bohai Rim:	Including Beijing, Tianjin, Hebei, Shandong.
Northeastern Region:	Including Liaoning, Jilin and Heilongjiang.
Overseas:	Including all regions outside Mainland China.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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

Industry	As at December 31,			
	2016		2015	
	Gross amount	%	Gross amount	%
<u>Corporate business</u>				
Real estate	167,220,440	33.4	154,821,749	41.0
Manufacturing	72,794,422	14.5	54,538,524	14.4
Water, environment and public utilities management	61,821,192	12.3	32,787,645	8.7
Construction	27,845,007	5.6	16,474,644	4.4
Leasing and commercial services	27,136,984	5.4	15,028,096	4.0
Transportation, logistics and postal services	14,114,519	2.8	13,497,274	3.6
Mining	10,749,567	2.1	7,983,073	2.1
Others	88,367,452	17.6	62,457,056	16.5
Subtotal	470,049,583	93.7	357,588,061	94.7
<u>Personal business</u>				
Loans for business operations	9,816,041	2.0	7,086,627	1.9
Mortgage	7,087,467	1.4	5,735,751	1.5
Personal consumption loans	6,405,757	1.3	2,570,830	0.7
Others	1,082,292	0.2	705,669	0.1
Subtotal	24,391,557	4.9	16,098,877	4.2
Loans to margin clients	6,992,610	1.4	4,075,095	1.1
Total	501,433,750	100.0	377,762,033	100.0

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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, 2016				Gross amount as at December 31, 2015			
	Up to	1 to	Over	Total	Up to	1 to	Over	Total
	1 year	5 years	5 years		1 year	5 years	5 years	
Unsecured	16,500,821	6,119,621	1,638,705	24,259,147	3,225,681	6,486,019	511,471	10,223,171
Guaranteed	53,769,258	64,792,469	3,655,144	122,216,871	28,628,130	58,518,432	2,932,064	90,078,626
Collateralized	92,178,625	170,164,932	15,843,971	278,187,528	26,988,430	206,401,457	11,772,997	245,162,884
Pledged	40,610,930	35,120,492	1,038,782	76,770,204	10,793,126	21,021,121	483,105	32,297,352
Total	203,059,634	276,197,514	22,176,602	501,433,750	69,635,367	292,427,029	15,699,637	377,762,033

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

	Gross amount as at December 31, 2016					Past due amount as a% of total gross amount	Gross amount as at December 31, 2015					Past due amount as a% of total gross amount
	Up to	91 to	361 days to	Over	Total		Up to	91 to	361 days to	Over	Total	
	90 days	360 days	3 years	3 years			90 days	360 days	3 years	3 years		
Distressed debt assets classified as receivables	2,841,185	2,710,000	1,649,801	2,962,604	10,163,590	3.5	2,032,730	2,078,304	3,286,660	61,000	7,458,694	3.4
Loans and advances to customers	1,349,712	1,288,459	634,944	35,000	3,308,115	2.7	1,295,171	730,639	453,531	—	2,479,341	3.0
Finance lease receivables	872,947	989,274	733,117	103,589	2,698,927	3.1	279,439	1,254,146	752,344	94,222	2,380,151	3.3
Total	5,063,844	4,987,733	3,017,862	3,101,193	16,170,632	3.2	3,607,340	4,063,089	4,492,535	155,222	12,318,186	3.3

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 57. Financial risk management (continued)

##### 57.1 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,	
	2016	2015
Neither past due nor impaired	485,199,527	365,282,252
Past due but not impaired <sup>(1)</sup>	8,170,251	7,622,411
Impaired <sup>(2)</sup>	8,063,972	4,857,370
Subtotal	501,433,750	377,762,033
Allowance for impairment losses	(27,964,257)	(22,412,841)
Net carrying amount	473,469,493	355,349,192

(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, 2016					Gross amount as at December 31, 2015				
	361 days				Total	361 days				Total
	Up to 90 days	91 to 360 days	to 3 years	Over 3 years		Up to 90 days	91 to 360 days	to 3 years	Over 3 years	
Distressed debt assets classified as receivables	2,841,185	2,000,091	—	—	4,841,276	1,932,840	1,446,207	778,546	—	4,157,593
Loans and advances to customers	1,044,042	530,412	61,572	—	1,636,026	1,202,468	270,367	223,151	—	1,695,986
Finance lease receivables	872,947	596,845	223,157	—	1,692,949	279,439	990,213	447,495	51,685	1,768,832
Total	4,758,174	3,127,348	284,729	—	8,170,251	3,414,747	2,706,787	1,449,192	51,685	7,622,411

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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, 2016			As at December 31, 2015		
	Gross amount	Allowance for impairment losses	Net carrying value	Gross amount	Allowance for impairment losses	Net carrying value
Distressed debt assets classified as receivables						
— Individually assessed	5,322,314	(3,663,130)	1,659,184	3,301,101	(2,498,717)	802,384
Loans and advances to customers						
— Individually assessed	1,385,489	(614,538)	770,951	689,418	(289,333)	400,085
— Collectively assessed	304,550	(101,307)	203,243	94,560	(39,822)	54,738
Finance lease receivables						
— Individually assessed	866,153	(491,926)	374,227	654,288	(376,433)	277,855
— Collectively assessed	185,466	(100,406)	85,060	118,003	(77,166)	40,837
<b>Total</b>	<b>8,063,972</b>	<b>(4,971,307)</b>	<b>3,092,665</b>	<b>4,857,370</b>	<b>(3,281,471)</b>	<b>1,575,899</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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,	
	2016	2015
Distressed debt assets classified as receivables		
Individually assessed and impaired	<b>5,322,314</b>	3,301,101
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	<b>1.8</b>	1.5
Fair value of collateral	<b>18,132,222</b>	5,030,523
Loans and advances to customers		
Individually assessed and impaired	<b>1,385,489</b>	689,418
Individually assessed and impaired as a % of total loans and advances to customers (%)	<b>1.1</b>	0.8
Collectively assessed and impaired	<b>304,550</b>	94,560
Collectively assessed and impaired as a % of total loans and advances to customers (%)	<b>0.3</b>	0.1
Fair value of collateral	<b>3,118,101</b>	1,302,378
Finance lease receivables		
Individually assessed and impaired	<b>866,153</b>	654,288
Individually assessed and impaired as a % of total finance lease receivables (%)	<b>1.0</b>	0.9
Collectively assessed and impaired	<b>185,466</b>	118,003
Collectively assessed and impaired as a % of total finance lease receivables (%)	<b>0.2</b>	0.2
Fair value of collateral*	<b>215,953</b>	91,524

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 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

Area	As at December 31,					
	2016			2015		
	Gross amount	Impairment %	ratio %	Gross amount	Impairment %	ratio %
Central Region	4,420,276	54.8	2.4	3,473,510	71.5	2.5
Western Region	1,640,783	20.3	1.4	868,064	17.9	1.1
Yangtze River Delta	1,629,944	20.2	1.8	335,394	6.9	0.5
Pearl River Delta	1,328	0.0	0.0	—	—	—
Bohai Rim	84,099	1.0	0.2	34,100	0.7	0.1
Northeastern Region	287,542	3.7	1.2	146,302	3.0	0.7
Total	8,063,972	100.0	1.6	4,857,370	100.0	1.3

