



2022

Interim Report



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

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1. Definitions

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

AMC(s)	the five asset management companies approved for establishment by the State Council, namely the Company, China Great Wall Asset Management Co., Ltd., China Orient Asset Management Co., Ltd., China Cinda Asset Management Co., Ltd. and China Galaxy Asset Management Co., Ltd.
Articles of Association	the articles of association of China Huarong Asset Management Co., Ltd. as amended from time to time
Board or Board of Directors	the board of Directors of the Company
Board of Supervisors	the board of Supervisors of the Company
CBIRC	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
Company	China Huarong Asset Management Co., Ltd.
CITIC Group	CITIC Group Corporation
COVID-19	Coronavirus Disease 2019
Debt-to-equity swap(s) or DES	the practice of converting indebtedness owed by the obligors to equity
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 enterprises; (4) equities the Company received in satisfaction of debt through distressed debt asset management; (5) the small amount of equity the Company received as part of its share capital when it was established in 1999; and (6) assets formed by the Company through conducting market-oriented DES business

1. Definitions

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 share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
Group or our Group or China Huarong	China Huarong Asset Management Co., Ltd. and its subsidiaries
H Share(s)	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Main Board of the Hong Kong Stock Exchange
HK\$ or Hong Kong dollars or HKD	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huarong Consumer Finance	Huarong Consumer Finance Co., Ltd.
Huarong Financial Leasing	China Huarong Financial Leasing Co., Ltd.
Huarong International	China Huarong International Holdings Limited
Huarong Industrial	Huarong Industrial Investment & Management 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(s)	the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board

1. Definitions

Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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
PRC GAAP	generally accepted accounting principles in the PRC
Prospectus	the prospectus for the Company's listing in Hong Kong dated October 16, 2015
Relevant Persons	has the meaning as defined in the Prospectus
Reporting Period	the six months ended June 30, 2022
RMB or Renminbi	Renminbi, the lawful currency of the PRC
ROAA	return on average assets
ROAE	return on average equity attributable to equity holders
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
Share(s)	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, including H Shares and Domestic Shares
Shareholder(s)	holder(s) of the Share(s)
State Council	the State Council of the PRC (中華人民共和國國務院)
Substantial Shareholder	has the meaning ascribed thereto under the Listing Rules and/or under the regulatory rules of the CBIRC
Supervisor(s)	supervisor(s) of the Company
U.S. or United States	the United States of America

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	Liu Zhengjun
Authorized representatives	Wang Wenjie, Xu Yongli
Secretary to the Board	Xu Yongli
Joint Company secretaries	Xu Yongli, Ngai Wai Fung
Registered address	No. 8 Financial Street, Xicheng District, Beijing, China
Postal code of place of registration	100033
Website	www.chamc.com.cn
Principal place of business in Hong Kong	40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong, China
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
Stock exchange on which H Shares are listed	The Stock Exchange of Hong Kong Limited
Stock name	China Huarong
Stock Code	2799
H Share registrar and office address	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, China

2. Corporate Information

Registration number of financial license	J0001H111000001
Social Credit Code	911100007109255774
Legal advisor as to PRC Law and office address	Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing, China
Legal advisor as to Hong Kong law and office address	Clifford Chance 27th Floor, Jardine House, One Connaught Place, Hong Kong, China
International accounting firm and office address	Ernst & Young 27/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, China
Domestic accounting firm and office address	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower, Oriental Plaza, No. 1 East Changan Ave., Dongcheng District, Beijing, China

3. Financial Summary

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

	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
	(in millions of RMB, except for percentages)	
Continuing operations		
Income from distressed debt assets	10,869.4	15,268.0
Fair value changes on distressed debt assets	2,877.5	3,584.8
Fair value changes on other financial assets and liabilities	(8,819.7)	3,310.9
Interest income	5,580.7	7,223.2
Finance lease income	638.1	1,106.6
Gains from derecognition of financial assets measured at amortised cost	209.7	521.6
(Losses)/gains from derecognition of debt instruments at fair value through other comprehensive income ("FVTOCI")	(25.7)	81.5
Commission and fee income	161.0	426.3
Net gains on disposals of subsidiaries, associates and joint ventures	676.0	19.6
Dividend income	425.3	457.2
Other income and other net gains or losses	2,149.5	1,388.7
Total income	14,741.8	33,388.4
Interest expenses	(19,178.6)	(21,778.0)
Commission and fee expenses	(130.1)	(79.0)
Operating expenses	(2,642.3)	(3,506.9)
Impairment losses under expected credit loss ("ECL") model	(16,900.4)	(5,052.4)
Impairment losses on other assets	(463.9)	(129.6)
Total expenses	(39,315.3)	(30,545.9)
Change in net assets attributable to other holders of consolidated structured entities	312.4	(1,325.4)
Share of results of associates and joint ventures	229.9	193.3
(Loss)/profit before tax from continuing operations	(24,031.2)	1,710.4
Income tax credit/(expense)	2,662.2	(1,974.7)
Loss for the period from continuing operations	(21,369.0)	(264.3)
Discontinued operations		
Profit after tax for the period from discontinued operations	2,759.7	1,888.5
(Loss)/profit for the period	(18,609.3)	1,624.2
(Loss)/profit attributable to:		
Equity holders of the Company	(18,866.4)	158.3
Holders of perpetual capital instruments	418.9	631.5
Non-controlling interests	(161.8)	834.4

3. Financial Summary

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
	(in millions of RMB, except for percentages)	
Assets		
Cash and balances with central bank	23.4	23,956.5
Deposits with financial institutions	100,306.6	146,698.3
Placements with financial institutions	4,700.7	19,685.8
Financial assets at fair value through profit or loss (“FVTPL”)	305,599.7	351,047.7
Financial assets held under resale agreements	60.0	11,044.3
Contract assets	5,903.9	5,735.6
Loans and advances to customers	36.3	247,164.0
Finance lease receivables	19,023.0	23,554.1
Debt instruments at FVTOCI	28,699.0	57,203.6
Equity instruments at FVTOCI	2,857.2	3,139.6
Inventories	20,738.6	20,854.1
Debt instruments at amortised cost	430,282.7	580,799.4
Interests in associates and joint ventures	8,599.9	10,514.8
Investment properties	6,836.5	6,854.2
Property and equipment	7,640.1	9,621.2
Right-of-use assets	1,478.5	3,502.1
Deferred tax assets	16,575.1	15,612.5
Goodwill	304.9	323.0
Assets held for sale	—	7,301.6
Other assets	18,649.1	23,809.4
Total assets	978,315.2	1,568,421.8
Liabilities		
Borrowings from central bank	—	23,147.6
Deposits from financial institutions	—	13,656.3
Placements from financial institutions	856.7	4,784.2
Financial assets sold under repurchase agreements	1,620.6	30,866.2
Borrowings	646,944.3	747,625.5
Financial liabilities at FVTPL	484.2	683.7
Due to customers	—	257,208.9
Tax payable	4,080.7	1,388.6
Contract liabilities	719.5	401.2
Lease liabilities	710.3	2,049.5
Deferred tax liabilities	384.4	341.6
Bonds and notes issued	188,908.5	271,065.2
Liabilities directly associated with the assets held for sale	—	1,740.3
Other liabilities	67,483.3	109,478.6
Total liabilities	912,192.5	1,464,437.4

3. Financial Summary

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
	(in millions of RMB, except for percentages)	
Equity		
Share capital	80,246.7	80,246.7
Other equity instruments	19,900.0	—
Capital reserve	16,434.5	16,431.8
Surplus reserve	8,564.2	8,564.2
General reserve	13,415.3	17,888.6
Other reserves	1,301.9	3,906.6
Accumulated losses	(82,064.6)	(67,694.0)
Equity attributable to equity holders of the Company	57,798.0	59,343.9
Perpetual capital instruments	7,128.3	22,377.9
Non-controlling interests	1,196.4	22,262.6
Total equity	66,122.7	103,984.4
Total equity and liabilities	978,315.2	1,568,421.8
Financial ratios		
Liabilities to total assets ratio ⁽¹⁾	93.2%	93.4%

	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
Annualized ROAE ⁽²⁾	(64.4%)	1.7%
Annualized ROAA ⁽³⁾	(2.9%)	0.2%
Basic earnings per share ⁽⁴⁾ (RMB)	(0.235)	0.004
Diluted earnings per share ⁽⁵⁾ (RMB)	(0.235)	0.004

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

(2) Represents the percentage of the annualized net profit attributable to equity holders of the Company for the period in the average balance of equity attributable to equity holders 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 net profit attributable to equity holders of the Company for the period divided by the weighted average number of Shares.

(5) 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

Affected by factors such as the continued spread and recurrence of the COVID-19 pandemic, the intensification of geopolitical conflicts, and the accelerated tightening of monetary policies in major developed economies, the global economic growth slowed down in the first half of 2022; overseas inflation pressure continued to rise; the prices of energy, metals and agricultural products rose significantly; the volatility in financial market intensified, which increased the complexity and uncertainty in the outlook for global economic recovery. The International Monetary Fund lowered its forecast for global economic growth in 2022 to 3.5% from 4.4%.

In the first half of 2022, the COVID-19 pandemic in China had been frequently and widely disseminated, with a large impact from unforeseen factors beyond expectations, and the downward pressure on the economy increased significantly in the second quarter. Facing the extremely complex and difficult situation, China has intensified its macro policy adjustment, efficiently coordinated pandemic prevention and control and economic and social development, and effectively responded to the more-than-expected impact in the second quarter, reversing the negative growth of major economic indicators in April and May 2022 to a positive position. The economy grew by 2.5% year-on-year in the first half of 2022. However, the risk of stagflation in the global economy is rising; the policies of major economies tend to be tightened; as impact of the COVID-19 pandemic in China has not been completely eliminated, it is still relatively difficult for the operation of market players, and the foundation for sustained economic recovery is not yet solid. In the next stage, it is expected that macro-control will be in place to secure the implementation of a package of policies to stabilize the economy, and continue to consolidate the foundation for economic stability and recovery to ensure that the economy operates within a reasonable range.

In the first half of 2022, China's financial industry has conscientiously implemented the new development concept, deepened the supply-side structural reform, vigorously supported "stabilizing growth, employment and prices", and focused on stabilizing the macroeconomic market. The People's Bank of China has stepped up the implementation of a prudent monetary policy, and various monetary policy tools have been put forward to give full play to the dual functions of monetary policy tools in aggregate and structure, so as to achieve stability with a slight decline in the comprehensive financing cost of enterprises, creating a better environment for stabilizing the macro economy and financial markets. The CBIRC has guided financial institutions to increase their support for the real economy, and introduced policies and measures to support financial institutions in preventing and mitigating risks in key areas. Financial asset management companies have stuck to their functional positioning, resolutely implemented the requirements of the CPC Central Committee for "preventing the COVID-19 pandemic, stabilizing the economy, and realizing safe development", gave full play to the unique advantages of risk prevention and mitigation and rescue financial services, and actively and steadily developed the core business of distressed asset management to serve the development of the real economy and maintain financial security and social stability.

