



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

INTERIM REPORT





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

专业的资产经营管理者

优秀的综合金融服务商

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1. Definitions

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

“A Share(s)”	ordinary share(s) proposed to be issued by the Company under the A Share Offering, with a nominal value of RMB1.00 each, which will be listed on the Shanghai Stock Exchange and traded in RMB
“A Share Offering”	the proposed initial public offering in the PRC and listing on the Shanghai Stock Exchange of not more than 6,894,742,669 A Shares of the Company
“AMC(s)”	the four asset management companies approved for establishment by the State Council, namely the Company, China Cinda Asset Management Co., Ltd., China Great Wall Asset Management Corporation and China Orient Asset Management Corporation
“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 interim report, Hong Kong, China Macau and Taiwan
“Company”	China Huarong Asset Management Co., Ltd.
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“debt-to-equity swap(s)” or “DES”	the practice of converting indebtedness owed by the obligors to equity

1. Definitions

“DES Assets”	(1) the equity assets that the Company acquired as a result of equity swaps of distressed debt assets of a number of medium and large state-owned enterprises according to national policy prior to its restructuring; (2) additional equities of the aforementioned enterprises the Company subsequently acquired as part of asset packages it purchased; (3) additional investments by the Company in the aforementioned companies; (4) equities the Company received in satisfaction of debt and assets the Company acquired through distressed asset management; and (5) the equity portfolio the Company received as part of its share capital when it was established in 1999
“DES Companies”	the companies and enterprises whose distressed indebtedness held by the AMCs were swapped for equity
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00, 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\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“Huarong Consumer Finance”	Huarong Consumer Finance Co., Ltd.
“Huarong Financial Leasing”	China Huarong Financial Leasing Co., Ltd.

1. Definitions

“Huarong Futures”	Huarong Futures Co., Ltd.
“Huarong International”	China Huarong International Holdings Limited
“Huarong Real Estate”	Huarong Real Estate Co., Ltd.
“Huarong Rongde”	Huarong Rongde Asset Management Co., Ltd.
“Huarong Securities”	Huarong Securities Co., Ltd.
“Huarong Trust”	Huarong International Trust Co., Ltd.
“Huarong Xiangjiang Bank”	Huarong Xiangjiang Bank Corporation Limited
“IFRS”	the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“Listing Date”	October 30, 2015
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“non-performing loan(s)” or “NPL(s)”	loan(s) classified as substandard, doubtful and loss under the five-category loan classification system (as applicable) adopted by financial institutions pursuant to applicable PRC guidelines
“OFAC”	the U.S. Office of Foreign Assets Control
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC GAAP”	generally accepted accounting principles in the PRC
“Prospectus”	the prospectus for the Company’s listing in Hong Kong dated October 16, 2015

1. Definitions

“Protection of State Secret Laws”	Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法》), Implementation Measures for the Protection of State Secret Law of the PRC (《中華人民共和國保守國家秘密法實施條例》) and related laws and regulations
“Relevant Persons”	has the meaning as defined in the Prospectus
“Reporting Period”	the six months ended June 30, 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)
“Special Dividend”	has the meaning as defined in the Prospectus
“State Council”	the State Council of the PRC
“Subject Companies”	has the meaning as defined in the Prospectus
“Supervisor(s)”	supervisor(s) of the Company
“US\$”	United States dollars, the lawful currency of the United States
“Value Calculation”	has the meaning as defined in the Prospectus

2. Corporate Information

Official Chinese name	中國華融資產管理股份有限公司
Chinese abbreviation	中國華融
Official English name	China Huarong Asset Management Co., Ltd.
English abbreviation	China Huarong
Legal representative	Lai Xiaomin
Authorized representatives	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 interim report	www.hkexnews.hk
Place for maintaining interim reports available for inspection	Board Office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock code	2799

2. Corporate Information

H Share registrar	Computershare Hong Kong Investor Services Limited (Address: Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong)
Registration number of financial license	J0001H111000001
Social Credit Code	911100007109255774
Legal advisors as to PRC Law and place of business	Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing, China
Legal advisors as to Hong Kong law and place of business	Kirkland & Ellis 26/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong
International accounting firm and office address	Deloitte Touche Tohmatsu 35/F, One Pacific Place, 88 Queensway, Hong Kong
Domestic accounting firm and office address	Deloitte Touche Tohmatsu Certified Public Accountants LLP 30/F, Bund Center, 222 Yan An Road East, Shanghai, China

3. Financial Summary

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

	For the six months ended	
	June 30,	
	2016	2015
	(unaudited)	(audited)
	(in millions of RMB)	
Income from distressed debt assets classified as receivables	11,688.5	11,012.5
Fair value changes on distressed debt assets	1,432.4	486.0
Fair value changes on other financial assets	2,718.9	2,177.3
Interest income	7,191.1	7,030.8
Investment income	9,581.2	9,828.6
Commission and fee income	5,745.9	5,517.6
Net gains on disposal of subsidiaries and associates	21.3	175.3
Other income and other net gains or losses	1,631.3	1,597.9
Total income	40,010.6	37,826.0
Interest expense	(14,027.6)	(12,126.7)
Commission and fee expense	(481.6)	(564.3)
Operating expenses	(5,358.8)	(5,331.2)
Impairment losses on assets	(1,969.1)	(6,150.2)
Total expenses	(21,837.1)	(24,172.4)
Change in net assets attributable to other holders of consolidated structured entities	(1,306.5)	(970.6)
Share of results of associates and joint ventures	78.0	140.6
Profit before tax	16,945.0	12,823.6
Income tax expense	(4,099.3)	(2,955.8)
Profit for the period	12,845.7	9,867.8
Profit attributable to:		
Equity holders of the Company	11,123.0	8,373.3
Holders of perpetual capital instruments	256.9	83.9
Non-controlling interests	1,465.8	1,410.6

3. Financial Summary

	As of June 30, 2016 (unaudited)	As of December 31, 2015 (audited)
	(in millions of RMB)	
Assets		
Cash and balances with the central bank	28,336.8	24,982.1
Deposits with financial institutions	114,196.4	76,896.3
Financial assets designated as at fair value through profit or loss	97,690.9	85,458.2
Financial assets held under resale agreements	25,531.4	32,538.9
Available-for-sale financial assets	91,640.3	64,994.2
Financial assets classified as receivables	403,525.5	328,685.8
Loans and advances to customers	104,449.1	81,625.2
Finance lease receivables	78,916.8	71,672.5
Other assets	128,934.9	99,693.2
Total assets	1,073,222.1	866,546.4
Liabilities		
Deposits from financial institutions	3,941.2	15,468.2
Borrowings	387,137.3	295,031.8
Financial assets sold under repurchase agreements	35,033.6	30,361.9
Due to customers	175,919.4	139,998.9
Bonds and notes issued	189,496.0	143,053.8
Other liabilities	150,041.6	123,831.2
Total liabilities	941,569.1	747,745.8
Equity		
Equity attributable to equity holders of the Company	108,043.9	98,117.4
Perpetual Capital Instruments	6,399.8	6,454.1
Non-controlling interests	17,209.3	14,229.1
Total equity	131,653.0	118,800.6
Total equity and liabilities	1,073,222.1	866,546.4

3. Financial Summary

	As of June 30, 2016 (unaudited)	As of December 31, 2015 (audited)
Financial Ratios		
Liability to total assets ratio ⁽¹⁾	87.7%	86.3%
	For the six months ended June 30,	
	2016 (unaudited)	2015 (audited)
Annualized ROAE ⁽²⁾	21.6%	22.2%
Annualized ROAA ⁽³⁾	2.6%	3.0%
Cost-to-income ratio ⁽⁴⁾	19.3%	19.7%
Basic earnings per share (RMB yuan) ⁽⁵⁾	0.28	0.26
Diluted earnings per share (RMB yuan) ⁽⁶⁾	0.28	N/A

- (1) Represents the ratio of total liabilities to total assets as at the end of the period.
- (2) Represents the percentage of annualized net profit attributable to Shareholders of the Company for the period in the average balance of equity attributable to Shareholders of the Company as at the beginning and the end of the period.
- (3) Represents the percentage of annualized net profit for the period (including profit attributable to holders of perpetual capital instruments and non-controlling interests) in the average balance of total assets as at the beginning and the end of the period.
- (4) Represents the ratio of the amount of operating expenses net of land development costs to the total income net of interest expense, commission and fee expenses and land development expenses.
- (5) Represents the net profit attributable to equity holders of the Company during the period divided by the weighted average number of Shares.
- (6) Represents the earnings per share based on the basic earnings per share adjusted according to the dilutive potential ordinary Shares.

4. Management Discussion and Analysis

4.1 Economic, financial and regulatory environment

In the first half of 2016, the major economies continued to experience economic slowdown. With shortage of new growth opportunities, the basis for economic recovery remained to be strengthened. Factors including the expectation of the United States Federal Reserve to increase interest rates and the United Kingdom's withdrawal from the European Union have exacerbated the volatility of the global financial markets. In the second half of 2016, global economic growth is expected to remain slow, amidst increasing uncertainties in monetary policies and political risks of many countries.

China's economic development presented more distinct characteristics of the "new normal", general operational stability, initial achievements in structural adjustments, transformations and upgrading, and the overall development was in line with the market expectation. The cumulative effects of macro-control measures previously implemented have become more apparent, in particular, the continued optimization of investment structures, steady growth in consumption, general stability of commodity prices and rapid development of the new economy and new technology. However, as the Chinese economy was still in a critical stage of restructuring during the first half of 2016, economic recovery relatively depended on real estate and infrastructure investments, while the growth rate for and the proportion of private investments decreased. The momentum for domestic economic growth remains to be improved. In light of the complicated economic and financial conditions in both domestic and overseas markets, the PRC government has implemented proactive fiscal policies and prudent monetary policies, focusing on the structural reform of the supply side mainly through "three eliminations, one reduction and one improvement" (三去一降一補), that is, "reducing overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak growth areas", in order to establish the development of the new momentum for economic growth, to continuously strengthen the basis and conditions of sustainable economic growth, and to effectively enhance confidence in China's economic development.

In view of the volatile capital market in 2015, financial regulatory authorities have made significant efforts to enhance stability of the financial market in the first half of 2016, by strengthening financial risk prevention, and resolving issues faced by internet-based financial businesses, private equity funds and other financial institutions, while actively promoting product innovation, including assets securitization, in order to facilitate the continued deleveraging in the financial market. Meanwhile, the banking industry has been affected by the economic downturn and decreased profits for corporate entities. In the first half of 2016, the balance of non-performing loans and the non-performing loan ratio continued to increase in line with the trend that has continued since 2014, which imposed increasing pressure on risk control and operations of the banking industry. The scale of non-performing loans is expected to further increase due to cyclical and structural tension in the economy, but the overall risks will remain controllable. In this case, the AMCs are able to take advantage of the distinctiveness of the distressed assets management business, as their core business, and their integrated financial services, to support dissolution of distressed assets, exit of "zombie companies" from the market, recovery of loss-making enterprises, and transformation and upgrading of the real economy.

In the first half of 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 acquisition of distressed assets businesses. The promulgation of these regulations assisted the regulation of the development of the distressed assets industry and encouraged the AMCs to make full use of their professional strengths in financing, project pricing and value enhancement and disposal of distressed assets to better support the structural reform of the supply side in China. The Company will further leverage its professional advantage to better serve the development of the real economy and to strengthen its support for the transformation and upgrading of the Chinese economy.

4. Management Discussion and Analysis

4.2 Analysis of Financial Statements

4.2.1 Operating Results of the Group

In the first half of 2016, the net profit attributable to equity holders of the Company amounted to RMB11,123.0 million, representing an increase of RMB2,749.7 million, or 32.8%, compared to the same period in 2015. The annualized ROAE and annualized ROAA of the Group were 21.6% and 2.6%, respectively.

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	11,688.5	11,012.5	676.0	6.1%
Fair value changes on distressed debt assets	1,432.4	486.0	946.4	194.7%
Fair value changes on other financial assets	2,718.9	2,177.3	541.6	24.9%
Interest income	7,191.1	7,030.8	160.3	2.3%
Investment income	9,581.2	9,828.6	(247.4)	(2.5%)
Commission and fee income	5,745.9	5,517.6	228.3	4.1%
Net gains on disposal of subsidiaries and associates	21.3	175.3	(154.0)	(87.8%)
Other income and other net gains or losses	1,631.3	1,597.9	33.4	2.1%
Total income	40,010.6	37,826.0	2,184.6	5.8%
Interest expense	(14,027.6)	(12,126.7)	(1,900.9)	15.7%
Commission and fee expense	(481.6)	(564.3)	82.7	(14.7%)
Operating expenses	(5,358.8)	(5,331.2)	(27.6)	0.5%
Impairment losses on assets	(1,969.1)	(6,150.2)	4,181.1	(68.0%)
Total expenses	(21,837.1)	(24,172.4)	2,335.3	(9.7%)
Change in net assets attributable to other holders of consolidated structured entities	(1,306.5)	(970.6)	(335.9)	34.6%
Share of results of associates and joint ventures	78.0	140.6	(62.6)	(44.5%)
Profit before tax	16,945.0	12,823.6	4,121.4	32.1%
Income tax expense	(4,099.3)	(2,955.8)	(1,143.5)	38.7%
Profit for the period	12,845.7	9,867.8	2,977.9	30.2%
Profit attributable to:				
Equity holders of the Company	11,123.0	8,373.3	2,749.7	32.8%
Holders of perpetual capital instruments	256.9	83.9	173.0	206.2%
Non-controlling interests	1,465.8	1,410.6	55.2	3.9%

4. Management Discussion and Analysis

Total income

Total income of the Group increased by 5.8% from RMB37,826.0 million in the first half of 2015 to RMB40,010.6 million in the first half of 2016, mainly due to the increases in fair value changes on distressed debt assets, income from distressed debt assets classified as receivables, fair value changes on other financial assets, commission and fee income and interest income. The table below sets forth the components of total income of the Group for the periods indicated.

	For the six months ended June 30,			Change in percentage
	2016	2015	Change	
	(in millions of RMB, except for percentages)			
Income from distressed debt assets classified as receivables	11,688.5	11,012.5	676.0	6.1%
Fair value changes on distressed debt assets	1,432.4	486.0	946.4	194.7%
Fair value changes on other financial assets	2,718.9	2,177.3	541.6	24.9%
Interest income	7,191.1	7,030.8	160.3	2.3%
Investment income	9,581.2	9,828.6	(247.4)	(2.5%)
Commission and fee income	5,745.9	5,517.6	228.3	4.1%
Net gains on disposal of subsidiaries and associates	21.3	175.3	(154.0)	(87.8%)
Other income and other net gains or losses	1,631.3	1,597.9	33.4	2.1%
Total income	40,010.6	37,826.0	2,184.6	5.8%

Income from distressed debt assets classified as receivables

Income from distressed debt assets classified as receivables represents acquisition-and-restructuring income of the Group generated from loans and distressed debts acquired from financial institutions and distressed debt acquired from non-financial enterprises. Income from distressed debt assets classified as receivables of the Group increased by 6.1% from RMB11,012.5 million in the first half of 2015 to RMB11,688.5 million in the first half of 2016, primarily due to the increase in distressed debt assets classified as receivables as the Company adjusted and optimized customer and business structures and actively expanded the acquisition-and-restructuring model in response to the “new normal” of the market. The gross amount of distressed debt assets classified as receivables of the Group increased by 8.9% from RMB221,433.9 million as of December 31, 2015 to RMB241,183.6 million as of June 30, 2016.

4. Management Discussion and Analysis

The annualized return on monthly average gross amount of distressed debt assets classified as receivables of the Group decreased from 12.9% in the first half of 2015 to 11.9% in the first half of 2016. The decrease was due to macro-economic factors including economic downturn as well as stronger risk control implemented by the Group which further fine-tuned and optimized its customer and business structures.

Fair value changes on distressed debt assets

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

Fair value changes on distressed debt assets of the Group increased by 194.7% from RMB486.0 million in the first half of 2015 to RMB1,432.4 million in the first half of 2016, mainly because the Company enhanced the acquisition and disposal of assets and accelerated the disposal of assets by grasping market opportunities arising from the increase in the supply of distressed debt assets so as to achieve the preservation and increment of value of assets through various measures of asset management and operations.

Fair value changes on other financial assets

Changes in fair value of other financial assets include (i) changes in fair value of financial assets held for trading, and (ii) changes in fair value of other financial assets designated at fair value through profit or loss from the Company and relevant subsidiaries. Fair value changes on other financial assets of the Group increased by 24.9% from RMB2,177.3 million in the first half of 2015 to RMB2,718.9 million in the first half of 2016, primarily due to an increase in fair value from financial assets, including shares and bonds held by certain subsidiaries.

Interest income

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Loans and advances to customers	3,112.1	2,772.6	339.5	12.2%
Finance lease receivables	2,654.3	2,791.5	(137.2)	(4.9%)
Deposits with financial institutions	834.9	508.2	326.7	64.3%
Financial assets held under resale agreements	293.7	620.5	(326.8)	(52.7%)
Balances with the central Bank	194.9	179.5	15.4	8.6%
Placements with financial institutions	101.2	158.5	(57.3)	(36.2%)
Total interest income	7,191.1	7,030.8	160.3	2.3%

4. Management Discussion and Analysis

The interest income of the Group increased by 2.3% from RMB7,030.8 million in the first half of 2015 to RMB7,191.1 million in the first of half 2016, mainly due to increases in interest income from loans and advances to customers and deposits with financial institutions, which were partially offset by the decrease in interest income from financial assets held under resale agreements and finance lease receivables.

Interest income from loans and advances to customers of the Group increased by 12.2% from RMB2,772.6 million in the first half of 2015 to RMB3,112.1 million in the first half of 2016, primarily due to the steady expansion in business scale of Huarong Xiangjiang Bank. The total assets from loans and advances to customers of the Group increased by 27.9% from RMB83,455.4 million as of December 31, 2015 to RMB106,768.5 million as of June 30, 2016.

The Group's interest income from deposits with financial institutions increased by 64.3% from RMB508.2 million in the first half of 2015 to RMB834.9 million in the first half of 2016, primarily due to the increase in interest income of certain subsidiaries from deposits with financial institutions.

Interest income from financial assets held under resale agreements of the Group decreased by 52.7% from RMB620.5 million in the first half of 2015 to RMB293.7 million in the first half of 2016, primarily due to the decrease in the scale of financial assets held under resale agreements resulting from the active adjustment of business strategies by the Group based on market changes and regulatory requirements.

The interest income of the Group from finance lease receivables decreased by 4.9% from RMB2,791.5 million in the first half of 2015 to RMB2,654.3 million in the first half of 2016. The decrease was mainly due to the change of tax base from business tax to value-added tax of Huarong Financial Leasing, resulting in the change from the tax included in price to the tax excluded in price and in turn reduced the income.

Investment income

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Other financial assets classified as receivables	6,841.0	4,459.9	2,381.1	53.4%
Disposal income from available-for-sale financial assets	702.6	4,597.9	(3,895.3)	(84.7%)
Held-to-maturity debt securities	655.5	401.2	254.3	63.4%
Dividend income from available-for-sale financial assets	536.8	41.3	495.5	1,199.8%
Available-for-sale debt securities	857.9	317.2	540.7	170.5%
Others	(12.6)	11.1	(23.7)	(213.5%)
Total investment income	9,581.2	9,828.6	(247.4)	(2.5%)

4. Management Discussion and Analysis

Investment income of the Group decreased by 2.5% from RMB9,828.6 million in the first half of 2015 to RMB9,581.2 million in the first half of 2016, mainly due to the decrease in disposal income from available-for-sale financial assets, which was partially offset by the increase in investment income from other financial assets classified as receivables.

Investment income from other financial assets classified as receivables of the Group increased by 53.4% from RMB4,459.9 million in the first half of 2015 to RMB6,841.0 million in the first half of 2016. The increase was mainly due to the increase in other financial assets classified as receivables of the Group.

Disposal income from available-for-sale financial assets of the Group decreased by 84.7% from RMB4,597.9 million in the first half of 2015 to RMB702.6 million in the first half of 2016, mainly because the Group seized opportunities of the capital markets and actively promoted the disposal of the DES Assets in the first half of 2015 and therefore attained higher investment income. However, the Group adjusted the operation strategy of DES business in light of the market conditions in the Reporting Period.

Commission and fee income

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

	For the six months ended June 30,			Change in percentage
	2016	2015	Change	
(in millions of RMB, except for percentages)				
Asset management business	3,142.6	2,833.4	309.2	10.9%
Securities and futures business	1,128.8	1,517.9	(389.1)	(25.6%)
Trust business	1,038.6	599.2	439.4	73.3%
Banking business	408.7	562.1	(153.4)	(27.3%)
Fund management and other business	27.2	5.0	22.2	444.0%
Total commission and fee income	5,745.9	5,517.6	228.3	4.1%

Commission and fee income of the Group increased by 4.1% from RMB5,517.6 million in the first half of 2015 to RMB5,745.9 million in the first half of 2016, mainly due to the increase in commission and fee income from trust business and asset management business, which was partially offset by the decrease in the commission and fee income from securities and futures business.

Commission and fee income from trust business of the Group increased by 73.3% from RMB599.2 million in the first half of 2015 to RMB1,038.6 million in the first half of 2016, mainly due to the increase in income resulting from the smooth operation of trust business during the Reporting Period.

4. Management Discussion and Analysis

Commission and fee income from asset management business of the Group increased by 10.9% from RMB2,833.4 million in the first half of 2015 to RMB3,142.6 million in the first half of 2016, primarily due to the increase in the income resulting from active expansion of asset management business by the Group.

Fee income from securities and futures business of the Group decreased by 25.6% from RMB1,517.9 million in the first half of 2015 to RMB1,128.8 million in the first half of 2016, mainly due to the decrease in income of securities and futures business affected by the domestic capital market.

Other income and net gains or losses

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Revenue from properties development	1,074.9	881.1	193.8	22.0%
Net gains on exchange differences	105.9	202.2	(96.3)	(47.6%)
Rental income	142.2	96.7	45.5	47.1%
Others	308.3	417.9	(109.6)	(26.2%)
Total other income and net gains or losses	1,631.3	1,597.9	33.4	2.1%

Other income and net gains or losses of the Group increased by 2.1% from RMB1,597.9 million in the first half of 2015 to RMB1,631.3 million in the first half of 2016, mainly due to the increase in revenue from properties development which was partially offset by the decrease in net gains on exchange differences and other income.

Total expenses

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expense	(14,027.6)	(12,126.7)	(1,900.9)	15.7%
Commission and fee expense	(481.6)	(564.3)	82.7	(14.7%)
Operating expenses	(5,358.8)	(5,331.2)	(27.6)	0.5%
Impairment losses on assets	(1,969.1)	(6,150.2)	4,181.1	(68.0%)
Total expenses	(21,837.1)	(24,172.4)	2,335.3	(9.7%)

4. Management Discussion and Analysis

Total expenses of the Group decreased by 9.7% from RMB24,172.4 million in the first half of 2015 to RMB21,837.1 million in the first half of 2016, mainly due to the decreases in impairment losses on assets, which was partially offset by the increase in interest expense.

Interest expense

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Borrowings	(8,174.1)	(8,002.5)	(171.6)	2.1%
Bonds and notes issued	(3,641.6)	(1,689.1)	(1,952.5)	115.6%
Due to customers	(1,509.6)	(1,418.5)	(91.1)	6.4%
Financial assets sold under repurchase agreements	(307.6)	(456.5)	148.9	(32.6%)
Deposits from financial institutions	(219.8)	(329.1)	109.3	(33.2%)
Amounts due to the MOF	(82.6)	(122.0)	39.4	(32.3%)
Placements from financial institutions	(33.3)	(108.3)	75.0	(69.3%)
Borrowings from central bank	(2.6)	(0.7)	(1.9)	271.4%
Other liabilities	(56.4)	—	(56.4)	N/A
Total interest expenses	(14,027.6)	(12,126.7)	(1,900.9)	15.7%

Interest expense of the Group increased by 15.7% from RMB12,126.7 million in the first half of 2015 to RMB14,027.6 million in the first half of 2016, mainly due to increase in the interest expense of bonds and notes issued.

Interest expense of borrowings of the Group increased by 2.1% from RMB8,002.5 million in the first half of 2015 to RMB8,174.1 million in the first half of 2016, mainly because (i) the Company increased the scale of borrowings due to the expansion of the distressed asset business; and (ii) certain subsidiaries increased the scale of borrowings to support their own business development.

Interest expense of bonds and notes issued of the Group increased by 115.6% from RMB1,689.1 million in the first half of 2015 to RMB3,641.6 million in the first half of 2016, mainly due to increase in bonds and notes issued as the Group actively extended low-cost financing channels, optimized the structure of capital resources and expanded the scale of bond issuance to support the business development.

4. Management Discussion and Analysis

Commission and fee expense

The table below sets forth the components of commission and fee expense of the Group for the periods indicated.

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Asset management business	(218.5)	(83.8)	(134.7)	160.7%
Securities and futures business	(198.6)	(440.2)	241.6	(54.9%)
Banking business and others	(64.5)	(40.3)	(24.2)	60.0%
Total commission and fee expense	(481.6)	(564.3)	82.7	(14.7%)

Commission and fee expense of the Group decreased by 14.7% from RMB564.3 million in the first half of 2015 to RMB481.6 million in the first half of 2016, mainly due to the corresponding decrease in commission and fee expense from the securities and futures business which was impacted by the capital market.

Operating expenses

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Employee benefits	(2,217.7)	(2,131.5)	(86.2)	4.0%
Business tax and surcharges	(977.1)	(1,321.0)	343.9	(26.0%)
Cost of properties development	(528.2)	(485.4)	(42.8)	8.8%
Others	(1,635.8)	(1,393.3)	(242.5)	17.4%
Including:				
Rentals	(363.4)	(136.8)	(226.6)	165.6%
Depreciation of property and equipment	(175.9)	(177.7)	1.8	(1.0%)
Amortization	(103.6)	(91.5)	(12.1)	13.2%
Depreciation of investment properties	(19.6)	(20.8)	1.2	(5.8%)
Auditor's remuneration	(2.2)	(29.5)	27.3	(92.5%)
Total operating expenses	(5,358.8)	(5,331.2)	(27.6)	0.5%

4. Management Discussion and Analysis

Operating expenses of the Group increased by 0.5% from RMB5,331.2 million in the first half of 2015 to RMB5,358.8 million in the first half of 2016, mainly due to the increase in rentals and other operating expenses which were partially offset by the decrease in business tax and surcharges.

Business tax and surcharges of the Group decreased by 26.0% from RMB1,321.0 million in the first half of 2015 to RMB977.1 million in the first half of 2016, which was mainly due to the decrease in business tax expenses resulting from the full replacement of business tax by value-added tax.

Other operating expenses of the Group increased by 17.4% from RMB1,393.3 million in the first half of 2015 to RMB1,635.8 million in the first half of 2016, mainly due to the corresponding increase of business and management expenses as a result of the business development of the Group.