(vii) **Credit quality of investment securities**

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

	As at December 31,	
	2016	2015
Neither past due nor impaired <sup>(1)</sup>	477,905,787	209,671,546
Past due but not impaired <sup>(2)</sup>	1,017,929	713,629
Impaired <sup>(3)</sup>	3,608,320	466,556
Subtotal	482,532,036	210,851,731
Allowance for impairment losses		
— Individually assessed	(1,386,481)	(367,671)
— Collectively assessed	(6,435,162)	(3,371,318)
Net carrying amount	474,710,393	207,112,742



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 Credit risk (continued)

##### (vii) Credit quality of investment securities (continued)

(1) Neither past due nor impaired investment securities

	As at December 31, 2016						As at December 31, 2015					
	Financial assets designated as at			Financial assets			Financial assets designated as at			Financial assets		
	Financial assets held for trading	fair value through profit or loss	Available-for-sale assets	Held-to-maturity investments	Financial assets classified as receivables	Total	Financial assets held for trading	fair value through profit or loss	Available-for-sale assets	Held-to-maturity investments	Financial assets classified as receivables	Total
	Government bonds	4,549,186	—	638,106	15,738,801	—	20,926,093	—	—	747,165	13,985,888	—
Public sector and quasi-government bonds	757,610	—	23,275,592	23,775,474	—	47,808,676	2,330,185	—	6,790,747	14,535,096	—	23,656,028
Financial institution bonds	684,287	—	2,834,686	4,954,109	—	8,473,082	571	—	1,887,007	5,666,584	—	7,554,162
Corporate bonds	48,329,744	—	7,347,996	415,791	—	56,093,531	5,866,487	—	4,785,079	170,402	—	10,821,968
Trust products	—	649,713	13,011,307	—	114,415,852	128,076,872	—	7,599,489	58,800	—	54,978,099	62,636,388
Wealth management products	10,413,218	2,129,900	1,161,872	—	12,286,958	25,991,948	—	2,164,691	384,658	—	4,700,000	7,249,349
Entrust loans	—	—	—	—	53,325,425	53,325,425	—	—	—	—	21,685,955	21,685,955
Debt instruments	—	—	—	—	83,735,941	83,735,941	—	—	—	—	41,626,651	41,626,651
Asset management plans	—	3,398,947	1,569,347	—	18,837,002	23,805,296	—	200,000	50,000	—	6,202,476	6,452,476
Convertible bonds	—	9,954,520	—	—	—	9,954,520	—	5,241,300	—	—	—	5,241,300
Structured products	—	5,094,059	300,090	—	—	5,394,149	—	4,082,059	—	—	—	4,082,059
Negotiable certificates of deposit	11,456,817	—	—	—	—	11,456,817	—	—	—	—	—	—
Asset-backed securities	792,909	—	2,070,528	—	—	2,863,437	—	—	3,932,157	—	—	3,932,157
Total	76,983,771	21,227,139	52,209,524	44,884,175	282,601,178	477,905,787	8,197,243	19,287,539	18,635,613	34,357,970	129,193,181	209,671,546

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

**V. EXPLANATORY NOTES** (continued)**57. Financial risk management** (continued)**57.1 Credit risk** (continued)**(vii) Credit quality of investment securities** (continued)

## (2) Past due but not impaired investment securities

	As at December 31, 2016						As at December 31, 2015					
	Financial assets designated as at		Financial assets		Financial assets		Financial assets designated as at		Financial assets		Financial assets	
	Financial assets held for trading	fair value through profit or loss	Available-for-sale assets	Held-to-maturity investments	classified as receivables	Total	Financial assets held for trading	fair value through profit or loss	Available-for-sale assets	Held-to-maturity investments	classified as receivables	Total
Trust products	—	—	—	—	100,000	100,000	—	—	—	—	39,375	39,375
Debt instruments	—	—	—	—	588,180	588,180	—	—	—	—	674,254	674,254
Asset management plans	—	—	—	—	329,749	329,749	—	—	—	—	—	—
Total	—	—	—	—	1,017,929	1,017,929	—	—	—	—	713,629	713,629

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 57. Financial risk management (continued)

##### 57.1 Credit risk (continued)

###### (vii) Credit quality of investment securities (continued)

###### (3) Impaired investment securities

	As at December 31, 2016							As at December 31, 2015						
	Financial assets designated as at				Financial assets			Financial assets designated as at				Financial assets		
	Financial assets held for trading	fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	classified as receivables	Total	Financial assets held for trading	fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	classified as receivables	Total		
Trust products	—	—	—	—	2,402,302	2,402,302	—	—	—	—	289,795	289,795		
Entrust loans	—	—	—	—	881,467	881,467	—	—	—	—	60,000	60,000		
Debt instruments	—	—	—	—	169,900	169,900	—	—	—	—	116,761	116,761		
Asset management plans	—	—	—	—	154,651	154,651	—	—	—	—	—	—		
Total	—	—	—	—	3,608,320	3,608,320	—	—	—	—	466,556	466,556		

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.1 Credit risk (continued)

##### (viii) Investment securities analyzed by credit rating from reputable rating agencies

	As at December 31, 2016						As at December 31, 2015					
	AAA	AA	A	Below A	Unrated	Total	AAA	AA	A	Below A	Unrated	Total
Government bonds	8,194,585	—	—	—	12,731,508	20,926,093	2,643,626	—	—	—	12,089,427	14,733,053
Public sector and quasi-government bonds	29,780	—	—	—	47,778,896	47,808,676	—	—	—	—	23,656,028	23,656,028
Financial institution bonds	1,695,420	1,833,073	—	—	4,944,589	8,473,082	819,780	1,236,844	—	—	5,497,538	7,554,162
Corporate bonds	20,715,341	15,308,510	457,681	2,871,394	16,740,605	56,093,531	1,896,653	7,153,701	157,182	274,900	1,339,532	10,821,968
Trust products	—	—	—	—	130,579,174	130,579,174	—	—	—	—	62,965,558	62,965,558
Wealth management products	—	—	—	—	25,991,948	25,991,948	—	—	—	—	7,249,349	7,249,349
Entrust loans	—	—	—	—	54,206,892	54,206,892	—	—	—	—	21,745,955	21,745,955
Debt instruments	—	—	—	—	84,494,021	84,494,021	—	—	—	—	42,417,666	42,417,666
Asset management plans	—	—	—	—	24,289,696	24,289,696	—	—	—	—	6,452,476	6,452,476
Convertible bonds	—	—	—	—	9,954,520	9,954,520	—	—	—	—	5,241,300	5,241,300
Structured products	—	—	—	—	5,394,149	5,394,149	—	—	—	—	4,082,059	4,082,059
Negotiable certificates of deposit	—	—	—	—	11,456,817	11,456,817	—	—	—	—	—	—
Asset-backed securities	1,695,939	870,022	—	—	297,476	2,863,437	3,676,230	125,209	34,248	—	96,470	3,932,157
<b>Total</b>	<b>32,331,065</b>	<b>18,011,605</b>	<b>457,681</b>	<b>2,871,394</b>	<b>428,860,291</b>	<b>482,532,036</b>	<b>9,036,289</b>	<b>8,515,754</b>	<b>191,430</b>	<b>274,900</b>	<b>192,833,358</b>	<b>210,851,731</b>