4. Management Discussion and Analysis

In the first half of 2022, the external environment became more complex and severe. The financial management department guided financial institutions to increase their efforts in preventing and resolving financial risks, and enhance the quality and efficiency of finance serving the real economy, bringing new opportunities for the transformation and development of financial asset management companies. First, issue opinions on further revitalizing existing assets and expanding effective investment, to support financial asset management companies and other institutions to revitalize idle and inefficient assets through the acquisition and disposal of distressed assets, substantive restructuring, market-oriented DES and other means, and to form a virtuous cycle of existing assets and new investment; second, issue guidelines to support financial asset management companies to participate in risk mitigation of small and medium-sized financial institutions, support appropriate expansion of business scope, and encourage greater synergy and cooperation with other institutions, so as to make positive contributions to the reform and risk resolution of small and medium-sized financial institutions, the transformation of the financial industry and the sound development of the financial market; third, complete the transitional rectification of the asset management business for the banking and insurance industry, promote asset management institutions to improve the professionalism, efficiency and flexibility of financial resource allocation, guide funds into the core areas of the national economy, and promote high-quality development of asset management business; fourth, guide financial institutions to strengthen top-level design, scientifically formulate digital transformation strategies, enhance the construction of digital risk control capabilities, and build a safe, efficient, cooperative and win-win financial service ecosystem.

4.2 Analysis of Financial Statements

4.2.1 Operating Results of the Group

In the first half of 2022, the Group intensified reform and restructuring efforts based on the introduction of strategic investors and capital increase, corporate governance structure was further optimized, operations and management capacity was gradually enhanced and the system of risk management was steadily improved. Focusing on the overall objective of “transformation of core business and resolution of risks”, the Group’s resolution and tackling of risks were promoted steadily with full efforts, and the asset base was further consolidated. The transfer of licensed subsidiaries was conducted in an orderly manner with a focus on main responsibility and core business, and the asset and liability structure was further optimized through active adjustment of business structure and debt size reduction at full stretch. Enhanced corporate governance and streamlined systems and processes have contributed to improved management and control capability. However, because of the impacts of volatility in the capital market and downturn in the real estate market, which were caused by various factors such as the recurrence of the COVID-19 pandemic, geopolitical conflicts and pressure in macroeconomy, the Group’s interim results of 2022 did not meet expectations.

4. Management Discussion and Analysis

In the first half of 2022, the Group's total income from continuing operations amounted to RMB14,741.8 million, representing a year-on-year decrease of 55.8%; the total expenditure of continuing operations amounted to RMB39,315.3 million, representing a year-on-year increase of 28.7%; losses for the period amounted to RMB18,609.3 million, and the losses attributable to the Shareholders of the Company amounted to RMB18,866.4 million. The main reasons are as follows: (i) Affected by the continuous volatility in the capital market in the first half of 2022, some of the equity financial assets held by the Group experienced fair value changes, and unrealized changes in the fair value of listed and unlisted shares and funds recognised during the period amounted to RMB-7,794.1 million, representing a year-on-year decrease of RMB8,249.0 million; (ii) Affected by the pressure in macroeconomy and downturn in the real estate industry, the contract performance ability of the related customers declined and the asset quality deteriorated, the impairment losses under ECL model recognised during the period amounted to RMB16,900.4 million, representing a year-on-year increase of RMB11,848.0 million. Due to the aggregate impacts of the increase in credit risk and the decrease in asset size, the income from acquisition-and-restructuring distressed debt assets during the period amounted to RMB10,869.4 million, representing a year-on-year decrease of RMB4,398.6 million.

While deepening risk resolution and consolidating financial base, the Group achieved a positive change in the transformation for the core business of distressed assets:

First, the scale of acquisition and market transactions in acquisition-and-disposal business still maintained relatively leading status, in the first half of 2022, acquisition cost of acquisition-and-disposal business of the Company increased by RMB17,460.1 million, representing a year-on-year increase of 52.9%. The Company constantly took multiple measures and channels to promote the marketing of assets disposals and continued to improve quality and efficiency of assets disposal; set up seven regional marketing centers and adopted multiple new methods such as innovatively adopting WeChat official account notification, Rongyitao and live stream to promote assets, involving debt size of nearly RMB150 billion.

Second, the acquisition-and-restructuring business further optimized its structure and accelerated its transformation. On the one hand, it resolutely implemented the regulatory requirements and promoted the risk resolution of key real estate related customers while continuing to reduce the non-financial real estate related business, and in accordance with the business strategy of "legal separation, substantial control, close supervision, restructuring and revitalization", successfully promoted the implementation of risk isolation and risk resolution and difficulty relief for a number of projects. In the first half of 2022, the Company's investments in the problematic enterprises restructuring business accounted for more than 60% of the new investments in the acquisition-and-restructuring business; on the other hand, it actively promoted the risk resolution for bankruptcy restructuring, state-owned enterprise reform, and reform of small and medium-sized financial institutions, and other major directions, and established a regular working mechanism to expand high-quality customers and strengthen customer reserves.

4. Management Discussion and Analysis

Third, DES business focused on key industries, such as new material, new energy and high-end equipment manufacture, and successfully implemented partial projects in supporting the real economy and preventing and mitigating financial risks. On June 30, 2022, the total accumulative investment in market-oriented DES business of the Group was RMB36,592.4 million and increased by 2.1% compared to the end of last year.

In the second half of 2022, there will be no change in the fundamentals of China's economy to maintain a long-term positive trend, and macro policies will be active in expanding demands. The Group will seize the opportunity to further strengthen the important role of financial asset management companies in serving national strategies and supporting the real economy, etc., conscientiously implement the construction planning requirements of New Huarong and the "One-Three-Five" strategical objectives, striving for wrenching itself back on the right track within the next year, improving quality and efficiency significantly in the next three years, and becoming an industry benchmark over the next five years. On that basis, the Group will consolidate its foundation, seek progress while maintaining stability and improve quality and efficiency to secure a decisive victory in risk resolution and difficulty relief for the purpose of transformation and development.

4. Management Discussion and Analysis

For the six months ended June 30,

	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Continuing operations				
Income from distressed debt assets	10,869.4	15,268.0	(4,398.6)	(28.8%)
Fair value changes on distressed debt assets	2,877.5	3,584.8	(707.3)	(19.7%)
Fair value changes on other financial assets and liabilities	(8,819.7)	3,310.9	(12,130.6)	(366.4%)
Interest income	5,580.7	7,223.2	(1,642.5)	(22.7%)
Finance lease income	638.1	1,106.6	(468.5)	(42.3%)
Gains from derecognition of financial assets measured at amortised cost	209.7	521.6	(311.9)	(59.8%)
(Losses)/gains from derecognition of debt instruments at FVTOCI	(25.7)	81.5	(107.2)	(131.5%)
Commission and fee income	161.0	426.3	(265.3)	(62.2%)
Net gains on disposals of subsidiaries, associates and joint ventures	676.0	19.6	656.4	3,349.0%
Dividend income	425.3	457.2	(31.9)	(7.0%)
Other income and other net gains or losses	2,149.5	1,388.7	760.8	54.8%
Total income	14,741.8	33,388.4	(18,646.6)	(55.8%)
Interest expenses	(19,178.6)	(21,778.0)	2,599.4	(11.9%)
Commission and fee expenses	(130.1)	(79.0)	(51.1)	64.7%
Operating expenses	(2,642.3)	(3,506.9)	864.6	(24.7%)
Impairment losses under ECL model	(16,900.4)	(5,052.4)	(11,848.0)	234.5%
Impairment losses on other assets	(463.9)	(129.6)	(334.3)	257.9%
Total expenses	(39,315.3)	(30,545.9)	(8,769.4)	28.7%
Change in net assets attributable to other holders of consolidated structured entities	312.4	(1,325.4)	1,637.8	(123.6%)
Share of results of associates and joint ventures	229.9	193.3	36.6	18.9%
(Loss)/profit before tax from continuing operations	(24,031.2)	1,710.4	(25,741.6)	(1,505.0%)
Income tax credit/(expense)	2,662.2	(1,974.7)	4,636.9	(234.8%)
Loss for the period from continuing operations	(21,369.0)	(264.3)	(21,104.7)	7,985.1%

4. Management Discussion and Analysis

	For the six months ended June 30,			Change in percentage
	2022	2021	Change	
(in millions of RMB, except for percentages)				
Discontinued operations				
Profit after tax for the period from discontinued operations	2,759.7	1,888.5	871.2	46.1%
(Loss)/profit for the period	(18,609.3)	1,624.2	(20,233.5)	(1,245.8%)
(Loss)/profit attributable to:				
Equity holders of the Company	(18,866.4)	158.3	(19,024.7)	(12,018.1%)
Holder of perpetual capital instruments	418.9	631.5	(212.6)	(33.7%)
Non-controlling interests	(161.8)	834.4	(996.2)	(119.4%)

4.2.1.1 Total income from continuing operations

The table below sets forth the components of the Group's total income from continuing operations for the periods indicated.

	For the six months ended June 30,			Change in percentage
	2022	2021	Change	
(in millions of RMB, except for percentages)				
Income from distressed debt assets	10,869.4	15,268.0	(4,398.6)	(28.8%)
Fair value changes on distressed debt assets	2,877.5	3,584.8	(707.3)	(19.7%)
Fair value changes on other financial assets and liabilities	(8,819.7)	3,310.9	(12,130.6)	(366.4%)
Interest income	5,580.7	7,223.2	(1,642.5)	(22.7%)
Finance lease income	638.1	1,106.6	(468.5)	(42.3%)
Gains from derecognition of financial assets measured at amortised cost	209.7	521.6	(311.9)	(59.8%)
(Losses)/gains from derecognition of debt instruments at FVTOCI	(25.7)	81.5	(107.2)	(131.5%)
Commission and fee income	161.0	426.3	(265.3)	(62.2%)
Net gains on disposals of subsidiaries, associates and joint ventures	676.0	19.6	656.4	3,349.0%
Dividend income	425.3	457.2	(31.9)	(7.0%)
Other income and other net gains or losses	2,149.5	1,388.7	760.8	54.8%
Total income	14,741.8	33,388.4	(18,646.6)	(55.8%)

4. Management Discussion and Analysis

The Group's total income from continuing operations decreased by 55.8% from RMB33,388.4 million in the first half of 2021 to RMB14,741.8 million in the first half of 2022, primarily due to the year-on-year decrease in the fair value changes of other financial assets and liabilities, the income from distressed debt assets and interest income.

4.2.1.1.1 Income from distressed debt assets

Income from distressed debt assets derives from the acquisition-and-restructuring business of the Group. In the first half of 2022, the Group's acquisition-and-restructuring distressed debt assets decreased by 8.4% from RMB332,854.4 million as at December 31, 2021 to RMB304,999.9 million as at June 30, 2022. Due to the aggregate impacts of the decrease in asset size and the increase in credit risk, income from distressed debt assets decreased by 28.8% from RMB15,268.0 million in the first half of 2021 to RMB10,869.4 million in the first half of 2022.

4.2.1.1.2 Fair value changes on distressed debt assets

The table below sets forth the components of fair value changes on distressed debt assets of the Group for the periods indicated.