Impairment losses on assets

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Available-for-sale financial assets	(1,616.0)	(594.6)	(1,021.4)	171.8%
Loans and advances to customers	(659.8)	(410.4)	(249.4)	60.8%
Other financial assets classified as receivables	(368.9)	(893.2)	524.3	(58.7%)
Finance lease receivables	(81.0)	(243.3)	162.3	(66.7%)
Distressed debt assets classified as receivables	733.2	(3,902.0)	4,635.2	(118.8%)
Other assets	23.4	(106.7)	130.1	(121.9%)
Total impairment losses on assets	(1,969.1)	(6,150.2)	4,181.1	(68.0%)

Impairment losses on assets of the Group decreased by 68.0% from RMB6,150.2 million in the first half of 2015 to RMB1,969.1 million in the first half of 2016, mainly due to the provisions made by the Group, partially offset by the reversal of provision upon derecognition of distressed debt assets classified as receivables and other financial assets classified as receivables.

Profit before tax

Profit before tax of the Group increased by 32.1% from RMB12,823.6 million in the first half of 2015 to RMB16,945.0 million in the first half of 2016.

4. Management Discussion and Analysis

Income tax expense

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Profit before tax	16,945.0	12,823.6	4,121.4	32.1%
Income tax expense	(4,099.3)	(2,955.8)	(1,143.5)	38.7%
Effective tax rate	24.2%	23.0%	N/A	N/A

Income tax expense increased by 38.7% from RMB2,955.8 million in the first half of 2015 to RMB4,099.3 million in the first half of 2016, mainly due to the increase of profit before tax. The effective tax rate of the Group in the first half of 2015 and 2016 was 23.0% and 24.2%, respectively.

Segment results

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

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	20,431.2	20,864.3	(433.1)	(2.1%)
Financial services	11,317.1	12,121.1	(804.0)	(6.6%)
Asset management and investment	8,881.4	5,081.6	3,799.8	74.8%
Inter-segment elimination	(619.1)	(241.0)	(378.1)	156.9%
Total	40,010.6	37,826.0	2,184.6	5.8%

4. Management Discussion and Analysis

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

	For the six months ended June 30,			
	2016	2015	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management	9,684.6	6,614.9	3,069.7	46.4%
Financial services	3,895.5	4,094.4	(198.9)	(4.9%)
Asset management and investment	3,425.2	2,072.7	1,352.5	65.3%
Inter-segment elimination	(60.3)	41.6	(101.9)	(245.0%)
Total	16,945.0	12,823.6	4,121.4	32.1%

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

	For the six months ended June 30,	
	2016	2015
Distressed asset management	47.4%	31.7%
Financial services	34.4%	33.8%
Asset management and investment	38.6%	40.8%

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

	As of	As of	Change	Change in percentage
	June 30,	December 31,		
	2016	2015		
(in millions of RMB, except for percentages)				
Distressed asset management	478,658.6	370,130.7	108,527.9	29.3%
Financial services	431,408.8	370,650.8	60,758.0	16.4%
Asset management and investment	198,019.2	138,763.6	59,255.6	42.7%
Inter-segment elimination	(34,864.5)	(12,998.7)	(21,865.8)	168.2%
Total	1,073,222.1	866,546.4	206,675.7	23.9%

4. Management Discussion and Analysis

As of June 30, 2016, assets under the management of third parties, including bank wealth management, securities, trust and private equity funds, amounted to RMB543,055.9 million.

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

	As of June 30, 2016	As of December 31, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Distressed asset management	80,082.1	71,396.1	8,686.0	12.2%
Financial services	33,801.5	31,916.2	1,885.3	5.9%
Asset management and investment	17,982.2	15,616.1	2,366.1	15.2%
Inter-segment elimination	(212.8)	(127.8)	(85.0)	(66.5%)
Total	131,653.0	118,800.6	12,852.4	10.8%

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

	For the six months ended June 30,	
	2016	2015
Distressed asset management	25.6%	26.0%
Financial services	23.7%	29.6%
Asset management and investment	40.8%	34.5%

Distressed asset management is the core businesses of the Group and an important source of income and profit of the Group. Total income from this segment decreased by 2.1% from RMB20,864.3 million in the first half of 2015 to RMB20,431.2 million in the first half of 2016 and the profit before tax increased by 46.4% from RMB6,614.9 million in the first half of 2015 to RMB9,684.6 million in the first half of 2016, mainly because (i) the Group actively developed the acquisition-and-disposal model and the acquisition-and-restructuring model in the first half of 2016, resulting in increases in both the income from distressed debt assets classified as receivables and fair value changes on distressed debt assets; (ii) the Group seized opportunities of capital markets and actively promoted the disposal of DES Assets during the first half of 2015, and attained higher investment income, however, the Group adjusted the strategy of the DES business according to the market conditions during the Reporting Period; and (iii) the Group's reversal of impairment loss upon derecognition increased.

4. Management Discussion and Analysis

The financial services business is an important and integral part of the Group's integrated asset management business. Total income from this segment decreased by 6.6% from RMB12,121.1 million in the first half of 2015 to RMB11,317.1 million in the first half of 2016 and the profit before tax decreased by 4.9% from RMB4,094.4 million in the first half of 2015 to RMB3,895.5 million in the first half of 2016, mainly due to (i) steady business development of Huarong Xiangjiang Bank and Huarong Financial Leasing and increases in their profits before tax; and (ii) the decrease in both total income and profit before tax of Huarong Securities due to the unfavorable Chinese capital market.

The Group's asset management and investment business is an extension and supplement to its distressed asset management business and serves as an important platform for providing the Group's clients with a comprehensive array of diversified asset management, investment and financing services. Total income from this segment increased by 74.8% from RMB5,081.6 million in the first half of 2015 to RMB8,881.4 million in the first half of 2016 and the profit before tax increased by 65.3% from RMB2,072.7 million in the first half of 2015 to RMB3,425.2 million in the first half of 2016, mainly due to the increase in the total income and the profit before tax of both financial investment business of the Company and Huarong International.

4. Management Discussion and Analysis

4.2.2 Financial Positions of Our Group

As of December 31, 2015 and June 30, 2016, the total assets of the Group amounted to RMB866,546.4 million and RMB1,073,222.1 million respectively, representing an increase of 23.9%. Total liabilities amounted to RMB747,745.8 million and RMB941,569.1 million respectively, representing an increase of 25.9%. Total equity amounted to RMB118,800.6 million and RMB131,653.0 million respectively, representing an increase of 10.8%.

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

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Assets				
Cash and balances with central bank	28,336.8	2.6%	24,982.1	2.9%
Deposits with financial institutions	114,196.4	10.6%	76,896.3	8.9%
Financial assets designated as at fair value through profit or loss	97,690.9	9.1%	85,458.2	9.9%
Financial assets held under resale agreements	25,531.4	2.4%	32,538.9	3.8%
Available-for-sale financial assets	91,640.3	8.6%	64,994.2	7.5%
Financial assets classified as receivables	403,525.5	37.6%	328,685.8	37.9%
Loans and advances to customers	104,449.1	9.7%	81,625.2	9.4%
Finance lease receivables	78,916.8	7.4%	71,672.5	8.3%
Other assets	128,934.9	12.0%	99,693.2	11.4%
Total assets	1,073,222.1	100.0%	866,546.4	100.0%
Liabilities				
Deposits from financial institutions	3,941.2	0.4%	15,468.2	2.1%
Borrowings	387,137.3	41.1%	295,031.8	39.5%
Financial assets sold under repurchase agreements	35,033.6	3.7%	30,361.9	4.1%
Due to customers	175,919.4	18.7%	139,998.9	18.7%
Bonds and notes issued	189,496.0	20.1%	143,053.8	19.1%
Other liabilities	150,041.6	16.0%	123,831.2	16.5%
Total liabilities	941,569.1	100.0%	747,745.8	100.0%
Equity				
Equity attributable to equity holders of the Company	108,043.9	82.1%	98,117.4	82.6%
Perpetual capital instruments	6,399.8	4.9%	6,454.1	5.4%
Non-controlling interests	17,209.3	13.0%	14,229.1	12.0%
Total equity	131,653.0	100.0%	118,800.6	100.0%
Total equity and liabilities	1,073,222.1	100.0%	866,546.4	100.0%

4. Management Discussion and Analysis

Assets

As of December 31, 2015 and June 30, 2016, the Group's total assets amounted to RMB866,546.4 million and RMB1,073,222.1 million, respectively. The Group's major assets consist of: (i) deposits with financial institutions; (ii) financial assets designated as at fair value through profit or loss; (iii) available-for-sale financial assets; (iv) financial assets classified as receivables; (v) loans and advances to customers; and (vi) finance lease receivables.

Deposits with financial institutions

As of December 31, 2015 and June 30, 2016, the Group's deposits with financial institutions amounted to RMB76,896.3 million and RMB114,196.4 million, respectively, representing an increase of 48.5%, mainly due to further expansion of financing of the Group to support business development.

Financial assets designated as at fair value through profit or loss

As of December 31, 2015 and June 30, 2016, the Group's financial assets designated as at fair value through profit or loss amounted to RMB85,458.2 million and RMB97,690.9 million, respectively, representing an increase of 14.3%, mainly due to the increase in acquisition-and-disposal assets as the Company seized market opportunities arising from the increase in supply of distressed assets and undertook acquisitions of distressed asset portfolios.

4. Management Discussion and Analysis

Available-for-sale financial assets

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

	As of June 30, 2016	As of December 31, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Listed				
Equity instruments	14,526.1	14,229.2	296.9	2.1%
Debt securities				
Public sector and quasi-government bonds	7,536.7	6,790.7	746.0	11.0%
Corporate bonds	4,404.7	4,785.1	(380.4)	(7.9%)
Financial institution bonds	1,795.8	1,887.0	(91.2)	(4.8%)
Government bonds	1,191.7	747.2	444.5	59.5%
Asset-backed securities	1,859.4	3,932.2	(2,072.8)	(52.7%)
Fund investments	2,524.9	2,045.5	479.4	23.4%
Subtotal	33,839.3	34,416.9	(577.6)	(1.7%)
Unlisted				
Equity instruments	30,009.6	19,385.9	10,623.7	54.8%
Trust products	12,922.2	380.3	12,541.9	3,297.9%
Fund investments	6,927.6	6,519.8	407.8	6.3%
Asset management plans	3,453.8	2,175.7	1,278.1	58.7%
Wealth management products	2,752.8	538.2	2,214.6	411.5%
Asset-backed securities	295.8	118.8	177.0	149.0%
Convertible corporate bonds	265.6	—	265.6	N/A
Others	1,605.3	1,605.3	—	—
Less: provisions for impairment	(431.7)	(146.7)	(285.0)	194.3%
Subtotal	57,801.0	30,577.3	27,223.7	89.0%
Total	91,640.3	64,994.2	26,646.1	41.0%

As of December 31, 2015 and June 30, 2016, the Group's available-for-sale financial assets amounted to RMB64,994.2 million and RMB91,640.3 million, respectively, representing an increase of 41.0%, which was mainly due to increase of available-for-sale financial assets resulting from the Group's flexible adjustment of allocation of various investment products in order to increase investment returns.

Equity instruments are the largest component of the Group's available-for-sale financial assets. As of December 31, 2015 and June 30, 2016, the Group's equity instruments amounted to RMB33,468.4 million and RMB44,104.0 million, respectively, accounting for 51.5% and 48.1% of the total available-for-sale financial assets, respectively.

4. Management Discussion and Analysis

Financial assets classified as receivables

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

	As of June 30, 2016	As of December 31, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Distressed debt assets				
Loans acquired from financial institutions	38,645.2	49,144.7	(10,499.5)	(21.4%)
Distressed debt assets acquired from non-financial enterprises	202,538.5	172,289.2	30,249.3	17.6%
Less: allowance for impairment losses	(18,442.5)	(19,382.4)	939.9	(4.8%)
Subtotal	222,741.2	202,051.5	20,689.7	10.2%
Other financial assets classified as receivables	184,884.2	130,373.3	54,510.9	41.8%
Less: allowance for impairment losses	(4,099.9)	(3,739.0)	(360.9)	9.7%
Subtotal	180,784.3	126,634.3	54,150.0	42.8%
Total	403,525.5	328,685.8	74,839.7	22.8%

As of December 31, 2015 and June 30, 2016, the Group's financial assets classified as receivables amounted to RMB328,685.8 million and RMB403,525.5 million, respectively, representing an increase of 22.8%, mainly due to the Group's active exploration of the market and its intensive marketing activities targeted at premium customers, resulting in the increase of distressed debt assets (distressed debt acquired by non-financial enterprises in particular) and other financial assets classified as receivables.

As of December 31, 2015 and June 30, 2016, the Group's allowance for impairment losses of distressed debt assets classified as receivables amounted to RMB19,382.4 million and RMB18,442.5 million, respectively and allowance for impairment losses of other financial assets classified as receivables amounted to RMB3,739.0 million and RMB4,099.9 million, respectively. The changes in allowance for impairment losses were mainly due to the provisions made by the Group, partially offset by the reversal of provision upon derecognition of distressed debt assets classified as receivables and other financial assets classified as receivables.

4. Management Discussion and Analysis

Loans and advances to customers

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

	As of June 30, 2016	As of December 31, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Corporate loans and advances				
Loans and advances	79,578.5	63,265.4	16,313.1	25.8%
Discounted bills	4.0	16.1	(12.1)	(75.2%)
Subtotal	79,582.5	63,281.5	16,301.0	25.8%
Personal loans and advances				
Loans for business operations	9,671.8	7,086.6	2,585.2	36.5%
Mortgage	6,549.6	5,735.8	813.8	14.2%
Others	5,764.7	3,276.5	2,488.2	75.9%
Subtotal	21,986.1	16,098.9	5,887.2	36.6%
Loans to margin clients	5,199.9	4,075.0	1,124.9	27.6%
Gross loans and advances to customers	106,768.5	83,455.4	23,313.1	27.9%
Allowance for impairment losses	(2,319.4)	(1,830.2)	(489.2)	26.7%
Total	104,449.1	81,625.2	22,823.9	28.0%

As of December 31, 2015 and June 30, 2016, the Group's loans and advances to customers amounted to RMB81,625.2 million and RMB104,449.1 million, respectively, representing an increase of 28.0%, mainly due to the steady development of Huarong Xiangjiang Bank's corporate loans and personal loans businesses hence expanding the scale of loans.

4. Management Discussion and Analysis

Finance lease receivables

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

	As of June 30, 2016	As of December, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Minimum finance lease receivables				
Within 1 year (inclusive)	29,951.5	28,131.3	1,820.2	6.5%
1 year to 5 years (inclusive)	58,344.4	52,481.5	5,862.9	11.2%
Over 5 years	2,545.2	2,191.1	354.1	16.2%
Subtotal	90,841.1	82,803.9	8,037.2	9.7%
Unearned finance income	(10,642.5)	(9,931.2)	(711.3)	7.2%
Allowance for impairment losses	(1,281.8)	(1,200.2)	(81.6)	6.8%
Net amount of finance lease receivables	78,916.8	71,672.5	7,244.3	10.1%
Present value of minimum finance lease receivables				
Within 1 year (inclusive)	25,860.5	24,467.8	1,392.7	5.7%
1 year to 5 years (inclusive)	50,954.9	45,600.8	5,354.1	11.7%
Over 5 years	2,101.4	1,603.9	497.5	31.0%
Total	78,916.8	71,672.5	7,244.3	10.1%

As of December 31, 2015 and June 30, 2016, the Group's finance lease receivables amounted to RMB71,672.5 million and RMB78,916.8 million, respectively, representing an increase of 10.1%, mainly due to the steady development of the leasing business of Huarong Financial Leasing and increase in financial lease receivables.

Liabilities

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

4. Management Discussion and Analysis

Borrowings

As of December 31, 2015 and June 30, 2016, the balance of the Group's borrowings amounted to RMB295,031.8 million and RMB387,137.3 million, respectively, representing an increase of 31.2%, primarily due to the increase in borrowings to support the business development of the Group.

Financial assets sold under repurchase agreements

As of December 31, 2015 and June 30, 2016, the Group's financial assets sold under repurchase agreements amounted to RMB30,361.9 million and RMB35,033.6 million, respectively, representing an increase of 15.4%, mainly due to the proper adjustments to business strategy and optimization of asset-debt structure made by the Group based on the liquidity and market condition.

Due to customers

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

	As of June 30, 2016	As of December 31, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Demand deposits				
Corporate customers	62,830.4	46,938.2	15,892.2	33.9%
Individual customers	16,672.9	13,510.9	3,162.0	23.4%
Time deposits				
Corporate customers	44,676.4	35,548.6	9,127.8	25.7%
Individual customers	23,387.6	20,553.8	2,833.8	13.8%
Pledged deposits	13,385.0	13,322.2	62.8	0.5%
Others	14,967.1	10,125.2	4,841.9	47.8%
Total	175,919.4	139,998.9	35,920.5	25.7%

As of December 31, 2015 and June 30, 2016, the amount of due to customers was RMB139,998.9 million and RMB175,919.4 million, respectively, representing an increase of 25.7%, mainly attributable to the considerably rapid increase in deposits as Huarong Xiangjiang Bank strived to attract premium customers.

4. Management Discussion and Analysis

Bonds and notes issued

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

	As of June 30, 2016	As of December 31, 2015	Change	Change in percentage
(in millions of RMB, except for percentages)				
Financial bonds	93,009.0	78,627.0	14,382.0	18.3%
Mid-term U.S. dollar notes	49,869.7	32,672.7	17,197.0	52.6%
U.S. dollar bonds	10,057.5	9,838.0	219.5	2.2%
Negotiable certificates of deposit	19,448.2	9,833.3	9,614.9	97.8%
Subordinate bonds	3,994.7	2,994.3	1,000.4	33.4%
Tier II capital bonds	2,990.0	2,989.6	0.4	0.0%
Leasing asset-backed securities	5,351.8	2,426.6	2,925.2	120.6%
Beneficiary certificates	—	362.6	(362.6)	(100.0%)
Corporation bonds	4,775.1	3,287.6	1,487.5	45.3%
Convertible notes	—	22.1	(22.1)	(100.0%)
Total	189,496.0	143,053.8	46,442.2	32.5%

As of December 31, 2015 and June 30, 2016, the Group's bonds and notes issued amounted to RMB143,053.8 million and RMB189,496.0 million, respectively, representing an increase of 32.5%, mainly because the Group extended low-cost financing channels, optimized structure of capital sources and expanded the scale of bond issuance to support the business development. In particular, (i) Huarong International issued additional U.S. dollar bonds of US\$2.5 billion; (ii) Huarong Xiangjiang Bank issued additional negotiable certificates of deposit of RMB16.65 billion; (iii) the Company issued additional financial bonds of RMB10 billion; (iv) Huarong Securities issued additional financial bonds of RMB5.58 billion and subordinated bonds of RMB1 billion; (v) Huarong Financial Leasing issued additional leasing asset-backed securities of RMB4.41 billion; and (vi) Huarong Rongde issued additional corporate bonds of RMB1.5 billion.

4.2.3 Contingent Liabilities

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

4. Management Discussion and Analysis

As of December 31, 2015 and June 30, 2016, the Group made provisions of RMB110.1 million and RMB110.1 million respectively in respect of certain litigations. The Directors believe that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

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

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

4.3 Business Overview

The Group's principal business segments are (i) distressed asset management, (ii) financial services, and (iii) asset management and investment. The tables below set forth the total income and profit before tax of each of the Group's business segments for the periods indicated.

	For the six months ended June 30,			
	2016		2015	
	(in millions of RMB, except for percentages)			
	Amount	Percentage	Amount	Percentage
Total income				
Distressed asset management	20,431.2	51.1%	20,864.3	55.2%
Financial services	11,317.1	28.3%	12,121.1	32.0%
Asset management and investment	8,881.4	22.2%	5,081.6	13.4%
Inter-segment elimination	(619.1)	(1.6%)	(241.0)	(0.6%)
Total	40,010.6	100.0%	37,826.0	100.0%

	For the six months ended June 30,			
	2016		2015	
	(in millions of RMB, except for percentages)			
	Amount	Percentage	Amount	Percentage
Profit before tax				
Distressed asset management	9,684.6	57.2%	6,614.9	51.6%
Financial services	3,895.5	23.0%	4,094.4	31.9%
Asset management and investment	3,425.2	20.2%	2,072.7	16.2%
Inter-segment elimination	(60.3)	(0.4%)	41.6	0.3%
Total	16,945.0	100.0%	12,823.6	100.0%

4. Management Discussion and Analysis

4.3.1 Distressed Asset Management Business

Distressed asset management business is the core business of the Group and is the primary source of income and profit. In the first half of 2015 and 2016, total income from the Group's distressed asset management business was RMB20,864.3 million and RMB20,431.2 million, respectively, accounting for 55.2% and 51.1% of total income, respectively. Profit before tax from the Group's distressed asset management business was RMB6,614.9 million and RMB9,684.6 million, respectively, accounting for 51.6% and 57.2% of total profit before tax, respectively.

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

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

	As of June 30, 2016	As of December 31, 2015
(in millions of RMB)		
Distressed debt asset management business		
Gross amount of distressed debt assets ⁽¹⁾	323,635.5	270,869.4
Less: Allowance for impairment of distressed debt assets ⁽²⁾	(17,815.4)	(19,382.4)
Carrying amount of distressed debt assets	305,820.1	251,487.0

	For the six months ended June 30,	
	2016	2015
(in millions of RMB)		
Acquisition cost of newly added distressed debt assets	174,911.8	98,012.5
Total income from distressed debt assets		
Operating income from distressed debt assets ⁽³⁾	13,065.5	11,498.5
Financial advisory income from acquisition-and restructuring business	1,863.4	1,851.6
Total	14,928.9	13,350.1

4. Management Discussion and Analysis

	For the six months ended June 30,	
	2016	2015
	(in millions of RMB)	
DES asset management business		
Dividend income from DES Assets	40.4	34.8
Acquisition cost of DES Assets disposed	114.9	1,721.5
Net gain from the disposal of DES Assets	310.0	4,015.5
Custody and agency services for distressed asset business		
Income from asset management business	121.5	156.2
Distressed asset-based special situations investments business		
Income	1,355.2	1,504.9
Distressed asset-based property development business		
Income	1,438.2	1,116.2
Other income⁽⁴⁾	2,237.0	686.6

- (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, (ii) distressed assets classified under available-for-sale financial assets, and (iii) distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (2) Allowance for impairment of distressed debt assets equals the Company's allowance for impairment of distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (3) Operating income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets, (ii) investment income from distressed debt assets classified as available-for-sale financial assets, and (iii) income from distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (4) Other income primarily consists of interest income related to distressed asset management business.

Distressed debt asset management business

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

4. Management Discussion and Analysis

Sources for acquisition of distressed debt assets

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

	For the six months ended June 30,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	79,649.7	45.5%	33,457.2	34.1%
NFE Distressed Assets	95,262.1	54.5%	64,555.3	65.9%
Total	174,911.8	100.0%	98,012.5	100.0%
Operating income from distressed debt assets⁽¹⁾				
FI Distressed Assets	3,355.9	25.7%	3,781.5	32.9%
NFE Distressed Assets	9,709.6	74.3%	7,717.0	67.1%
Total	13,065.5	100.0%	11,498.5	100.0%

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Gross amount of distressed debt assets⁽²⁾				
FI Distressed Assets	112,593.1	34.8%	94,518.0	34.9%
NFE Distressed Assets	211,042.4	65.2%	176,351.4	65.1%
Total	323,635.5	100.0%	270,869.4	100.0%

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

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

4. Management Discussion and Analysis

FI Distressed Assets

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

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

	For the six months ended June 30,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
(In millions of RMB, except for percentages)				
Banks				
Large Commercial Banks	27,167.2	34.2%	11,221.7	33.6%
Joint Stock Commercial Banks	26,951.8	33.8%	4,146.7	12.4%
City and rural commercial banks	1,283.1	1.6%	3,171.5	9.5%
Other banks	—	—	183.0	0.5%
Subtotal	55,402.1	69.6%	18,722.9	56.0%
Non-bank financial institutions	24,247.6	30.4%	14,734.3	44.0%
Total	79,649.7	100.0%	33,457.2	100.0%

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.

4. Management Discussion and Analysis

Business models of distressed debt asset management

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

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

	For the six months ended June 30,		2015	
	2016		Amount	Percentage
	Amount	Percentage	Amount	Percentage
(In millions of RMB, except for percentages)				
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	76,256.2	43.6%	16,451.2	16.8%
Acquisition-and-restructuring	98,655.6	56.4%	81,561.3	83.2%
Total	174,911.8	100.0%	98,012.5	100.0%
Total income from distressed debt assets				
Acquisition-and-disposal ⁽¹⁾	1,377.0	9.2%	486.0	3.6%
Acquisition-and-restructuring	13,551.9	90.8%	12,864.1	96.4%
Total	14,928.9	100.0%	13,350.1	100.0%

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
(In millions of RMB, except for percentages)				
Gross amount of distressed debt assets				
Acquisition-and-disposal ⁽²⁾	87,981.1	27.2%	48,735.5	18.0%
Acquisition-and-restructuring ⁽³⁾	235,654.4	72.8%	222,133.9	82.0%
Total	323,635.5	100.0%	270,869.4	100.0%

(1) Total income from distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets, and (ii) investment income from distressed debt assets classified under "available-for-sale financial assets" as shown in the consolidated financial statements in this interim report.

(2) Gross amount of acquisition-and-disposal 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 under available-for-sale financial assets, as shown in the consolidated financial statements in this interim report.

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

4. Management Discussion and Analysis

Acquisition-and-disposal model

As a major participant of the primary market for distressed debt assets, the Company acquires packages of distressed assets in batches from financial institutions through public bidding or negotiated transfers. To maximize the recovery value of distressed debt assets, the Company chooses the disposal methods for these assets based on the characteristics of the assets, the conditions of the debtors and quality of 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. The Company's core competitive advantage under the acquisition-and-disposal model is its ability to price and dispose of distressed assets.

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

	For the six months ended June 30,	
	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	76,256.2	16,451.2
Gross amount of distressed debt assets disposed	37,208.3	4,202.4
Gross amount of distressed debt assets at the end of the period ⁽¹⁾	87,981.1	34,574.6
Net gain or loss from disposal of distressed assets ⁽²⁾		
Realized gain	1,179.3	497.7
Unrealized fair value changes	197.7	(11.7)
Total	1,377.0	486.0
IRR on completed projects ⁽³⁾	16.2%	17.0%

- (1) Gross amount of distressed debt assets at the end of the period equals the sum of the Company's (i) acquisition of distressed debt assets designated at fair value through profit or loss, and (ii) distressed debt assets classified under available-for-sale financial assets, as shown in the consolidated financial statements in this interim report.
- (2) Net gain or loss from disposal of distressed debt assets equals the sum of the Company's (i) fair value changes on distressed debt assets, and (ii) investment income for distressed debt assets classified under available-for-sale financial assets, as shown in the consolidated financial statements in this interim report.
- (3) IRR, or the internal rate of return, on completed projects is the rate of return that makes the net present value of all cash inflows and outflows from all the acquisition-and-disposal projects completed in a given period from the time of acquisition to the time of disposal equal to zero.