##### (ix) Other financial assets

Other financial assets include deposits and placement with financial institutions, financial assets held under resale agreements and balances with central bank. The directors of the Company consider that their credit risks are not significant.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.2 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;
- strictly controlling the length of the debt restructuring term and strengthening the matching of the Group's liabilities with the terms and interest rate structure of the distressed debt assets; and
- regularly performing quantitative analysis, including periodic sensitivity analysis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.2 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, 2016						Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	
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
<b>Total financial assets</b>	<b>291,309,923</b>	<b>69,329,394</b>	<b>283,661,412</b>	<b>466,033,082</b>	<b>44,340,615</b>	<b>207,377,748</b>	<b>1,362,052,174</b>
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)
<b>Total financial liabilities</b>	<b>(203,625,207)</b>	<b>(78,474,700)</b>	<b>(260,667,419)</b>	<b>(438,704,560)</b>	<b>(71,705,683)</b>	<b>(153,576,439)</b>	<b>(1,206,754,008)</b>
<b>Interest rate gap</b>	<b>87,684,716</b>	<b>(9,145,306)</b>	<b>22,993,993</b>	<b>27,328,522</b>	<b>(27,365,068)</b>	<b>53,801,309</b>	<b>155,298,166</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.2 Market risk (continued)

##### Interest rate risk (continued)

	As at December 31, 2015						Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	
Cash and balances with central bank	24,342,595	—	—	—	—	639,535	24,982,130
Deposits with financial institutions	58,571,545	5,916,850	10,407,867	2,000,000	—	—	76,896,262
Placements with financial institutions	9,000,000	194,808	103,898	—	—	—	9,298,706
Financial assets held for trading	294,310	100,586	770,782	2,548,533	4,483,032	4,806,759	13,004,002
Financial assets designated as at fair value through profit or loss	2,578,446	—	309,358	16,399,735	—	66,170,650	85,458,189
Financial assets held under resale agreements	24,450,923	4,273,523	2,536,690	1,277,797	—	—	32,538,933
Loans and advances to customers	12,096,881	4,442,726	33,308,347	26,522,947	5,254,331	—	81,625,232
Finance lease receivables	59,683,179	1,769,712	9,101,502	1,100,064	18,040	—	71,672,497
Available-for-sale financial assets	3,604,996	498,049	4,024,657	7,297,480	3,240,765	46,328,284	64,994,231
Held-to-maturity investments	2,178,003	3,751,016	2,197,875	16,672,237	9,558,839	—	34,357,970
Financial assets classified as receivables	20,110,231	9,833,861	76,881,557	221,147,081	713,110	—	328,685,840
Other financial assets	—	—	—	—	—	4,936,630	4,936,630
<b>Total financial assets</b>	<b>216,911,109</b>	<b>30,781,131</b>	<b>139,642,533</b>	<b>294,965,874</b>	<b>23,268,117</b>	<b>122,881,858</b>	<b>828,450,622</b>
Borrowings from central bank	—	—	(20,000)	—	—	—	(20,000)
Deposits from financial institutions	(3,203,153)	(2,900,000)	(8,165,000)	(1,200,000)	—	—	(15,468,153)
Placements from financial institutions	(564,936)	—	(400,000)	—	—	—	(964,936)
Financial assets sold under repurchase agreements	(22,737,213)	(5,239,295)	(585,353)	(1,800,000)	—	—	(30,361,861)
Borrowings	(44,122,089)	(28,097,092)	(105,964,057)	(90,789,344)	(26,059,200)	—	(295,031,782)
Due to customers	(82,777,200)	(8,638,312)	(22,716,547)	(24,691,400)	(1,000,000)	(175,414)	(139,998,873)
Bonds and notes issued	(563,023)	(5,329,709)	(15,394,195)	(107,385,667)	(14,359,134)	(22,111)	(143,053,839)
Other financial liabilities	(12,723,174)	(82,728)	(4,941,020)	(35,455,877)	(508,723)	(33,810,706)	(87,522,228)
<b>Total financial liabilities</b>	<b>(166,690,788)</b>	<b>(50,287,136)</b>	<b>(158,186,172)</b>	<b>(261,322,288)</b>	<b>(41,927,057)</b>	<b>(34,008,231)</b>	<b>(712,421,672)</b>
<b>Interest rate gap</b>	<b>50,220,321</b>	<b>(19,506,005)</b>	<b>(18,543,639)</b>	<b>33,643,586</b>	<b>(18,658,940)</b>	<b>88,873,627</b>	<b>116,028,950</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.2 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, based on the Group's positions of interest-generating assets and interest-bearing liabilities at the end of the reporting period.

Interest rate sensitivity analysis

	Year ended December 31,			
	2016		2015	
	Profit before tax	Other comprehensive income	Profit before tax	Other comprehensive income
+ 100 basis points	850,328	(1,183,355)	249,189	(546,457)
- 100 basis points	(850,328)	1,243,133	(249,189)	443,161

##### Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and operating performance. The Group conducts the majority of its businesses in RMB, with certain foreign currency transactions conducted in United States dollar ("USD"), Hong Kong dollar ("HKD") or other currencies.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.2 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, 2016				Total (RMB equivalent)
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (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
<b>Total financial assets</b>	<b>1,247,410,481</b>	<b>81,360,334</b>	<b>31,741,427</b>	<b>1,539,932</b>	<b>1,362,052,174</b>
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)
<b>Total financial liabilities</b>	<b>(1,079,498,892)</b>	<b>(113,699,940)</b>	<b>(13,526,675)</b>	<b>(28,501)</b>	<b>(1,206,754,008)</b>
<b>Net exposure</b>	<b>167,911,589</b>	<b>(32,339,606)</b>	<b>18,214,752</b>	<b>1,511,431</b>	<b>155,298,166</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.2 Market risk (continued)

##### Foreign exchange risk (continued)

	As at December 31, 2015				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	24,958,850	22,887	218	175	24,982,130
Deposits with financial institutions	56,145,873	7,473,175	13,275,947	1,267	76,896,262
Placements with financial institutions	9,000,000	298,706	—	—	9,298,706
Financial assets held for trading	9,595,666	489,632	2,918,704	—	13,004,002
Financial assets designated as at fair value through profit or loss	76,075,496	7,177,096	2,205,597	—	85,458,189
Financial assets held under resale agreements	32,345,272	—	193,661	—	32,538,933
Loans and advances to customers	81,132,566	492,666	—	—	81,625,232
Finance lease receivables	71,559,427	113,070	—	—	71,672,497
Available-for-sale financial assets	57,159,606	7,484,638	349,987	—	64,994,231
Held-to-maturity investments	34,353,469	—	4,501	—	34,357,970
Financial assets classified as receivables	311,834,150	13,004,297	3,847,393	—	328,685,840
Other financial assets	4,054,902	780,817	100,911	—	4,936,630
<b>Total financial assets</b>	<b>768,215,277</b>	<b>37,336,984</b>	<b>22,896,919</b>	<b>1,442</b>	<b>828,450,622</b>
Borrowings from central bank	(20,000)	—	—	—	(20,000)
Deposits from financial institutions	(15,468,153)	—	—	—	(15,468,153)
Placements from financial institutions	(900,000)	(64,936)	—	—	(964,936)
Financial assets sold under repurchase agreements	(30,361,861)	—	—	—	(30,361,861)
Borrowings	(279,783,681)	(8,405,900)	(6,842,201)	—	(295,031,782)
Due to customers	(139,549,724)	(449,148)	(1)	—	(139,998,873)
Bonds and notes issued	(100,521,020)	(42,510,708)	(22,111)	—	(143,053,839)
Other financial liabilities	(86,946,740)	(43,065)	(532,423)	—	(87,522,228)
<b>Total financial liabilities</b>	<b>(653,551,179)</b>	<b>(51,473,757)</b>	<b>(7,396,736)</b>	<b>—</b>	<b>(712,421,672)</b>
<b>Net exposure</b>	<b>114,664,098</b>	<b>(14,136,773)</b>	<b>15,500,183</b>	<b>1,442</b>	<b>116,028,950</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 57. Financial risk management (continued)