	For the six months ended June 30,			Change in percentage
	2022	2021	Change	
	(in millions of RMB, except for percentages)			
Fair value changes on distressed debt assets				
Acquisition-and-disposal				
— realized	3,820.5	3,906.8	(86.3)	(2.2%)
— unrealized	(953.9)	(322.0)	(631.9)	(196.2%)
Acquisition-and-restructuring				
— unrealized	10.9	—	10.9	100.0%
Total	2,877.5	3,584.8	(707.3)	(19.7%)

Fair value changes on distressed debt assets derive from the acquisition-and-disposal and acquisition-and-restructuring businesses of the Group, including the realized disposal net income of distressed debt assets and the unrealized fair value changes on such assets. Any interest income generated from such assets is also included in the fair value changes.

4. Management Discussion and Analysis

In the first half of 2022, the realized income and the total assets of the Group's acquisition-and-disposal business remained basically stable, and the realized disposal net income of fair value changes on distressed debt assets was RMB3,820.5 million, representing a decrease of 2.2% on a year-on-year basis; the unrealized fair value change loss was RMB953.9 million, representing an increase of 196.2% on a year-on-year basis. The gross amount of the Group's acquisition-and-disposal distressed debt assets was RMB177,676.3 million as at June 30, 2022, representing a decrease of 2.4% as compared with the end of last year.

In the first half of 2022, some acquisition-and-restructuring businesses conducted by the Group were classified as financial assets at FVTPL due to failure to pass the contractual cash flow test. As at June 30, 2022, the gross amount of those acquisition-and-restructuring assets was RMB960.9 million and unrealized fair value changes of RMB10.9 million were recognised in the first half of 2022.

4.2.1.1.3 Fair value changes on other financial assets and liabilities

The table below sets forth the components of fair value changes on other financial assets and liabilities of the Group for the periods indicated.

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Fair value changes on other financial assets and liabilities				
Listed and unlisted shares and funds				
— realized	488.2	1,529.7	(1,041.5)	(68.1%)
— unrealized	(7,794.1)	454.9	(8,249.0)	(1,813.4%)
Others ⁽¹⁾				
— realized	132.6	1,752.4	(1,619.8)	(92.4%)
— unrealized	(1,646.4)	(426.1)	(1,220.3)	(286.4%)
Total	(8,819.7)	3,310.9	(12,130.6)	(366.4%)

(1) Others include debt instruments, derivatives and structured products, wealth management products, trust products, and other investments and financial liabilities

Fair value changes on other financial assets and liabilities derive from the financial assets and financial liabilities at FVTPL, excluding the ones in relation to acquisition-and-disposal and acquisition-and-restructuring businesses of the Group. The fair value changes comprise both realized gains or losses from disposal and settlement of other financial assets and liabilities and unrealized fair value changes on such assets and liabilities. Any interest income arising from such assets is also included in fair value changes.

4. Management Discussion and Analysis

In the first half of 2022, the fair value changes on other financial assets and liabilities of the Group were RMB-8,819.7 million, representing a decrease of 366.4% on a year-on-year basis, among which: (i) Resulting from the impact of continued capital market fluctuations in the first half of 2022, the realized fair value changes on the listed and unlisted shares and funds held by the Group were RMB488.2 million, representing a decrease of RMB1,041.5 million on a year-on-year basis; the unrealized fair value changes were RMB-7,794.1 million, representing a decrease of RMB8,249.0 million on a year-on-year basis; (ii) The Group continued to reduce the non-dominant and non-advantageous businesses, together with the downward impact on asset quality, resulting in a decrease on the realized and unrealized fair value changes on derivatives and structured products, debt instruments, trust products and other financial assets and liabilities on a year-on-year basis.

4.2.1.1.4 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,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost other than distressed debt assets	2,488.8	3,513.0	(1,024.2)	(29.2%)
Receivables arising from sales and leaseback arrangements	1,942.5	2,272.4	(329.9)	(14.5%)
Deposits with financial institutions	861.0	928.5	(67.5)	(7.3%)
Debt instruments at FVTOCI other than distressed debt assets	102.1	225.8	(123.7)	(54.8%)
Placements with financial institutions	86.7	91.5	(4.8)	(5.2%)
Others	99.6	192.0	(92.4)	(48.1%)
Total	5,580.7	7,223.2	(1,642.5)	(22.7%)

Interest income derives from the Group's debt investment, which is measured at amortised cost and FVTOCI, excluding that from the acquisition-and-restructuring business of the Group. In the first half of 2022, the Group's interest income decreased by 22.7% from RMB7,223.2 million in the first half of 2021 to RMB5,580.7 million in the first half of 2022, primarily because (i) the Group continued to reduce the non-dominant and non-advantageous businesses overlaid by the effect of credit risk exposure, and the interest income from debt instruments at amortised cost other than distressed debt assets and the interest income from debt instruments at FVTOCI other than distressed debt assets in aggregate decreased by 30.7% from RMB3,738.8 million in the first half of 2021 to RMB2,590.9 million in the first half of 2022; (ii) income from the sales and leaseback business decreased by 14.5% from RMB2,272.4 million in the first half of 2021 to RMB1,942.5 million in the first half of 2022.

4. Management Discussion and Analysis

4.2.1.1.5 Finance lease income

The finance lease income of the Group mainly derives from Huarong Financial Leasing. The finance lease income decreased by 42.3% from RMB1,106.6 million in the first half of 2021 to RMB638.1 million in the first half of 2022. Considering that interest income of receivables arising from sales and leaseback arrangements is presented in interest income since the adoption of the New Lease Standards in 2019, the income from the financial leasing business of the Group decreased by 23.6% from RMB3,379.0 million in the first half of 2021 to RMB2,580.6 million in the first half of 2022, mainly due to a year-on-year decrease in business launch in the current period.

4.2.1.1.6 Commission and fee income

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

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Asset management business	85.4	171.6	(86.2)	(50.2%)
Securities and futures brokerage business	49.3	82.4	(33.1)	(40.2%)
Trust business	26.3	172.3	(146.0)	(84.7%)
Total	161.0	462.3	(265.3)	(62.2%)

Commission and fee income of the Group decreased by 62.2% from RMB462.3 million in the first half of 2021 to RMB161.0 million in the first half of 2022, mainly due to the decrease in commission and fee income from the trust and asset management business of the Group.

4. Management Discussion and Analysis

4.2.1.1.7 Other income and other net gains or losses

The table below 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,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Net gains/(losses) on exchange differences	1,292.0	(81.9)	1,373.9	1,677.5%
Income arising from operating leases	420.8	584.5	(163.7)	(28.0%)
Revenue from the development of properties	96.2	484.8	(388.6)	(80.2%)
Government grants	21.5	36.2	(14.7)	(40.6%)
Others	319.0	365.1	(46.1)	(12.6%)
Total	2,149.5	1,388.7	760.8	54.8%

Other income and other net gains or losses of the Group increased by 54.8% from RMB1,388.7 million in the first half of 2021 to RMB2,149.5 million in the first half of 2022, mainly due to the increase in the net gains on exchange differences resulting from exchange rate fluctuation.

4.2.1.2 Total income from discontinued operations

In the first half of 2022, the Group completed the equity disposals of three subsidiaries, namely Huarong Consumer Finance, Huarong Securities, Huarong Xiangjiang Bank, and realized a net gain of RMB4,092.4 million from the disposal of the subsidiaries. The total income from discontinued operations increased by 28.9% from RMB12,674.0 million in the first half of 2021 to RMB16,334.1 million in the first half of 2022.

4. Management Discussion and Analysis

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

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Fair value changes on other financial assets and liabilities	720.7	199.5	521.2	261.3%
Interest income	10,495.2	11,245.5	(750.3)	(6.7%)
Gains from derecognition of financial assets measured at amortised cost	40.4	74.7	(34.3)	(45.9%)
Gains from derecognition of debt instruments at fair value through other comprehensive income	79.1	61.9	17.2	27.8%
Commission and fee income	848.3	808.1	40.2	5.0%
Net gains on disposals of subsidiaries	4,092.4	—	4,092.4	—
Dividend income	—	1.1	(1.1)	(100.0%)
Other income and other net gains or losses	58.0	283.2	(225.2)	(79.5%)
Total income	16,334.1	12,674.0	3,660.1	28.9%

4.2.1.3 Total expenses of continuing operations

Total expenses of continuing operations of the Group increased by 28.7% from RMB30,545.9 million in the first half of 2021 to RMB39,315.3 million in the first half of 2022, mainly due to the year-on-year increase of impairment losses under ECL model.

The table below sets forth the components of the total expenses of the Group's continuing operations for the periods indicated.

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	(19,178.6)	(21,778.0)	2,599.4	(11.9%)
Commission and fee expenses	(130.1)	(79.0)	(51.1)	64.7%
Operating expenses	(2,642.3)	(3,506.9)	864.6	(24.7%)
Impairment losses under ECL model	(16,900.4)	(5,052.4)	(11,848.0)	234.5%
Impairment losses on other assets	(463.9)	(129.6)	(334.3)	257.9%
Total expenses	(39,315.3)	(30,545.9)	(8,769.4)	28.7%

4. Management Discussion and Analysis

4.2.1.3.1 Interest expenses

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

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Borrowings	(14,676.8)	(17,043.6)	2,366.8	(13.9%)
Bonds and notes issued	(4,367.3)	(4,461.4)	94.1	(2.1%)
Financial assets sold under repurchase agreements	(24.2)	(16.6)	(7.6)	45.8%
Placements from financial institutions	(23.7)	(0.3)	(23.4)	7,800.0%
Lease liabilities	(16.5)	(166.0)	149.5	(90.1%)
Other liabilities	(70.1)	(90.1)	20.0	(22.2%)
Total	(19,178.6)	(21,778.0)	2,599.4	(11.9%)

In the first half of 2022, the scale of interest-bearing liabilities and interest expenses of the Group have been reduced, and interest expenses decreased by 11.9% year-on-year, of which, the scale of its borrowings decreased by 13.5% from RMB747,625.5 million as at December 31, 2021 to RMB646,944.3 million as at June 30, 2022, and the corresponding interest expenses decreased by 13.9% from RMB17,043.6 million in the first half of 2021 to RMB14,676.8 million in the first half of 2022. The scale of bonds and notes issued decreased by 30.3% from RMB271,065.2 million as at December 31, 2021 to RMB188,908.5 million as at June 30, 2022, and the corresponding interest expenses decreased by 2.1% from RMB4,461.4 million in the first half of 2021 to RMB4,367.3 million in the first half of 2022.