4. Management Discussion and Analysis

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

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
(In millions of RMB, except for percentages)				
Yangtze River Delta ⁽¹⁾	37,412.5	42.4%	16,890.0	34.7%
Pearl River Delta ⁽²⁾	10,977.3	12.5%	8,335.9	17.1%
Bohai Rim Region ⁽³⁾	17,292.8	19.7%	10,393.2	21.3%
Central Region ⁽⁴⁾	6,914.2	7.9%	4,886.3	10.0%
Western Region ⁽⁵⁾	12,964.5	14.7%	6,446.8	13.2%
Northeastern Region ⁽⁶⁾	2,419.8	2.8%	1,783.3	3.7%
Total	87,981.1	100.0%	48,735.5	100.0%

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

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

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

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

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

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

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

Acquisition-and-restructuring model

The Company was the first AMC to carry out businesses on a large scale based on the acquisition-and-restructuring model. Focusing on enterprises with temporary liquidity issues, the Company adopts flexible and customized restructuring approaches to reassess the debtors' credit risks, front-load the elimination of credit risks, redeploy distressed debt assets with operational value and restore the debtors' enterprise credit profile. 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.

4. Management Discussion and Analysis

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

	For the six months ended	
	June 30,	
	2016	2015
	(in millions of RMB, except for percentages and number of projects)	
Number of new projects	399	373
Acquisition cost of newly added distressed debt assets	98,655.6	81,561.3
Income from distressed debt assets		
Operating income from distressed debt assets ⁽¹⁾	11,688.5	11,012.5
Financial advisory income	1,863.4	1,851.6
Total	13,551.9	12,864.1
Annualized return on monthly average gross amount of distressed debt assets ⁽²⁾	11.9%	12.9%

	As of	As of
	June 30, 2016	December 31, 2015
	(in millions of RMB, except for percentages and number of projects)	
Number of existing projects	1,200	1,154
Gross amount of distressed debt assets ⁽³⁾	235,654.4	222,133.9
Allowance for impairment losses ⁽⁴⁾	(17,815.4)	(19,382.4)
Carrying amount of distressed debt assets ⁽⁵⁾	217,839.0	202,751.5
Impaired distressed debt assets ⁽⁶⁾	3,969.0	3,301.1
Impaired distressed debt assets ratio ⁽⁷⁾	1.7%	1.5%
Allowance to distressed debt assets ratio ⁽⁸⁾	7.6%	8.7%
Impaired distressed debt assets coverage ratio ⁽⁹⁾	448.9%	587.1%
Distressed debt assets collateral ratio ⁽¹⁰⁾	35.8%	36.2%

- (1) Operating income from distressed debt assets equals to the Company's income from distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (2) Annualized return on monthly average gross amount of distressed debt assets equals the percentage of annualized income from distressed assets to the average gross amount of distressed debt assets at the end of each month.
- (3) Gross amount of distressed debt assets equals the Company's distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.

4. Management Discussion and Analysis

- (4) Allowance for impairment losses equals to the Company's allowance for impairment for distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (5) Carrying amount of distressed debt assets equals the Company's distressed debt assets classified as receivables minus allowance for impairment losses for distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (6) Impaired distressed debt assets equals to the Company's impaired distressed debt assets classified as receivables, as shown in the consolidated financial statements in this interim report.
- (7) Impaired distressed debt assets ratio equals the percentage of impaired distressed debt assets to the gross amount of distressed debt assets.
- (8) Allowance to distressed debt assets ratio equals the percentage of allowance for impairment losses to the gross amount of distressed debt assets.
- (9) Impaired distressed debt assets coverage ratio equals the percentage of allowance for impairment losses to the impaired distressed debt assets.
- (10) Distressed debt assets collateral ratio equals the percentage of the total amount of collateralized distressed debt assets to the total appraised value of the collateral securing these assets.

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

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
(In millions of RMB, except for percentages)				
Yangtze River Delta ⁽¹⁾	46,141.7	19.6%	42,771.6	19.3%
Pearl River Delta ⁽²⁾	33,688.7	14.3%	31,568.3	14.2%
Bohai Rim Region ⁽³⁾	21,698.1	9.2%	19,072.7	8.6%
Central Region ⁽⁴⁾	48,406.7	20.5%	49,248.5	22.2%
Western Region ⁽⁵⁾	71,366.6	30.3%	66,145.4	29.7%
Northeastern Region ⁽⁶⁾	14,352.6	6.1%	13,327.4	6.0%
Total	235,654.4	100.0%	222,133.9	100.0%

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

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

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

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

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

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

4. Management Discussion and Analysis

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

Industry	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
(In millions of RMB, except for percentages)				
Real estate	144,229.4	61.2%	146,157.2	65.8%
Manufacturing	23,997.3	10.2%	21,190.4	9.5%
Construction	14,635.4	6.2%	9,996.2	4.5%
Water, environment and public utilities management	9,399.9	4.0%	6,564.7	3.0%
Mining	6,520.3	2.8%	6,451.7	2.9%
Leasing and commercial services	6,414.9	2.7%	6,652.7	3.0%
Transportation, warehousing and postal services	2,386.5	1.0%	3,116.5	1.4%
Others	28,070.7	11.9%	22,004.5	9.9%
Total	235,654.4	100.0%	222,133.9	100.0%

DES asset management business

The Company obtains DES Assets primarily through debt-to-equity swaps, receipt of equity interests in satisfaction of debts and follow-on equity investments. The Company enhances the value of DES Assets by improving the business operations of the DES Companies. The Company exits such investments primarily through asset swaps, mergers and acquisitions, restructuring and listing of DES Companies and realizes appreciation of DES Assets. The Company's DES Assets are classified as shares of unlisted DES Companies ("**Unlisted DES Assets**") and shares of listed DES Companies ("**Listed DES Assets**"). As of June 30, 2016, the Company held Unlisted DES Assets in 184 DES Companies, with carrying amount of RMB10,774.2 million, and Listed DES Assets in 27 DES Companies, with carrying amount of RMB10,221.8 million. The table below sets forth certain details of DES Assets portfolio by category as of the dates indicated.

	As of	As of
	June 30, 2016	December 31, 2015
(in millions of RMB, except for numbers of companies)		
Number of DES companies	211	217
Including:		
Unlisted	184	189
Listed	27	28
Carrying amount	20,996.0	24,202.9
Including:		
Unlisted	10,774.2	11,104.9
Listed	10,221.8	13,098.0

4. Management Discussion and Analysis

Income from DES asset management business

The Company derives the following income from its DES asset management business: (i) disposal income, which is the income from transfer of the 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 Company's disposal of DES Assets by asset types for the periods indicated.

	For the six months ended June 30, 2016	For the year ended December 31, 2015
	(in millions of RMB, except for numbers of companies and multiples)	
Number of DES Companies disposed	6	14
Acquisition cost of DES Assets disposed	114.9	2,039.5
Net gain on DES Assets disposed	310.0	5,523.5
Exit multiple of DES Assets disposed ⁽¹⁾	3.7x	3.7x
Dividend Income from DES Companies	40.4	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 the first half of 2016, the Company's net gain on DES Assets disposed was RMB310.0 million and the exit multiple was 3.7 times.

4. Management Discussion and Analysis

Custody and agency services for distressed assets

Through the Company's custody and agency services for distressed assets, the Company acts on behalf of principals to operate, manage, dispose, liquidate or restructure distressed assets or distressed companies. The Company also provides agency, consulting and advisory services related to distressed asset management. In the first half of 2015 and 2016, the income from custody and agency services for distressed assets of the Company amounted to RMB156.2 million and RMB121.5 million, respectively. As of December 31, 2015 and June 30, 2016, the distressed assets from custody under the management of the Company amounted to RMB45,877.8 million and RMB24,541.2 million, respectively.

Distressed asset-based special situations investment

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

The Group primarily conducts our distressed asset-based special situations investment business through Huarong Rongde.

4. Management Discussion and Analysis

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

	For the six months ended June 30,	
	2016	2015
	(in millions of RMB, except for percentages and multiples)	
Income	1,355.2	1,504.9
Net profit	695.2	529.5
Annualized ROAA	5.8%	4.7%
Annualized ROAE	29.4%	25.5%
Cost-to-income ratio	12.3%	23.9%

	As of	As of
	June 30, 2016	December 31, 2015
	(in millions of RMB, except for multiples)	
Total assets	24,384.8	23,757.4
Third party assets under management	9,700.1	10,921.0
Total assets to total equity multiple	3.9x	3.9x

Distressed assets-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 the Group's property development business, the Group discovers the value of existing property development projects, provides liquidity to existing distressed assets, extends the value chain of distressed asset management, and further enhances the value of distressed assets.

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

In the first half of 2015 and 2016, income of Huarong Real Estate amounted to RMB1,116.2 million and RMB1,438.2 million, respectively, including income from property development business of RMB881.1 million and RMB1,074.9 million, respectively.

4. Management Discussion and Analysis

4.3.2 Financial Services Business

By leveraging the Group's multiple financial licenses, the Group provides its clients with flexible, customized and diversified financing channels and financial products through a comprehensive financial services platform composed of Huarong Securities, Huarong Futures, Huarong Financial Leasing, Huarong Xiangjiang Bank and Huarong Consumer Finance. This creates a comprehensive financial service system which covers the different business life cycles and the entire industry value chain. In the first half of 2015 and 2016, the total income from the Group's financial services business amounted to RMB12,121.1 million and RMB11,317.1 million, respectively, accounting for 32.0% and 28.3% of total income, respectively. The profit before tax of the Group's financial services business amounted to RMB4,094.4 million and RMB3,895.5 million, respectively, accounting for 31.9% and 23.0% of the total profit before tax of the Group, respectively. The table below sets forth the key financial data of the business lines of the financial services business as of the dates and for the periods indicated.

	For the six months ended June 30,				As of June 30, 2016		As of December 31, 2015	
	2016		2015		Total assets	Total equity	Total assets	Total equity
	Total income	Profit before tax	Total income	Profit before tax				
	(in millions of RMB)							
Securities and futures	2,748.3	1,230.5	4,204.3	1,639.2	86,707.9	9,288.3	75,828.3	8,963.4
Financial leasing	2,789.8	1,036.8	2,826.9	890.1	102,393.8	10,433.9	83,698.4	10,099.2
Banking	5,762.0	1,639.1	5,089.9	1,565.1	241,276.2	13,490.2	211,124.5	12,879.1
Consumer finance	17.0	(10.9)	—	—	1,032.5	589.1	—	—

4. Management Discussion and Analysis

Securities and futures

The Group conducts securities business through Huarong Securities. The Group's securities business mainly includes proprietary trading, securities brokerage and wealth management, investment banking and asset management businesses. The Group also conducts futures and direct investment businesses through Huarong Futures, Huarong Tianze Investment Limited ("Huarong Tianze") and Huarong Ruize Investment Management Co., Ltd. ("Huarong Ruize") (subsidiaries of Huarong Securities), respectively. The financial information for Huarong Securities disclosed in this section is consolidated financial information that includes the financial condition and results of operation of Huarong Futures, Huarong Tianze and Huarong Ruize. In the first half of 2015 and 2016, total income from securities and futures business was RMB4,204.3 million and RMB2,748.3 million, respectively, and the profit before tax was RMB1,639.2 million and RMB1,230.5 million, respectively. The table below sets forth certain key financial and business indicators of Huarong Securities as of the dates and for the periods indicated.

	For the six months ended June 30,	
	2016	2015
Profitability indicators ⁽¹⁾		
Net profit margin ⁽²⁾	33.3%	29.3%
Annualized ROAE ⁽³⁾	19.8%	32.2%
Annualized ROAA ⁽⁴⁾	2.3%	4.5%
Cost-to-income ratio	38.3%	29.4%

	As of June 30, 2016	As of December 31, 2015	Regulatory requirements
Risk control indicators ⁽⁵⁾			
Net capital to total risks ratio	523.0%	617.5%	No less than 100%
Net capital to net assets ratio	102.3%	102.4%	No less than 40%
Net capital to liabilities ratio	35.3%	47.2%	No less than 8%
Net assets to liabilities ratio	34.5%	46.1%	No less than 20%
Equity securities and derivatives of proprietary trading to net capital ratio	89.1%	71.9%	No more than 100%
Fixed income securities of proprietary trading to net capital ratio	145.1%	102.4%	No more than 500%

4. Management Discussion and Analysis

- (1) Profitability indicators are calculated based on the consolidated financial information of Huarong Securities.
- (2) Net profit margin equals percentage of net profit for the period to total income.
- (3) Annualized ROAE equals percentage of annualized net profit attributable to owners of the parent to the average balance of owners' equity as of the beginning and the end of the period.
- (4) Annualized ROAA equals percentage of annualized net profit to the average balance of total assets as of the beginning and the end of the period.
- (5) Risk control indicators are calculated based on the unconsolidated financial information of Huarong Securities.

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

	For the six months ended June 30,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Proprietary trading	1,267.1	46.1%	1,968.9	46.8%
Securities brokerage and wealth management	662.2	24.1%	1,517.3	36.1%
Investment banking	383.3	13.9%	51.2	1.2%
Asset management	145.2	5.3%	548.4	13.0%
Others	290.5	10.6%	118.5	2.9%
Total	2,748.3	100.0%	4,204.3	100.0%

Proprietary trading: The income of Huarong Securities from proprietary trading decreased by 35.6% from RMB1,968.9 million in the first half of 2015 to RMB1,267.1 million in the first half of 2016. As of December 31, 2015 and June 30, 2016, the investment in proprietary trading amounted to RMB11,647.2 million and RMB15,295.8 million, respectively.

Securities brokerage and wealth management: The income of Huarong Securities from its securities brokerage and wealth management business decreased by 56.4% from RMB1,517.3 million in the first half of 2015 to RMB662.2 million in the first half of 2016. The total trading volume increased by 13.9% from RMB1,044,084.2 million in the first half of 2015 to RMB1,185,101.8 million in the first half of 2016.

4. Management Discussion and Analysis

Investment banking: The income of Huarong Securities from its investment banking business increased by 648.6% from RMB51.2 million in the first half of 2015 to RMB383.3 million in the first half of 2016. According to the operating data on securities companies published by the Securities Association of China in June 2016, the net income from financial advisory services of Huarong Securities ranked 8th. According to the list of listed companies qualified for the innovation standards issued by the National Equities Exchange and Quotations, as of June 30, 2016, Huarong Securities sponsored 17 listed companies qualified for the innovation standards, accounting for 31.5% of the total sponsored listed companies being the only securities company with such percentage exceeding 30%.

Asset management: The income of Huarong Securities from its asset management business decreased by 73.5% from RMB548.4 million in the first half of 2015 to RMB145.2 million in the first half of 2016. The asset under management increased by 56.4% from RMB172,840.0 million as of December 31, 2015 to RMB270,266.6 million as of June 30, 2016.

Financial leasing

The Group operates financial leasing business through Huarong Financial Leasing. Huarong Financial Leasing mainly engages in financial leasing of equipment and provides customized financial solutions to clients, including sale and leaseback, direct leasing and operating leasing. As of June 30, 2016, the financial leasing business of Huarong Financial Leasing has expanded its coverage to 30 provinces, autonomous regions and municipalities in China.

As of June 30, 2016, Huarong Financial Leasing had total assets of RMB102,393.8 million, net assets of RMB10,433.9 million and annualized ROAE of 15.1%, ranking eighth, seventh and first¹ among all the 45 operating financial leasing companies, respectively. As of December 31, 2015 and June 30, 2016, the balance of finance lease receivables of Huarong Financial Leasing was RMB72,872.6 million and RMB80,198.7 million, respectively, representing an increase of 10.1%. The profit before tax increased by 16.5% from RMB890.1 million in the first half of 2015 to RMB1,036.8 million in the first half of 2016.

¹ Jiangsu Financial Leasing Co., Ltd. is excluded from the annualized ROAE ranking as it has not yet disclosed its interim report.

4. Management Discussion and Analysis

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

	For the six months ended June 30,	
	2016	2015
Profitability indicators		
Annualized ROAA ⁽¹⁾	1.7%	1.7%
Annualized ROAE ⁽²⁾	15.1%	16.0%
Net interest spread ⁽³⁾	2.4%	3.0%
Net interest margin ⁽⁴⁾	3.0%	3.5%
Cost-to-income ratio ⁽⁵⁾	17.6%	15.3%
Asset quality indicators		
Non-performing asset ratio ⁽⁶⁾	1.0%	1.1%
Provision coverage ratio ⁽⁷⁾	152.8%	155.4%
Capital adequacy indicators		
Core capital adequacy ratio ⁽⁸⁾	11.2%	12.5%
Capital adequacy ratio ⁽⁸⁾	11.7%	13.0%

- (1) Annualized ROAA equals the percentage of annualized net profit for the Reporting Period to the average balance of total assets at the beginning and end of the period.
- (2) Annualized ROAE equals the percentage of annualized net profit attributable to owners of parent for the Reporting Period to the average balance of owners' equity at the beginning and end of the period.
- (3) Net interest spread equals the difference between the average yield of interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net interest margin equals the percentage of net interest income to the average balance of total interest-earning assets.
- (5) Cost-to-income ratio equals the ratio of other expenses divided by total income (excluding commission and fee expenses and interest expenses).
- (6) Non-performing asset ratio equals the percentage of the balance of non-performing assets to the balance finance lease receivables. Non-performing assets are defined as those initially recognized lease receivables which have objective evidence of impairment as a result of one or more events and such events have had an impact on the estimated future cash flows of lease receivables that can be reliably estimated.
- (7) Provision coverage ratio equals the percentage of the balance of asset impairment provisions to the balance of non-performing assets.
- (8) Core capital adequacy ratio and capital adequacy ratio are calculated according to CBRC regulations.

4. Management Discussion and Analysis

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

	For the six months ended June 30,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Sale and lease-back	2,214.0	79.4%	2,285.7	80.9%
Direct leasing	461.8	16.6%	505.8	17.9%
Others	114.0	4.0%	35.4	1.2%
Total	2,789.8	100.0%	2,826.9	100.0%

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

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Manufacturing	19,593.2	24.4%	21,336.4	29.3%
Water resources, environment and public facility management	28,431.9	35.5%	20,286.8	27.8%
Transportation, warehousing and postal services	7,881.5	9.8%	8,428.1	11.6%
Leasing and business services	2,875.3	3.6%	2,852.6	3.9%
Construction	2,518.2	3.1%	1,518.2	2.1%
Mining	2,218.8	2.8%	985.7	1.4%
Real estate	209.8	0.3%	240.6	0.3%
Others	16,470.0	20.5%	17,224.2	23.6%
Total	80,198.7	100.0%	72,872.6	100.0%

Banking

The Group conducts its banking business in China through Huarong Xiangjiang Bank. As of December 31, 2015 and June 30, 2016, total assets of Huarong Xiangjiang Bank was RMB211,124.5 million and RMB241,276.2 million, respectively, representing an increase of 27.6%; total loans was RMB79,380.4 million and RMB101,293.4 million, respectively; total deposits was RMB140,072.5 million and RMB175,919.4 million, respectively, representing an increase of 25.6%. Net profit increased by 11.3% from RMB1,163.3 million in the first half of 2015 to RMB1,294.7 million in the first half of 2016.

4. Management Discussion and Analysis

As of June 30, 2016, the non-performing loans ratio and allowance to non-performing loans of Huarong Xianjiang Bank was 1.43% and 156.4%, respectively. Its core tier-1 capital adequacy ratio was 8.7% and its capital adequacy ratio was 11.6%. All businesses indicators either satisfied or outperformed regulatory requirements. Huarong Xiangjiang Bank was rated as an A-class commercial bank in the comprehensive evaluation by the PBOC. 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 financial and operation indicators of Huarong Xiangjiang Bank as of the dates and for the periods indicated.

	For the six months ended June 30,	
	2016	2015
Profitability indicators		
Annualized ROAA ⁽¹⁾	1.1%	1.3%
Annualized ROAE ⁽²⁾	19.7%	20.5%
Net interest spread ⁽³⁾	3.1%	2.9%
Net interest margin ⁽⁴⁾	2.9%	3.0%
Cost-to-income ratio ⁽⁵⁾	30.3%	35.4%
	As of	As of
	June 30,	December 31,
	2016	2015
Asset quality indicators		
Non-performing loans ratio ⁽⁶⁾	1.43%	0.99%
Allowance to non-performing loans ⁽⁷⁾	156.4%	228.2%
Allowance to total loans ⁽⁸⁾	2.2%	2.3%
Capital adequacy indicators		
Core tier-1 capital adequacy ratio ⁽⁹⁾	8.7%	9.5%
Capital adequacy ratio ⁽⁹⁾	11.6%	13.2%
Other indicators		
Loan to deposit ratio ⁽¹⁰⁾	57.6%	56.7%
Liquidity ratio ⁽¹¹⁾	36.3%	40.6%

- (1) Annualized ROAA equals percentage of annualized net profit for the period to the average of total assets at the beginning and end of the period.
- (2) Annualized ROAE equals the percentage of annualized net profit attributable to shareholders for the period divided by the average of shareholders' equity at the beginning and end of the period.
- (3) Net interest spread equals the difference between the average yield of interest-earning assets and the average cost of interest-bearing liabilities.

4. Management Discussion and Analysis

- (4) Net interest margin equals net interest income divided by the average balance of total interest-earning assets.
- (5) Cost-to-income ratio equals the ratio of other expenses divided by total income (excluding commission and fee expenses and interest expenses).
- (6) Non-performing loan ratio equals percentage of the balance of non-performing loan to total loans and advances to customers.
- (7) Allowance to non-performing loans equals percentage of the balance of loan allowance to the balance of non-performing loans.
- (8) Allowance to total loans equals percentage of the balance of loan allowance to total loans and advances to customers.
- (9) Core tier-1 capital adequacy ratio and capital adequacy ratio are calculated according to CBRC regulations.
- (10) Loan to deposit ratio equals percentage of total loans and advances to customers to total deposits of customers.
- (11) Liquidity ratio is calculated according to CBRC regulations.

Corporate banking business: Huarong Xiangjiang Bank provides diversified financial products and services, such as corporate loans, discounted bills, corporate deposits, and commission and fee based services, for corporate clients under the brand of “Cai Zhi Rong” (财智融). As of December 31, 2015 and June 30, 2016, the balance of corporate loans of Huarong Xiangjiang Bank amounted to RMB63,281.5 million and RMB79,932.5 million, respectively, representing an increase of 26.3%. Of which, the balance of loans to small and micro enterprises amounted to RMB20,942.6 million and RMB24,676.7 million, respectively, representing an increase of 17.8% and accounting for 33.1% and 30.9% of its total corporate loans, respectively; and the balance of corporate deposits amounted to RMB82,560.5 million and RMB107,506.8 million, respectively, representing an increase of 30.2%.

Retail banking business: Huarong Xiangjiang Bank provides diversified products and services to retail clients, such as retail loans, retail deposits, bank cards as well as fee and commission based services. As of December 31, 2015 and June 30, 2016, the balance of retail loans of Huarong Xiangjiang Bank amounted to RMB16,098.9 million and RMB21,360.9 million, respectively, representing an increase of 32.7%. The balance of retail deposits amounted to RMB34,064.7 million and RMB40,060.5 million as of June 30, 2016, representing an increase of 17.6%.

4. Management Discussion and Analysis

Financial market business: The table below sets forth the general operating results of the financial market business of Huarong Xiangjiang Bank as of the dates indicated.

	As of June 30, 2016	As of December 31, 2015
(in millions of RMB)		
Deposits with financial institutions, placements with financial institutions and financial assets purchased under resale agreements	28,607.9	32,260.4
Deposits from financial institutions, placements from financial institutions and financial assets sold under repurchase agreements	21,963.5	37,800.6

Consumer finance

In the first half of 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 to serve small enterprises all over China by leveraging the Huarong platform” (立足安徽、依托華融、服務小微、輻射全國). Huarong Consumer Finance aims to provide financial services to the general public, featuring small-sized loans, based on “big data”, and is supported by its online to offline platform. It is the policy of Huarong Consumer Finance to carry on its retail banking business as a wholesale operation and integrate its online and offline services, to establish “small, quick and flexible” operations in order to enhance its role as a leading provider of financial services to the general public. Huarong Consumer Finance entered into cooperation agreements with well-known online internet channels, including Wecash and Quant Group with the aim to expand its business nationwide. Leveraging the advantages of the internet, without boundaries, and accessibility to numerous potential customers, Huarong Consumer Finance is able to provide individual customers with its small-sized loans and decentralized financial services.

From the date of incorporation to June 30, 2016, the total income of Huarong Consumer Finance amounted to RMB17.0 million. As of June 30, 2016, the total asset of Huarong Consumer Finance was RMB1,032.5 million, of which the balance of loans was RMB625.1 million.

4. Management Discussion and Analysis

4.3.3 Asset Management and Investment Business

Benefiting from capital, customer and technical advantages accumulated from the distressed asset management business and financial services business of the Group, the asset management and investment business of the Group includes asset management, financial investments, international business and other businesses. It primarily generates commission and fee income, as well as investment income. The Group's asset management and investment business enhances the overall profitability of its distressed asset management business and improves the business and income structure of the Group. Asset management and investment business is a natural extension and supplement of the distressed asset management business of the Group and serves as an important platform for providing the clients of the Group with diversified asset management, investment and financing services. In the first half of 2015 and 2016, the total income from the Group's asset management and investment business was RMB5,081.6 million and RMB8,881.4 million, respectively, representing 13.4% and 22.2%, respectively, of the total income of the Group. The profit before tax was RMB2,072.7 million and RMB3,425.2 million, respectively, representing 16.2% and 20.2%, respectively, of the total profit before tax of the Group.

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

	For the six months ended June 30,	
	2016	2015
	(in millions of RMB)	
Trust		
Total income	1,081.3	913.7
Including: commission and fee income	863.8	646.7
Profit before tax	617.9	405.6
Private fund		
Total income	968.1	419.8
Financial investments		
Investment income from financial investments ⁽¹⁾	2,170.8	611.1
International business		
Total income	4,231.8	2,412.3
Profit before tax	2,694.4	1,415.1
Other businesses		
Total income	429.4	724.7

4. Management Discussion and Analysis

	As of June 30, 2016	As of December 31, 2015
(in millions of RMB)		
Trust		
Outstanding trust assets under management	219,460.5	212,448.5
Private fund		
Total committed capital	76,079.2	64,282.9
Financial investments		
Balance of financial investments ⁽²⁾	63,412.1	36,742.4
International business		
Total assets	88,569.3	60,451.1

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

4. Management Discussion and Analysis

Trust business

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

As of December 31, 2015 and June 30, 2016, the outstanding trust assets under management of Huarong Trust was RMB212,448.5 million and RMB219,460.5 million, respectively, representing an increase of 3.3%. The number of outstanding projects were 387 and 381, respectively. The total income generated from Huarong Trust's trust business increased by 18.3% from RMB913.7 in the first half of 2015 to RMB1,081.3 million in the first half of 2016.

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

	As of June 30, 2016	As of December 31, 2015
	(in millions of RMB)	
Financial institutions	79,615.9	71,709.3
Real estate	35,498.8	28,481.8
Securities investment	35,443.9	39,654.8
Industry and commerce	34,222.9	39,143.0
Infrastructure	31,569.7	30,064.3
Others	3,109.3	3,395.3
Total	219,460.5	212,448.5

4. Management Discussion and Analysis

Private fund business

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

As of June 30, 2016, Huarong Yufu managed a total of 36 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 include various types of investment companies, fund companies, banks, insurance companies, industry leading enterprises, real estate companies, trading companies and individuals.