##### 57.2 Market risk (continued)

##### Foreign exchange risk (continued)

##### Foreign exchange rate sensitivity analysis

The table below indicates the potential effect on profit before tax of a 5% appreciation or depreciation of RMB spot and forward exchange rates against all other currencies.

	As at December 31,	
	2016	2015
5% appreciation	1,220,059	120,060
5% depreciation	(1,220,059)	(120,060)

##### 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.

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 equity.

	Year ended December 31,			
	2016		2015	
	Profit before tax	Equity	Profit before tax	Equity
+ 10 percent	5,722,307	7,613,650	984,622	1,527,412
- 10 percent	(5,722,307)	(7,613,650)	(984,622)	(1,527,412)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.3 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

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 57. Financial risk management (continued)

#### 57.3 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, 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
<b>Total financial assets</b>	<b>207,454,709</b>	<b>107,750,355</b>	<b>92,373,425</b>	<b>81,672,294</b>	<b>323,636,928</b>	<b>608,576,634</b>	<b>64,586,948</b>	<b>1,486,051,293</b>
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)
<b>Total financial liabilities</b>	<b>(3,667,827)</b>	<b>(139,411,122)</b>	<b>(90,987,414)</b>	<b>(82,789,875)</b>	<b>(288,254,719)</b>	<b>(607,104,371)</b>	<b>(90,038,422)</b>	<b>(1,302,253,750)</b>
<b>Net position</b>	<b>203,786,882</b>	<b>(31,660,767)</b>	<b>1,386,011</b>	<b>(1,117,581)</b>	<b>35,382,209</b>	<b>1,472,263</b>	<b>(25,451,474)</b>	<b>183,797,543</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

## 57. Financial risk management (continued)

## 57.3 Liquidity risk (continued)

	Past due/ undated	On demand	Less than 1 month	As at December 31, 2015				Total
				1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central bank	19,607,281	5,374,860	—	—	—	—	—	24,982,141
Deposits with financial institutions	—	53,348,701	7,772,404	3,492,886	10,826,562	2,050,680	—	77,491,233
Placements with financial institutions	—	—	9,005,477	195,046	104,827	—	—	9,305,350
Financial assets held for trading	4,426,675	380,084	580,415	121,820	827,792	2,982,046	6,158,473	15,477,305
Financial assets designated as at fair value through profit or loss	66,170,650	209,000	2,369,446	—	320,368	16,410,175	—	85,479,639
Financial assets held under resale agreements	—	—	24,516,437	4,319,146	2,600,624	1,560,490	—	32,996,697
Loans and advances to customers	1,724,816	—	7,749,315	5,400,866	32,466,167	38,057,026	12,882,907	98,281,097
Finance lease receivables	917,706	—	2,580,103	4,128,798	21,422,391	52,481,477	1,273,418	82,803,893
Available-for-sale financial assets	42,286,800	—	2,585,159	280,100	3,150,273	15,163,758	4,419,456	67,885,546
Held-to-maturity investments	—	—	1,970,068	3,711,107	3,086,089	20,417,758	10,955,317	40,140,339
Financial assets classified as receivables	6,767,067	—	18,828,436	21,673,406	129,505,777	217,536,480	1,548,089	395,859,255
Other financial assets	57,248	—	75,444	24,410	1,539,509	1,391,329	27,048	3,114,988
<b>Total financial assets</b>	<b>141,958,243</b>	<b>59,312,645</b>	<b>78,032,704</b>	<b>43,347,585</b>	<b>205,850,379</b>	<b>368,051,219</b>	<b>37,264,708</b>	<b>933,817,483</b>
Borrowings from central bank	—	—	—	(143)	(20,109)	—	—	(20,252)
Deposits from financial institutions	—	(643,287)	(2,591,176)	(3,084,023)	(8,517,933)	(1,223,623)	—	(16,060,042)
Placements from financial institutions	—	—	(565,669)	—	(404,305)	—	—	(969,974)
Financial assets sold under repurchase agreements	—	—	(22,495,167)	(5,388,026)	(820,523)	(2,030,404)	—	(30,734,120)
Borrowings	—	(5,054,638)	(22,792,453)	(31,032,905)	(121,050,370)	(120,821,853)	(33,357,095)	(334,109,314)
Due to customers	—	(77,531,495)	(5,658,002)	(8,875,747)	(23,595,927)	(29,010,558)	(1,209,137)	(145,880,866)
Bonds and notes issued	—	—	(557,895)	(5,367,054)	(18,468,734)	(127,003,267)	(17,834,672)	(169,231,622)
Other financial liabilities	(1,514,442)	(2,602,942)	(14,171,743)	(9,626,147)	(6,214,655)	(46,784,002)	(967,364)	(81,881,295)
<b>Total financial liabilities</b>	<b>(1,514,442)</b>	<b>(85,832,362)</b>	<b>(68,832,105)</b>	<b>(63,374,045)</b>	<b>(179,092,556)</b>	<b>(326,873,707)</b>	<b>(53,368,268)</b>	<b>(778,887,485)</b>
<b>Net position</b>	<b>140,443,801</b>	<b>(26,519,717)</b>	<b>9,200,599</b>	<b>(20,026,460)</b>	<b>26,757,823</b>	<b>41,177,512</b>	<b>(16,103,560)</b>	<b>154,929,998</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.4 Risk management of distressed assets

##### 57.4.1 Overview

Risk of distressed assets represents the potential loss that may arise from counterparty's failure to meet its obligation or changes in market conditions that lead to decline in asset value. Risk of distressed assets can also arise from operational failures due to unauthorized or inappropriate 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.

##### 57.4.2 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.4 Risk management of distressed assets *(continued)*

##### 57.4.2 Risk management of distressed debt assets *(continued)*

###### (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, and disposal cost, 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, etc.; and
- Adopt conservative estimation on incurrence rate, discount rate, and disposal cost when performing valuation and review the difference between actual results and estimation after the completion of the disposal of distressed assets to improve the accuracy of future estimations.

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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.4 Risk management of distressed assets *(continued)*

##### 57.4.2 Risk management of distressed debt assets *(continued)*

###### (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 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.4 Risk management of distressed assets *(continued)*

##### 57.4.3. 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.

##### 57.4.4. 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. 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, 2016 was 11% (December 31, 2015: 12.5%).