4. Management Discussion and Analysis

4.2.1.3.2 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,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Employee benefits	(939.1)	(1,182.6)	243.5	(20.6%)
Tax and surcharges	(245.4)	(260.5)	15.1	(5.8%)
Others	(1,457.8)	(2,063.8)	606.0	(29.4%)
Including:				
Depreciation of property and equipment	(297.3)	(383.1)	85.8	(22.4%)
Depreciation of right-of-use assets	(160.6)	(190.2)	29.6	(15.6%)
Depreciation of investment properties	(123.9)	(91.2)	(32.7)	35.9%
Cost of properties development and sales	(61.0)	(344.2)	283.2	(82.3%)
Management fee for realty	(30.5)	(29.2)	(1.3)	4.5%
Rental for short-term leases	(25.3)	(19.5)	(5.8)	29.7%
Amortisation	(23.8)	(29.4)	5.6	(19.0%)
Total	(2,642.3)	(3,506.9)	864.6	(24.7%)

Employee benefits consist of wages, bonuses, allowances and subsidies as well as remuneration-related expenses. Remuneration-related expenses include basic social insurance premium, housing provident fund and enterprise annuity for employees in accordance with relevant regulations, as well as supplementary medical insurance, labor union fees and staff education expenses provided or paid based on prescribed proportions.

Operating expenses of the Group decreased by 24.7% from RMB3,506.9 million in the first half of 2021 to RMB2,642.3 million in the first half of 2022, mainly due to the year-on-year decrease in employee benefits, cost of properties development and sales, depreciation of property and equipment, and depreciation of right-of-use assets.

4. Management Discussion and Analysis

4.2.1.3.3 Impairment losses under ECL model

The table below sets forth the major components of impairment losses under ECL model of the Group for the periods indicated.

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Debt instruments at amortised cost	(13,652.5)	(3,820.9)	(9,831.6)	257.3%
Debt instruments at FVTOCI	(2,179.8)	(920.9)	(1,258.9)	136.7%
Financial lease receivables	(549.3)	(269.7)	(279.6)	103.7%
Financial assets held under resale agreements	(284.3)	(49.4)	(234.9)	475.5%
Loans and advances to customers	(6.3)	187.1	(193.4)	(103.4%)
Other financial assets	(228.2)	(178.6)	(49.6)	27.8%
Total	(16,900.4)	(5,052.4)	(11,848.0)	234.5%

In the first half of 2022, the impairment losses under ECL model of the Group were RMB16,900.4 million, increased by 234.5% year-on-year, which is mainly because the Group made provision of impairment losses under ECL model for financial assets at amortised cost and at FVTOCI based on their risk conditions and ECL model, declined contract performance ability of the related customers and downward migration of asset quality against the backdrop of pressure in macroeconomy and downturn in the real estate industry as a whole.

4.2.1.3.4 Impairment losses on other assets

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

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interests in associates and joint ventures	(161.6)	(129.4)	(32.2)	24.9%
Foreclosed assets	(86.6)	9.6	(96.2)	(1,002.1%)
Others	(215.7)	(9.8)	(205.9)	2,101.0%
Total	(463.9)	(129.6)	(334.3)	257.9%

4. Management Discussion and Analysis

Impairment losses on other assets of the Group increased by 257.9% from RMB129.6 million in the first half of 2021 to RMB463.9 million in the first half of 2022, mainly due to the impairment provision on foreclosed assets and payments in advance.

4.2.1.4 Total expenses from discontinued operations

The table below sets forth the major components of the total expenses from discontinued operations of the Group for the periods indicated.

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Interest expenses	(5,449.8)	(5,407.8)	(42.0)	0.8%
Commission and fee expenses	(266.3)	(327.8)	61.5	(18.8%)
Operating expenses	(2,085.6)	(1,742.4)	(343.2)	19.7%
Impairment losses under ECL model	(1,860.5)	(2,867.8)	1,007.3	(35.1%)
Impairment losses on other assets	(133.5)	(10.4)	(123.1)	1,183.7%
Total expenses	(9,795.7)	(10,356.2)	560.5	(5.4%)

The Group's expenses from discontinued operations were mainly incurred by three subsidiaries, i.e. Huarong Consumer Finance, Huarong Securities and Huarong Xiangjiang Bank in the first half of 2022. Expenses from discontinued operations decreased by 5.4% from RMB10,356.2 million in the first half of 2021 to RMB9,795.7 million in the first half of 2022.

4. Management Discussion and Analysis

4.2.1.5 Income tax

4.2.1.5.1 Income tax from continuing operations

The table below sets forth the components of income tax of the Group from continuing operations for the periods indicated.

	For the six months ended June 30,			Change in percentage
	2022	2021	Change	
	(in millions of RMB, except for percentages)			
Current income tax				
PRC enterprise income tax	(1,121.0)	(2,381.6)	1,260.6	(52.9%)
PRC land appreciation tax (“LAT”)	(20.2)	(11.6)	(8.6)	74.1%
Profits tax of Hong Kong and Macau, China	(25.8)	(19.7)	(6.1)	31.0%
Deferred income tax	3,829.2	438.2	3,391.0	773.8%
Total	2,662.2	(1,974.7)	4,636.9	(234.8%)

Income tax expenses from continuing operations of the Group decreased by 234.8% from RMB1,974.7 million in the first half of 2021 to RMB-2,662.2 million in the first half of 2022, mainly due to (i) the income tax expenses for the current period decreased by RMB1,245.9 million on a year-on-year basis, resulting from some loss-making institutions of the Group recording decreases in their taxable income for the current period; (ii) the loss from fair value changes and impairment losses under ECL model of the Group recognised for the current period increased on a year-on-year basis, and the deferred income tax assets thus recognised recorded a year-on-year increase of RMB3,391.0 million.

4.2.1.5.2 Income tax expenses from discontinued operations

Income tax expenses from discontinued operations of the Group increased by 472.3% from RMB697.5 million in the first half of 2021 to RMB3,992.1 million in the first half of 2022, of which, the income tax expenses arising from disposals of 3 subsidiaries was RMB3,472.5 million in the first half of 2022, accounting for 87.0% of the income tax expenses from discontinued operations.

4. Management Discussion and Analysis

4.2.1.6 Segment operating results

Each business segment of the Group is subject to different risks and returns. The Group reports financial results of continuing operations in three segments:

- (1) distressed asset management segment: mainly includes distressed debt asset management business of the Company, policy-based DES asset management business based on commercial buy-out of the Company, distressed asset management business, distressed asset-based special situations investment business and distressed asset-based property development business conducted by our subsidiaries as well as market-oriented DES business of the Group.
- (2) financial services segment: mainly includes financial leasing business. In the first half of 2022, the Group completed the transfers of equity in Huarong Consumer Finance, Huarong Securities and Huarong Xiangjiang Bank. The consumer finance business, securities and futures business and banking services business constitute discontinued operations and ceased to be included in the Group's financial services segment of continuing operations.
- (3) asset management and investment segment: mainly includes trust business, private equity funds business, international business and other businesses.

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

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	13,967.3	27,045.5	(13,078.2)	(48.4%)
Financial services segment	3,216.8	4,015.6	(798.8)	(19.9%)
Asset management and investment segment	(1,062.9)	4,840.3	(5,903.2)	(122.0%)
Inter-segment elimination	(1,379.4)	(2,513.0)	1,133.6	(45.1%)
Total	14,741.8	33,388.4	(18,646.6)	(55.8%)

4. Management Discussion and Analysis

The table below sets forth the (loss)/profit before tax of each of the Group's continuing operations segments for the periods indicated.

	For the six months ended June 30,			
	2022	2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed asset management segment	(15,404.5)	5,766.5	(21,171.0)	(367.1%)
Financial services segment	675.2	976.8	(301.6)	(30.9%)
Asset management and investment segment	(9,034.4)	(4,189.5)	(4,844.9)	115.6%
Inter-segment elimination	(267.5)	(843.4)	575.9	(68.3%)
Total	(24,031.2)	1,710.4	(25,741.6)	(1,505.0%)

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

	As at	As at	Change	Change in percentage
	June 30,	December 31,		
	2022	2021		
(in millions of RMB, except for percentages)				
Distressed asset management segment	730,362.3	802,135.8	(71,773.5)	(8.9%)
Financial services segment	109,271.5	588,533.1	(479,261.6)	(81.4%)
Asset management and investment segment	213,065.3	254,267.0	(41,201.7)	(16.2%)
Inter-segment elimination	(90,959.0)	(99,428.2)	8,469.2	(8.5%)
Total	961,740.1	1,545,507.7	(583,767.6)	(37.8%)

The distressed asset management business is the core business of the Group and a main source of income of the Group. In the first half of 2022, affected by the continued capital market fluctuations, the downturn in the real estate industry as well as the credit risk exposures and the decrease in asset size, the total income from the distressed asset management segment of the Group decreased by 48.4% from RMB27,045.5 million in the first half of 2021 to RMB13,967.3 million in the first half of 2022; the profit before tax decreased by 367.1% from RMB5,766.5 million in the first half of 2021 to RMB-15,404.5 million in the first half of 2022; and the total assets decreased by 8.9% from RMB802,135.8 million on December 31, 2021 to RMB730,362.3 million as at June 30, 2022.

The financial service business is mainly financial leasing business. In the first half of 2022, the total income from the financial services segment of the Group decreased by 19.9% from RMB4,015.6 million in the first half of 2021 to RMB3,216.8 million in the first half of 2022; the profit before tax decreased by 30.9% from RMB976.8 million in the first half of 2021 to RMB675.2 million in the first half of 2022; and the total assets decreased by 81.4% from RMB588,533.1 million on December 31, 2021 to RMB109,271.5 million as at June 30, 2022.

4. Management Discussion and Analysis

The losses of asset management and investment business increased, mainly due to the increase in the loss from fair value changes of other financial assets and liabilities for the period. In the first half of 2022, the total income from asset management and investment segment of the Group decreased by 122.0% from RMB4,840.3 million in the first half of 2021 to RMB-1,062.9 million in the first half of 2022; the loss before tax increased by 115.6% from RMB4,189.5 million in the first half of 2021 to RMB9,034.4 million in the first half of 2022; and the total assets decreased by 16.2% from RMB254,267.0 million on December 31, 2021 to RMB213,065.3 million as at June 30, 2022.

4.2.2 Financial Positions of the Group

As at June 30, 2022, the Group has completed the equity disposals of Huarong Consumer Finance, Huarong Securities and Huarong Xiangjiang Bank, and realized reductions in both its assets and liabilities. As at December 31, 2021 and June 30, 2022, the total assets of the Group amounted to RMB1,568,421.8 million and RMB978,315.2 million, respectively, representing a decrease of 37.6%; total liabilities amounted to RMB1,464,437.4 million and RMB912,192.5 million, respectively, representing a decrease of 37.7%. Affected by the equity disposals of the above-mentioned subsidiaries and the operating results in the current period, the Group's total equity decreased by 36.4% from RMB103,984.4 million as at December 31, 2021 to RMB66,122.7 million as at June 30, 2022; and the total equity attributable to equity holders of the Company decreased by 2.6% from RMB59,343.9 million as at December 31, 2021 to RMB57,798.0 million as at June 30, 2022.