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

	For the six months ended June 30,	
	2016	2015
	(in millions of RMB)	
Total income	968.1	419.8

	As of	As of
	June 30,	December 31,
	2016	2015
	(in millions of RMB,	
	except for numbers of	
	funds managed)	
Number of funds managed ⁽¹⁾	36	26
Total committed capital	76,079.2	64,282.9
Total paid-in capital	36,418.3	29,684.5

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

4. Management Discussion and Analysis

Financial investment business

Financial investment business of the Group mainly refers to the fixed income investments and equity investments conducted by the Company. As of December 31, 2015 and June 30, 2016, the balance of financial investments was RMB36,742.4 million and RMB63,412.1 million, respectively. In the first half of 2015 and the first half of 2016, income from financial investment business was RMB611.1 million and RMB2,170.8 million, respectively. The table below sets forth the breakdown of balance of financial investment, by investment type, as of the dates indicated.

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Fixed income investments	60,470.8	95.4%	33,598.6	91.4%
Equity investments	2,941.3	4.6%	3,143.8	8.6%
Total	63,412.1	100.0%	36,742.4	100.0%

Fixed income investments business: Fixed income investment business of the Company utilizes its own funds and funds from external institutional investors to invest in target enterprises through investment instruments such as funds and trusts, and to recover principal and receive investment income on the relevant due dates for the purpose of gaining fixed return. The Company mainly provides financing to borrowers through trust plans established by independent third parties, limited liability partnerships and dedicated asset management plans. As of December 31, 2015 and June 30, 2016, the balance of fixed income financial investment was RMB33,598.6 million and RMB60,470.8 million, respectively.

Equity investments: The Company utilizes its own funds to invest in stocks of unlisted and listed enterprises and other equity interests. The Company makes equity investments in unlisted enterprises which are qualified for listing and have clear listing plans, or participates in strategic placings of enterprises at offering stage. The Company make equity investments in listed companies mainly through participating in their placings or private placements. The Company's investment in other equity interests includes investments in wealth management products of securities companies and interests in limited partnership entities. Equity investments of the Company focus on the energy industry and the machinery manufacturing industry. The Company accelerates the consolidation and reorganization of such enterprises through its investment to facilitate the optimization and upgrade of their industrial structures in order to increase its enterprise values and realize investment returns mainly through exits in the capital markets. As of December 31, 2015 and June 30, 2016, the balance of equity financial investments of the Company was RMB3,143.8 million and RMB2,941.3 million, respectively.

4. Management Discussion and Analysis

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 of 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 Huarong International domestic and overseas funds and businesses. Major lines of business of Huarong International include:

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

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

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

As of December 31, 2015 and June 30, 2016, the total assets of Huarong International was RMB60,451.1 million and RMB88,569.3 million, representing an increase of 46.5%. In the first half of 2016, total income of Huarong International was RMB4,231.8 million while the profit before tax was RMB2,694.4 million. The table below sets forth the asset distribution of Huarong International as of the dates indicated.

	As of June 30, 2016		As of December 31, 2015	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Deposits with financial institutions	11,245.8	12.7%	7,605.9	12.6%
Financial assets held for trading	6,299.6	7.1%	3,417.2	5.7%
Financial assets designated as at fair value through profit or loss	10,686.9	12.1%	9,323.4	15.4%
Available-for-sale financial assets	10,935.5	12.3%	7,843.1	13.0%
Financial assets classified as receivables	23,305.3	26.3%	20,422.5	33.8%
Other assets	26,096.2	29.5%	11,839.0	19.6%
Total	88,569.3	100.0%	60,451.1	100.0%

4. Management Discussion and Analysis

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 the first half of 2015 and the first half of 2016, the income from the Group's other business was RMB724.7 million and RMB429.4 million, respectively.

4.3.4 Business Synergy

The Group established a synergistic mechanism by thoroughly implementing its development strategies of comprehensive financial services and its corporate culture of collaboration and cooperation, refining its synergistic management system and information platform and leveraging its market-oriented profit distribution, incentive and appraisal guidelines, which takes its diversified business platforms as its core, 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 the first half of 2016, the Group strived to encourage business cooperation between the Head Office, Company Branches and subsidiaries. Through the cooperation between (i) Company Branches and subsidiaries; (ii) Company Branches and Company Branches; (iii) Company Branches and the business department of the Head Office; (iv) subsidiaries and subsidiaries; and (v) subsidiaries and the business department of the Head Office, the financing provided by all operation units amounted to RMB63,521 million and the total income of all operation units amounted to RMB2,163 million.

4.3.5 Other business development

In the Reporting Period and up to the date of this report, other business development of the Group also includes:

Huarong Kunlun Qinghai Asset Management Co., Ltd. (華融昆侖青海資產管理股份有限公司) (“**Huarong Kunlun**”), the establishment of which the Company was involved, has officially commenced business operations on June 23, 2016. Huarong Kunlun is a local asset management company in Qinghai Province, established through joint efforts and close cooperation of the Company and the People's Government of Qinghai Province. For details, please refer to the announcement of the Company regarding commencement of business of Huarong Kunlun dated June 24, 2016.

The Company reached consensus with the People's Government of Zhejiang Province on the strategic cooperation agreement to jointly develop Huarong Huang Gongwang Financial Town (華融黃公望金融小鎮). For details, please refer to the announcement of the Company regarding inauguration of the Huarong Huang Gongwang Financial Town dated August 9, 2016.

4. Management Discussion and Analysis

4.3.6 Human Resources Management

In the first half of 2016, based on business development strategy of being market-oriented, professional, diversified, comprehensive and international, the Group further reformed its human resources system and optimized the organization structure of its employees and exerted efforts in attracting market-oriented 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. The Group further strengthened the abilities of its employees by establishing a multi-level, diversified and comprehensive training system which covers a wide range of areas and mixed businesses and provides integrated training programs under its talent optimization strategy, to facilitate the transformation and development after the listing.

Employees

The Group had 10,345 employees as of June 30, 2016, including 2,362 employees working for the Company and 7,983 employees working for various subsidiaries. The Company's employees hold over 50 types of professional qualifications, including Certified Public Accountant, Chartered Financial Analyst, attorney, Financial Risk Manager, Certified Practising Valuer, Certified International Internal Auditor, banking practice qualification and securities practice qualification.

The table below sets forth a breakdown of employees of the Group, by age, as of June 30, 2016.

	Number	Percentage
Aged 35 and below	5,565	54%
Aged 36–45	2,581	25%
Aged 46–55	1,953	19%
Above 55	246	2%
Total	10,345	100%

The table below sets forth a breakdown of employees of the Group, by education level, as of June 30, 2016.

	Number	Percentage
Doctoral degree or doctoral candidate, or above	176	2%
Master degree or master candidate	2,809	27%
Bachelor degree or undergraduate	5,694	55%
Junior college and below	1,666	16%
Total	10,345	100%

4. Management Discussion and Analysis

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 so as to realize the operation goals of the Group. Salaries are determined according to the duties, competence and contributions of employees under the employee remuneration management system with the principles of “position-based salary and performance-based bonus”. The profit-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 Company has established a healthy and competitive remuneration management system based on its operating results and the principle of fairness.

Training

In the first half of 2016, the Group further enhanced the multi-level, diversified and comprehensive training system which covers a wide range of areas and mixed businesses and provides integrated training programs. Highly practical training programs in respect of different business lines with essential contents were provided to different levels of employees in various forms, including on-the-job training such as system introduction, case studies, seminars, promotion of knowledge and skills and research. Employees were encouraged to take part in online learning through knowledge sharing platforms such as online colleges. In the first half of 2016, over 1,000 training programs were held by the Group with more than 46,000 participants, providing sufficient human resources for the sound and sustainable development of the Group.

4.3.7 No Material Changes

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

4. Management Discussion and Analysis

4.4 Risk Management

In the first half of 2016, the Group continued to enhance the foundation of the comprehensive risk management system. The risk management and control structure of the Group was further improved and the risk management system was refined in order to set up proper risk appetite. The establishment of internal control system and procedure was also optimized. The focal points of risk assessment were adjusted and improved. The management of the Group's risk management information and data and the development of risk management system were effectively promoted. Risk management on the whole process of projects proceeded smoothly and all business activities were stable and under controllable risks.

4.4.1 Comprehensive Risk Management System

In the first half of 2016, the Group continued to implement the five-year plan for the comprehensive risk management system from 2014 to 2018 and adjusted the plan based on the development needs so as to progressively achieve the expected results. In response to the domestic and global conditions and according to the development plan of the Group, the Group formulated 2016 Risk Appetite Policy (《2016年風險偏好政策》) to meet the requirement of risk management and risk prevention of the Group. The policy covered all levels and risk types of the Group and set up a bottom line for the balance of risks and profit. The Group reinforced the risk assessment of Company Branches by emphasizing the focus on "cash flow" of the assessment policy, reinforcing the internal off-site inspection and supervision and enhancing the target-orientation of risk management. By carrying out management measures and implementation rules relating to risk assessment, provision for impairment, risk monitoring and connected transactions of subsidiaries, the Group bolstered the risk management over subsidiaries and standardized and refined management requirements of the Group so as to optimize the management system of the Group. The Group also strengthened the information system of comprehensive risk management and fundamentally formed a structure covering the project system, risk indicators as well as the management standards for risk data, which have boosted the quality and effectiveness of risk management of the Group.

4.4.2 Credit Risk Management

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

In the first half of 2016, in response to the risk management requirements under the macroeconomic conditions and structural reform of the supply side, and to satisfy the financial regulatory requirements, the Group focused on credit risk management and control, and continued to refine its management system. Through adoption of comprehensive management tools and measures, the Group clearly defined the requirements and procedures of the identification, assessment, monitoring and control of credit risks. The effectiveness of credit risk management has been further improved and the asset quality of the Group remained stable.

4. Management Discussion and Analysis

In the first half of 2016, the Group continuously pushed forward the establishment of measures and tools of credit risk management. To promote the level of quantitative management of customer credit risks, the Group implemented an internal rating system of credit risks step by step, including the development of risk measurement models and application plan for internal rating system of customers, and proactively pushed forward the online implementation of the system. Moreover, the Group further improved its limit management mechanism. While the Group continued to enhance the limit management policies, it improved the flexibility and practicability of limit management based on the calculation methods of optimizing economic environment. The Group continued to strengthen the monitoring of project risks through enhancing supervision over the repayment of debtors and conducting dynamic assessments on collaterals and regular evaluation on assets quality. In addition, 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 of all Company Branches based on reasonable quantified measurement and achieved effective disposal of risk assets.

4.4.3 Market Risk Management

Market risk refers to the situation where 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 the first half of 2016, the Group further studied on the methods of classifying trading accounts and non-trading accounts under the framework of the Measures for Management of Market Risks (市場風險管理辦法), which laid a foundation for compliance with the regulatory requirements and enhancing internal control of market risks.

In respect of interest rate risk, the Group proactively managed assets and liabilities, and applied the results of gap analysis of assets and liabilities to adjust the portfolio, in order to control the costs of indebtedness. 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. The Group also managed interest rate risks through quantitative analysis, including regular sensitivity analysis.

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

4. Management Discussion and Analysis

With respect to the price risks of listed stocks, the Group closely monitored the changes in situations including macroeconomic conditions, industry fundamentals, domestic and overseas major events, production and operation of enterprises as well as operating environment of capital market, analysed the impact of relevant factors on the stock prices of listed companies and monitored their market values on daily basis. Huarong Securities and the Group jointly conducted professional analysis and transactions, and developed transaction portfolios of different types of assets to facilitate effective management of the market value of listed stocks. 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 Group during its business operations.

4.4.4 Liquidity Risk Management

Liquidity risk refers to the risks associated with failure to obtaining sufficient funds promptly or at reasonable cost, which are intended for repaying debts or other obligations or supporting the asset growth or other business development. Liquidity risks can be further divided into 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 its daily operations or financial conditions. Market liquidity risk refers to the situation where the Company 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 potential liquidity risks arise from the slower-than-expected recovery of project funds, mismatch of asset and liability structure, insufficient liquid assets reserves, operational loss and difficulty in market-based financing.

The Group has adopted a centralized liquidity management system to enhance the development of management systems which included the administrative measures for liquidity risk, stress test plans and contingent plans for liquidity. 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 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. Meanwhile, the Group continuously enhanced the management and monitoring of the liabilities and liquidity of its subsidiaries so as to ensure the financing channels are unimpeded and effective.

4. Management Discussion and Analysis

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

In the first half of 2016, the Group strengthened its management of operational risks through carrying out the educational activities under the theme of "Operational Risks are Next to Me", sorting out the external regulations and the internal policies comprehensively, conducting thorough self-inspections on possible operational risks, refining the system of operational risks and process of business control, organizing trainings on operational risks together with case studies, analysis and discussions and enhancing the awareness and prevention ability of operational risks.

The Group attached great importance to the development of prevention and control system of legal risks covering all processes and the compliance risk management system. The Group continuously refined all of its policies relating to legal matters and compliance management, promoted innovation of the working mechanism of case management, optimize the review process of legal compliance so as to fully prevent and control the legal risks and compliance risks in connection with its projects. The Group also continuously conducted trainings on legal matters, case studies and legal education programmes to promote the awareness of legal compliance risks of staff and cultivate the culture of legal compliance.

The Group further refined its information technology risks prevention system and based on the information security control measures set forth in ISO 27001:2005 information security management system established and regulatory requirements of CBRC, conducted technology information risks precaution activities including evaluation on information technology risks and self-inspections on information security, strengthened the management of authorizations of information systems accounts and information technology outsourcing. As such, the management of information technology was further regulated and the management level of information technology risks was further improved. In the first half of 2016, the Group did not have any significant event in relation to information security.

4. Management Discussion and Analysis

4.4.6 Reputational Risk Management

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

The Group placed particular importance on reputational risk management. It has established an advanced reputational risk management system to conduct proactive reputational risk management to ensure timely discovery and handling of incidents in relation to or may lead to reputational risk of the Group and to prevent it from happening, to protect the social image and improve the service level of the Group.

In its daily operation, the Group has worked in accordance with the principles of proactive and prudent management and insisted in combining centralized control and classified management, which achieved management and control with full involvement and division of duties and responsibility. As such, it realized regular and standardised management of reputational risk, reinforced the awareness of reputational risk management of staff and further improved the ability of reputational risk management, which all together safeguard and promote the social reputation, brand name and image of the Group. In the first half of 2016, the Group did not have any event in relation to reputational risk.

4.4.7 Internal Audit

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

In the first half of 2016, the Group has duly performed its audit duties. It has strived to improve the internal audit and management systems. By conducting relevant studies, it further applied the internal audit system and management models applicable to listed companies for their development needs. The Group has conducted regular and special audits of its branches and subsidiaries focusing on major projects, businesses and financial matters, internal management and internal control and other aspects. The Group has also conducted economic responsibility audits of the middle and senior management during their term of office. The Group has continuously strengthened its internal audit team by organizing trainings for the internal auditors on laws and regulations, internal audit system and business knowledge. By enhancing the ability of the internal audit team, the Group has facilitated continuous improvement in the efficiency of its internal audit.

4. Management Discussion and Analysis

4.4.8 Anti-money Laundering Management

The Group has strictly complied with the anti-money laundering laws and regulations, and duly fulfilled its social responsibility and legal duty of anti-money laundering. The Company has continued to refine the 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.

4.5 Capital Management

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

As at December 31, 2015 and June 30 2016, the capital adequacy ratio of the Company was 14.75% and 13.71%, respectively.

As at December 31, 2015 and June 30, 2016, the leverage ratio of the Company was 6.1:1 and 8.5:1, respectively.

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

4. Management Discussion and Analysis

4.6 Outlook

The global economy is expected to remain relatively weak in the second half of 2016, and this re-balancing period will be accompanied by uncertainties. Economic growth in the PRC will remain promising in the long run. In the second half of 2016, the PRC government will continue to pursue steady growth and focus on the structural reform on the supply side, maintain macroeconomic policy direction, enhance the timely implementation of regulations and strengthen anticipatory adjustments and fine-tuning, to ensure that the economy operates within an appropriate range.

In light of opportunities and challenges, the Company will capitalise on the demand for financial services arising from the implementation of the PRC government's strategies of the "three eliminations, one reduction and one improvement" (三去一降一補), that is, "cutting overcapacity, destocking, deleveraging, reducing cost and shoring up weak growth areas", and from the upgrading and transitioning of traditional industries and the replacement of traditional industry drivers. The Company will also fully leverage its professional advantages of distressed asset management and its comprehensive financial services businesses, to support the enhancement of structural reform of supply side. **Firstly**, the Company will innovate its business development models, expand and optimise the distressed assets acquisition and disposal businesses with diversified market-oriented methods, while continuing to consolidate its leading position in the industry. **Secondly**, the Company will enhance its provision of financial services to certain industries pursuant to national development strategies, traditional industries and enterprises under transformation and upgrading, emerging strategic industries, and innovative technology enterprises, by leveraging market opportunities stemming from the major economic strategies and industrial optimisation and restructuring of the PRC. **Thirdly**, the Company will strengthen the Group's business collaboration, and actively adopt various financial measures to provide customers with financial services covering the full business cycle and the entire industry value chain.

5. Changes in Share Capital and Information on Substantial Shareholders

5.1 Changes in Share Capital

The Share capital of the Company as of June 30, 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%

5. Changes in Share Capital and Information on Substantial Shareholders

5.2 Substantial Shareholders

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

As of June 30, 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 Securities and Futures Ordinance, which were recorded in the register pursuant to Section 336 of the SFO as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of Shares of the Company (%) ⁽⁶⁾	Approximate percentage to the total share capital of the Company (%) ⁽⁷⁾
MOF	Domestic Shares	Beneficial owner	12,376,355,544(L)	88.24(L)	31.68(L)
	H Shares ⁽¹⁾	Beneficial owner	12,376,355,544(L)	49.42(L)	31.68(L)
	H Shares ⁽²⁾	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
China Life Insurance (Group) Company	Domestic Shares	Beneficial owner	1,650,000,000(L)	11.76(L)	4.22(L)
Warburg Pincus & Co. ⁽³⁾	H Shares	Interest of controlled corporation	2,060,000,000(L)	8.23(L)	5.27(L)
Warburg Pincus Financial International Ltd ⁽³⁾	H Shares	Beneficial owner	2,060,000,000(L)	8.23(L)	5.27(L)
Sino-Ocean Land Holdings Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	1,753,811,000(L)	7.00(L)	4.49(L)
Central Huijin Investment Ltd. ⁽²⁾	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Ko Kwong Woon Ivan ⁽⁵⁾	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Siu Lai Sheung ⁽⁵⁾	H Shares	Interest of controlled corporation	1,716,504,000(L)	6.85(L)	4.39(L)
Fabulous Treasure Investments Limited ^{(2), (4), (5)}	H Shares	Beneficial owner	1,716,504,000(L)	6.85(L)	4.39(L)

5. Changes in Share Capital and Information on Substantial Shareholders

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., 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 corporations directly or indirectly controlled by Warburg Pincus & Co., for the purpose of the SFO, Warburg Pincus & Co., WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP Financial L.P. and Warburg Pincus International L.P. are deemed to be interested in the long positions held by Warburg Pincus Financial International Ltd.
- (4) According to the Corporate Substantial Shareholder Notice from Sino-Ocean Land Holdings Limited filed with the Hong Kong Stock Exchange on March 22, 2016, Fabulous Treasure Investments Limited and Shining Grand Limited directly holds 1,716,504,000 and 37,307,000 H Shares of the Company, respectively. As Shine Wind Development Limited, Fame Gain Holdings 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, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited and Shining Grand Limited are all corporations directly or indirectly controlled by Sino-Ocean Land Holdings Limited, for the purpose of the SFO, Sino-Ocean Land Holdings Limited, Shine Wind Development Limited, Fame Gain Holdings 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 Land Holdings 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 37,307,000 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, 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 of June 30, 2016.
- (7) Calculated based on a total of 39,070,208,462 Shares in issue of the Company as of June 30, 2016.

5. Changes in Share Capital and Information on Substantial Shareholders

5.2.2 Substantial Shareholders

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

MOF

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

China Life Insurance (Group) Company

It is a financial insurance company wholly owned by the MOF. China Life Insurance (Group) Company and its subsidiaries constitute the largest commercial insurance group in China. Its business scopes include 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 (CIS) segments, energy, financial services, pharmaceuticals and healthcare, technology, media and telecommunication (TMT) and other industries. Warburg Pincus LLC has established business in China since 1994, being one of the first international private 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 Land Holdings Limited

Sino-Ocean Land Holdings Limited, established in 1993, is one of the leading real estate developers 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.

6. Directors, Supervisors and Senior Management

6.1 General Information

6.1.1 Directors

As of June 30, 2016, the Board comprises Mr. Lai Xiaomin (the chairman of the Board), Mr. Ke Kasheng and Mr. Wang Keyue as executive Directors; Mr. Tian Yuming, Ms. Wang Cong, Ms. Dai Lijia and Mr. Wang Sidong as non-executive Directors; and Mr. Song Fengming, Mr. Wu Xiaoqiu, Mr. Tse Hau Yin and Mr. Liu Junmin as independent non-executive Directors.

6.1.2 Supervisors

As of June 30, 2016, the Board of Supervisors comprises Mr. Sui Yunsheng (the chairman of the Board of Supervisors) as Shareholder representative Supervisor, Ms. Wang Qi and Ms. Dong Juan as external Supervisors, and Ms. Zheng Shengqin and Mr. Xu Dong as employee representative Supervisors.

6.1.3 Senior Management

As of June 30, 2016, the senior management of the Company comprises Mr. Ke Kasheng, Mr. Wang Keyue, Mr. Li Yuping, Mr. Wang Lihua, Mr. Xiong Qiugu, Mr. Hu Jiliang, Mr. Wang Wenjie, Ms. Hu Ying, Mr. Yang Guobing and Mr. Hu Jianjun.

6.2 Changes in Directors, Supervisors and Senior Management

6.2.1 Directors

On March 3, 2016, the Company received a letter of resignation from Mr. Li Hui, a non-executive Director. Due to change of personal work arrangements, Mr. Li Hui ceased to be a non-executive Director, a member of the Strategy and Development Committee of the Board and a member of the Related Party Transactions Committee of the Board effective from the same date. For details, please refer to the relevant announcement of the Company dated March 4, 2016.

6. Directors, Supervisors and Senior Management

On March 29, 2016, the Company received a letter of resignation from Mr. Wu Xiaoqiu, an independent non-executive Director. Due to relevant regulatory requirements regarding leaders and cadres in universities working part-time in enterprises and his own intention, Mr. Wu Xiaoqiu has tendered his resignation as an independent non-executive Director, a member of the Strategy and Development Committee of the Board, a member of the Risk Management Committee of the Board, a member of the Audit Committee of the Board and a member of the Nomination and Remuneration Committee of the Board. As the number of independent non-executive Directors of the Board would be less than one-third of the Board following the resignation of Mr. Wu Xiaoqiu, pursuant to the relevant laws and regulations as well as the Articles of Association, the resignation of Mr. Wu Xiaoqiu will take effect only after a new independent non-executive Director has been elected at the general meeting of the Company and whose qualification for serving as the independent non-executive Director has been approved by the CBRC. For details, please refer to the relevant announcement of the Company dated March 31, 2016.

On June 24, 2016, the appointment of Mr. Shao Jingchun as an independent non-executive Director was approved by the shareholders of the Company at the annual general meeting for 2015. Mr. Shao Jingchun will take office upon receiving the approval from the CBRC on his directorship qualification. His term of office will last until the election of the next session of the Board. Mr. Wu Xiaoqiu shall continue to perform his duties as an independent non-executive Director before Mr. Shao Jingchun takes office. For details, please refer to the relevant circular and announcement of the Company dated May 9, 2016 and June 24, 2016, respectively.

6.2.2 Senior Management

On June 8, 2016, Mr. Liang Zhijun and Ms. Zhang Lin have each been approved by Board resolution to retire from their respective positions as vice president of the Company due to age effective from the same date. For details, please refer to the relevant announcement of the Company dated June 8, 2016.

6.3 Changes during the Reporting Period

Ms. Dong Juan, the external supervisor of the Company, ceased to serve as the external supervisor of Industrial and Commercial Bank of China Limited since June 24, 2016.

Mr. Xu Dong, the employee representative Supervisor, ceased to serve as deputy general manager of the Risk Management Department and the general manager of the Asset Preservation Department of the Company since May 10, 2016.

Save as the above changes, information regarding the positions of the Directors and Supervisors is the same as those disclosed in the 2015 Annual Report. There is no other changes which shall be disclosed according to Rule 13.51B(1) of the Listing Rules.

7. Significant Events

7.1 Corporate Governance

In strict compliance with the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules and other laws, regulations, regulatory documents and the Articles of Association, and in light of actual operating conditions, the Company actively conducted innovative research on corporate governance, further improved its corporate governance structure, corporate governance level and corporate governance operating mechanism. Efforts were also made to enhance transparency and to ensure healthy operation with a view to safeguarding the legal interests of domestic and foreign investors as well as other stakeholders.

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

7.2 Shareholders' General Meeting

On February 1, 2016, the Company held its first extraordinary general meeting for 2016 in Beijing to consider and approve three resolutions, namely the proposed amendments to the Articles of Association, the remuneration package for the Directors for 2014, and the remuneration package for the Supervisors for 2014, with the resolution of the proposed amendments to the Articles of Association being a special resolution.

On May 6, 2016, the Company held its second extraordinary general meeting for 2016 in Beijing to consider and approve three resolutions, namely, the issuance plan of financial bonds for 2016 and relevant authorization, the capital increase in Huarong Trust and the appointment of external auditors for 2016, with the resolutions of the issuance plan of financial bonds for 2016 and relevant authorization, and the resolution of the capital increase in Huarong Trust being special resolutions.

On June 24, 2016, the Company held its annual general meeting for 2015 in Beijing to consider and approve ten resolutions, namely the issue of tier II capital bonds, the capital increase in Huarong Financial Leasing, the capital increase in Huarong Securities, the final financial account plan for 2015, the profit distribution plan for 2015, the election of Mr. Shao Jingchun as an independent non-executive Director of the Company, the fixed assets investment budget for 2016, the work report of the Board of Directors for 2015, the work report of the Board of Supervisors for 2015 and the appointment of external auditors for 2016, with three of them (i.e. the issue of tier II capital bonds, the capital increase in Huarong Financial Leasing and the capital increase in Huarong Securities) being special resolutions. In addition, the work report of the independent non-executive Directors for 2015 was also considered at the meeting.

7. Significant Events

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

7.3 Board

As of June 30, 2016, the Board comprised 11 members, including three executive Directors, four non-executive Directors and four independent non-executive Directors. The independent non-executive Directors accounted for over one-third of the Board members.

During the Reporting Period, the Company held four Board meetings, at which 33 resolutions were considered and passed, including, among others, the final financial account plan for 2015, the operation plan for 2016, the fixed assets investment budget for 2016, and the risk appetite policies for 2016. In addition, five reports were debriefed, which included the information development report of the Company for 2015 and the work plan of the Risk Management Committee for 2016.