##### 57.4.5. 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.57.1.

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

### 57. Financial risk management *(continued)*

#### 57.5 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, 2016 and 2015, the Company complied with the regulatory requirements on the minimum CAR.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 58. Fair value of financial instruments

#### 58.1 Fair value of financial assets that are measured at fair value on a recurring basis

The following tables provide a summary of financial instruments that are measured at fair value subsequent to initial recognition, grouped into three levels:

	As at December 31, 2016			Total
	Level 1	Level 2	Level 3	
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

	As at December 31, 2015			Total
	Level 1	Level 2	Level 3	
Financial assets held for trading	6,199,789	6,804,213	—	13,004,002
Financial assets designated as at fair value through profit or loss	219,950	2,364,691	82,873,548	85,458,189
Available-for-sale financial assets	17,554,307	23,267,431	13,457,303	54,279,041
Total assets	23,974,046	32,436,335	96,330,851	152,741,232

There were no significant transfers between level 1 and level 2 within the Group for the years ended December 31, 2016 and 2015.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 58. Fair value of financial instruments (continued)

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

The following table gives information about the fair values of the financial assets and their fair value hierarchy.

Financial assets	Fair value as at December 31,		Fair value hierarchy
	2016	2015	
1) Financial assets held for trading			
Debt securities	54,320,827	8,197,243	
— Government bonds traded in stock exchange	4,329,416	—	Level 1
— Government bonds traded in inter-bank market	219,770	—	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	757,610	2,330,185	Level 2
— Financial institution bonds traded in stock exchange	418,732	—	Level 1
— Financial institution bonds traded in inter-bank market	265,555	571	Level 2
— Corporate bonds traded in stock exchange	44,929,802	2,015,852	Level 1
— Corporate bonds traded in inter-bank market	3,112,052	3,850,635	Level 2
— Unlisted corporate bonds	287,890	—	Level 2
Equity instruments	6,631,343	4,027,056	
Equity instruments listed or traded on exchanges	6,418,254	3,988,484	Level 1
Unlisted equity instruments (active)	—	38,572	Level 2
Unlisted equity instruments (inactive)	213,089	—	Level 3
Funds	4,116,182	779,703	
— Listed	1,126,865	195,453	Level 1
— Unlisted	2,989,317	584,250	Level 2
Wealth management products	10,413,218	—	Level 2
Negotiable certificates of deposit	11,456,817	—	Level 2
Asset-backed securities	792,909	—	Level 2
Subtotal	87,731,296	13,004,002	

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 58. Fair value of financial instruments (continued)

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

Financial assets	Fair value as at December 31,		Fair value hierarchy
	2016	2015	
2) Financial assets designated as at fair value through profit or loss			
Distressed debt assets	<b>68,436,032</b>	65,564,484	Level 3
Convertible bonds	<b>9,954,520</b>	5,241,300	Level 3
Structured products	<b>5,094,059</b>	4,082,059	Level 3
Asset management plans issued by financial institutions	<b>3,398,947</b>	200,000	Level 2
Wealth management products issued by banks and other financial institutions	<b>2,129,900</b>	2,164,691	Level 2
Equity instruments	<b>5,504,082</b>	606,166	
— Equity investments in listed companies	—	219,950	Level 1
— Equity investments in listed companies (Restricted share units)	<b>4,573,622</b>	—	Level 3
— Equity investments in unlisted companies	<b>930,460</b>	386,216	Level 3
Trust products issued by financial institutions	<b>649,713</b>	7,599,489	Level 3
Subtotal	<b>95,167,253</b>	85,458,189	
3) Available-for-sale financial assets			
Debt securities	<b>34,096,380</b>	14,209,998	
— Government bonds traded in stock exchange	<b>32,602</b>	653,626	Level 1
— Government bonds traded in inter-bank market	<b>605,504</b>	93,539	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	<b>23,275,592</b>	6,790,747	Level 2
— Financial institution bonds traded in stock exchange	<b>259,605</b>	—	Level 1
— Financial institution bonds traded in inter-bank market	<b>2,575,081</b>	1,887,007	Level 2
— Corporate bonds traded in stock exchange	<b>6,376,619</b>	2,685,488	Level 1
— Corporate bonds traded in inter-bank market	<b>971,377</b>	2,099,591	Level 2

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 58. Fair value of financial instruments (continued)

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

Financial assets	Fair value as at December 31,		Fair value hierarchy
	2016	2015	
3) Available-for-sale financial assets (continued)			
Equity instruments	<b>30,482,757</b>	21,279,280	
Listed equity instruments	<b>17,908,839</b>	14,229,222	
— Unrestricted equity instruments	<b>12,092,556</b>	12,169,678	Level 1
— Restricted equity instruments	<b>5,816,283</b>	2,059,544	Level 3
Unlisted equity instruments	<b>12,573,918</b>	7,050,058	Level 3
Funds	<b>34,608,371</b>	10,039,324	
— Listed	<b>152,051</b>	2,045,515	Level 1
— Unlisted*	<b>730,878</b>	6,519,859	Level 2
— Unlisted*	<b>540,708</b>	—	Level 3
— Private equity fund*	<b>111,585</b>	—	Level 2
— Private equity fund*	<b>33,073,149</b>	1,473,950	Level 3
Wealth management products issued by banks or other financial institutions	<b>1,161,872</b>	538,162	Level 2
Others	<b>30,436,199</b>	8,212,277	
— Asset management plans	<b>3,529,761</b>	2,175,715	Level 3
— Asset-backed securities, subordinate tranche	<b>286,789</b>	317,702	Level 3
— Asset-backed securities, senior tranche	<b>1,783,739</b>	3,733,247	Level 2
— Trust products issued by financial institutions	<b>23,232,734</b>	380,334	Level 3
— Others	<b>1,603,176</b>	1,605,279	Level 2
Subtotal	<b>130,785,579</b>	54,279,041	
Total	<b>313,684,128</b>	152,741,232	

\* 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 58. Fair value of financial instruments (continued)

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

##### Valuation methods for financial instruments

For Level 1 financial instruments, fair values are unadjusted quotes in active markets for identical assets.

For Level 2 financial instruments, valuations are generally calculated based on the fair value of the underlying investments which are debt securities or publicly traded equity instruments in each portfolio or obtained from third party pricing services agent such as China Central Depository & Clearing Co., Ltd. which are based on the discounted cash flow model. All significant inputs are observable, directly or indirectly from the market.