4. Management Discussion and Analysis

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

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Cash and balances with central bank	23.4	23,956.5	(23,933.1)	(99.9%)
Deposits with financial institutions	100,306.6	146,698.3	(46,391.7)	(31.6%)
Placements with financial institutions	4,700.7	19,685.8	(14,985.1)	(76.1%)
Financial assets at FVTPL	305,599.7	351,047.7	(45,448.0)	(12.9%)
Financial assets held under resale agreements	60.0	11,044.3	(10,984.3)	(99.5%)
Contract assets	5,903.9	5,735.6	168.3	2.9%
Loans and advances to customers	36.3	247,164.0	(247,127.7)	(100.0%)
Finance lease receivables	19,023.0	23,554.1	(4,531.1)	(19.2%)
Debt instruments at FVTOCI	28,699.0	57,203.6	(28,504.6)	(49.8%)
Equity instruments at FVTOCI	2,857.2	3,139.6	(282.4)	(9.0%)
Inventories	20,738.6	20,854.1	(115.5)	(0.6%)
Debt instruments at amortised cost	430,282.7	580,799.4	(150,516.7)	(25.9%)
Interests in associates and joint ventures	8,599.9	10,514.8	(1,914.9)	(18.2%)
Investment properties	6,836.5	6,854.2	(17.7)	(0.3%)
Property and equipment	7,640.1	9,621.2	(1,981.1)	(20.6%)
Right-of-use assets	1,478.5	3,502.1	(2,023.6)	(57.8%)
Deferred tax assets	16,575.1	15,612.5	962.6	6.2%
Goodwill	304.9	323.0	(18.1)	(5.6%)
Assets held for sale	—	7,301.6	(7,301.6)	(100.0%)
Other assets	18,649.1	23,809.4	(5,160.3)	(21.7%)
Total assets	978,315.2	1,568,421.8	(590,106.6)	(37.6%)

4. Management Discussion and Analysis

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Borrowings from central bank	—	23,147.6	(23,147.6)	(100.0%)
Deposits from financial institutions	—	13,656.3	(13,656.3)	(100.0%)
Placements from financial institutions	856.7	4,784.2	(3,927.5)	(82.1%)
Financial assets sold under repurchase agreements	1,620.6	30,866.2	(29,245.6)	(94.7%)
Borrowings	646,944.3	747,625.5	(100,681.2)	(13.5%)
Financial liabilities at FVTPL	484.2	683.7	(199.5)	(29.2%)
Due to customers	—	257,208.9	(257,208.9)	(100.0%)
Tax payable	4,080.7	1,388.6	2,692.1	193.9%
Contract liabilities	719.5	401.2	318.3	79.3%
Lease liabilities	710.3	2,049.5	(1,339.2)	(65.3%)
Deferred tax liabilities	384.4	341.6	42.8	12.5%
Bonds and notes issued	188,908.5	271,065.2	(82,156.7)	(30.3%)
Liabilities directly associated with the assets held for sale	—	1,740.3	(1,740.3)	(100.0%)
Other liabilities	67,483.3	109,478.6	(41,995.3)	(38.4%)
Total liabilities	912,192.5	1,464,437.4	(552,244.9)	(37.7%)
Share capital	80,246.7	80,246.7	—	—
Other equity instruments	19,900.0	—	19,900.0	100.0%
Capital reserve	16,434.5	16,431.8	2.7	—
Surplus reserve	8,564.2	8,564.2	—	—
General reserve	13,415.3	17,888.6	(4,473.3)	(25.0%)
Other reserves	1,301.9	3,906.6	(2,604.7)	(66.7%)
Accumulated losses	(82,064.6)	(67,694.0)	(14,370.6)	21.2%
Equity attributable to equity holders of the Company	57,798.0	59,343.9	(1,545.9)	(2.6%)
Perpetual capital instruments	7,128.3	22,377.9	(15,249.6)	(68.1%)
Non-controlling interests	1,196.4	22,262.6	(21,066.2)	(94.6%)
Total equity	66,122.7	103,984.4	(37,861.7)	(36.4%)
Total equity and liabilities	978,315.2	1,568,421.8	(590,106.6)	(37.6%)

4. Management Discussion and Analysis

4.2.2.1 Assets

As at December 31, 2021 and June 30, 2022, the total assets of the Group amounted to RMB1,568,421.8 million and RMB978,315.2 million, respectively. As at June 30, 2022, the Group's assets mainly consisted of (i) deposits with financial institutions; (ii) financial assets at FVTPL; (iii) finance lease receivables; (iv) debt instruments at FVTOCI; and (v) debt instruments at amortised cost.

4.2.2.1.1 Deposits with financial institutions

As at December 31, 2021 and June 30, 2022, the Group's deposits with financial institutions amounted to RMB146,698.3 million and RMB100,306.6 million, respectively, representing a decrease of 31.6%, which is mainly due to the repayment of external borrowings by the Group in the first half of 2022, and the deposits with financial institutions decreased correspondingly.

4.2.2.1.2 Financial assets at FVTPL

The Group's financial assets that fail to meet the classification standards to be classified as debt instruments at amortised cost or at FVTOCI, or equity instruments at FVTOCI shall be classified as financial assets at FVTPL.

4. Management Discussion and Analysis

The table below sets forth the major components of the Group's financial assets at FVTPL as at the dates indicated.

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
	(in millions of RMB, except for percentages)			
Distressed debt assets				
— acquisition-and-disposal	177,676.3	182,087.2	(4,410.9)	(2.4%)
— acquisition-and-restructuring	960.9	—	960.9	100.0%
Equity instruments				
— Listed	33,261.7	39,630.7	(6,369.0)	(16.1%)
— Unlisted	19,497.2	21,532.5	(2,035.3)	(9.5%)
Funds	37,599.7	49,095.2	(11,495.5)	(23.4%)
Trust products	8,998.4	11,682.3	(2,683.9)	(23.0%)
Derivatives and structured products	6,112.1	6,348.1	(236.0)	(3.7%)
Debt securities				
— Corporate bonds	5,256.7	12,807.9	(7,551.2)	(59.0%)
— Financial institution bonds	300.9	423.4	(122.5)	(28.9%)
— Government bonds	—	3,377.5	(3,377.5)	(100.0%)
— Public sector and quasi-government bonds	—	94.5	(94.5)	(100.0%)
Wealth management products	4,134.1	5,655.0	(1,520.9)	(26.9%)
Asset management plans	2,872.3	7,864.1	(4,991.8)	(63.5%)
Convertible bonds	1,934.6	2,189.6	(255.0)	(11.6%)
Entrusted loans	888.1	884.3	3.8	0.4%
Asset-backed securities	61.0	147.6	(86.6)	(58.7%)
Negotiable certificates of deposit	—	378.3	(378.3)	(100.0%)
Other debt assets	6,045.7	6,849.5	(803.8)	(11.7%)
Total	305,599.7	351,047.7	(45,448.0)	(12.9%)

As at December 31, 2021 and June 30, 2022, the financial assets at FVTPL of the Group amounted to RMB351,047.7 million and RMB305,599.7 million, respectively, representing a decrease of 12.9%.

4. Management Discussion and Analysis

Distressed debt assets at FVTPL are the Group's acquisition-and-disposal distressed debt assets and acquisition-and-restructuring distressed debt assets. In the first half of 2022, the Group took the initiative to grasp the business opportunity of "large distressed", deepened the innovation of the acquisition-and-disposal business, and maintained relatively leading status in business acquisition and market transaction scale, and the Company's new asset size acquired and disposed of in the current period were larger as compared to the same period of last year. As at December 31, 2021 and June 30, 2022, the Group's acquisition-and-disposal distressed debt assets at FVTPL amounted to RMB182,087.2 million and RMB177,676.3 million, respectively, representing a decrease of 2.4%.

At the same time, certain acquisition-and-restructuring businesses conducted by the Group were accounted for as financial assets at FVTPL due to the failure in the test of contractual cash flows. As at June 30, 2022, the acquisition-and-restructuring distressed debt assets at FVTPL of the Group amounted to RMB960.9 million.

4.2.2.1.3 Finance lease receivables

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

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Minimum finance lease receivables				
Within 1 year (inclusive)	11,124.9	13,023.3	(1,898.4)	(14.6%)
1 year to 5 years (inclusive)	12,769.7	15,220.5	(2,450.8)	(16.1%)
Over 5 years	1,234.1	1,647.4	(413.3)	(25.1%)
Gross amount of finance lease receivables	25,128.7	29,891.2	(4,762.5)	(15.9%)
Less: Unearned finance income	(3,054.7)	(3,615.6)	560.9	(15.5%)
Net amount of finance lease receivables	22,074.0	26,275.6	(4,201.6)	(16.0%)
Less: Allowance for ECL				
— 12-month ECL	(228.7)	(190.7)	(38.0)	19.9%
— Lifetime ECL	(2,822.3)	(2,530.8)	(291.5)	11.5%
Subtotal	(3,051.0)	(2,721.5)	(329.5)	12.1%
Carrying amount of finance lease receivables	19,023.0	23,554.1	(4,531.1)	(19.2%)

4. Management Discussion and Analysis

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Present value of minimum finance lease receivables:				
Within 1 year (inclusive)	9,838.6	11,490.2	(1,651.6)	(14.4%)
1 year to 5 years (inclusive)	11,157.3	13,341.7	(2,184.4)	(16.4%)
Over 5 years	1,078.1	1,443.7	(365.6)	(25.3%)
Total	22,074.0	26,275.6	(4,201.6)	(16.0%)

Finance lease receivables of the Group mainly derive from Huarong Financial Leasing. As at December 31, 2021 and June 30, 2022, the Group's net amount of finance lease receivables amounted to RMB26,275.6 million and RMB22,074.0 million, respectively, representing a decrease of 16.0%. Considering that the receivables arising from sales and leaseback agreements is presented in debt instruments at amortised cost since the implementation of the New Lease Standards in 2019, the balance of assets in financial leasing business was RMB89,070.4 million as at June 30, 2022, representing a decrease of 6.8% as compared with December 31, 2021.

As at December 31, 2021 and June 30, 2022, the Group's allowances for impairment for finance lease receivables based on the risk conditions and ECL model were RMB2,721.5 million and RMB3,051.0 million, respectively, representing an increase of 12.1%.

4.2.2.1.4 Debt instruments at FVTOCI

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

4. Management Discussion and Analysis

The table below sets forth the major components of debt instruments at FVTOCI of the Group as at the dates indicated.

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Distressed debt assets	20,537.1	23,031.0	(2,493.9)	(10.8%)
Debt securities				
— Public sector and quasi-government bonds	1,393.5	1,752.3	(358.8)	(20.5%)
— Corporate bonds	1,101.3	12,992.6	(11,891.3)	(91.5%)
— Government bonds	610.2	10,500.6	(9,890.4)	(94.2%)
— Financial institution bonds	151.7	2,642.5	(2,490.8)	(94.3%)
Entrusted loans	2,395.4	2,409.4	(14.0)	(0.6%)
Asset management plans	1,459.5	2,794.9	(1,335.4)	(47.8%)
Debt instruments	934.1	963.4	(29.3)	(3.0%)
Trust products	96.9	90.6	6.3	7.0%
Asset-backed securities	19.3	26.3	(7.0)	(26.6%)
Total	28,699.0	57,203.6	(28,504.6)	(49.8%)

As at December 31, 2021 and June 30, 2022, debt instruments at FVTOCI of the Group were RMB57,203.6 million and RMB28,699.0 million, respectively, representing a decrease of 49.8%.