7.4 Board of Supervisors

As of June 30, 2016, the Board of Supervisors comprised five members, including one Shareholder representative Supervisor, two external Supervisors and two employee representative Supervisors.

The Board of Supervisors performed its supervisory duties in accordance with laws by continuously strengthening its efforts in monitoring the finance, risk, internal control and other key business areas of the Company. It also further explored the effective ways for implementing its supervision suggestions.

The Board of Supervisors duly performed its duty to consider and review proposals. During the Reporting Period, the Board of Supervisors of the Company convened one meeting for the consideration and approval of nine resolutions, including the work report of the Board of Supervisors for 2015, the work plan of the Board of Supervisors for 2016, the Company's annual report for 2015 and the final financial account plan for 2015. The supervisory committee under the Board of Supervisors held three meetings for the review of resolutions such as the preliminary suggestions on the performance evaluation of the Directors and senior management for 2015 by the Board of Supervisors.

7. Significant Events

7.5 Senior Management

During the Reporting Period, the senior management of the Company carried out operation management within the scope of authorities delegated by the Articles of Association and the Board of Directors. The senior management of the Company strived to adapt to the “new normal” economic development, to look for new drivers and to achieve new developments. The senior management implemented the annual operation plan of the Company as approved by the Board and further consolidated our strengths in non-performing assets. The senior management improved the provision of comprehensive financial services through strengthening market expansion, enhancing risk management and control, improving internal management and increasing transparency of the Company in order to create a sound corporate image and further improve the operating results of the Company.

7.6 Code of Corporate Governance

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

7.7 Internal Control

7.7.1 Development of Internal Control System

The Group duly implemented the Basic Internal Control Norms for Enterprises (企業內部控制基本規範) and its implementation guidelines jointly promulgated by the five ministries including the MOF, the Measures on the Internal Control of Financial Asset Management Companies (金融資產管理公司內部控制辦法) and the regulatory requirements on internal control of relevant regulatory departments and institutions including the Hong Kong Stock Exchange. It strived to further improve the organizational structure of internal control, enhance system management, strengthen business control measures and refine the internal control system.

During the Reporting Period, based on changes in external regulatory requirements and corporate business development, the Group re-arranged major businesses and management processes to strengthen the risk control of key procedures. Through training, inspection, examination and other measures, the Group further enhanced the establishment of its internal control culture, awareness and effectiveness.

7. Significant Events

7.7.2 Internal Control Measures for Sanction Risks and Excluded DES Companies

Internal control measures for sanction risks

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

1. The Group has revised the Administrative Measures on Compliance Risk (《合規風險管理辦法》) to specify the scope of duties in respect to the prevention and control of sanction 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 sanction 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 basic tools of due diligence investigation on sanction risks.
4. The Group reviews sanction 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 sanction risks for potential investment opportunity in a timely manner and strictly complied with the Company's requirements on the prevention of OFAC sanction 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 sanction risks.
5. The Group has conducted sanction risk assessment, and carried out self-assessment of relevant issues in respect of sanction risks. The Group has not identified any issues related to sanction risks.
6. The proceeds of the Group from the global offering have been deposited into a bank account separated from other funds of the Group, and such proceeds have not been provided to the Subject Companies. In the future, the Group will manage all other funds raised through the Hong Kong Stock Exchange in the same manner as mentioned above.

7. Significant Events

7. The Group has no present intention to undertake in any future business that would cause the Group or Relevant Persons to violate or become a target of sanctions laws of the United States, European Union or the United Nations. If the Group identifies any sanction 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.
8. The Company has engaged Kirkland & Ellis as its annual international legal advisor after the listing, to provide assistance to the Company in evaluating sanction risks of the Group every six months. The Group has engaged Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) as its compliance advisors after the listing.

Internal Control Measures for Excluded DES Companies

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

1. The Group adopted “external benchmarks” to revise the Company’s management of equities of DES Companies and related systems. Relevant issues identified were set out in a list and related improvement measures were recommended.
2. The Group has revised the Administrative Measures on Compliance Risks (合規風險管理辦法), which requires the legal and compliance department of the Group to keep track of changes to external laws and regulations (including the Protection of State Secret Laws) and to remind relevant departments of any changes in a timely manner.
3. The Group inspected the compliance of the management of equities of Excluded DES Companies, and evaluated relevant compliance risks.
4. The Group compiled a compliance manual to highlight the focal points of the management of equities of Excluded DES Companies.
5. The Group has fully commenced the disposal plan for the Excluded DES Companies. For details of the disposal of the Excluded DES Companies, please see “7. Significant Events — 7.10 Disposal of Equity in Excluded DES Companies” of this interim report.
6. As for the Excluded DES Companies, the Group has appointed designated project managers to manage daily operations. Based on the ordinary management information available to the Group, such enterprises have not encountered any risk of material legal dispute and compliance risk since the Listing Date.

7. Significant Events

7. The Group will not increase its investments in the Excluded DES Companies or increase the 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.

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 the restructuring of the Company. According to the operating plans of the Group for such assets, the Group attached great importance to capturing restructuring, mergers and acquisitions opportunities to realize asset liquidity and achieve gains from equity restructuring and disinvest from highly competitive industries or such companies with limited potential for asset appreciation. The Group also placed emphasis on taking advantage of its strengths in integrated financial services of the Group, enhancing internal business collaboration, improving the level and return of market value management and enhancing the management of equity assets. These efforts were made to increase the overall gain from equity assets management and seek greater social benefits.

In the future, the Group will continue to pay greater attention to the policy direction on the reforms of state-owned enterprises and financial systems, and promptly grasp opportunities arising from active market conditions and increase its efforts to overcome market challenges. Leveraging on DES Companies and other investment opportunities in the market, the Group will carefully assess potential risks of the projects through comprehensive due diligence, including sanctions risk, in order to expand its equity investment business effectively.

7.8 Distribution of Profit and Dividends

On June 24, 2016, the profit distribution plan for 2015 was considered and approved at the annual general meeting of the Company for 2015. As approved at the annual general meeting held on June 24, 2016, a special dividend in the amount of RMB1,248 million based on the net profit after deducting the appropriations to statutory surplus reserve and general reserve according to the applicable regulations for the special dividend period (July 1, 2015 to September 30, 2015) has been distributed in cash to Shareholders whose names appeared on our register of members as at the record date for the special dividend (September 30, 2015). No other dividend distribution has been made for 2015 except for the above special dividend. The Company does not declare any interim dividend for 2016.

7. Significant Events

7.9 Use of Proceeds

On October 30, 2015, the Group was listed on the Main Board of the Hong Kong Stock Exchange and the proceeds from the listing amounted to HK\$19,697 million. After deducting certain listing expenses, the Group applied for foreign exchange registration to the Beijing Foreign Exchange Administration Office of State Administration of Foreign Exchange and remitted HK\$19,068 million to China.

As of June 30, 2016, the Group has used HK\$13,417 million (equivalent to RMB11,200 million) of the proceeds from the listing, of which RMB9,600 million was used to develop the distressed asset management business of the Group and RMB1,600 million was used to develop the asset management and investment business of the Group. The actual use of proceeds was consistent with the committed use of proceeds set out in the Prospectus. As of June 30, 2016, the balance in account for deposit of proceeds in China amounted to HK\$5,671 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.

7.10 Disposal of Equity in Excluded DES Companies

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

In the first half of 2016, the Group continued to carry out the disposal plan of the Excluded DES Companies. As of June 30, 2016, for all of the six Excluded DES Companies, the Group has continued the negotiations with their respective de-facto controllers and controlling shareholders regarding the disposal of our shareholdings. The disposal processes of three Excluded DES Companies have commenced, two of which are pending approval and one of which has obtained approval for the disposal plan and evaluation report. During the Reporting Period, Wang Keyue, an executive Director, was responsible for the disposal process and monitoring the disposal progress, and our independent non-executive Directors supervised the relevant actions of Wang Keyue. In August 2016, Wang Keyue discussed and reported the relevant disposal plan and progress to the independent non-executive Directors, and the independent non-executive Directors made enquires accordingly. Wang Keyue also reported the relevant disposal plan and progress to the Audit Committee under the Board in August 2016.

We will retain Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) as our compliance advisers 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.

7. Significant Events

7.11 Material Financing

7.11.1 Insurance of Bonds

On March 2, 2016, the Company issued 5-year fixed rate financial bonds with the principal of RMB10,000 million at a coupon rate of 3.39% in the interbank bond market in China. For details, please refer to relevant announcements regarding the insurance of financial bonds dated February 15, 2016 and March 4, 2016.

In June 2016, Huarong Finance II Co., Ltd, a wholly-owned subsidiary of Huarong International issued 3-year, 5-year and 10-year fixed rate U.S. dollar denominated guaranteed notes with principal amounts of US\$700 million, US\$900 million and US\$900 million, respectively, at coupon rates of 2.75%, 3.25% and 4.625%, respectively. The interests are paid semi-annually. For details, please refer to relevant announcements regarding the guaranteed notes dated May 22, 2016, May 23, 2016, May 27, 2016 and June 3, 2016.

7.11.2 Proposed A Share Offering

The resolutions relating to the proposed A Share Offering were approved by the Board meetings held on June 24, 2016 and July 15, 2016 and meeting of the Board of Supervisors held on July 15, 2016. Matters relating to the A Share Offering shall be approved by the Shareholders on the extraordinary general meeting and certain resolutions shall be approved by the extraordinary general meeting, domestic shareholders' class meeting and H shareholders' class meeting respectively. In addition, the A Share Offering shall be approved by the CSRC and other relevant regulatory authorities. The Company will convene the extraordinary general meeting, domestic shareholders' class meeting and H shareholders' class meeting on September 13, 2016 for considering the matters relating to the A Share Offering. The Company has dispatched the meeting notice and circular to Shareholders on July 29, 2016. For details, please refer to the announcement on the proposed A Share Offering and the further announcement and circular on the proposed A Share Offering published on June 24, 2016, July 15, 2016 and July 29, 2016, respectively. The Company will duly disclose other details and development of the A Share Offering.

7. Significant Events

7.12 Material Litigation and Arbitration

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

During the Reporting Period, the Company was involved in various unresolved litigation matters. For example, as of June 30, 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 RMB137 million and unresolved legal proceedings of which the amount in dispute exceeded RMB10 million and in which the Company was a plaintiff had an aggregate alleged amount of approximately RMB21,223 million. The Company believes that it has made full accrual allowance for the potential losses arising from unresolved legal proceedings and that none of such legal proceedings, individually or in aggregate, would have a material adverse impact on the business, financial condition and results of operations of the Company.

7.13 Major Acquisition and Disposal of Assets and Merger

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

7.14 Implementation of Share Incentive Scheme

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

7.15 Major Connected Transactions

During the Reporting Period, the Company did not conduct any connected transaction(s) or continuing connected transaction(s) which is subject to the announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

7. Significant Events

7.16 Major Contracts and Their Implementation

7.16.1 Major Custodies, Underwriting and Leasing

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

7.16.2 Material Guarantees

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

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

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

7.18 Events after the Reporting Period

The resolutions relating to the proposed A Share Offering were approved by the Board meetings held on June 24, 2016 and July 15, 2016 and meeting of the Board of Supervisors held on July 15, 2016. For details, please refer to “7. Significant Events — 7.11 Material Financing — 7.11.2 Proposed A Share Offering”.

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

7.19 Purchase, Sale and Redemption of Listed Securities

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

7. Significant Events

7.20 Securities Transactions by Directors, Supervisors and Senior Management

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

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

As at June 30, 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.

7.22 Review of the Interim Report

The interim financial statements for the six months ended June 30, 2016 prepared by the Company according to the IFRSs were reviewed by Deloitte Touche Tohmatsu.

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

8. Review Report and Condensed Consolidated Financial Statements

REVIEW REPORT AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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Report on Review of Condensed Consolidated Financial Statements



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

Introduction

We have reviewed the condensed consolidated financial statements of China Huarong Asset Management Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 92 to 180, which comprise the condensed consolidated statement of financial position as of June 30, 2016 and the related condensed consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Report on Review of Condensed Consolidated Financial Statements

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
August 29, 2016

Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	For the six months ended June 30	
		2016 (Unaudited)	2015 (Audited)
Income from distressed debt assets			
classified as receivables	1	11,688,521	11,012,476
Fair value changes on distressed debt assets	2	1,432,354	485,999
Fair value changes on other financial assets	3	2,718,928	2,177,313
Interest income	4	7,191,127	7,030,768
Investment income	5	9,581,229	9,828,617
Commission and fee income	6	5,745,857	5,517,596
Net gains on disposal of subsidiaries and associates		21,275	175,329
Other income and other net gains or losses	7	1,631,304	1,597,951
Total		40,010,595	37,826,049
Interest expense	8	(14,027,628)	(12,126,660)
Commission and fee expense		(481,593)	(564,295)
Operating expenses	9	(5,358,765)	(5,331,195)
Impairment losses on assets	10	(1,969,159)	(6,150,212)
Total		(21,837,145)	(24,172,362)
Change in net assets attributable to other holders of consolidated structured entities	25	(1,306,513)	(970,717)
Share of results of associates and joint ventures		78,097	140,611
Profit before tax		16,945,034	12,823,581
Income tax expense	11	(4,099,325)	(2,955,815)
Profit for the period		12,845,709	9,867,766
Profit attributable to:			
Equity holders of the Company		11,122,978	8,373,349
Holders of perpetual capital instruments		256,899	83,909
Non-controlling interests		1,465,832	1,410,508
		12,845,709	9,867,766
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)			
— Basic	12	0.28	0.26
— Diluted	12	0.28	N/A

Condensed Consolidated Statement of Other Comprehensive Income

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2016	2015
	(Unaudited)	(Audited)
Profit for the period	12,845,709	9,867,766
Other comprehensive (expense) / income:		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses) / gains on defined benefit obligations	(676)	1,693
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	(1,969,378)	4,778,086
Income tax effect	817,286	(1,194,522)
	(1,152,092)	3,583,564
Share of other comprehensive (expense) / income of associates and joint ventures	(31,432)	51,444
Exchange differences arising on translation of foreign operations	(42,054)	9,140
Other comprehensive (expense) / income for the period, net of income tax	(1,226,254)	3,645,841
Total comprehensive income for the period	11,619,455	13,513,607
Total comprehensive income attributable to:		
Equity holders of the Company	9,946,430	11,999,179
Holders of perpetual capital instruments	256,899	83,909
Non-controlling interests	1,416,126	1,430,519
	11,619,455	13,513,607

Condensed Consolidated Statement of Financial Position

As at June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	As at June 30, 2016 (Unaudited)	As at December 31, 2015 (Audited)
Assets			
Cash and balances with central bank	14	28,336,789	24,982,130
Deposits with financial institutions	15	114,196,441	76,896,262
Placements with banks		9,769,751	9,298,706
Financial assets held for trading	16	28,190,777	13,004,002
Financial assets designated as at fair value through profit or loss	17	97,690,869	85,458,189
Financial assets held under resale agreements	18	25,531,449	32,538,933
Loans and advances to customers	19	104,449,104	81,625,232
Finance lease receivables	20	78,916,844	71,672,497
Available-for-sale financial assets	21	91,640,337	64,994,231
Held-to-maturity investments	22	36,559,533	34,357,970
Financial assets classified as receivables	23	403,525,478	328,685,840
Interests in associates and joint ventures	24	8,787,978	6,692,635
Investment properties	27	1,035,955	1,070,209
Property and equipment	28	5,389,166	5,026,771
Deferred tax assets	29	5,621,542	4,826,597
Other assets	30	33,580,118	25,416,214
Total assets		1,073,222,131	866,546,418
Liabilities			
Borrowings from central bank		800,000	20,000
Deposits from financial institutions	31	3,941,167	15,468,153
Placements from financial institutions	32	15,528,302	964,936
Financial assets sold under repurchase agreements	33	35,033,556	30,361,861
Borrowings	34	387,137,331	295,031,782
Due to customers	35	175,919,366	139,998,873
Income tax payable		1,986,104	3,223,251
Deferred tax liabilities	29	641,770	552,760
Bonds and notes issued	36	189,496,039	143,053,839
Other liabilities	37	131,085,501	119,070,361
Total liabilities		941,569,136	747,745,816

Condensed Consolidated Statement of Financial Position

As at June 30, 2016

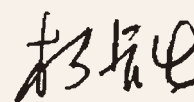
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note IV	As at June 30, 2016 (Unaudited)	As at December 31, 2015 (Audited)
Equity			
Share capital	38	39,070,208	39,070,208
Capital reserve	39	18,384,948	18,404,795
Surplus reserve		2,441,087	2,441,087
General reserve	40	9,305,831	8,571,665
Other reserves	41	4,298,965	5,475,513
Retained earnings		34,542,894	24,154,082
Equity attributable to equity holders of the Company		108,043,933	98,117,350
Perpetual capital instruments	42	6,399,783	6,454,112
Non-controlling interests		17,209,279	14,229,140
Total equity		131,652,995	118,800,602
Total equity and liabilities		1,073,222,131	866,546,418

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



CHAIRMAN



PRESIDENT

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to equity holders of the Company							Perpetual capital instruments	Non-controlling interests	Total	
	Note IV	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings				Subtotal
As at January 1, 2016 (Audited)		39,070,208	18,404,795	2,441,087	8,571,665	5,475,513	24,154,082	98,117,350	6,454,112	14,229,140	118,800,602
Profit for the period		—	—	—	—	—	11,122,978	11,122,978	256,899	1,465,832	12,845,709
Other comprehensive expense		—	—	—	—	(1,176,548)	—	(1,176,548)	—	(49,706)	(1,226,254)
Total comprehensive (expense) / income for the period		—	—	—	—	(1,176,548)	11,122,978	9,946,430	256,899	1,416,126	11,619,455
Capital contribution from non-controlling interests		—	—	—	—	—	—	—	—	2,535,070	2,535,070
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	—	(675,968)	(675,968)
Issuance of perpetual capital instruments	42	—	—	—	—	—	—	—	900,000	—	900,000
Buy back of perpetual capital instruments	42	—	—	—	—	—	—	—	(1,000,000)	—	(1,000,000)
Distribution relating to perpetual capital instruments	42	—	—	—	—	—	—	—	(211,228)	—	(211,228)
Appropriation to general reserve	40	—	—	—	734,166	—	(734,166)	—	—	—	—
Disposal of subsidiaries		—	—	—	—	—	—	—	—	(101,052)	(101,052)
Acquisition of additional interests in subsidiaries		—	(82,207)	—	—	—	—	(82,207)	—	(194,037)	(276,244)
Others		—	62,360	—	—	—	—	62,360	—	—	62,360
As at June 30, 2016 (Unaudited)		39,070,208	18,384,948	2,441,087	9,305,831	4,298,965	34,542,894	108,043,933	6,399,783	17,209,279	131,652,995
As at January 1, 2015 (Audited)		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 period		—	—	—	—	—	8,373,349	8,373,349	83,909	1,410,508	9,867,766
Other comprehensive income		—	—	—	—	3,625,830	—	3,625,830	—	20,011	3,645,841
Total comprehensive income for the period		—	—	—	—	3,625,830	8,373,349	11,999,179	83,909	1,430,519	13,513,607
Capital contribution from non-controlling interests		—	—	—	—	—	—	—	—	113,642	113,642
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	—	(658,359)	(658,359)
Issuance of perpetual capital instruments by subsidiary		—	—	—	—	—	—	—	800,000	—	800,000
Distribution relating to perpetual capital instruments		—	—	—	—	—	—	—	(80,226)	—	(80,226)
Appropriation to general reserve	40	—	—	—	613,634	—	(613,634)	—	—	—	—
Acquisition of additional interests in subsidiaries		—	(45,737)	—	—	—	—	(45,737)	—	19,649	(26,088)
Others		—	(45,622)	—	—	—	—	(45,622)	—	—	(45,622)
As at June 30, 2015 (Audited)		32,695,870	8,986,986	1,631,898	5,291,580	7,433,248	25,276,390	81,315,972	2,254,406	13,578,690	97,149,068

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2016	2015
	(Unaudited)	(Audited)
OPERATING ACTIVITIES		
Profit before tax	16,945,034	12,823,581
Adjustments for:		
Impairment losses on assets	1,969,159	6,150,212
Depreciation and amortization	299,155	290,037
Share of results of associates and joint ventures	(78,097)	(140,611)
Fair value changes on financial assets	(1,178,082)	(664,714)
Investment income	(9,463,191)	(6,269,864)
Interest expense of bonds and notes issued and other borrowings	4,835,011	1,689,066
Net losses / (gains) on disposal of property and equipment	138	(632)
Interest income arising from impaired financial assets	(176,713)	(101,482)
Net foreign exchange gains	(105,898)	(202,171)
Operating cash flows before movements in working capital	13,046,516	13,573,422
Net increase in loans and advances to customers	(23,459,482)	(13,860,792)
Net increase in finance lease receivables	(7,325,409)	(9,440,903)
Net increase in balances with central bank and deposits with financial institutions	(2,979,471)	(10,288,448)
Net increase in financial assets at FVTPL	(10,092,634)	(18,556,637)
Net decrease in placements with banks	959,983	522,380
Net decrease / (increase) in financial assets held under resale agreements	5,993,877	(1,177,614)
Net increase in financial assets classified as receivables	(22,099,630)	(49,001,985)
Net decrease in available-for-sale financial assets	102,579	1,354,952
Net increase in due to customers	35,920,493	19,126,204
Net increase / (decrease) in borrowings from central bank	780,000	(20,000)
Net increase / (decrease) in placements and deposits from financial institutions	3,036,380	(2,559,644)
Net increase / (decrease) in financial assets sold under repurchase agreements	4,671,695	(6,186,642)
Net increase in borrowings from financial institutions	76,061,607	49,577,153
Net increase in operating receivables	(15,470,641)	(7,005,585)
Net increase in operating payables	(7,241,460)	15,912,497
Cash generated from / (used in) operations	51,904,403	(18,031,642)
Income tax paid	(5,225,121)	(4,118,035)
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES	46,679,282	(22,149,677)

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2016 (Unaudited)	2015 (Audited)
INVESTING ACTIVITIES		
Cash receipts from disposal and redemption of investment securities	74,596,247	29,873,427
Cash receipts from interest income arising from investment securities	10,479,186	6,217,794
Cash receipts from dividend income	425,760	26,522
Cash receipts from disposal of associates and joint ventures and consolidated structured entities	355,880	265,233
Cash receipts from disposal of property and equipment, and other assets	90,994	41,229
Cash payments for purchase of investment securities	(157,654,304)	(63,636,694)
Cash payments to acquire additional interests in a subsidiary	(194,037)	—
Cash payments for purchase of property and equipment, investment properties and other assets	(700,534)	(498,529)
Net cash flows from consolidated structured entities	1,411,694	11,288,058
Net cash outflow on acquisition of subsidiaries	—	(208,690)
Net cash outflow on disposal of subsidiaries	(115,284)	—
NET CASH USED IN INVESTING ACTIVITIES	(71,304,398)	(16,631,650)

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2016
(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended June 30	
	2016	2015
	Note IV	(Audited)
	(Unaudited)	(Audited)
FINANCING ACTIVITIES		
Capital contribution from non-controlling interests of subsidiaries of the Company	2,535,070	113,642
Issue of perpetual capital instruments	900,000	800,000
Buy back of perpetual capital instruments	(1,000,000)	—
Proceeds of borrowings relating to non-financial institution subsidiaries	40,985,673	13,434,858
Repayment of borrowings relating to non-financial institution subsidiaries	(24,981,424)	(8,833,250)
Cash receipts from bonds and notes issued	58,324,309	32,180,410
Cash payments for transaction cost of bonds and notes issued	(224,935)	(272,738)
Cash repayments for bonds and notes redeemed	(12,543,836)	(4,666,880)
Interest paid for bonds and notes issued	(2,509,908)	(864,534)
Dividends paid	(394,158)	(356,765)
Cash payments for distribution to holders of perpetual capital instruments	(211,228)	(80,226)
NET CASH GENERATED FROM FINANCING ACTIVITIES	60,879,563	31,454,517
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	36,254,447	(7,326,810)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	86,728,444	65,273,390
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	91,863	202,171
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	43 123,074,754	58,148,751
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	18,237,301	18,871,798
Interest paid	(9,194,260)	(10,642,230)
Net interest income	9,043,041	8,229,568

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 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. 100000000032506 issued by the State Administration of Industry and Commerce of the PRC.

The Company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on October 30, 2015. Details of the share issue are included in note IV.38.

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 future services; fund management and asset management services; trust services; real estate and industrial investments and other businesses approved by the CBRC or other regulatory bodies.

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

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

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

The condensed consolidated financial statements of the Group should be read in conjunction with the Group’s consolidated financial statements for the year ended December 31, 2015.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

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

2. Principal accounting policies

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

Except as described in note II.3 below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2016 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2015.

3. Application of new or revised International Financial Reporting Standards ("IFRS")

In the current interim period, the Group has applied the following new amendments to IFRS that are effective for the Group's annual period beginning on January 1, 2016.

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 the new amendments to IFRSs has had no material effect on the amounts reported and disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

III. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

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

The types of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the preparation of the Group's consolidated financial statements for the year ended December 31, 2015.

IV. 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 IV.23).

Interest income accrued on impaired financial assets included in income from distressed debt assets classified as receivables amounted to RMB144 million for the period (Six months ended June 30, 2015: RMB69 million).