For Level 3 financial instruments, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

#### 58.2 Reconciliation of Level 3 fair value measurements

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



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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### V. EXPLANATORY NOTES (continued)

#### 58. Fair value of financial instruments (continued)

##### 58.2 Reconciliation of Level 3 fair value measurements (continued)

	Financial assets held for trading	Financial assets at FVTPL	Available- for-sale financial assets
As at January 1, 2015	10	27,107,521	3,444,794
Recognized in profit or loss	—	2,794,624	(17,930)
Recognized in other comprehensive income	—	—	150,675
Fair value changes transfer out upon disposal	—	(1,501,632)	(101,009)
Purchases	—	107,950,527	10,482,936
Settlements/disposals	(10)	(53,477,492)	(502,163)
As at December 31, 2015	—	82,873,548	13,457,303
Changes in unrealized gains for the year included in profit or loss for assets held at the end of the year	—	1,292,992	—

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

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities that are not measured in the consolidated statement of financial position at their fair value on a recurring basis. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central bank, deposits with financial institutions, placements with 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,			
	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	118,405,979	120,483,766	81,625,232	84,410,808
Held-to-maturity investments	44,884,175	45,076,229	34,357,970	35,159,870
Financial assets classified as receivables	549,477,957	581,512,646	328,685,840	333,220,082
Total	712,768,111	747,072,641	444,669,042	452,790,760
Financial liabilities				
Borrowings	(511,308,643)	(556,462,712)	(295,031,782)	(309,439,748)
Bonds and notes issued	(243,075,227)	(242,572,261)	(143,053,839)	(145,589,585)
Total	(754,383,870)	(799,034,973)	(438,085,621)	(455,029,333)

# Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 58. Fair value of financial instruments (continued)

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

(continued)

	As at December 31,		Fair value Hierarchy	Valuation Technique
	2016	2015		
Financial assets				
Loans and advances to customers	<b>120,483,766</b>	84,410,808	Level 3	Discounted cash flows
Held-to-maturity investments	—	4,501	Level 1	Quoted bid prices in an active market
Held-to-maturity investments	<b>45,076,229</b>	35,155,369	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd
Financial assets classified as receivables	<b>581,512,646</b>	333,220,082	Level 3	Discounted cash flows
<b>Total</b>	<b>747,072,641</b>	452,790,760		
Financial liabilities				
Borrowings	<b>(556,462,712)</b>	(309,439,748)	Level 3	Discounted cash flows
Bonds and notes issued	<b>(102,352,956)</b>	(52,898,317)	Level 1	Quoted ask prices in an active market
Bonds and notes issued	<b>(139,719,305)</b>	(92,106,607)	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd
Bonds and notes issued	<b>(500,000)</b>	(584,661)	Level 3	Discounted cash flows
<b>Total</b>	<b>(799,034,973)</b>	(455,029,333)		

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## V. EXPLANATORY NOTES (continued)

### 59. Acquisition of subsidiaries

#### Hilton Garden Inn and Hilton Fashion District

On December 5, 2016, Fashion Garden Holding Company LLC, a subsidiary of China Huarong International Holdings Limited, 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
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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)

#### Huarong International Financial Holdings Limited

On August 31, 2015, the Group acquired 51.93% of the issued share capital of Huarong International Financial Holdings Limited for a consideration of HK\$468 million (equivalent to RMB386 million). This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB90 million. Huarong International Financial Holdings Limited is a limited liability company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited. The principal place of business of Huarong International Financial Holdings Limited is Hong Kong and its principal activity is brokerage business.

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(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 59. Acquisition of subsidiaries (continued)

#### Huarong International Financial Holdings Limited (continued)

##### Consideration transferred

Cash	385,969
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Assets acquired and liabilities recognized at the date of acquisition are as follows:

Cash and deposits with financial institutions	702,256
Property and equipment	804
Other assets	120,101
Bonds and notes issued	(20,970)
Other liabilities	(210,657)
Net assets	591,534

##### Goodwill arising on acquisition:

Consideration paid	385,969
Plus: non-controlling interests	295,538
Less: net assets acquired	(591,534)
Goodwill arising on acquisition	89,973

Goodwill arose in the acquisition of Huarong International Financial Holdings Limited because the cost of acquisition included a control premium. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Huarong International Financial Holdings Limited. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

##### Impairment testing of goodwill

As at December 31, 2016, the recoverable amounts of the cash-generating unit of Huarong International Financial Holdings Limited 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 19% (December 31, 2015:19%) cost of equity. The cash flows beyond the five year period are estimated at a 3% (December 31, 2015:3%) terminal growth rate. No impairment loss was considered necessary.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 59. Acquisition of subsidiaries (continued)

#### Huarong International Financial Holdings Limited (continued)

##### Impairment testing of goodwill (continued)

Net cash inflow on acquisition of Huarong International Financial Holdings Limited

Cash consideration paid	(385,969)
Less: cash and cash equivalent balances acquired	546,960
	160,991

#### Chongqing Huarong Liangjiang Real Estate Co., Ltd.

On June 1, 2015, the Group acquired 70% of the issued share capital of Chongqing Huarong Liangjiang Real Estate Co., Ltd. for a consideration of RMB300 million. This acquisition has been accounted for using the acquisition method. The amount of negative goodwill arising as a result of the acquisition was RMB172 million. Chongqing Huarong Liangjiang Real Estate Co., Ltd. is a limited liability company incorporated in Chongqing. The principal place of business of Chongqing Huarong Liangjiang Real Estate Co., Ltd. is Chongqing and its principal activities are real estate development, property management and hospitality management.

##### Consideration transferred

Cash	300,000
------	---------

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

Cash and deposits with financial institutions	91,312
Property and equipment	546
Other assets	2,194,019
Borrowings	(900,000)
Deferred tax liabilities	(229,858)
Other liabilities	(481,380)
Net assets	674,639

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 59. Acquisition of subsidiaries (continued)

#### Chongqing Huarong Liangjiang Real Estate Co., Ltd. (continued)

##### *Bargain purchase gain:*

Consideration paid	300,000
Plus: non-controlling interests	202,392
Less: net assets acquired	(674,639)
Bargain purchase gain	(172,247)

Net cash outflow on acquisition of Chongqing Huarong Liangjiang Real Estate Co., Ltd.

Cash consideration paid	(300,000)
Less: cash and cash equivalent balances acquired	91,312
	(208,688)

### 60. Disposals of subsidiaries

Huarong Real Estate Co., Ltd., a subsidiary of the Company, disposed two fellow subsidiaries whose principal activities are real estate development in the year of 2016. The financial impact of the disposals on the Group's financial position as at December 31, 2016, and results and cash flows for the year then ended are not significant and therefore not disclosed separately.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 61. Particulars of principal subsidiaries

Details of the Company's subsidiaries as at December 31, 2016 are set out below:

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2016 (In '000)	Proportion of ownership held by the Group At December 31,		Proportion of voting rights held by the Group At December 31,		Principal activities
				2016 %	2015 %	2016 %	2015 %	
<b>Subsidiaries of the Company</b>								
Huarong Xiangjiang Bank Corporation Limited (華融湘江銀行股份有限公司)	Changsha, PRC	October 2010	RMB6,161,131	50.98	50.98	50.98	50.98	Bank
Huarong Securities Co., Ltd. (華融證券股份有限公司) <sup>(1)</sup>	Beijing, PRC	September 2007	RMB5,142,454	81.77	81.56	81.77	81.56	Securities
China Huarong Financial Leasing Co., Ltd. (華融金融租賃股份有限公司)	Hangzhou, PRC	December 2001	RMB5,000,000	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	RMB1,788,000	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) <sup>(2)</sup>	Urumqi, PRC	August 2002	RMB2,368,987	98.40	98.09	98.40	98.09	Trust
Huarong Real Estate Co., Ltd. (華融置業有限責任公司)	Zhuhai, PRC	May 1994	RMB1,850,000	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) <sup>(3)</sup>	Beijing, PRC	September 2010	RMB606,700	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) <sup>(4)</sup>	Beijing, PRC	November 2009	RMB391,000	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) <sup>(5)</sup>	Hefei, PRC	January 2016	RMB600,000	55.00	N/A	55.00	N/A	Individual Consumption Loan
<b>Other Group's entities</b>								
Huarong Futures Co., Ltd. (華融期貨有限責任公司)	Haikou, PRC	September 1993	RMB320,000	92.50	92.50	92.50	92.50	Futures