The distressed debt assets at FVTOCI were acquisition-and-restructuring distressed debt assets of the Group. In the first half of 2022, the Group continued to reduce its non-financial real estate related business, promoted risk solution for key non-financial real estate related customers and made steady investments in new projects, resulting in a decrease in the balance of distressed debt assets. As at December 31, 2021 and June 30, 2022, the Group's distressed debt assets at FVTOCI amounted to RMB23,031.0 million and RMB20,537.1 million, respectively, representing a decrease of 10.8%.

Other debt instruments at FVTOCI other than distressed debt assets included various bonds, entrusted loans, asset management plans and debt instruments invested by the Group. In the first half of 2022, the Group's scale of bonds significantly decreased under the influence of moving Huarong Xiangjiang Bank and Huarong Securities off its balance sheet. As at December 31, 2021 and June 30, 2022, in addition to the distressed debt assets, the Group's other debt instruments at FVTOCI amounted to RMB34,172.6 million and RMB8,161.9 million, respectively, representing a decrease of 76.1%.

4. Management Discussion and Analysis

Debt instruments at FVTOCI are measured at fair value in the financial statements, and the allowance for impairment based on the ECL model for such debt instruments is recognised in other comprehensive income (“OCI”) and accumulated under the heading of investment revaluation reserve, the allowance for impairment recognised in profit or loss with corresponding adjustments to OCI would not reduce the carrying amounts of these debt instruments. As at December 31, 2021 and June 30, 2022, the allowance for impairment for debt instruments at FVTOCI presented under the investment revaluation reserve amounted to RMB11,199.5 million and RMB12,890.3 million, respectively, representing an increase of 15.1%.

4.2.2.1.5 Debt instruments at amortised cost

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

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

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Distressed debt assets				
Loans acquired from financial institutions	36,476.1	31,957.1	4,519.0	14.1%
Other debt assets acquired from non-financial institutions	247,025.8	277,866.3	(30,840.5)	(11.1%)
Subtotal	283,501.9	309,823.4	(26,321.5)	(8.5%)
Less: Allowance for ECL				
— 12-month ECL	(2,362.6)	(2,820.3)	457.7	(16.2%)
— Lifetime ECL	(45,075.4)	(37,679.7)	(7,395.7)	19.6%
Subtotal	(47,438.0)	(40,500.0)	(6,938.0)	17.1%
Carrying amount of distressed debt assets	236,063.9	269,323.4	(33,259.5)	(12.3%)

4. Management Discussion and Analysis

	As at June 30, 2022	As at December 31, 2021	Change	Change in percentage
(in millions of RMB, except for percentages)				
Other debt assets				
Debt instruments	102,723.1	112,163.6	48,877.5	90.8%
Receivables arising from sales and leaseback arrangements	66,996.4	69,336.4	(2,340.0)	(3.4%)
Entrusted loans	52,599.8	53,845.6	(59,563.8)	(53.1%)
Trust products	44,855.1	56,594.6	(11,739.5)	(20.7%)
Debt securities	7,296.9	94,677.2	(87,380.3)	(92.3%)
Asset management plans	4,569.6	7,024.5	(2,454.9)	(34.9%)
Asset-backed securities	16.1	1,603.6	(1,587.5)	(99.0%)
Others	2,040.5	2,199.0	(158.5)	(7.2%)
Subtotal	281,097.5	397,444.5	(116,347.0)	(29.3%)
Less: Allowance for ECL				
— 12-month ECL	(668.0)	(1,232.4)	564.4	(45.8%)
— Lifetime ECL	(86,210.7)	(84,736.1)	(1,474.6)	1.7%
Subtotal	(86,878.7)	(85,968.5)	(910.2)	1.1%
Carrying amount of other debt assets	194,218.8	311,476.0	(117,257.2)	(37.6%)
Total	430,282.7	580,799.4	(150,516.7)	(25.9%)

As at December 31, 2021 and June 30, 2022, the Group's debt instruments at amortised cost were RMB580,799.4 million and RMB430,282.7 million, respectively, representing a decrease of 25.9%.

The distressed debt assets at amortised cost were acquisition-and-restructuring distressed debt assets of the Group. In the first half of 2022, the Group continued to reduce non-financial real estate related business, advanced the risk mitigation for key real estate related customers and made steady investments in new projects, resulting in a decrease in the balance of distressed debt assets. As at December 31, 2021 and June 30, 2022, the Group's balance of distressed debt assets at amortised cost amounted to RMB309,823.4 million and RMB283,501.9 million, respectively, representing a decrease of 8.5%.

Other debt assets at amortised cost other than distressed debt assets as well as the receivables arising from sales and leaseback arrangements included debt instruments, entrusted loans and trust products invested by the Group. As at December 31, 2021 and June 30, 2022, the Group's balance of other debt assets at amortised cost other than distressed debt assets as well as the receivables arising from sales and leaseback arrangements amounted to RMB328,108.1 million and RMB214,101.1 million, respectively, representing a decrease of 34.7%, mainly due to the decrease in the balance of other debt assets at amortised cost (other than distressed debt assets as well as the receivables arising from sales and leaseback arrangements) arising from the completion of the equity disposals of Huarong Consumer Finance, Huarong Securities and Huarong Xiangjiang Bank by the Group in the first half of 2022.

4. Management Discussion and Analysis

As at December 31, 2021 and June 30, 2022, based on the asset risk situations and ECL model, the Group's balance of allowances for impairment for debt instruments at amortised cost amounted to RMB126,468.5 million and RMB134,316.7 million, respectively, representing an increase of 6.2%. In particular, the allowances for impairment losses for distressed debt assets at amortised cost amounted to RMB40,500.0 million and RMB47,438.0 million, respectively; the allowances for impairment for other debt assets at amortised cost other than distressed debt assets amounted to RMB85,968.5 million and RMB86,878.7 million.

4.2.2.2 Liabilities

Liabilities of the Group mainly include: (i) borrowings, including those from banks and other financial institutions and (ii) bonds and notes issued.

4.2.2.2.1 Borrowings

As at December 31, 2021 and June 30, 2022, the balance of borrowings of the Group amounted to RMB747,625.5 million and RMB646,944.3 million, respectively, representing a decrease of 13.5%, mainly because the Group repaid the bank borrowings.

4.2.2.2.2 Bonds and notes issued

As at December 31, 2021 and June 30, 2022, the balance of the Group's bonds and notes issued amounted to RMB271,065.2 million and RMB188,908.5 million, respectively, representing a decrease of 30.3%, mainly because the Group repaid the bonds and notes in due time.

4.2.3 Contingent Liabilities

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

As at June 30, 2022, total claim amount of pending litigations was RMB6,316 million (December 31, 2021: RMB6,037 million) for the Group (as defendant). The Group has made provision for estimated liabilities, which amounted to RMB18 million (December 31, 2021: RMB70 million) based on court judgments and lawyer's opinions. The Company believes that the final result of these legal proceedings will not have a material impact on the financial position or operations of the Group.

4. Management Discussion and Analysis

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

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

4.3 Business Overview

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

The following table sets forth the total income and (loss)/profit before tax from each of business segments of the Group's continuing operations for the periods indicated.

	For the six months ended June 30,			
	2022		2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Continuing operations				
Total income				
Distressed asset management segment	13,967.3	94.7%	27,045.5	81.0%
Financial services segment	3,216.8	21.8%	4,015.6	12.0%
Asset management and investment segment	(1,062.9)	(7.2%)	4,840.3	14.5%
Inter-segment elimination	(1,379.4)	(9.3%)	(2,513.0)	(7.5%)
Total	14,741.8	100.0%	33,388.4	100.0%
Continuing operations				
(Loss)/profit before tax				
Distressed asset management segment	(15,404.5)	64.1%	5,766.5	337.1%
Financial services segment	675.2	(2.8%)	976.8	57.1%
Asset management and investment segment	(9,034.4)	37.6%	(4,189.5)	(244.9%)
Inter-segment elimination	(267.5)	1.1%	(843.4)	(49.3%)
Total	(24,031.2)	100.0%	1,710.4	100.0%

In the first half of 2022, total income from continuing operations of the Group's distressed asset management segment, financial services segment and asset management and investment segment amounted to RMB13,967.3 million, RMB3,216.8 million and RMB-1,062.9 million, respectively. Profit before tax from continuing operations amounted to RMB-15,404.5 million, RMB675.2 million and RMB-9,034.4 million, respectively.

4. Management Discussion and Analysis

4.3.1 Distressed Asset Management

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

Distressed asset management business is the core business of the Group and the primary source of income of the Group. In the first half of 2021 and the first half of 2022, total income from the distressed asset management segment was RMB27,045.5 million and RMB13,967.3 million, accounting for 81.0% and 94.7% of the Group's total income, respectively.

The table below sets forth the key financial data of the distressed asset management segment of the Group for the periods and as at the dates indicated.

	For the six months ended June 30,	
	2022	2021
	(in millions of RMB)	
Distressed debt asset management business of the Company		
Acquisition cost of newly added distressed debt assets	22,408.3	48,548.3
Total income from distressed debt assets		
Operating income from distressed debt assets ⁽¹⁾	13,730.2	18,788.5
Financial advisory income from acquisition-and-restructuring business	17.0	4.5
Total	13,747.2	18,793.0
Policy-based DES business of the Company		
Dividend income from DES Assets	116.0	43.0
Net gains from the equity disposal of DES Assets	(29.0)	273.2
Market-oriented DES business⁽²⁾		
Income from market-oriented DES business ⁽³⁾	(2,326.2)	1,263.0
Distressed debt asset management business conducted by our subsidiaries		
Income from distressed debt assets	23.3	60.7
Distressed asset-based special situations investment business conducted by our subsidiaries⁽⁴⁾		
Income from Huarong Rongde	322.9	1,076.1
Distressed asset-based property development business conducted by our subsidiaries		
Revenue from the development of properties of Huarong Industrial	90.9	303.2

4. Management Discussion and Analysis

	As at June 30, 2022	As at December 31, 2021
(in millions of RMB)		
Distressed debt asset management business of the Company		
Gross amount of distressed debt assets ⁽⁵⁾	468,069.3	490,820.4
Less: Allowance for impairment losses for distressed debt assets ⁽⁶⁾	41,904.9	33,297.5
Net carrying amount of distressed debt assets	432,342.4	462,926.6
Policy-based DES business of the Company		
Carrying amount of DES Assets	12,716.3	12,995.0
Market-oriented DES business		
Total accumulative investment in market-oriented DES business	36,592.4	35,851.3

- (1) Operating income from distressed debt assets equals the sum of the Company's income from distressed debt assets, fair value changes on acquisition-and-disposal distressed debt assets and realized fair value changes on acquisition-and-restructuring distressed debt assets, as shown in the consolidated financial statements.
- (2) Market-oriented DES business is primarily conducted by the Company and Huarong Ruitong Equity Investment Management Co., Ltd. (華融瑞通股權投資管理有限公司) (“Huarong Ruitong”) and other subsidiaries.
- (3) Income from market-oriented DES includes realized income and unrealized income arising from market-oriented DES business.
- (4) Distressed asset-based special situations investment business conducted by our subsidiaries was primarily conducted by Huarong Rongde and other subsidiaries.
- (5) Gross amount of distressed debt assets equals the sum of the Company's balance of distressed debt assets presented under financial assets at FVTPL, debt instruments at amortised costs and debt instruments at FVTOCI, as shown in the consolidated financial statements.
- (6) Allowance for impairment losses for distressed debt assets equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortised costs and at FVTOCI, as shown in the consolidated financial statements, of which, the allowance for impairment losses for distressed debt assets is presented under the debt instruments at FVTOCI as a part of the investment revaluation reserve, which has no effect on the net carrying amount of distressed debt assets.