2. Fair value changes on distressed debt assets

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

The fair value changes comprise both realized gains or losses from disposal of distressed debt assets designated as at 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

	For the six months ended	
	June 30,	
	2016	2015
Fair value changes on financial assets held for trading	947,921	1,353,489
Fair value changes on financial assets designated as at FVTPL	1,771,007	823,824
Total	2,718,928	2,177,313

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. 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:

	For the six months ended	
	June 30,	
	2016	2015
Loans and advances to customers		
Corporate loans and advances	2,437,027	2,329,533
Personal loans and advances	531,128	189,705
Loans to margin clients	143,932	253,314
Finance lease receivables	2,654,275	2,791,501
Deposits with financial institutions	834,939	508,233
Financial assets held under resale agreements	293,658	620,459
Balances with central bank	194,907	179,514
Placements with banks	101,261	158,509
Total	7,191,127	7,030,768
Including: Interest income accrued on impaired financial assets	24,163	31,389

5. Investment income

	For the six months ended	
	June 30,	
	2016	2015
Interest income from		
Available-for-sale debt securities	857,860	317,221
Held-to-maturity debt securities	655,517	401,201
Other financial assets classified as receivables	6,841,058	4,459,859
Net realized gains from disposal of available-for-sale financial assets	702,616	4,597,928
Dividend income from available-for-sale financial assets	536,774	41,321
Others	(12,596)	11,087
Total	9,581,229	9,828,617

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

6. Commission and fee income

	For the six months ended	
	June 30,	
	2016	2015
Asset management business	3,142,639	2,833,420
Securities and futures business	1,128,777	1,517,884
Trust business	1,038,580	599,176
Banking business	408,729	562,120
Fund management and other business	27,132	4,996
Total	5,745,857	5,517,596

7. Other income and other net gains or losses

	For the six months ended	
	June 30,	
	2016	2015
Revenue from properties development	1,074,895	881,128
Net gains on exchange differences	105,898	202,171
Rental income	142,178	96,655
Others	308,333	417,997
Total	1,631,304	1,597,951

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

8. Interest expense

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

	For the six months ended	
	June 30,	
	2016	2015
Borrowings	(8,174,141)	(8,002,478)
Bonds and notes issued	(3,641,618)	(1,689,066)
Due to customers	(1,509,624)	(1,418,471)
Financial assets sold under repurchase agreements	(307,559)	(456,527)
Deposits from financial institutions	(219,763)	(329,084)
Amount due to the MOF	(82,627)	(121,960)
Placements from financial institutions	(33,275)	(108,314)
Borrowings from central bank	(2,576)	(760)
Other liabilities	(56,445)	—
Total	(14,027,628)	(12,126,660)

9. Operating expenses

	For the six months ended	
	June 30,	
	2016	2015
Employee benefits	(2,217,739)	(2,131,491)
Business tax and surcharges	(977,086)	(1,321,047)
Others	(2,163,940)	(1,878,657)
Including:		
Cost of properties development	(528,171)	(485,427)
Rental and management fee for the leases	(363,446)	(136,819)
Depreciation of property and equipment	(175,941)	(177,659)
Amortization	(103,623)	(91,541)
Depreciation of investment properties	(19,591)	(20,837)
Auditor's remuneration	(2,208)	(29,500)
Total	(5,358,765)	(5,331,195)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

10. Impairment losses on assets

	For the six months ended	
	June 30,	
	2016	2015
Available-for-sale financial assets	(1,615,958)	(594,597)
Loans and advances to customers	(659,773)	(410,350)
Other financial assets classified as receivables	(368,933)	(893,239)
Finance lease receivables	(81,062)	(243,257)
Distressed debt assets classified as receivables	733,243	(3,902,003)
Other assets	23,324	(106,766)
Total	(1,969,159)	(6,150,212)

11. Income tax expense

	For the six months ended	
	June 30,	
	2016	2015
Current income tax:		
PRC Enterprise Income tax	(3,685,199)	(3,970,207)
Hong Kong Profits Tax	(302,775)	(114,337)
Deferred income tax	(111,351)	1,128,729
Total	(4,099,325)	(2,955,815)

The statutory income tax rate applicable to PRC enterprise was 25% for the period (Six months ended June 30, 2015: 25%).

Hong Kong Profits Tax was computed at 16.5% of the estimated assessable profit for the period (Six months ended June 30, 2015: 16.5%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

11. Income tax expense (continued)

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

	For the six months ended	
	June 30,	
	2016	2015
Profit before tax	16,945,034	12,823,581
Income tax calculated at the tax rate of 25%	(4,236,259)	(3,205,895)
Tax effect of income not taxable for tax purpose ⁽¹⁾	83,841	95,024
Tax effect of expenses not deductible for tax purpose ⁽²⁾	(141,029)	(67,713)
Tax effect of different tax rate of subsidiaries	270,748	167,192
Others	(76,626)	55,577
Income tax expense	(4,099,325)	(2,955,815)

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

(2) Expenses not deductible for tax purpose mainly include entertainment expenses in excess of the tax deduction limits and interest arising from amount due to the MOF according to the PRC tax regulations.

12. Earnings per share

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

	For the six months ended	
	June 30,	
	2016	2015
Earnings:		
Profit attributable to equity holders of the Company	11,122,978	8,373,349
Number of shares:		
Weighted average number of shares in issue (in thousand)	39,070,208	32,695,870
Basic earnings per share (RMB Yuan)	0.28	0.26
Diluted earnings per share (RMB Yuan)	0.28	N/A

Diluted earnings per share for the six months ended June 30, 2016 assumed the conversion of convertible bonds exercised by a subsidiary of the Company during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

13. Dividends

No dividend was paid, declared or purposed during the current interim period (Six months ended June 30, 2015: None). The Company does not declare any interim dividend for 2016.

14. Cash and balances with central bank

	As at June 30, 2016	As at December 31, 2015
Cash	443,130	426,926
Mandatory reserve deposits with central bank ⁽¹⁾	22,328,335	19,416,305
Surplus reserve deposits with central bank ⁽²⁾	5,433,090	4,947,934
Other deposits with central bank	132,234	190,965
Total	28,336,789	24,982,130

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

- (1) Mandatory reserve deposits were placed with the People's Bank of China (the "PBOC"). They include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations.

As at June 30, 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 Corporation Limited; foreign currency mandatory reserve deposits were mainly based on 5% (December 31, 2015: 5%) of eligible foreign currency deposits of Huarong Xiangjiang Bank Corporation Limited. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

- (2) The surplus reserve deposits are deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

15. Deposits with financial institutions

	As at June 30, 2016	As at December 31, 2015
Banks	111,506,049	73,522,540
Clearing settlement funds ⁽¹⁾	2,197,678	2,718,690
Other financial institutions	492,714	655,032
Total⁽²⁾⁽³⁾	114,196,441	76,896,262

- (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 June 30, 2016 to RMB2,600 million (December 31, 2015: RMB2,009 million).
- (3) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business amounting. As at June 30, 2016, the bank balances and clearing settlement fund held on behalf of customers by the Group amounted to RMB10,334 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 (IV.37).

16. Financial assets held for trading

	As at June 30, 2016	As at December 31, 2015
Listed investments:		
Debt securities		
— Government bonds	2,517,633	—
— Public sector and quasi-government bonds	5,290,401	2,330,185
— Financial institution bonds	132,254	571
— Corporate bonds	6,983,417	5,866,487
Equity instruments	6,214,522	3,988,484
Funds	4,043,320	195,453
Asset-backed securities	29,998	—
Subtotal	25,211,545	12,381,180
Unlisted investments:		
Wealth management products	2,112,842	—
Funds	674,076	584,250
Equity instruments	192,314	38,572
Subtotal	2,979,232	622,822
Total	28,190,777	13,004,002

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

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

	As at June 30, 2016	As at December 31, 2015
Listed investments:		
Equity instruments	1,034,205	219,950
Unlisted investments:		
Distressed debt assets	78,499,381	65,564,484
Convertible bonds	6,324,755	5,241,300
Wealth management products ⁽¹⁾	5,650,762	2,164,691
Structured products ⁽²⁾	4,598,512	4,082,059
Equity instruments	723,629	386,216
Trust products	556,475	7,599,489
Asset management plans	303,150	200,000
Subtotal	96,656,664	85,238,239
Total	97,690,869	85,458,189

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

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

18. Financial assets held under resale agreements

	As at June 30, 2016	As at December 31, 2015
By collateral type:		
Bonds	22,937,686	20,160,745
Bills	893,563	9,072,252
Others	1,700,200	3,305,936
Total	25,531,449	32,538,933

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

18. Financial assets held under resale agreements (continued)

As at June 30, 2016, the Group had received pledged securities with a fair value of approximately RMB25,780 million (December 31, 2015: RMB34,144 million), of which RMB900 million (December 31, 2015: RMB13,097 million) can be resold or repledged by the Group in the absence of default by their owners. As at June 30, 2016, the Group repledged securities with a fair value of RMB nil (December 31, 2015: RMB3,905 million). The Group has an obligation to return the securities to their counterparties on the maturity dates of the resale agreements.

19. Loans and advances to customers

	As at June 30, 2016	As at December 31, 2015
Corporate loans and advances		
— Loans and advances	79,578,468	63,265,392
— Discounted bills	4,000	16,085
Subtotal	79,582,468	63,281,477
Personal loans and advances		
— Loans for business operations	9,671,751	7,086,627
— Mortgage	6,549,580	5,735,751
— Personal consumption loans	4,515,370	2,570,830
— Others	1,249,318	705,669
Subtotal	21,986,019	16,098,877
Loans to margin clients	5,199,971	4,075,095
Gross loans and advances	106,768,458	83,455,449
Less: Allowance for impairment losses		
— Individually assessed	(484,474)	(289,333)
— Collectively assessed	(1,834,880)	(1,540,884)
Subtotal	(2,319,354)	(1,830,217)
Net loans and advances to customers	104,449,104	81,625,232

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

19. Loans and advances to customers (continued)

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

	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 June 30, 2016						
Gross loans and advances	105,321,877	166,179	1,280,402	1,446,581	106,768,458	1.35%
Allowances for impairment loss	(1,767,796)	(67,084)	(484,474)	(551,558)	(2,319,354)	
Net loans and advances to customers	103,554,081	99,095	795,928	895,023	104,449,104	
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 period/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 period	413,271	696,507	1,109,778
Reversal for the period	(60,107)	(389,898)	(450,005)
Recovery of amounts written off in previous years	486	2,795	3,281
Write-offs	(137,107)	(12,647)	(149,754)
Unwinding of discount on allowance	(21,402)	(2,761)	(24,163)
At June 30, 2016	484,474	1,834,880	2,319,354

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

19. 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 amounts written off in previous years	9,874	—	9,874
Write-offs and transfer-out	(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

20. Finance lease receivables

	As at June 30, 2016	As at December 31, 2015
Minimum finance lease receivables:		
Within 1 year (inclusive)	29,951,518	28,131,292
1–5 years (inclusive)	58,344,406	52,481,477
Over 5 years	2,545,200	2,191,124
Gross amount of finance lease receivables	90,841,124	82,803,893
Less: Unearned finance income	(10,642,468)	(9,931,246)
Net amount of finance lease receivables	80,198,656	72,872,647
Less: Allowance for impairment losses	(1,281,812)	(1,200,150)
Carrying amount of finance lease receivables	78,916,844	71,672,497

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

20. Finance lease receivables *(continued)*

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

	Individually assessed allowance	Collectively assessed allowance	Total
At January 1, 2016	376,433	823,717	1,200,150
(Reversed) / provided for the period	(791)	81,853	81,062
Recovery of amounts written off in previous years	600	—	600
At June 30, 2016	376,242	905,570	1,281,812

	Individually assessed allowance	Collectively assessed allowance	Total
At January 1, 2015	259,510	639,262	898,772
Provided for the year	113,533	184,455	297,988
Recovery of amounts written off in previous years	3,390	—	3,390
At December 31, 2015	376,433	823,717	1,200,150

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

21. Available-for-sale financial assets

	As at June 30, 2016	As at December 31, 2015
Listed investments:		
Equity instruments	14,526,074	14,229,222
Debt securities		
— Government bonds	1,191,713	747,165
— Public sector and quasi-government bonds	7,536,690	6,790,747
— Financial institution bonds	1,795,825	1,887,007
— Corporate bonds	4,404,666	4,785,079
Funds	2,524,910	2,045,515
Asset-backed securities	1,859,459	3,932,157
Subtotal	33,839,337	34,416,892
Unlisted investments:		
Equity instruments ⁽¹⁾	30,009,604	19,385,864
Trust products	12,922,159	380,334
Funds	6,927,600	6,519,859
Asset management plans	3,453,780	2,175,715
Wealth management products	2,752,854	538,162
Asset-backed securities	295,852	118,792
Convertible bonds	265,590	—
Others ⁽²⁾	1,605,279	1,605,279
Subtotal	58,232,718	30,724,005
Less: Allowance for impairment losses	(431,718)	(146,666)
Subtotal	57,801,000	30,577,339
Total	91,640,337	64,994,231

(1) Included in the balance is equity instruments of RMB10,344 million as at June 30, 2016 (December 31, 2015: RMB10,715 million) that were measured at cost because their fair values cannot be reliably measured.

(2) This represents 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 last year. The fair value of the investments in designated accounts amounted to RMB1,605 million as at June 30, 2016 (December 31, 2015: RMB1,605 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

22. Held-to-maturity investments

	As at June 30, 2016	As at December 31, 2015
Government bonds	14,555,062	13,985,888
Public sector and quasi-government bonds	20,365,338	14,535,096
Financial institution bonds	1,565,968	5,666,584
Corporate bonds	73,165	170,402
Total	36,559,533	34,357,970

23. Financial assets classified as receivables

	As at June 30, 2016	As at December 31, 2015
Distressed debt assets		
Loans acquired from financial institutions	38,645,212	49,144,697
Other debt assets acquired from non-financial institutions	202,538,434	172,289,240
Subtotal	241,183,646	221,433,937
Less: Allowance for impairment losses		
— Individually assessed	(3,093,049)	(2,498,717)
— Collectively assessed	(15,349,479)	(16,883,757)
	(18,442,528)	(19,382,474)
Subtotal	222,741,118	202,051,463

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)**23. Financial assets classified as receivables** (continued)

	As at June 30, 2016	As at December 31, 2015
Other financial assets classified as receivables		
Trust products	87,091,402	55,307,269
Debt instruments	49,898,517	42,417,666
Entrust loans ⁽¹⁾	21,979,378	21,745,955
Asset management plans	15,721,627	6,202,476
Wealth management products	10,193,319	4,700,000
Subtotal	184,884,243	130,373,366
Less: Allowance for impairment losses		
— Individually assessed	(977,811)	(367,671)
— Collectively assessed	(3,122,072)	(3,371,318)
	(4,099,883)	(3,738,989)
Subtotal	180,784,360	126,634,377
Total	403,525,478	328,685,840

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

Movements of allowance for impairment losses during the period/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 period	1,369,713	2,540,430	3,910,143
Reversal for the period	(12,691)	(4,261,762)	(4,274,453)
Unwinding of discount on allowance	(152,550)	—	(152,550)
Transfer-out	—	(62,230)	(62,230)
Foreign exchange	—	38	38
As at June 30, 2016	4,070,860	18,471,551	22,542,411

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

23. Financial assets classified as receivables (continued)

	Individually assessed allowance	Collectively assessed allowance	Total
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

24. Interests in associates and joint ventures

	As at June 30, 2016	As at December 31, 2015
Interests in associates		
Carrying amount of unlisted companies	5,241,444	4,575,120
Carrying amount of listed companies	2,163,468	2,097,743
Subtotal	7,404,912	6,672,863
Interests in joint ventures		
Carrying amount of unlisted companies	1,383,066	19,772
Total	8,787,978	6,692,635
Fair value of listed companies	1,830,925	2,478,688

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016
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IV. EXPLANATORY NOTES (continued)

24. Interests in associates and joint ventures (continued)

The carrying amount of interests in major associates are set out below:

	As at June 30, 2016	As at December 31, 2015
Jianghai Securities Co., Ltd.	1,340,069	1,339,454
China Healthcare Enterprise Group Limited ⁽¹⁾	1,232,381	1,232,381
Ruikong (Holdings) Limited ⁽²⁾	1,812,040	1,298,720

(1) The Company name was changed from “Telefield International (Holdings) Limited” to “China Healthcare Enterprise Group Limited” according to its rename announcement published on March 30, 2016. The directors of the Company have assessed and considered the interim result of China Healthcare Enterprise Group Limited to be insignificant to the Group. The Group measured the company’s carrying amount based on its 2015 annual result.

(2) The Group made additional contribution to Ruikong (Holdings) Limited in 2016 with aggregate amounts of RMB144 million, increasing the Group’s interest to 22.59% as of June 30, 2016.

25. Interests in consolidated structured entities

To determine whether control exists in a structured entity, the judgements used by the Group are the same as those set out in its consolidated financial statements for the year ended December 31, 2015.

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES *(continued)*

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

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

As at June 30, 2016, interests in these consolidated structured entities held by the Company amounted to RMB3,146 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 June 30, 2016 and December 31, 2015 and results and cash flows for the period/year 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 RMB35,820 million as at June 30, 2016 (December 31, 2015: RMB37,232 million). The change in net assets attributable to other holders of consolidated structured entities for the six months ended June 30, 2016 amounted to RMB1,307 million (Six months ended June 30, 2015: RMB971 million).

26. Interests in unconsolidated structured entities

The Group served as general partner, manager or trustee of structured entities, therefore had power over them. Except for the structured entities the Group has consolidated as detailed in note IV.25, in the opinion of the directors of the Company, the variable returns the Group exposed to over the structured entities that the Group has interests in are not significant. The Group therefore did not consolidate these structured entities.

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES *(continued)*

26. Interests in unconsolidated structured entities *(continued)*

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

	As at June 30, 2016	As at December 31, 2015
Trust products	233,115,666	194,108,547
Private equity funds	19,175,285	24,180,529
Asset management plans	16,561,784	4,912,045
Total	268,852,735	223,201,121

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 Group also holds interests in structured entities established and managed by third parties through investments. The carrying amount and maximum exposure to credit risk of such structured entities are RMB146,507 million as at June 30, 2016 (December 31, 2015: RMB90,614 million) and they are accounted for as financial assets at FVTPL, available-for-sale financial assets and financial assets classified as receivables.

27. Investment properties

During the current interim period, the Group acquired certain investment properties with aggregate amounts of RMB12 million at cost (Six months ended June 30, 2015: RMB88 million at cost).

As at June 30, 2016, the fair value of the Group's investment properties amounted to RMB3,286 million (December 31, 2015: RMB3,231 million).

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

28. Property and equipment

For the six months ended June 30, 2016, the Group acquired and disposed of property and equipment with aggregate amounts of RMB667 million at cost and RMB92 million at net book value, respectively (Six months ended June 30, 2015: RMB461 million at cost and RMB41 million at net book value, respectively).

For the six months ended June 30, 2016, the Group incurred cost for construction in progress with aggregate amount of RMB128 million (Six months ended June 30, 2015: RMB74 million).

As at June 30, 2016, the Group's property which the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB207 million (December 31, 2015: RMB216 million).

As at June 30, 2016, the Group's original cost of the fully depreciated property and equipment that were still in use amounted to RMB265 million (December 31, 2015: RMB243 million).

As at June 30, 2016, the net book value of properties and equipment pledged for borrowings amounted to RMB20 million (December 31, 2015: RMB20 million).

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

29. Deferred taxation

For the purpose of presentation on the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the analysis of the deferred tax balances:

	As at June 30, 2016	As at December 31, 2015
Deferred tax assets	5,621,542	4,826,597
Deferred tax liabilities	(641,770)	(552,760)
Total	4,979,772	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
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	—	(96,644)	139,321	110,453	(260,412)	(4,069)	(111,351)
Credit to other comprehensive income	817,286	—	—	—	—	—	817,286
June 30, 2016	(1,109,481)	(380,340)	506,424	(369,539)	6,406,357	(73,649)	4,979,772
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)
December 31, 2015	(1,926,767)	(283,696)	367,103	(479,992)	6,666,769	(69,580)	4,273,837

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

30. Other assets

	As at June 30, 2016	As at December 31, 2015
Inventories ⁽¹⁾	14,613,743	10,590,924
Other receivables	8,773,690	7,338,060
Interest receivable	2,463,991	1,821,644
Foreclosed asset	2,326,060	649,692
Clearing and settlement receivables	1,724,150	1,053,489
Land use rights ⁽²⁾	909,182	913,870
Payment in advance ⁽³⁾	599,780	1,119,329
Deductible value-added tax arising from leasing business	559,882	759,719
Prepaid expense	389,716	476,118
Intangible assets	362,560	372,957
Dividends receivable	132,418	11,406
Others	724,946	309,006
Total	33,580,118	25,416,214

(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.

(2) Land use rights are held in Mainland China.

(3) The Group's payment in advance mainly represents the amount prepaid by Huarong Real Estate Co., Ltd. to purchase properties.

(4) Certain inventories and Land use rights were pledged by the Group for borrowing. The aggregated amount was RMB2,508 million as at June 30, 2016 (December 31, 2015: RMB815 million).

31. Deposits from financial institutions

	As at June 30, 2016	As at December 31, 2015
Banks	3,779,013	13,006,887
Other financial institutions	162,154	2,461,266
Total	3,941,167	15,468,153

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

Notes to the Condensed Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

32. Placements from financial institutions

	As at June 30, 2016	As at December 31, 2015
Banks	15,228,302	364,936
Other financial institutions	300,000	600,000
Total	15,528,302	964,936

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

33. Financial assets sold under repurchase agreements

	As at June 30, 2016	As at December 31, 2015
Bonds	32,723,842	26,766,089
Bills	2,279,195	3,408,568
Finance lease receivables	30,519	187,204
Total	35,033,556	30,361,861

34. Borrowings

	As at June 30, 2016	As at December 31, 2015
Unsecured loans	347,665,726	262,365,609
Pledged loans	20,195,198	18,385,074
Guaranteed loans	16,788,827	13,508,519
Collateralized loans	2,487,580	772,580
Total	387,137,331	295,031,782

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES *(continued)*

34. Borrowings *(continued)*

The carrying amounts of property and equipment, inventories and land use rights collateralized for borrowings are listed as follows:

	As at June 30, 2016	As at December 31, 2015
Property and equipment (IV.28)	20,146	20,146
Other assets (IV.30)	2,507,925	814,971
Total	2,528,071	835,117

The carrying amounts of deposits with financial institutions and finance lease receivables pledged for borrowings are listed as follows:

	As at June 30, 2016	As at December 31, 2015
Deposits with financial institutions (IV.15)	2,600,000	2,008,674
Finance lease receivables	27,168,364	23,433,826
Total	29,768,364	25,442,500

Borrowings mainly arise from the non-banking businesses of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)***34. Borrowings** *(continued)*

	As at June 30, 2016	As at December 31, 2015
Carrying amount repayable*:		
Within one year	202,130,021	162,484,814
More than one year, but not exceeding two years	69,823,973	50,580,179
More than two years, but not exceeding five years	77,850,997	50,825,301
More than five years	29,325,777	26,086,850
Subtotal	379,130,768	289,977,144
Carrying amount of borrowings that contain a repayment on demand clause repayable*:		
More than one year, but not exceeding two years	300,000	605,851
More than two years, but not exceeding five years	7,044,056	4,448,787
More than five years	662,507	—
Subtotal	8,006,563	5,054,638
Total	387,137,331	295,031,782

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES *(continued)*

34. Borrowings *(continued)*

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

	As at June 30, 2016	As at December 31, 2015
Within one year	190,831,898	149,091,960
More than one year, but not exceeding two years	62,393,341	41,576,224
More than two years, but not exceeding five years	71,179,009	49,213,120
More than five years	29,325,777	26,059,200
Total	353,730,025	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.

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

	As at June 30, 2016	As at December 31, 2015
Effective interest rate		
Fixed-rate borrowings	1.80%–11.75%	1.53%–11.29%
Variable-rate borrowings	1.20%–10.00%	4.70%–7.80%

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)***35. Due to customers**

	As at June 30, 2016	As at December 31, 2015
Demand deposits		
Corporate customers	62,830,374	46,938,230
Individual customers	16,672,887	13,510,873
Time deposits		
Corporate customers	44,676,412	35,548,602
Individual customers	23,387,619	20,553,849
Pledged deposits	13,384,972	13,322,212
Others	14,967,102	10,125,107
Total	175,919,366	139,998,873

The balance of the Group arises from its banking business.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

36. Bonds and notes issued

	June 30, 2016	December 31, 2015	Original Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
The Company							
Financial bonds	5,994,061	5,990,904	RMB6,000 million	3 years	November 2013	5.55% fixed rate	Interest payable annually
Financial bonds	5,585,452	5,584,076	RMB6,000 million	5 years	November 2013	5.66% fixed rate	Interest payable annually (1)
Financial bonds	9,977,766	9,972,605	RMB10,000 million	3 years	December 2014	4.60% fixed rate	Interest payable annually
Financial bonds	9,914,008	9,911,705	RMB10,000 million	5 years	December 2014	4.80% fixed rate	Interest payable annually (2)
Financial bonds	17,463,613	17,449,340	RMB17,500 million	3 years	July 2015	4.01% fixed rate	Interest payable annually
Financial bonds	17,154,508	17,144,839	RMB17,500 million	5 years	July 2015	4.21% fixed rate	Interest payable annually (3)
Financial bonds	9,961,060	—	RMB10,000 million	5 years	March 2016	3.39% fixed rate	Interest payable annually
Subtotal	76,050,468	66,053,469	RMB77,000 million				
Huarong Xiangjiang Bank Corporation Limited							
Subordinate bonds	1,494,677	1,494,339	RMB1,500 million	10 years	November 2012	6.30% fixed rate	Interest payable annually (4)
Tier II capital bonds	2,990,003	2,989,580	RMB3,000 million	10 years	June 2015	6.00% fixed rate	Interest payable annually (5)
Negotiable certificates of deposit	3,064,034	9,833,286	RMB10,000 million	3-12 months	September- December 2015	3.25%-3.90%	Interest payable on maturity date (6)
Negotiable certificates of deposit	16,384,116	—	RMB16,650 million	1-12 months	January- June 2016	2.83%-3.39%	Interest payable on maturity date (6)
Subtotal	23,932,830	14,317,205	RMB31,150 million				

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

36. Bonds and notes issued (continued)

	June 30, 2016	December 31, 2015	Original Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities Co., Ltd.							
Subordinate bonds	1,500,000	1,500,000	RMB1,500 million	4 years	July 2013	6.25% fixed rate	Interest payable annually
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 (7)
Beneficiary certificates	—	62,550	RMB63 million	181 days	August 2015	3.80% fixed rate	Interest payable on maturity date (8)
Financial bonds	—	1,200,000	RMB1,200 million	90 days	November 2015	3.15% fixed rate	Interest payable on maturity date (9)
Subordinate bonds	1,000,000	—	RMB1,000 million	4 years	April 2016	4.10% fixed rate	Interest payable on maturity date
Financial bonds	1,500,000	—	RMB1,500 million	91 days	May 2016	2.99% fixed rate	Interest payable on maturity date
Financial bonds	270,000	—	RMB270 million	29 days	June 2016	3.30% fixed rate	Interest payable on maturity date
Financial bonds	11,560	—	RMB12 million	32 days	June 2016	3.30% fixed rate	Interest payable on maturity date
Financial bonds	300,000	—	RMB300 million	31 days	June 2016	3.30% fixed rate	Interest payable on maturity date
Financial bonds	934,750	—	RMB935 million	31 days	June 2016	3.30% fixed rate	Interest payable on maturity date
Financial bonds	960,000	—	RMB960 million	31 days	June 2016	3.50% fixed rate	Interest payable on maturity date
Financial bonds	400,000	—	RMB400 million	31 days	June 2016	3.40% fixed rate	Interest payable on maturity date

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

36. Bonds and notes issued (continued)

	June 30, 2016	December 31, 2015	Original Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Securities Co., Ltd.							
Financial bonds	205,000	—	RMB205 million	30 days	June 2016	3.50% fixed rate	Interest payable on maturity date
Financial bonds	1,000,000	—	RMB1,000 million	30 days	June 2016	3.55% fixed rate	Interest payable on maturity date
Subtotal	13,681,310	8,662,550	RMB15,245 million				
China Huarong Financial Leasing Co., Ltd.							
Financial bonds	399,878	399,578	RMB400 million	3 years	September 2013	floating rate	Interest payable annually (10)
Financial bonds	398,613	398,311	RMB400 million	5 years	September 2013	floating rate	Interest payable annually (11)
Leasing asset — backed securities	18,093	122,064	RMB644 million	6 years	December 2014	fixed and floating rates	Interest payable quarterly (12)
Financial bonds	996,926	996,216	RMB1,000 million	3 years	June 2015	floating rate	Interest payable annually (13)
Leasing asset — backed securities	1,680,343	2,304,546	RMB2,855 million	6 years	October 2015	floating rate	Interest payable quarterly (14)
Financial bonds	1,993,577	1,992,340	RMB2,000 million	3 years	December 2015	3.76% fixed rate	Interest payable annually
Financial bonds	1,988,316	1,987,132	RMB2,000 million	5 years	December 2015	4.00% fixed rate	Interest payable annually
Leasing asset — backed securities	3,653,376	—	RMB4,411 million	3 years	April 2016	floating rate	Interest payable quarterly (15)
Subtotal	11,129,122	8,200,187	RMB13,710 million				