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## 61. Particulars of principal subsidiaries (continued)

Details of the Company's subsidiaries as at December 31, 2016 are set out below: (continued)

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2016 (In '000)	Proportion of ownership held by the Group At December 31,		Proportion of voting rights held by the Group At December 31,		Principal activities
				2016 %	2015 %	2016 %	2015 %	
Huarong Tianze Investment Limited (華融天澤投資有限公司) <sup>(6)</sup>	Shanghai, PRC	November 2012	RMB370,000	100.00	100.00	100.00	100.00	Investment Holding
Huarong Yufu Equity Investment Fund Management Co., Ltd. (華融渝富股權投資基金管理有限公司) <sup>(7)</sup>	Chongqing, PRC	July 2010	RMB534,051	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	RMB481,618	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	HKD422,949	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	RMB400,000	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) <sup>(8)</sup>	Bermuda, UK	November 1993	HKD3,338	51.00	51.93	51.00	51.93	Securities
Huarong Guangdong FTA Investment Holdings Limited (華融廣東自貿區投資控股有限公司)	Guangdong, PRC	November 2015	RMB500,000	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	RMB500,000	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	RMB200,000	75.00	75.00	75.00	75.00	Investment Management



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES (continued)

### 61. Particulars of principal subsidiaries (continued)

Details of the Company's subsidiaries as at December 31, 2016 are set out below: (continued)

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2016 (In '000)	Proportion of ownership held by the Group At December 31,		Proportion of voting rights held by the Group At December 31,		Principal activities
				2016 %	2015 %	2016 %	2015 %	
Huarong Huaqiao Asset Management Co., Ltd. (華融華橋資產管理股份有限公司)	Shantou, PRC	December 2015	RMB500,000	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	RMB300,000	100.00	N/A	100.00	N/A	Investment Management
Huarong Jinshang Asset Management Co., Ltd (華融晉商資產管理股份有限公司)	Taiyuan, PRC	February 2016	RMB3,000,000	51.00	N/A	51.00	N/A	Investment Management
Huarong Kunlun Qinghai Asset Management Co., Ltd (華融崑崙青海資產管理股份有限公司)	Xining, PRC	June 2016	RMB1,000,000	75.00	N/A	75.00	N/A	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	RMB800,000	63.75	N/A	63.75	N/A	Investment Management
Huarong Innovation Investment Co., Ltd (華融創新投資股份有限公司)	Shenzhen, PRC	January 2016	RMB500,000	51.00	N/A	51.00	N/A	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	RMB500,000	51.00	N/A	51.00	N/A	Investment Management

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) In December 2016, the Company injected an additional capital of RMB1,000 million to Huarong Securities Co., Ltd., and the interest held by the Company increased to 81.77%.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## V. EXPLANATORY NOTES *(continued)*

- (2) In September 2016, the Company injected an additional capital of RMB1,000 million to Huarong International Trust Co., Ltd., and the interest held by the Company increased to 98.40%.
- (3) In July 2016, the Company injected an additional capital of RMB300 million to Huarong Huitong Asset Management Co., Ltd. The Company's shareholding ratio remained at 100.00%.
- (4) In March 2016, the Company injected an additional capital of RMB300 million to Huarong Zhiyuan Investment Management Co., Ltd., and the interest held by the Company remained at 100.00%.
- (5) In March 2016, the Company injected an initial capital of RMB330 million to Huarong Consumer Finance Co.,Ltd., and the interest held by the Company was 55.00%.
- (6) In December 2016, Huarong Zhiyuan Investment Management Co., Ltd. injected an additional capital of RMB200 million to Huarong Tianze Investment Limited and the interest held by the Company remained at 100.00%.
- (7) In December 2016, Huarong Real Estate Co., Ltd. injected an additional capital of RMB200 million, to Huarong Yufu Equity Investment Fund Management Co., Ltd. rescuing in its capital raised to RMB534 million. As all the shareholders made additional investments proportionally, the interest held by the Company remained unchanged.
- (8) The shareholding held by China Huarong International Holdings Limited decreased from 51.93% to 51% upon the conversion of convertible notes issued by Huarong International Financial Holdings Limited by a former substantial shareholder of Huarong International Financial Holdings Limited in the year of 2016.

## 62. Statement of financial position and changes in equity of the Company

### STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

	As at December 31,	
	2016	2015
<b>Assets</b>		
Cash and balances with central bank	1,408	1,819
Deposits with financial institutions	41,669,723	19,145,829
Placements with financial institutions	3,500,000	7,800,000
Financial assets held for trading	303,521	103,671
Financial assets designated as at fair value through profit or loss	59,174,833	48,735,474
Financial assets held under resale agreements	2,460,000	50,000
Available-for-sale financial assets	65,166,855	31,431,517
Held-to-maturity investments	3,332,270	—
Financial assets classified as receivables	277,976,538	228,166,326
Amounts due from subsidiaries	39,624,906	11,522,316
Interests in associates	928,657	2,285,002
Interests in subsidiaries	22,889,837	19,929,837
Interests in consolidated structured entities	8,607,187	3,579,933
Investment properties	574,315	620,743
Property and equipment	850,471	916,795
Deferred tax assets	7,409,716	3,847,354
Other assets	2,157,756	1,688,461
<b>Total assets</b>	<b>536,627,993</b>	<b>379,825,077</b>
<b>Liabilities</b>		
Placements from financial institutions	2,000,000	—
Financial assets sold under repurchase agreements	13,898,800	480,000

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## 62. Statement of financial position and changes in equity of the Company (continued)

### STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016 (continued)

	As at December 31,	
	2016	2015
Borrowings	288,950,010	207,159,115
Tax payable	2,780,035	1,980,559
Bonds and notes issued	95,706,324	66,782,949
Other liabilities	42,121,861	20,824,779
<b>Total liabilities</b>	<b>445,457,030</b>	<b>297,227,402</b>
<b>Equity</b>		
Share capital	39,070,208	39,070,208
Capital reserve	17,247,077	17,167,555
Surplus reserve	3,615,201	2,441,087
General reserve	5,326,415	5,043,363
Other reserves	2,223,492	5,470,862
Retained earnings	23,688,570	13,404,600
<b>Total equity</b>	<b>91,170,963</b>	<b>82,597,675</b>
<b>Total equity and liabilities</b>	<b>536,627,993</b>	<b>379,825,077</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

### V. EXPLANATORY NOTES (continued)

#### 62. Statement of financial position and changes in equity of the Company (continued)

##### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

	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 income	—	—	—	—	(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