4.3.1.1 Distressed debt asset management business of the Company

The Company acquires distressed debt assets from financial institutions and non-financial enterprises through competitive biddings, public auctions, blind auctions or negotiated acquisitions. Based on the characteristics of distressed debt assets and the operational and financial performance, the conditions of the collaterals and pledges as well as the credit risks of the debtors, the Company revitalizes problematic enterprises and assets through asset restructuring, debt restructuring, management restructuring, asset transfer, additional investment in distressed assets, financial consultancy, entrusted management and other business means to obtain cash proceeds or retain assets with operational value. The Company primarily finances its acquisition of distressed debt assets through its own fund, commercial bank borrowings and bond issuances.

4. Management Discussion and Analysis

4.3.1.1.1 Sources for acquisition of distressed debt assets

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

The table below sets forth key financial data of distressed debt assets of the Company by source of acquisition for the periods and as at the dates indicated.

	For the six months ended June 30,			
	2022		2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Acquisition cost of newly added distressed debt assets				
FI Distressed Assets	20,174.3	90.0%	10,105.3	20.8%
NFE Distressed Assets	2,234.0	10.0%	38,443.0	79.2%
Total	22,408.3	100.0%	48,548.3	100.0%
Operating income from distressed debt assets for the period⁽¹⁾				
FI Distressed Assets	3,482.7	25.4%	4,262.8	22.7%
NFE Distressed Assets	10,247.5	74.6%	14,525.7	77.3%
Total	13,730.2	100.0%	18,788.5	100.0%

	As at June 30, 2022		As at December 31, 2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Gross amount of distressed debt assets at the end of the period⁽²⁾				
FI Distressed Assets	201,217.8	43.0%	194,841.8	39.7%
NFE Distressed Assets	266,851.5	57.0%	295,978.6	60.3%
Total	468,069.3	100.0%	490,820.4	100.0%

(1) Operating income from distressed debt assets equals the sum of the Company's income from distressed debt assets, fair value changes on acquisition-and-disposal distressed debt assets and realized fair value changes on acquisition-and-restructuring distressed debt assets, as shown in the consolidated financial statements.

(2) Gross amount of distressed debt assets equals the sum of the Company's balance of distressed debt assets presented under financial assets at FVTPL and debt instruments at amortised cost and at FVTOCI, as shown in the consolidated financial statements.

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4.3.1.1.1.1 FI Distressed Assets

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

The table below sets forth a breakdown of our FI Distressed Assets newly acquired from various types of financial institution based on acquisition costs for the periods indicated.

	For the six months ended June 30,			
	2022		2021	
	Amount	Percentage	Amount	Percentage
	(in millions of RMB, except for percentages)			
Banking				
Large commercial banks	1,745.2	8.7%	3,324.2	32.9%
Joint stock commercial banks	4,625.4	22.9%	5,835.5	57.7%
City and rural commercial banks	2,050.7	10.2%	510.6	5.1%
Subtotal	8,421.3	41.8%	9,670.3	95.7%
Non-banking financial institutions	11,753.0	58.2%	435.0	4.3%
Total	20,174.3	100.0%	10,105.3	100.0%

4.3.1.1.1.2 NFE Distressed Assets

The NFE Distressed Assets currently acquired by the Company mainly include accounts receivable and other distressed debt assets of NFEs. These distressed debt assets include: (i) overdue receivables; (ii) receivables expected to be overdue; and (iii) receivables from debtors with liquidity issues. In the first half of 2022, the Group resolutely implemented regulatory policy requirement and proactively reduced the scale of non-financial real estate related business. The acquisition costs of newly added NFE Distressed Assets decreased by 94.2% from RMB38,443.0 million in the first half of 2021 to RMB2,234.0 million in the first half of 2022 with its percentage thereof decreased from 79.2% of the first half of 2021 to 10.0% of the first half of 2022.

4. Management Discussion and Analysis

4.3.1.1.2 Business models of distressed debt asset

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

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

	For the six months ended June 30,			
	2022		2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Acquisition cost of newly added distressed debt assets				
Acquisition-and-disposal	17,460.1	77.9%	11,418.0	23.5%
Acquisition-and-restructuring	4,948.2	22.1%	37,130.3	76.5%
Total	22,408.3	100.0%	48,548.3	100.0%
Income from distressed debt assets for the period				
Acquisition-and-disposal ⁽¹⁾	2,875.5	20.9%	3,582.1	19.1%
Acquisition-and-restructuring ⁽²⁾	10,871.7	79.1%	15,210.9	80.9%
Total	13,747.2	100.0%	18,793.0	100.0%

	As at June 30, 2022		As at December 31, 2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Gross amount of distressed debt assets at the end of the period				
Acquisition-and-disposal ⁽³⁾	183,472.7	39.2%	179,934.8	36.7%
Acquisition-and-restructuring ⁽⁴⁾	284,596.6	60.8%	310,885.6	63.3%
Total	468,069.3	100.0%	490,820.4	100.0%

(1) The income from acquisition-and-disposal distressed debt assets is the Company's fair value changes on acquisition-and-disposal distressed debt assets, as shown in the consolidated financial statements.

(2) The income from acquisition-and-restructuring distressed debt assets is the sum of the Company's income from distressed debt assets, financial advisory income from acquisition-and-restructuring business presented under commission and fee income, and realized fair value changes on acquisition-and-restructuring distressed debt assets, as shown in the consolidated financial statements.

(3) The gross amount of acquisition-and-disposal distressed debt assets is the amount of the Company's acquisition-and-disposal distressed debt assets presented under financial assets at FVTPL, as shown in the consolidated financial statements.

(4) The gross amount of acquisition-and-restructuring distressed debt assets is the sum of the Company's balance of acquisition-and-restructuring distressed debt assets presented under debt instruments at amortised cost and at FVTOCI and financial assets at FVTPL, as shown in the consolidated financial statements.

4. Management Discussion and Analysis

4.3.1.1.2.1 Acquisition-and-disposal business

As a major participant of the primary market and an important participant and supplier of the secondary market for distressed debt assets, the Company acquires distressed assets packages in batches from bank-based distressed asset market through public bidding or negotiated transfers. To maximize the recovery value of the distressed assets, the Company chooses different disposal methods for these assets based on the comprehensive assessment of the characteristics of the distressed assets, the conditions of the debtors and the conditions of the collaterals and pledges. Disposal methods include: interim participation in operations, asset restructuring, debt-to-equity swaps, individual transfer, package-and-transfer, discounted collection from debtors, liquidation, regular collection, collection through litigation, receipts of other assets in satisfaction of debts and debt restructuring. As a professional distressed asset management company, the Company's core competitive advantage under the acquisition-and-disposal business is our ability to price and professionally dispose of distressed assets, which has been accumulated from the long-term market operation, as well as the abilities to integrate distressed asset resources and value enhancement relying on the long-term established upstream and downstream ecosystem.

In the first half of 2022, the Company robustly participated in the primary market, and carried out customized package acquisitions for the purpose of restructuring and revitalization, while actively exploring new areas such as off-balance sheet asset acquisitions. All these helped the Company to maintain a leading market share in the industry. The realized revenue from the acquisition-and-disposal business decreased by 3.0% from RMB3,895.8 million in the first half of 2021 to RMB3,777.8 million in the first half of 2022, which remained basically stable, and its acquisition costs for the period increased by 52.9% year-on-year, and the total assets increased by 2.0% from RMB179,934.8 million as at December 31, 2021 to RMB183,472.7 million as at June 30, 2022.

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,	
	2022	2021
	(in millions of RMB, except for percentages)	
Gross amount of distressed debt assets at the beginning of the period	179,934.8	186,785.5
Acquisition cost of newly added distressed debt assets	17,460.1	11,418.0
Gross amount of distressed debt assets disposed	13,019.9	12,416.1
Gross amount of distressed debt assets at the end of the period ⁽¹⁾	183,472.7	185,473.7
Net gains or losses from distressed debt assets ⁽²⁾		
Realized gains	3,777.8	3,895.8
Unrealized fair value changes	(902.3)	(313.7)
Total	2,875.5	3,582.1
IRR on completed projects ⁽³⁾	10.2%	14.5%

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- (1) Gross amount of distressed debt assets at the end of the period is the gross amount of the Company's acquisition-and-disposal distressed debt assets presented under financial assets at FVTPL, as shown in the consolidated statements.
- (2) Net gains or losses from distressed debt assets are the Company's fair value changes on acquisition-and-disposal distressed debt assets, as shown in the consolidated financial statements.
- (3) IRR on completed projects is the discount rate that makes the net present value of all cash inflows and outflows from all the acquisition-and-disposal projects completed in the current period from the time of acquisition to the time of disposal equal to zero.

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

	As at June 30, 2022		As at December 31, 2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Yangtze River Delta ⁽¹⁾	40,807.0	22.3%	40,930.3	22.8%
Pearl River Delta ⁽²⁾	27,748.7	15.1%	28,106.0	15.6%
Bohai Rim Region ⁽³⁾	31,366.2	17.1%	31,765.8	17.7%
Central Region ⁽⁴⁾	22,585.0	12.3%	23,623.7	13.1%
Western Region ⁽⁵⁾	49,785.6	27.1%	44,670.6	24.8%
Northeastern Region ⁽⁶⁾	11,180.2	6.1%	10,838.4	6.0%
Total	183,472.7	100.0%	179,934.8	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 and Inner Mongolia.
- (6) Northeastern Region is comprised of Liaoning, Heilongjiang and Jilin.

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

4.3.1.1.2.2 Acquisition-and-restructuring business

The Company's acquisition-and-restructuring business mainly includes liquidity support business and restructuring of problematic enterprises. In particular, liquidity support business means focusing on enterprises with temporary liquidity issues, the Company adopts personalized and professional customized restructuring approaches to restructure the debt elements, match the debtor's solvency with the conditions of the elements of the adjusted debts, shift and mitigate credit risks, grant time and space for debt relief of enterprises, and help enterprises repair credit. Restructuring of problematic enterprises means focusing on enterprises suffering

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severe difficulty in finance or operation, the Company, alone or with other institutions, uses multiple methods to actually restructure and revitalize the assets, liabilities, equity, talents, technology, management and other elements of the enterprises, and builds a new production and operation model, in order to help the enterprises get rid of operational and financial difficulties, restore production and operation capacity and solvency, and pursue restructuring premiums under the premise of risk control. The Company's core competitive advantage under the acquisition-and-restructuring business is the ability to discover, reassess and enhance the overall value of the debts for the debtors through professional operating.