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For the six months ended June 30, 2016
(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

36. Bonds and notes issued (continued)

	June 30, 2016	December 31, 2015	Original Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Rongde Asset Management Co., Ltd.							
Corporation bonds	2,989,935	2,987,609	RMB3,000 million	3 years	September 2015	4.95% fixed rate	Interest payable annually
Corporation bonds	1,485,152	—	RMB1,500 million	5 years	April 2016	3.80% fixed rate	Interest payable annually
Subtotal	4,475,087	2,987,609	RMB4,500 million				
Huarong Finance Co., Ltd., subsidiary of China Huarong International Holdings Limited							
U.S. dollar bonds	2,011,503	1,967,600	USD300 million	3 years	July 2014	3.00% fixed rate	Interest payable annually
U.S. dollar bonds	8,046,013	7,870,400	USD1,200 million	5 years	July 2014	4.00% fixed rate	Interest payable annually
Subtotal	10,057,516	9,838,000	USD1,500 million				

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

36. Bonds and notes issued (continued)

	June 30, 2016	December 31, 2015	Original Principal Amount	Term	Issuance date	Coupon rate per annum	Remarks
Huarong Finance II Co., Ltd., subsidiary of China Huarong International Holdings Limited							
U.S. dollar Mid-term notes	4,026,549	3,938,611	USD600 million	3 years	January 2015	3.50% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	8,072,919	7,900,106	USD1,200 million	5 years	January 2015	4.50% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	9,382,542	9,182,926	USD1,400 million	10 years	January 2015	5.50% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	3,313,627	3,242,556	USD500 million	3 years	November 2015	2.875% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	3,303,265	3,232,301	USD500 million	5 years	November 2015	3.75% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	5,298,232	5,176,208	USD800 million	10 years	November 2015	5.00% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	4,636,359	—	USD700 million	3 years	June 2016	2.75% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	5,935,140	—	USD900 million	5 years	June 2016	3.25% fixed rate	Interest payable semi-annually
U.S. dollar Mid-term notes	5,901,073	—	USD900 million	10 years	June 2016	4.625% fixed rate	Interest payable semi-annually
Subtotal	49,869,706	32,672,708	USD7,500 million				
Huarong International Finance Holdings Limited, subsidiary of China Huarong International Holdings Limited							
Convertible notes	—	22,111	HKD500 million	3 years	February 2014	N/A	(16)
Huarong Tianze Investment Co., Ltd. subsidiary of Huarong Securities Co., Ltd.							
Corporation bonds	300,000	300,000	RMB300 million	3 years	December 2015	5.25% fixed rate	Interest payable on maturity date
Total	189,496,039	143,053,839					

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016
(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

36. Bonds and notes issued *(continued)*

- (1) The Company's subsidiary Huarong Xiangjiang Bank Corporation Limited acquired a total of RMB400 million in principal amount of the bond issued in November 2013.
- (2) The Company's subsidiary Huarong Xiangjiang Bank Corporation Limited acquired a total of RMB55 million in principal amount of the bond issued in December 2014.
- (3) The Company's subsidiary Huarong Xiangjiang Bank Corporation Limited acquired a total of RMB300 million in principal amount of the bond issued in July 2015.
- (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 bond will remain fixed at 6.30% 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 will remain at 6.00% per annum.
- (6) It consists of a series of negotiable certificates of deposits issued at discount with an aggregate amount of RMB10 billion and RMB16.65 billion in 2015 and the first half of 2016 respectively.
- (7) Huarong Securities Co., Ltd. exercised early redemption and the beneficiary certificates had been repaid in full on June 30, 2016.
- (8) The beneficiary certificates matured on February 15, 2016 and had been repaid in full.
- (9) The financial bonds matured on February 24, 2016 and had been repaid in full.
- (10) Floating rate is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.5% and reset annually.
- (11) Floating rate is determined based on the PBOC one-year fixed deposit rate on the issue date plus 2.7% and reset annually.
- (12) The coupon rate for the preferred A-1 class leasing asset-backed securities is fixed at 5.2% per annum. The coupon rate for the preferred A-2 class leasing asset-backed securities is based on the PBOC one-year fixed deposit rate on the issue date plus 550 basis points and reset annually. The coupon rate for the preferred B class leasing asset-backed securities is based on the PBOC one-year fixed deposit rate on the issue date plus 630 basis points and reset annually. Certain amount of the underlying financial lease receivables have been recovered in due course and therefore the corresponding liabilities have been settled in advance partially.
- (13) Floating rate is determined based on the PBOC one-year fixed deposit rate on the issue date plus 3.05% and reset annually.
- (14) Floating rate for the preferred 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 preferred 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%. Certain amount of the underlying financial lease receivables have been recovered in due course and therefore the corresponding liabilities have been settled in advance partially.
- (15) Floating rate for the preferred A & B class leasing asset-backed securities is determined based on the PBOC one-year fixed deposit rate plus 2.10% and 2.95% respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES (continued)

36. Bonds and notes issued (continued)

- (16) The notes are convertible at the option of the noteholders into ordinary shares 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 notes were converted in full in January 2016.

37. Other liabilities

	As at June 30, 2016	As at December 31, 2015
Other payables	44,652,535	32,439,120
Payables to interest holders of consolidated structured entities (IV.25)	35,820,486	37,232,180
Guarantee deposits received from customers	15,150,463	15,080,185
Account payable to brokerage clients	9,172,333	9,058,065
Interest payable	6,717,374	4,950,593
Amounts received in advance ⁽¹⁾	3,905,101	3,712,717
Amount due to the MOF ⁽²⁾	3,851,790	7,710,062
Bills payable ⁽³⁾	3,472,119	1,095,350
Employee benefits payable	3,127,816	3,475,495
Dividends payable	1,557,285	1,275,475
Margin deposit received from securities customers	912,885	596,006
Sundry taxes payable	882,477	784,051
Provisions ⁽⁴⁾	120,298	169,821
Others	1,742,539	1,491,241
Total	131,085,501	119,070,361

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

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

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

(4) Provisions are 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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES *(continued)***38. Share capital of the Company**

	For the six months ended June 30, 2016	For the year ended December 31, 2015
Registered, issued and fully paid		
At beginning of the period/year	39,070,208	32,695,870
Issue of H shares ⁽¹⁾	—	6,374,338
At end of the period/year	39,070,208	39,070,208

	As at June 30, 2016 and December 31, 2015	
	Number of shares (thousands)	Nominal value
Registered, issued and fully paid:		
Domestic shares	14,026,355	14,026,355
H shares	25,043,853	25,043,853
Total	39,070,208	39,070,208

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES (continued)

38. Share capital of the Company (continued)

A summary of movements of the Company's issued shares (in thousands of shares) during 2015 is as follows:

	2015			As at December 31,
	As at January 1,	Conversion/ Issuance	Transfer ⁽²⁾	
Shareholders				
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 ⁽³⁾	32,695,870	6,374,338	—	39,070,208

During the six months ended June 30, 2016, there was no change in the Company's ordinary share capital.

- (1) In October 2015, the Company issued 6,374,338,000 H shares (including over-allotment of 604,458,000 H shares) with par value of RMB1.00 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 "NCSSF"), 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 NCSSF.
- (3) As at June 30, 2016 and December 31, 2015, 14,026,355,544 domestic shares and 18,070,059,406 H shares were subject to lock-up restriction.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES *(continued)*

39. Capital reserve

The balance of capital reserve mainly represents share premium arising from the Company's initial public offering of H shares and other share issuances in prior years.

40. General reserve

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

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

For the six months ended June 30, 2016, as approved by the general meetings of the Company and its subsidiaries, the Group transferred a total of RMB734 million (Six months ended June 30 2015: RMB614 million) to general reserve pursuant to the regulatory requirements in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES (continued)

41. Other reserves

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

	For the six months ended June 30, 2016	For the year ended December 31, 2015
At beginning of the period/year	5,475,513	3,807,418
Changes in revaluation of available-for-sale financial assets	(1,814,989)	2,658,138
Cumulative gains reclassified to profit or loss upon disposal of available-for-sale financial assets	(105,218)	(1,074,978)
Cumulative losses reclassified to profit or loss on impairment of available-for-sale financial assets	19,380	699,393
Income tax effects	798,441	(610,963)
Share of other comprehensive income of associates and joint ventures	(31,432)	66,295
Exchange differences arising on translation of foreign operations	(42,054)	(69,031)
Actuarial losses on defined benefit obligations	(676)	(759)
At end of the period/year	4,298,965	5,475,513

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

	Actuarial (losses) / gains on defined benefit obligations	Fair value changes in available- for-sale financial assets	Share of other comprehensive income of associates and joint ventures	Exchange differences arising on translation of foreign operations	Income tax effects	Total
As at January 1, 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 and January 1, 2016	929	7,328,636	100,709	(73,238)	(1,881,523)	5,475,513
(Decrease) / increase during the period	(676)	(1,900,827)	(31,432)	(42,054)	798,441	(1,176,548)
As at June 30, 2016	253	5,427,809	69,277	(115,292)	(1,083,082)	4,298,965

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES (continued)

42. Perpetual capital instruments

Movement of the Perpetual Capital Instruments is as follows:

	Principal	Distribution	Total
Balance at January 1, 2016	6,450,000	4,112	6,454,112
Issuance of perpetual capital instruments ⁽¹⁾	900,000	—	900,000
Buy back of perpetual capital instruments ⁽²⁾	(1,000,000)	—	(1,000,000)
Profit attributable to holders of perpetual capital instruments	—	256,899	256,899
Distribution to holders of perpetual capital instruments	—	(211,228)	(211,228)
Balance at June 30, 2016	6,350,000	49,783	6,399,783
Balance at January 1, 2015	1,450,000	723	1,450,723
Issuance of perpetual capital instruments ⁽¹⁾	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

(1) Huarong Rongde Asset Management Co., Ltd. and Huarong Huitong Asset Management Co., Ltd. (the "Issuers"), both are subsidiaries of the Company, issued perpetual capital instruments with the face value of RMB900 million and RMB5,000 million during the six months ended June 30, 2016 and the year ended December 31, 2015 respectively.

(2) Huarong Rongde Asset Management Co., Ltd. bought back perpetual capital instruments of RMB1,000 million during the six months ended June 30, 2016.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES (continued)

43. Cash and cash equivalents

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

	As at June 30, 2016	As at June 30, 2015
Cash on hand	443,130	386,973
Balances with central bank	5,433,090	5,862,862
Deposits with financial institutions	96,300,612	37,698,091
Placements with banks	9,531,028	8,088,583
Financial assets held under resale agreements	11,366,894	6,112,242
Total	123,074,754	58,148,751

44. Major non-cash transaction

As part of the distressed asset management business, the Group entered into transaction of equity swap with counterparties in the ordinary courses of business during the period/year. For the six months ended June 30, 2016, equity instruments amounting to RMB nil (Year ended December 31, 2015: RMB1,090 million) were swapped with equity instruments held by the Group with carrying value of RMB nil (Year ended December 31, 2015: RMB494 million).

45. Contingent liabilities and commitments

(1) Legal proceedings

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at June 30, 2016, total claim amount of pending litigations was RMB405 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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES (continued)**45. Contingent liabilities and commitments** (continued)**(2) Operating lease commitments**

At the end of the reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at June 30, 2016	As at December 31, 2015
Within one year	449,330	202,958
In the second to the fifth year inclusive	1,192,531	942,860
Over five years	255,301	247,069
Total	1,897,162	1,392,887

(3) Credit enhancement

As at June 30, 2016, the Group provided credit enhancement for third parties involving in borrowing arrangements in the amount of RMB530 million (December 31, 2015: RMB1,542 million).

(4) Credit commitments

	As at June 30, 2016	As at December 31, 2015
Bank bill acceptance	24,643,368	25,745,112
Loan commitments	6,545,222	6,091,551
Letters of guarantee issued	2,776,620	3,312,998
Undrawn credit card commitments	2,052,322	1,446,288
Letters of credit issued	520,964	486,227
Total	36,538,496	37,082,176

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

45. Contingent liabilities and commitments *(continued)*

(5) Other commitments

	As at June 30, 2016	As at December 31, 2015
Contracted but not provided for — commitments for the acquisition of property and equipment	296,745	321,077

46. Segment information

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

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

The Group allocates tax assets/liabilities to segments without allocating the related income tax expense to those segments.

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 asset management. These operations are mainly carried out by the subsidiaries of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES *(continued)*

46. Segment information *(continued)*

Asset management and investment operations

The asset management and investment segment comprises relevant business operated by the Company and certain of its subsidiaries, mainly including trust and other asset management business, financial investment, international business and other business.

No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the condensed consolidated financial statements of the Group.

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

46. Segment information (continued)

For the six months ended June 30, 2016	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets classified as receivables	11,688,521	—	—	—	11,688,521
Fair value changes on distressed debt assets	1,432,354	—	—	—	1,432,354
Fair value changes on other financial assets	84,096	57,783	2,577,049	—	2,718,928
Interest income	775,780	6,570,167	73,027	(227,847)	7,191,127
Investment income	2,221,075	3,033,534	4,475,897	(149,277)	9,581,229
Commission and fee income	2,763,009	1,591,406	1,441,871	(50,429)	5,745,857
Net gains on disposal of subsidiaries and associates	21,275	—	—	—	21,275
Other income and other net gains or losses	1,445,057	64,245	313,557	(191,555)	1,631,304
Total	20,431,167	11,317,135	8,881,401	(619,108)	40,010,595
Interest expense	(6,974,410)	(4,282,352)	(3,161,094)	390,228	(14,027,628)
Commission and fee expense	(212,502)	(243,625)	(25,475)	9	(481,593)
Operating expenses	(2,764,401)	(2,065,900)	(697,080)	168,616	(5,358,765)
Impairment losses on assets	(209,406)	(677,108)	(1,082,645)	—	(1,969,159)
Total	(10,160,719)	(7,268,985)	(4,966,294)	558,853	(21,837,145)
Change in net assets attributable to other holders of consolidated structured entities	(615,303)	(155,693)	(535,517)	—	(1,306,513)
Share of results of associates and joint ventures	29,458	3,046	45,593	—	78,097
Profit before tax	9,684,603	3,895,503	3,425,183	(60,255)	16,945,034
Income tax expense	—	—	—	—	(4,099,325)
Profit for the period	—	—	—	—	12,845,709
Capital expenditure	464,889	223,931	11,714	—	700,534
Depreciation and amortization	87,043	195,799	16,313	—	299,155
As at June 30, 2016					
Segment assets	478,658,591	431,408,756	198,019,233	(34,864,449)	1,073,222,131
Including: Interests in associates and joint ventures	1,365,948	131,740	7,290,290	—	8,787,978
Total assets	478,658,591	431,408,756	198,019,233	(34,864,449)	1,073,222,131
Segment liabilities	398,576,492	397,607,231	180,037,070	(34,651,657)	941,569,136
Total liabilities	398,576,492	397,607,231	180,037,070	(34,651,657)	941,569,136

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For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

46. Segment information (continued)

For the six months ended June 30, 2015	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets					
classified as receivables	11,012,476	—	—	—	11,012,476
Fair value changes on distressed debt assets	485,999	—	—	—	485,999
Fair value changes on other financial assets	319,969	902,588	954,756	—	2,177,313
Interest income	338,412	6,610,312	85,633	(3,589)	7,030,768
Investment income	4,915,225	2,466,741	2,528,830	(82,179)	9,828,617
Commission and fee income	2,312,181	2,081,592	1,173,730	(49,907)	5,517,596
Net gains on disposal of associates	175,329	—	—	—	175,329
Other income and other net gains or losses	1,304,725	59,865	338,689	(105,328)	1,597,951
Total	20,864,316	12,121,098	5,081,638	(241,003)	37,826,049
Interest expense	(6,940,787)	(3,944,382)	(1,368,907)	127,416	(12,126,660)
Commission and fee expense	(83,846)	(479,259)	(11,192)	10,002	(564,295)
Operating expenses	(2,617,542)	(2,254,267)	(604,621)	145,235	(5,331,195)
Impairment losses on assets	(4,596,919)	(739,382)	(813,911)	—	(6,150,212)
Total	(14,239,094)	(7,417,290)	(2,798,631)	282,653	(24,172,362)
Change in net assets attributable to other holders of consolidated structured entities	(1,398)	(609,414)	(359,905)	—	(970,717)
Share of results of associates and joint ventures	(8,943)	—	149,554	—	140,611
Profit before tax	6,614,881	4,094,394	2,072,656	41,650	12,823,581
Income tax expense					(2,955,815)
Profit for the period					9,867,766
Capital expenditure	36,861	441,488	9,473	—	487,822
Depreciation and amortization	95,184	34,089	160,764	—	290,037
As at December 31, 2015					
Segment assets	370,130,715	370,650,778	138,763,629	(12,998,704)	866,546,418
Including: Interests in associates and joint ventures	1,230,531	128,694	5,333,410	—	6,692,635
Total assets	370,130,715	370,650,778	138,763,629	(12,998,704)	866,546,418
Segment liabilities	298,734,592	338,734,610	123,147,499	(12,870,885)	747,745,816
Total liabilities	298,734,592	338,734,610	123,147,499	(12,870,885)	747,745,816

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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IV. EXPLANATORY NOTES *(continued)*

47. Related party transactions

(1) The MOF

As at June 30, 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 party.

The Group had the following balances with the MOF:

	As at June 30, 2016	As at December 31, 2015
Held-to-maturity investments	5,696,746	5,747,571
Available-for-sale financial assets	547,463	93,500
Amount due to the MOF	3,851,790	7,710,062
Dividends payable	—	966,877

The Group had the following transactions with the MOF:

	For the six months ended June 30,	
	2016	2015
Interest expense	82,627	121,960
Investment income	112,205	111,296

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016
(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

47. Related party transactions (continued)

(2) Government related entities

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

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

(3) Annuity Scheme

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

	For the six months ended June 30,	
	2016	2015
Contribution to Annuity Schemes	79,880	86,014

(4) Key management personnel

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

	For the six months ended June 30,	
	2016	2015
Emoluments of key management personnel		
— Salaries and other benefits	2,346	2,064
— Employer's contribution to pension scheme	188	170
— Discretionary and performance related incentive payments	1,275	934
Total (before tax)	3,809	3,168

The total compensation package of the above key management personnel for the six months ended June 30, 2016 has not yet been finalized in accordance with regulations of the relevant authorities in the PRC.

Notes to the Condensed Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management

The Group's primary objectives of risk management, risk management framework, the nature of the risks faced by the Group and the risk management measures taken by management are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2015.

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

48.1 Credit risk

The Group's credit risk management and its approach to impairment assessment and risk mitigating measures are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2015.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

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

	As at June 30, 2016	As at December 31, 2015
Balances with central bank	27,893,659	24,555,204
Deposits with financial institutions	114,196,441	76,896,262
Placements with banks	9,769,751	9,298,706
Financial assets held for trading	17,066,545	8,197,243
Financial assets designated as at fair value through profit or loss	17,433,654	19,287,539
Financial assets held under resale agreements	25,531,449	32,538,933
Loans and advances to customers	104,449,104	81,625,232
Finance lease receivables	78,916,844	71,672,497
Available-for-sale financial assets	21,252,297	18,635,613
Held-to-maturity investments	36,559,533	34,357,970
Financial assets classified as receivables	403,525,478	328,685,840
Other assets	7,319,809	4,936,630
Subtotal	863,914,564	710,687,669
Credit enhancements	530,300	1,542,300
Credit commitments	36,538,496	37,082,176
Subtotal	37,068,796	38,624,476
Total	900,983,360	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 IV.48.4.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

	As at June 30, 2016	As at December 31, 2015
Distressed debt assets classified as receivables	241,183,646	221,433,937
Loans and advances to customers	106,768,458	83,455,449
Finance lease receivables	80,198,656	72,872,647
Subtotal	428,150,760	377,762,033
Allowance for impairment losses		
Distressed debt assets classified as receivables	(18,442,528)	(19,382,474)
Loans and advances to customers	(2,319,354)	(1,830,217)
Finance lease receivables	(1,281,812)	(1,200,150)
Subtotal	(22,043,694)	(22,412,841)
Net carrying amount		
Distressed debt assets classified as receivables	222,741,118	202,051,463
Loans and advances to customers	104,449,104	81,625,232
Finance lease receivables	78,916,844	71,672,497
Total	406,107,066	355,349,192

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)**48. Financial risk management** (continued)**48.1 Credit risk** (continued)**(ii) Risk concentration of distressed debt assets classified as receivables, loans and advances to customers and finance lease receivables** (continued)

Analyzed by geographical area

Area	As at June 30, 2016		As at December 31, 2015	
	Gross amount	%	Gross amount	%
Central Region	163,631,752	38.2	141,184,107	37.4
Western Region	94,987,378	22.2	81,992,398	21.7
Yangtze River Delta	79,234,192	18.5	73,911,940	19.6
Pearl River Delta	36,264,467	8.5	33,322,391	8.8
Bohai Rim	31,025,378	7.2	26,922,579	7.1
Northeastern Region	21,042,258	4.9	20,428,618	5.4
Overseas	1,965,335	0.5	—	—
Total	428,150,760	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 Hong Kong.

Notes to the Condensed Consolidated Financial Statements

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IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

Analyzed by industry

Industry	As at June 30, 2016		As at December 31, 2015	
	Gross amount	%	Gross amount	%
Corporate business				
Real estate	154,675,370	36.1	154,821,749	41.0
Manufacturing	57,500,955	13.4	54,538,524	14.4
Water, environment and public utilities management	47,921,668	11.2	32,787,645	8.7
Construction	24,623,508	5.8	16,474,644	4.4
Leasing and commercial services	17,441,110	4.1	15,028,096	4.0
Transportation, logistics and postal services	13,006,258	3.0	13,497,274	3.6
Mining	9,411,113	2.2	7,983,073	2.1
Others	76,384,788	17.8	62,457,056	16.5
Subtotal	400,964,770	93.6	357,588,061	94.7
Personal business				
Loans for business operations	9,671,751	2.3	7,086,627	1.9
Mortgage	6,549,580	1.5	5,735,751	1.5
Personal consumption loans	4,515,370	1.1	2,570,830	0.7
Others	1,249,318	0.3	705,669	0.1
Subtotal	21,986,019	5.2	16,098,877	4.2
Loans to margin clients	5,199,971	1.2	4,075,095	1.1
Total	428,150,760	100.0	377,762,033	100.0

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IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

By contractual maturity and security type

	Gross amount as at June 30, 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	4,507,697	4,805,017	825,222	10,137,936	3,225,681	6,486,019	511,471	10,223,171
Guaranteed	31,483,578	62,974,629	5,862,381	100,320,588	28,628,130	58,518,432	2,932,064	90,078,626
Collateralized	28,718,357	224,888,429	13,819,867	267,426,653	26,988,430	206,401,457	11,772,997	245,162,884
Pledged	18,470,476	31,005,726	789,381	50,265,583	10,793,126	21,021,121	483,105	32,297,352
Total	83,180,108	323,673,801	21,296,851	428,150,760	69,635,367	292,427,029	15,699,637	377,762,033

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

	Gross amount as at June 30, 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	Over	Total	Up to		91 to	361 days	Over	Total			
	90 days	360 days	to 3 years	3 years		90 days		360 days	to 3 years	3 years				
Distressed debt assets classified as receivables	2,708,680	4,180,988	3,803,071	94,840	10,787,579	4.5	2,032,730	2,078,304	3,286,660	61,000	7,458,694	3.4		
Loans and advances to customers	2,002,186	1,303,256	424,185	35,000	3,764,627	3.5	1,295,171	730,639	453,531	—	2,479,341	3.0		
Finance lease receivables	741,783	1,188,063	442,667	96,712	2,469,225	3.1	279,439	1,254,146	752,344	94,222	2,380,151	3.3		
Total	5,452,649	6,672,307	4,669,923	226,552	17,021,431	4.0	3,607,340	4,063,089	4,492,535	155,222	12,318,186	3.3		

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IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

	As at June 30, 2016	As at December 31, 2015
Neither past due nor impaired	411,076,101	365,282,252
Past due but not impaired ⁽¹⁾	9,712,930	7,622,411
Impaired ⁽²⁾	7,361,729	4,857,370
Subtotal	428,150,760	377,762,033
Allowance for impairment losses	(22,043,694)	(22,412,841)
Net carrying amount	406,107,066	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 June 30, 2016					Gross amount as at December 31, 2015				
	Up to 90 days	91 to 360 days	361 days to 3 years	Over 3 years	Total	Up to 90 days	91 to 360 days	361 days to 3 years	Over 3 years	Total
Distressed debt assets classified										
as receivables	2,647,681	3,046,668	16,000	—	5,710,349	1,932,840	1,446,207	778,546	—	4,157,593
Loans and advances to customers	1,811,534	415,579	106,223	—	2,333,336	1,202,468	270,367	223,151	—	1,695,986
Finance lease receivables	741,783	927,462	—	—	1,669,245	279,439	990,213	447,495	51,685	1,768,832
Total	5,200,998	4,389,709	122,223	—	9,712,930	3,414,747	2,706,787	1,449,192	51,685	7,622,411

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IV. EXPLANATORY NOTES (continued)**48. Financial risk management** (continued)**48.1 Credit risk** (continued)

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

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

	As at June 30, 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	5,077,230	(3,093,049)	1,984,181	3,301,101	(2,498,717)	802,384
Loans and advances to customers						
— Individually assessed	1,280,402	(484,474)	795,928	689,418	(289,333)	400,085
— Collectively assessed	166,179	(67,084)	99,095	94,560	(39,822)	54,738
Finance lease receivables						
— Individually assessed	677,349	(376,242)	301,107	654,288	(376,433)	277,855
— Collectively assessed	160,569	(68,468)	92,101	118,003	(77,166)	40,837
Total	7,361,729	(4,089,317)	3,272,412	4,857,370	(3,281,471)	1,575,899

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IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

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

	As at June 30, 2016	As at December 31, 2015
Distressed debt assets classified as receivables		
Individually assessed and impaired	5,077,230	3,301,101
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	2.1	1.5
Fair value of collateral	6,001,514	5,030,523
Loans and advances to customers		
Individually assessed and impaired	1,280,402	689,418
Individually assessed and impaired as a % of total loans and advances to customers (%)	1.2	0.8
Collectively assessed and impaired	166,179	94,560
Collectively assessed and impaired as a % of total loans and advances to customers (%)	0.2	0.1
Fair value of collateral	2,134,245	1,302,378
Finance lease receivables		
Individually assessed and impaired	677,349	654,288
Individually assessed and impaired as a % of total finance lease receivables (%)	0.8	0.9
Collectively assessed and impaired	160,569	118,003
Collectively assessed and impaired as a % of total finance lease receivables (%)	0.2	0.2
Fair value of collateral*	54,706	91,524