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Total
As at January 1, 2015	32,695,870	7,803,134	1,631,898	2,189,070	3,700,369	12,116,905	60,137,246
Profit for the year	—	—	—	—	—	8,091,887	8,091,887
Other comprehensive income	—	—	—	—	1,770,493	—	1,770,493
Total comprehensive income for the year	—	—	—	—	1,770,493	8,091,887	9,862,380
Share issued	6,374,338	9,356,341	—	—	—	—	15,730,679
Appropriation to surplus reserve	—	—	809,189	—	—	(809,189)	—
Appropriation to general reserve	—	—	—	2,854,293	—	(2,854,293)	—
Dividends	—	—	—	—	—	(3,140,710)	(3,140,710)
Others	—	8,080	—	—	—	—	8,080
As at December 31, 2015	39,070,208	17,167,555	2,441,087	5,043,363	5,470,862	13,404,600	82,597,675

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

## VI. EVENTS AFTER THE REPORTING PERIOD

1. Pursuant to the meeting of the Board of Directors on March 15, 2017, the resolution for profit appropriations of the Company for the year ended December 31, 2016 is passed and set forth as follows:
  - (i) An appropriation of RMB1,174 million to the statutory surplus reserve;
  - (ii) An appropriation of RMB1,356 million to the general reserve;
  - (iii) Cash dividend distribution of RMB5,884 million in total for the year of 2016.

The required appropriation for statutory surplus reserve has been recognized by the Group for the year ended December 31, 2016, and the general reserve and dividend distribution will be recognized after the approval of the resolution by the shareholders' meeting.

2. Huarong Finance 2017 Co., Ltd, a wholly-owned subsidiary of Huarong International Holdings Limited, completed the issuance of USD1.1 billion guaranteed notes on January 24, 2017. The notes are unconditionally and irrevocably guaranteed by China Huarong International Holdings Limited and with the benefit of a keepwell deed and a deed of equity interest purchase, investment and liquidity support undertaking by the Company. The bonds have a tenor of three years, with a fixed coupon rate of 3.375%, payable semi-annually.
3. Huarong Finance 2017 Co., Ltd completed the issuance of a 4.5% USD1.5 billion guaranteed perpetual securities on January 24, 2017. The securities are unconditionally and irrevocably guaranteed by China Huarong International Holdings Limited and with the benefit of keepwell deed and a deed of equity interest purchase, investment and liquidity support undertaking by the Company.
4. Huarong International Holdings Limited completed the issuance of a 5.797% USD 99 million perpetual securities on February 21, 2017, with no maturity date.
5. On January 6, 2017, Right Select International Limited, a wholly-owned subsidiary of Huarong International Holdings Limited, entered into a subscription agreement dated January 6, 2017 (the "Subscription Agreement") to subscribe for 580,000,000 shares of Huarong Investment Stock Corporation Limited ("HISCL") (stock code: 2277 formerly known as Chun Sing Engineering Holdings Limited) at HK\$0.4 per share (the "Subscription"). Immediately prior to the Subscription, Huarong International Holdings Limited held 346,000,000 shares of HISCL, representing approximately 27.99% of the entire issued share capital; immediately after the Subscription, the Group held 926,000,000 shares of HISCL, representing approximately 50.99% of the entire issued share capital of HISCL as enlarged by the allotment and issue of the subscription shares.

## 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 15, 2017.

## 19. Confirmation from Directors and Senior Management regarding the Annual Report

Pursuant to the regulations and requirements such as the Securities Law of the People's Republic of China, the Articles of Association of China Huarong Asset Management Co., Ltd., and the Administrative Rules for the Information Disclosure of China Huarong Asset Management Co., Ltd., the Board, Audit Committee of the Board and senior management have arrived at the following opinions upon thorough consideration and review of the annual report for 2016 of the Company:

1. The Company strictly complied with China Accounting Standards for Business Enterprises and the 2016 annual report of the Company fairly reflected the financial conditions and operating results of the Company during the year.

2. The 2016 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 2016 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:

<b>Name</b>	<b>Position</b>
Lai Xiaomin	Chairman of the Board and Executive Director
Ke Kasheng	Executive Director and President
Wang Keyue	Deputy Chairman of the Board and Not-executive Director
Li Yi	Non-executive Director
Wang Cong	Non-executive Director
Dai Lijia	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
Wang Lihua	Vice President
Xiong Qiugu	Vice President
Hu Jiliang	Vice President
Wang Wenjie	Vice President
Hu Ying	Assistant to President
Yang Guobing	Assistant to President
Hu Jianjun	Secretary to the Board

# 20. List of Domestic and Overseas Entities

## 20.1 Head Office

China Huarong Asset Management Co., Ltd.  
Address: No. 8 Financial Street, Xicheng District, Beijing  
Postal code: 100033  
Tel: 010-59618888  
Fax: 010-59618000

## 20.2 Branches

China Huarong Asset Management Co., Ltd. — Beijing Branch  
Address: No. 293 Fuchengmennei Main Street, Xicheng District, Beijing  
Postal code: 100034  
Tel: 010-66511186  
Fax: 010-66511257

China Huarong Asset Management Co., Ltd. — Tianjin Branch  
Address: No. 2-3 Jianshan Road, Hexi District, Tianjin  
Postal code: 300211  
Tel: 022-28310107  
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



## 20. 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

## 20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Zhejiang Branch

Address: No. 19-1, 19-2 Kaiyuan Road, Shangcheng District, Hangzhou, Zhejiang Province

Postal code: 310001

Tel: 0571-87836736

Fax: 0571-87836704

China Huarong Asset Management Co., Ltd. — Anhui Branch

Address: No. 211 Shouchun Road, Hefei, Anhui Province

Postal code: 230001

Tel: 0551-62662555

Fax: 0551-62662566

China Huarong Asset Management Co., Ltd. — Jiangxi Branch

Address: No. 2 Tie Street, Donghu District, Nanchang, Jiangxi Province

Postal code: 330008

Tel: 0791-86648987

Fax: 0791-86649000

China Huarong Asset Management Co., Ltd. — Fujian Branch

Address: No. 108 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. 136 West Main Street, Zhengzhou, Henan Province

Postal code: 450000

Tel: 0371-55619115

Fax: 0371-55619100

## 20. 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, 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  
Postal code: 570105  
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  
Fax: 028-82903333

## 20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Chongqing Branch

Address: Block A1, Meiquan 22nd Century Office Building, No. 178 Haier Road, Jiangbei District, Chongqing

Postal code: 400025

Tel: 023-67719700

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)

Postal code: 830004

Tel: 0991-2377008

Fax: 0991-2826694

## 20. List of Domestic and Overseas Entities

China Huarong Asset Management Co., Ltd. — Dalian Branch  
Address: No. 51 Gengxin Street, Xigang District, Dalian, Liaoning Province  
Postal code: 116011  
Tel: 0411-83703892  
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

### 20.3 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

## 20. 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

Huarong (HK) International Holdings Limited

Address: China Huarong Mansion, No. 60 Gloucester Road, Wan Chai, Hong Kong

Tel: 00852-31985678

Fax: 00852-31985796

## 20. List of Domestic and Overseas Entities

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



Address: No. 8 Financial Street, Xicheng District, Beijing  
Postal code: 100033  
Tel: 010-59618888  
Fax: 010-59618000  
Website: <http://www.chamc.com.cn>