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

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For the six months ended June 30, 2016
(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

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

Analyzed by geographical area

Area	As at June 30, 2016			As at December 31, 2015		
	Gross amount	Impairment %	ratio %	Gross amount	Impairment %	ratio %
Central Region	4,019,911	54.6	2.5	3,473,510	71.5	2.5
Western Region	1,585,661	21.5	1.7	868,064	17.9	1.1
Yangtze River Delta	1,250,376	17.0	1.6	335,394	6.9	0.5
Bohai Rim	250,743	3.4	0.8	34,100	0.7	0.1
Northeastern Region	255,038	3.5	1.2	146,302	3.0	0.7
Total	7,361,729	100.0	1.7	4,857,370	100.0	1.3

(v) *Credit quality of investment securities*

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

	As at June 30, 2016	As at December 31, 2015
Neither past due nor impaired ⁽¹⁾	274,579,306	209,671,546
Past due but not impaired ⁽²⁾	1,166,008	713,629
Impaired ⁽³⁾	1,450,958	466,556
Subtotal	277,196,272	210,851,731
Allowance for impairment losses		
— Individually assessed	(977,811)	(367,671)
— Collectively assessed	(3,122,072)	(3,371,318)
Net carrying amount	273,096,389	207,112,742

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

(v) Credit quality of investment securities (continued)

(1) Neither past due nor impaired investment securities

	As at June 30, 2016						As at December 31, 2015					
	Financial assets designated as at		Available-for-sale		Financial assets classified as		Financial assets designated as at		Available-for-sale		Financial assets classified as	
	Financial assets held for trading	fair value through profit or loss	for-sale financial assets	Held-to-maturity investments	receivables	Total	Financial assets held for trading	fair value through profit or loss	for-sale financial assets	Held-to-maturity investments	receivables	Total
Government bonds	2,517,633	—	1,191,713	14,555,062	—	18,264,408	—	—	747,165	13,985,888	—	14,733,053
Public sector and quasi-government bonds	5,290,401	—	7,536,690	20,365,338	—	33,192,429	2,330,185	—	6,790,747	14,535,096	—	23,656,028
Financial institution bonds	132,254	—	1,795,825	1,565,968	—	3,494,047	571	—	1,887,007	5,666,584	—	7,554,162
Corporate bonds	6,983,417	—	4,404,666	73,165	—	11,461,248	5,866,487	—	4,785,079	170,402	—	10,821,968
Trust products	—	556,475	1,167,500	—	85,867,021	87,590,996	—	7,599,489	58,800	—	54,978,099	62,636,388
Wealth management products	2,112,842	5,650,762	2,752,854	—	10,193,319	20,709,777	—	2,164,691	384,658	—	4,700,000	7,249,349
Entrust loans	—	—	—	—	21,063,370	21,063,370	—	—	—	—	21,685,955	21,685,955
Debt instruments	—	—	—	—	49,693,857	49,693,857	—	—	—	—	41,626,651	41,626,651
Asset management plans	—	303,150	278,000	—	15,449,710	16,030,860	—	200,000	50,000	—	6,202,476	6,452,476
Convertible bonds	—	6,324,755	265,590	—	—	6,590,345	—	5,241,300	—	—	—	5,241,300
Structured products	—	4,598,512	—	—	—	4,598,512	—	4,082,059	—	—	—	4,082,059
Asset-backed securities	29,998	—	1,859,459	—	—	1,889,457	—	—	3,932,157	—	—	3,932,157
Total	17,066,545	17,433,654	21,252,297	36,559,533	182,267,277	274,579,306	8,197,243	19,287,539	18,635,613	34,357,970	129,193,181	209,671,546

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)**48. Financial risk management** (continued)**48.1 Credit risk** (continued)**(v) Credit quality of investment securities** (continued)

(2) Past due but not impaired investment securities

	As at June 30, 2016						As at December 31, 2015					
	Financial assets designated as at fair value through profit or loss		Available-for-sale financial assets	Held-to-maturity investments	Financial assets classified as receivables	Total	Financial assets designated as at fair value through profit or loss		Available-for-sale financial assets	Held-to-maturity investments	Financial assets classified as receivables	Total
Trust products	—	—	—	—	200,000	200,000	—	—	—	—	39,375	39,375
Entrust loans	—	—	—	—	916,008	916,008	—	—	—	—	—	—
Debt instruments	—	—	—	—	50,000	50,000	—	—	—	—	674,254	674,254
Total	—	—	—	—	1,166,008	1,166,008	—	—	—	—	713,629	713,629

(3) Impaired investment securities

	As at June 30, 2016						As at December 31, 2015					
	Financial assets designated as at fair value through profit or loss		Available-for-sale financial assets	Held-to-maturity investments	Financial assets classified as receivables	Total	Financial assets designated as at fair value through profit or loss		Available-for-sale financial assets	Held-to-maturity investments	Financial assets classified as receivables	Total
Trust products	—	—	—	—	1,024,381	1,024,381	—	—	—	—	289,795	289,795
Entrust loans	—	—	—	—	—	—	—	—	—	—	60,000	60,000
Debt instruments	—	—	—	—	154,660	154,660	—	—	—	—	116,761	116,761
Asset management plans	—	—	—	—	271,917	271,917	—	—	—	—	—	—
Total	—	—	—	—	1,450,958	1,450,958	—	—	—	—	466,556	466,556

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.1 Credit risk (continued)

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

	As at June 30, 2016						As at December 31, 2015					
	AAA	AA	A	Below A	Unrated	Total	AAA	AA	A	Below A	Unrated	Total
Government bonds	2,610,000	—	—	—	15,654,408	18,264,408	2,643,626	—	—	—	12,089,427	14,733,053
Public sector and quasi-government bonds	—	—	—	—	33,192,429	33,192,429	—	—	—	—	23,656,028	23,656,028
Financial institution bonds	919,677	1,167,282	—	35,264	1,371,824	3,494,047	819,780	1,236,844	—	—	5,497,538	7,554,162
Corporate bonds	3,654,158	5,824,021	246,861	1,621,006	115,202	11,461,248	1,896,653	7,153,701	157,182	274,900	1,339,532	10,821,968
Trust products	—	—	—	—	88,815,377	88,815,377	—	—	—	—	62,965,558	62,965,558
Wealth management products	—	—	—	—	20,709,777	20,709,777	—	—	—	—	7,249,349	7,249,349
Entrust loans	—	—	—	—	21,979,378	21,979,378	—	—	—	—	21,745,955	21,745,955
Debt instruments	—	—	—	—	49,898,517	49,898,517	—	—	—	—	42,417,666	42,417,666
Asset management plans	—	—	—	—	16,302,777	16,302,777	—	—	—	—	6,452,476	6,452,476
Convertible bonds	—	—	—	—	6,590,345	6,590,345	—	—	—	—	5,241,300	5,241,300
Structured products	—	—	—	—	4,598,512	4,598,512	—	—	—	—	4,082,059	4,082,059
Asset-backed securities	1,668,367	221,090	—	—	—	1,889,457	3,676,230	125,209	34,248	—	96,470	3,932,157
Total	8,852,202	7,212,393	246,861	1,656,270	259,228,546	277,196,272	9,036,289	8,515,754	191,430	274,900	192,833,358	210,851,731

(vii) Other financial assets

Other financial assets include deposits and placement with financial institutions, financial assets held under resale agreements and balances with central bank. The directors of the Company consider that their credit risks are not significant.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 Market risk

Market risk is the risk of loss, in respect of the Group's on- and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and commodity and equity prices. The Group's market risk management procedures are the same as those set out in the Group's consolidated financial statements for the year ended December 31, 2015.

The significant market risks are analyzed below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities. The risk of fair value and cash flows changes due to interest rate changes are mainly related to the Group's fixed rates and floating rates financial instruments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.2 Market risk (continued)

Interest rate risk (continued)

At the end of the reporting period, the Group's financial assets and financial liabilities at carrying amounts, categorized by remaining maturity based on the earlier of contractual repricing or maturity dates are as follows:

	As at June 30, 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	27,734,806	—	—	—	—	601,983	28,336,789
Deposits with financial institutions	98,616,942	8,485,499	5,094,000	2,000,000	—	—	114,196,441
Placements with banks	9,272,411	431,028	66,312	—	—	—	9,769,751
Financial assets held for trading	4,027,312	410,949	825,727	7,212,318	4,590,239	11,124,232	28,190,777
Financial assets designated as at fair value through profit or loss	4,651,712	916,063	1,599,068	10,266,811	—	80,257,215	97,690,869
Financial assets held under resale agreements	12,750,068	247,120	4,935,378	7,598,883	—	—	25,531,449
Loans and advances to customers	10,920,990	6,844,925	43,668,723	37,130,944	5,883,522	—	104,449,104
Finance lease receivables	50,783,608	1,151,532	25,260,618	1,702,253	18,833	—	78,916,844
Available-for-sale financial assets	3,145,715	523,912	2,398,495	12,294,870	2,889,305	70,388,040	91,640,337
Held-to-maturity investments	1,780,819	3,828,780	3,722,406	16,762,655	10,464,873	—	36,559,533
Financial assets classified as receivables	21,551,088	30,292,184	145,902,211	204,965,410	814,585	—	403,525,478
Other financial assets	—	—	—	—	—	7,319,809	7,319,809
Total financial assets	245,235,471	53,131,992	233,472,438	299,934,144	24,661,357	169,691,279	1,026,127,181
Borrowings from central bank	—	—	(800,000)	—	—	—	(800,000)
Deposits from financial institutions	(356,167)	(680,000)	(2,605,000)	(300,000)	—	—	(3,941,167)
Placements from financial institutions	(13,528,302)	(2,000,000)	—	—	—	—	(15,528,302)
Financial assets sold under repurchase agreements	(30,192,544)	(3,941,012)	(500,000)	(400,000)	—	—	(35,033,556)
Borrowings	(25,422,684)	(40,888,696)	(157,927,824)	(133,572,350)	(29,325,777)	—	(387,137,331)
Due to customers	(106,412,833)	(11,289,347)	(25,686,773)	(31,592,569)	(800,000)	(137,844)	(175,919,366)
Bonds and notes issued	(7,440,878)	(6,569,303)	(19,721,412)	(135,182,599)	(20,581,847)	—	(189,496,039)
Other financial liabilities	(201,177)	(113,740)	(4,060,987)	(6,111,084)	(679)	(92,044,224)	(102,531,891)
Total financial liabilities	(183,554,585)	(65,482,098)	(211,301,996)	(307,158,602)	(50,708,303)	(92,182,068)	(910,387,652)
Interest rate gap	61,680,886	(12,350,106)	(22,170,942)	(7,224,458)	(26,046,946)	77,509,211	115,739,529

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.2 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2015					Non-interest bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
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 banks	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
Total financial assets	216,911,109	30,781,131	139,642,533	294,965,874	23,268,117	122,881,858	828,450,622
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)
Total financial liabilities	(166,690,788)	(50,287,136)	(158,186,172)	(261,322,288)	(41,927,057)	(34,008,231)	(712,421,672)
Interest rate gap	50,220,321	(19,506,005)	(18,543,639)	33,643,586	(18,658,940)	88,873,627	116,028,950

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.2 Market risk *(continued)*

Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and operating performance. The Group conducts the majority of its businesses in RMB, with certain foreign currency transactions conducted in United States dollar (“USD”), Hong Kong dollar (“HKD”) or other currencies.

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.2 Market risk (continued)

Foreign exchange risk (continued)

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

	As at June 30, 2016				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total (RMB equivalent)
Cash and balances with central bank	28,308,340	28,200	129	120	28,336,789
Deposits with financial institutions	90,365,969	14,876,536	6,489,128	2,464,808	114,196,441
Placements with banks	9,100,000	669,751	—	—	9,769,751
Financial assets held for trading	21,008,798	2,819,775	4,306,724	55,480	28,190,777
Financial assets designated as at fair value through profit or loss	86,877,875	6,630,472	4,182,522	—	97,690,869
Financial assets held under resale agreements	25,531,449	—	—	—	25,531,449
Loans and advances to customers	101,760,126	740,855	1,930,664	17,459	104,449,104
Finance lease receivables	78,583,589	333,255	—	—	78,916,844
Available-for-sale financial assets	79,958,102	8,483,593	3,108,984	89,658	91,640,337
Held-to-maturity investments	36,552,990	6,543	—	—	36,559,533
Financial assets classified as receivables	382,153,059	16,144,351	5,228,068	—	403,525,478
Other financial assets	5,787,672	1,389,605	140,928	1,604	7,319,809
Total financial assets	945,987,969	52,122,936	25,387,147	2,629,129	1,026,127,181
Borrowings from central bank	(800,000)	—	—	—	(800,000)
Deposits from financial institutions	(3,941,167)	—	—	—	(3,941,167)
Placements from financial institutions	(15,000,000)	(510,602)	—	(17,700)	(15,528,302)
Financial assets sold under repurchase agreements	(32,754,361)	(2,279,195)	—	—	(35,033,556)
Borrowings	(357,903,019)	(23,027,280)	(6,207,032)	—	(387,137,331)
Due to customers	(175,202,502)	(702,332)	(14,532)	—	(175,919,366)
Bonds and notes issued	(129,568,817)	(59,927,222)	—	—	(189,496,039)
Other financial liabilities	(101,367,428)	(887,973)	(276,490)	—	(102,531,891)
Total financial liabilities	(816,537,294)	(87,334,604)	(6,498,054)	(17,700)	(910,387,652)
Net exposure	129,450,675	(35,211,668)	18,889,093	2,611,429	115,739,529

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For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.2 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 banks	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
Total financial assets	768,215,277	37,336,984	22,896,919	1,442	828,450,622
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)
Total financial liabilities	(653,551,179)	(51,473,757)	(7,396,736)	—	(712,421,672)
Net exposure	114,664,098	(14,136,773)	15,500,183	1,442	116,028,950

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.3 Liquidity risk

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

The tables below present the cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

	Past due/ undated	On demand	Less than 1 month	As at June 30, 2016				Total
				1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central bank	22,460,571	5,876,224	—	—	—	—	—	28,336,795
Deposits with financial institutions	—	77,064,981	21,636,238	8,631,900	5,279,052	2,025,340	—	114,637,511
Placements with banks	—	—	9,275,704	432,560	66,803	—	—	9,775,067
Financial assets held for trading	11,124,232	—	2,119,304	437,017	970,463	10,756,538	6,099,092	31,506,646
Financial assets designated as at fair value through profit or loss	80,257,215	4,651,712	—	643,220	1,685,247	10,768,579	—	98,005,973
Financial assets held under resale agreements	—	—	12,765,449	250,478	5,189,340	8,835,062	—	27,040,329
Loans and advances to customers	1,996,613	—	5,744,671	8,124,783	41,322,547	52,123,492	15,539,359	124,851,465
Finance lease receivables	971,706	—	2,849,548	4,542,875	22,519,206	58,344,406	1,573,494	90,801,235
Available-for-sale financial assets	56,164,958	—	1,867,349	575,968	4,194,417	27,821,177	4,492,754	95,116,623
Held-to-maturity investments	—	—	1,585,087	3,869,244	4,707,455	20,560,651	11,991,718	42,714,155
Financial assets classified as receivables	7,433,930	—	20,951,864	35,143,343	174,818,965	261,581,390	920,607	500,850,099
Other financial assets	481,670	13,901	1,728,359	231,526	1,809,778	590,584	—	4,855,818
Total financial assets	180,890,895	87,606,818	80,523,573	62,882,914	262,563,273	453,407,219	40,617,024	1,168,491,716
Borrowings from central bank	—	—	—	(6,478)	(817,459)	—	—	(823,937)
Deposits from financial institutions	—	(309,746)	(48,903)	(684,052)	(2,734,570)	(316,405)	—	(4,093,676)
Placements from financial institutions	—	—	(13,547,908)	(2,020,042)	—	—	—	(15,567,950)
Financial assets sold under repurchase agreements	—	—	(30,223,587)	(3,969,004)	(518,948)	(432,400)	—	(35,143,939)
Borrowings	—	(8,006,563)	(19,795,606)	(42,037,060)	(167,630,610)	(160,751,537)	(36,628,730)	(434,850,106)
Due to customers	—	(98,641,799)	(8,266,405)	(11,482,111)	(26,501,803)	(36,743,532)	(948,559)	(182,584,209)
Bonds and notes issued	—	—	(8,210,916)	(8,078,429)	(23,697,995)	(155,539,136)	(25,172,864)	(220,699,340)
Other financial liabilities	(918,462)	(25,867,666)	(12,476,590)	(1,507,285)	(10,337,795)	(45,198,343)	(437,184)	(96,743,325)
Total financial liabilities	(918,462)	(132,825,774)	(92,569,915)	(69,784,461)	(232,239,180)	(398,981,353)	(63,187,337)	(990,506,482)
Net position	179,972,433	(45,218,956)	(12,046,342)	(6,901,547)	30,324,093	54,425,866	(22,570,313)	177,985,234

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

48. Financial risk management (continued)

48.3 Liquidity risk (continued)

	Past due/ undated	On demand	Less than 1 month	As at December 31, 2015			Over 5 years	Total
				1-3 months	3-12 months	1-5 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 banks	—	—	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
Total financial assets	141,958,243	59,312,645	78,032,704	43,347,585	205,850,379	368,051,219	37,264,708	933,817,483
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 due to customers	—	(5,054,638)	(22,792,453)	(31,032,905)	(121,050,370)	(120,821,853)	(33,357,095)	(334,109,314)
Bonds and notes issued	—	(77,531,495)	(5,658,002)	(8,875,747)	(23,595,927)	(29,010,558)	(1,209,137)	(145,880,866)
Other financial liabilities	—	—	(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)
Total financial liabilities	(1,514,442)	(85,832,362)	(68,832,105)	(63,374,045)	(179,092,556)	(326,873,707)	(53,368,268)	(778,887,485)
Net position	140,443,801	(26,519,717)	9,200,599	(20,026,460)	26,757,823	41,177,512	(16,103,560)	154,929,998

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.4 Risk management of distressed assets

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

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

The types of risk, their risk management of distressed debt assets and assets obtained through debt-to-equity swap, fair value measurement techniques and impairment assessment are the same as those described in the Group's consolidated financial statements for the year ended December 31, 2015.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

48. Financial risk management *(continued)*

48.5 Capital management

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

- Ensure compliance with regulatory requirements;
- Optimize capital allocation among the Group entities;
- Improve efficiency of capital deployment;
- Safeguard the Group's ability to continue as a going concern to support the Group's development.

In accordance with the requirements of Consolidated Supervision Guidelines on Financial Asset Management Companies (Provisional) (Yinjianfa [2011] No. 20), issued by the CBRC in 2011, the Group manages its capital based on required minimum capital. Compliance with the requirement of minimum capital is the primary goal of capital management of the Group.

Minimum capital of the Group is the total of minimum capital of the Company and its subsidiaries after taking into account of the percentage of shareholding, and deduction as required by relevant rules and regulations. The Group is required to meet this minimum capital requirement stipulated by the CBRC.

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Provisional) (Yinjianbanfa [2012] No. 153), issued by the CBRC in 2012, the Company is required to maintain a minimum Capital Adequacy Ratio ("CAR") at 12.5%. CAR is calculated by dividing the qualified capital of the Company by its risk-weighted assets. As at June 30, 2016 and December 31, 2015, the Company complied with the regulatory requirements on the minimum CAR.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Fair value of financial instruments

The fair values of financial assets and financial liabilities are categorized into Level 1, 2 and 3 as follows:

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

The determination of fair values of financial assets and financial liabilities are the same as those described in the Group's consolidated financial statements for the year ended December 31, 2015.

49.1 Fair value of financial assets that are measured at fair value on a recurring basis

The following tables provide a summary of financial instruments that are measured at fair value subsequent to initial recognition, grouped into three levels:

	As at June 30, 2016			Total
	Level 1	Level 2	Level 3	
Financial assets held for trading	15,457,075	12,541,388	192,314	28,190,777
Financial assets designated as at fair value through profit or loss	2,238	5,953,912	91,734,719	97,690,869
Available-for-sale financial assets	18,809,576	16,670,202	45,816,308	81,296,086
Total assets	34,268,889	35,165,502	137,743,341	207,177,732

	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 period/year.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Fair value of financial instruments (continued)

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

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

Financial assets	Fair value as at		Fair value hierarchy
	June 30, 2016	December 31, 2015	
1) Financial assets held for trading			
Debt securities	14,923,705	8,197,243	
— Government bonds	2,517,633	—	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	5,290,401	2,330,185	Level 2
— Financial institution bonds traded in stock exchange	35,264	—	Level 1
— Financial institution bonds traded in inter-bank market	96,990	571	Level 2
— Corporate bonds traded in stock exchange	5,163,969	2,015,852	Level 1
— Corporate bonds traded in inter-bank market	1,819,448	3,850,635	Level 2
Equity instruments	6,406,836	4,027,056	
— Equity instruments listed or traded on exchanges	6,214,522	3,988,484	Level 1
— Unlisted equity instruments in NEEQ (National Equities Exchange and Quotations) (active)	—	38,572	Level 2
— Unlisted equity instruments in NEEQ (inactive)	192,314	—	Level 3
Funds	4,717,396	779,703	
— Listed	4,043,320	195,453	Level 1
— Unlisted	674,076	584,250	Level 2
Wealth management products	2,112,842	—	Level 2
Asset-backed securities	29,998	—	Level 2
Subtotal	28,190,777	13,004,002	

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Fair value of financial instruments (continued)

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

Financial assets	Fair value as at		Fair value hierarchy
	June 30, 2016	December 31, 2015	
2) Financial assets designated as at FVTPL			
Distressed debt assets	78,499,381	65,564,484	Level 3
Wealth management products issued by banks and other financial institutions	5,650,762	2,164,691	Level 2
Asset management plans issued by financial institutions	303,150	200,000	Level 2
Equity instruments	1,757,834	606,166	
— Equity investments in listed companies	2,238	219,950	Level 1
— Restricted equity investments in listed companies	1,031,967	—	Level 3
— Equity investments in unlisted companies	723,629	386,216	Level 3
Convertible bonds	6,324,755	5,241,300	Level 3
Trust products issued by financial institutions	556,475	7,599,489	Level 3
Structured products	4,598,512	4,082,059	Level 3
Subtotal	97,690,869	85,458,189	
3) Available-for-sale financial assets			
Debt securities	14,928,894	14,209,998	
— Government bonds traded in stock exchange	500,000	653,626	Level 1
— Government bonds traded in inter-bank market	691,713	93,539	Level 2
— Public sector and quasi-government bonds traded in inter-bank market	7,536,690	6,790,747	Level 2
— Financial institution bonds traded in inter-bank market	1,795,825	1,887,007	Level 2
— Corporate bonds traded in stock exchange	3,386,001	2,685,488	Level 1
— Corporate bonds traded in inter-bank market	1,018,665	2,099,591	Level 2

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Fair value of financial instruments (continued)

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

Financial assets	Fair value as at		Fair value hierarchy
	June 30, 2016	December 31, 2015	
3) Available-for-sale financial assets (continued)			
Equity instruments	33,759,709	22,753,230	
Listed equity instruments	14,526,074	14,229,222	
— Unrestricted equity instruments	12,398,665	12,169,678	Level 1
— Restricted equity instruments	2,127,409	2,059,544	Level 3
Unlisted equity instruments	19,233,635	8,524,008	
— Unlisted equity instruments	7,834,580	7,050,058	Level 3
— Private equity fund*	207,156	—	Level 2
— Private equity fund*	11,191,899	1,473,950	Level 3
Funds	9,452,510	8,565,374	
— Listed	2,524,910	2,045,515	Level 1
— Unlisted*	204,065	6,519,859	Level 2
— Unlisted*	6,723,535	—	Level 3
Wealth management products	2,752,854	538,162	
— issued by banks or other financial institutions*	901,350	538,162	Level 2
— issued by banks or other financial institutions*	1,001,504	—	Level 3
— issued by non-financial institutions	850,000	—	Level 2
Asset management plans	3,453,780	2,175,715	Level 3
Asset-backed securities	2,155,311	4,050,949	
— Asset-backed securities, subordinate tranche	295,852	317,702	Level 3
— Asset-backed securities, senior tranche	1,859,459	3,733,247	Level 2
Trust products issued by financial institutions	12,922,159	380,334	Level 3
Convertible bonds	265,590	—	Level 3
Others	1,605,279	1,605,279	Level 2
Subtotal	81,296,086	54,279,041	
Total	207,177,732	152,741,232	

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES *(continued)*

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

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

Valuation methods for financial instruments

For Level 1 financial instruments, fair values are unadjusted quotes in active markets for identical assets.

For Level 2 financial instruments, valuations are generally calculated based on the fair value of the underlying investments which are debt securities or publicly traded equity instruments in each portfolio or obtained from third party pricing services agent such as China Central Depository & Clearing Co., Ltd. which are based on the discounted cash flow model. All significant inputs are observable, directly or indirectly from the market.

For Level 3 financial instruments, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Fair value of financial instruments (continued)

49.2 Reconciliation of Level 3 fair value measurements

	Financial assets held for trading	Financial assets at FVTPL	Available- for-sale financial assets
As at January 1, 2016	—	82,873,548	13,457,303
Recognized in profit or loss	40,071	2,417,124	(43,710)
Recognized in other comprehensive income	—	—	1,759,065
Fair value changes transfer out upon disposal	—	(1,310,342)	—
Purchases	152,243	90,949,835	32,083,176
Settlements/disposals	—	(83,195,446)	(1,439,526)
As at June 30, 2016	192,314	91,734,719	45,816,308
Changes in unrealized gains for the period included in profit or loss for assets held at the end of the period	40,071	1,106,782	(19,380)

	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	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. EXPLANATORY NOTES (continued)

49. Fair value of financial instruments (continued)

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

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities that are not measured in the consolidated statement of financial position at their fair value on a recurring basis. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central bank, deposits with financial institutions, placements with banks, financial assets held under resale agreements, finance lease receivables, borrowings from central bank, deposits from financial institutions, placements from financial institutions, financial assets sold under repurchase agreements, due to customers are not included in the tables below.

	As at June 30, 2016		As at December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	104,449,104	107,379,186	81,625,232	84,410,808
Held-to-maturity investment	36,559,533	37,301,095	34,357,970	35,159,870
Financial assets classified as receivables	403,525,478	438,647,225	328,685,840	333,220,082
Total	544,534,115	583,327,506	444,669,042	452,790,760
Financial liabilities				
Borrowings	(387,137,331)	(418,443,360)	(295,031,782)	(309,439,748)
Bonds and notes issued	(189,496,039)	(192,301,613)	(143,053,839)	(145,589,585)
Total	(576,633,370)	(610,744,973)	(438,085,621)	(455,029,333)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

V. EVENTS AFTER THE REPORTING PERIOD

1. The proposed A share offering

On 15 July, 2016, the Board of the Company approved a resolution relating to its A Share Offering.

2. The approval of bond issue

On July 18, 2016, the Company obtained CBRC's approval for the proposed issue of financial bond in an aggregate amount of up to RMB30 billion in the interbank bond market in China.

VI. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 29, 2016.



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