In the first half of 2022, the Company continued to reduce non-financial real estate related business, promoted the risk resolution of key real estate related customers, and made steady investments in new projects. The gross amount of distressed debt assets decreased by 8.5% from RMB310,885.6 million as at December 31, 2021 to RMB284,596.6 million as at June 30, 2022. Affected by the pressure in macroeconomy and the downturn in the real estate industry, the contract performance ability of the related customers declined, the asset quality deteriorated, and the gross amount of the Company's stage 3 distressed debt assets increased comparing with the end of the last year. Due to the aggregate impacts of the increase in credit risk and the decrease in asset size, income from distressed debt assets decreased by 28.5% from RMB15,210.9 million in the first half of 2021 to RMB10,871.7 million in the first half of 2022, resulting in a corresponding decrease in the annualized return on monthly average gross amount of distressed debt assets.

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

	For the six months ended June 30,	
	2022	2021
	(in millions of RMB, except for percentages)	
Acquisition cost of newly added distressed debt assets	4,948.2	37,130.3
Income from distressed debt assets		
Operating income from distressed debt assets ⁽¹⁾	10,854.7	15,206.4
Financial advisory income	17.0	4.5
Total	10,871.7	15,210.9
Annualized return on monthly average gross amount of distressed debt assets (excluding financial advisory income) ⁽²⁾	7.2%	8.4%

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	As at June 30, 2022	As at December 31, 2021
	(in millions of RMB, except for percentages)	
<i>Distressed debt assets presented under debt instruments at amortised cost and at FVTOCI</i>		
Number of existing projects as of the end of the period (quantity)	1,299	1,378
Gross amount of distressed debt assets ⁽³⁾	283,635.7	310,885.6
Allowance for impairment losses ⁽⁴⁾	(41,904.9)	(33,297.5)
Net carrying amount of distressed debt assets ⁽⁵⁾	247,908.8	282,991.8
Allowance to distressed debt assets ratio ⁽⁶⁾	14.8%	10.7%
Gross amount of stage 3 distressed debt assets ⁽⁷⁾	96,724.0	54,652.7
Allowance for impairment losses for stage 3 distressed debt assets ⁽⁸⁾	(35,113.5)	(25,756.7)
Distressed debt assets collateral ratio ⁽⁹⁾	40.0%	44.3%
<i>Acquisition-and-restructuring distressed debt assets presented under financial assets at FVTPL</i>		
Number of existing projects as of the end of the period (quantity)	1	—
Balance of carrying amount of distressed debt assets ⁽¹⁰⁾	960.9	—
Distressed debt assets collateral ratio ⁽⁹⁾	49.5%	—

- (1) The operating income from distressed debt assets equals the sum of the Company's income from distressed debt assets and realized fair value changes on acquisition-and-restructuring distressed debt assets, as shown in the consolidated financial statements.
- (2) Annualized return on monthly average gross amount of distressed debt assets equals the operating income from distressed assets divided by the average gross amount of distressed debt assets at the end of each month for the period.
- (3) Gross amount of distressed debt assets is the sum of the Company's balance of distressed debt assets presented under debt instruments at amortised cost and at FVTOCI, as shown in the consolidated financial statements.
- (4) Allowance for impairment losses equals the Company's allowance for impairment losses for distressed debt assets presented under debt instruments at amortised cost and at FVTOCI, as shown in the consolidated financial statements, of which, allowance for impairment losses for distressed debt assets presented under debt instruments at FVTOCI is presented as a part of the investment revaluation reserve.
- (5) Net carrying amount of distressed debt assets equals the gross amount of the Company's net amount of distressed debt assets presented under debt instruments at amortised costs and balance of distressed debt assets presented under debt instruments at FVTOCI.
- (6) Allowance to distressed debt assets ratio equals the allowance for impairment losses divided by the gross amount of distressed debt assets.
- (7) Gross amount of stage 3 distressed debt assets is the balance of distressed debt assets which are classified as stage 3 based on the stage division model.
- (8) Allowance for impairment losses for stage 3 distressed debt assets is the allowance for impairment losses for distressed debt assets which are classified as stage 3.
- (9) Distressed debt assets collateral ratio equals the percentage of the total amount of distressed debt assets to the total appraised value of the collateral securing these assets.
- (10) The balance of carrying amount of distressed debt assets equals the Company's balance of acquisition-and-restructuring distressed debt assets presented under financial assets at FVTPL, as shown in the consolidated financial statements.

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

	As at June 30, 2022		As at December 31, 2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Yangtze River Delta ⁽¹⁾	49,748.9	17.5%	55,545.1	17.9%
Pearl River Delta ⁽²⁾	49,771.8	17.5%	51,031.9	16.4%
Bohai Rim Region ⁽³⁾	38,952.3	13.7%	41,856.1	13.5%
Central Region ⁽⁴⁾	58,786.9	20.7%	66,244.7	21.3%
Western Region ⁽⁵⁾	72,009.5	25.3%	79,970.2	25.7%
Northeastern Region ⁽⁶⁾	15,327.2	5.3%	16,237.6	5.2%
Total	284,596.6	100%	310,885.6	100%

(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 and Inner Mongolia.

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

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

	As at June 30, 2022		As at December 31, 2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Real estate	130,353.5	45.9%	144,089.0	46.3%
Manufacturing	30,469.6	10.7%	27,019.9	8.7%
Construction	28,288.6	9.9%	31,496.4	10.1%
Leasing and commercial services	28,129.6	9.9%	29,691.1	9.6%
Water, environment and public utilities management	22,643.2	8.0%	23,504.4	7.6%
Mining	3,551.4	1.2%	5,094.1	1.6%
Transportation, logistics and postal services	2,300.7	0.8%	1,898.0	0.6%
Others	38,860.0	13.6%	48,092.7	15.5%
Total	284,596.6	100.0%	310,885.6	100.00%

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4.3.1.2 Policy-based DES business of the Company

The Company obtains DES Assets through debt-to-equity swaps, receipt of equities in satisfaction of debts and follow-on investments. The Company enhances the value of DES Assets by improving the business operations of the DES Companies. The Company exits from such investments primarily through asset swaps, mergers and acquisitions, restructuring and listing of DES Companies and realizes the 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). Specifically, for the Unlisted DES Assets, the Company implements classified management strategies and seizes market opportunities to accelerate disposal and exit; for the Listed DES Assets, the Company strengthens macro trend study and judgement as well as analysis of key industries and individual stocks to formulate holding reduction strategies on a case-by-case basis. As at June 30, 2022, the Company held Unlisted DES Assets in 101 DES Companies, with carrying amount of RMB9,205.0 million; and Listed DES Assets in 10 DES Companies, with carrying amount of RMB3,511.3 million.

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

	As at June 30, 2022	As at December 31, 2021
	(in millions of RMB, except for number of companies)	
Composition of existing DES Assets portfolio		
Number of DES companies	111	115
Unlisted	101	105
Listed	10	10
Carrying amount	12,716.3	12,995.0
Unlisted	9,205.0	9,234.9
Listed	3,511.3	3,760.1

In the first half of 2021 and the first half of 2022, the Company's net gains on policy-based DES Assets disposed were RMB273.2 million and RMB-29.0 million, respectively.

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The table below sets forth certain details of our disposal of DES Assets for the periods indicated.

	For the six months ended June 30,	
	2022	2021
	(in millions of RMB, except for number of companies)	
Number of DES Companies disposed	4	2
Net gains on DES Assets disposed	(29.0)	273.2
Acquisition cost of DES Assets disposed	565.9	661.6
Exit multiple of DES Assets disposed ⁽¹⁾	0.9 time	1.4 times
Dividend income from DES Companies	116.0	43.0

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

4.3.1.3 Market-oriented DES business

The Group conducts the market-oriented DES business through the Company and its subsidiaries including Huarong Ruitong. The Group's market-oriented DES business mainly includes the following three business models:

- (1) The model of "issuing shares for repaying debts": By participating in the private placement of listed companies, the increased capital was used exclusively for the repayment of debts of the listed companies to increase the efficiency of DES implementation and effectively support the development of the real economy.
- (2) The model of "changing debt collection to equity": The Group helped real enterprise clients ease liquidity problems and helped enterprises "de-leverage" by changing debt collection to equity.
- (3) The model of "offsetting debts with equity": An enterprise helps real enterprises reduce debts and ease liquidity problems through debt restructuring, i.e., offsetting debts with high-quality equities including equity of listed companies.

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The table below sets forth the accumulative investment for market-oriented DES business conducted by the Group as at the dates indicated.

	As at June 30, 2022	As at December 31, 2021
	(in millions of RMB)	
Issuing shares for repaying debts	18,430.4	17,650.4
Changing debt collection to equity	7,952.0	7,952.0
Offsetting debts with equity	10,210.0	10,248.9
Total	36,592.4	35,851.3

Market-oriented DES business supported by the national policy is one of the core businesses of the Group. In the first half of 2022, focusing on key industries such as new materials, new energy and high-end equipment manufacturing, the Group actively and steadily carried out market-oriented DES business for problematic enterprises. Due to the impact of the continued capital market fluctuations in the first half of 2022, the Group recognised a loss on fair value changes for some of its market-oriented DES projects. In the first half of 2021 and the first half of 2022, an income of RMB1,263.0 million and RMB-2,326.2 million was recorded from the market-oriented DES business of the Group, respectively.

4.3.1.4 Distressed debt asset management business conducted by our subsidiaries

The Group conducts distressed debt asset management business through Huarong Huitong Asset Management Co., Ltd. (“**Huarong Huitong**”) and its subsidiaries. In the first half of 2021 and the first half of 2022, Huarong Huitong and its subsidiaries recorded an income of RMB60.7 million and RMB23.3 million from distressed debt assets, respectively.

4.3.1.5 Distressed asset-based special situations investment business conducted by our subsidiaries

The Group’s distressed asset-based special situations investment business invests through debt, equity or mezzanine capital 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 enterprises, and exits and realizes asset appreciation income through debt collection, share transfers, share repurchases, listing and mergers and acquisitions.

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

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

	For the six months ended June 30,	
	2022	2021
	(in millions of RMB)	
Total income	322.9	1,076.1
Net profit	(1,290.2)	151.5

	As at	As at
	June 30,	December 31,
	2022	2021
	(in millions of RMB)	
Total assets	20,146.5	23,256.9

In the first half of 2022, Huarong Rongde recorded a net loss of RMB1,290.2 million, mainly due to the impacts of the pandemic and the downturn in the real estate market, which resulted in that the performance ability and profitability of relevant customers declined, along with the credit risk exposure and the decrease in the scale of interest-generating assets, the impairment losses under ECL model recognised by Huarong Rongde in the current period increased, and the interest income decreased.

4.3.1.6 Distressed asset-based property development business conducted by our subsidiaries

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

The Group conducts distressed asset-based property development business through Huarong Industrial. In the first half of 2021 and the first half of 2022, revenue from property development business of Huarong Industrial amounted to RMB303.2 million and RMB90.9 million, respectively.

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4.3.2 Financial Services

The Group's financial services segment of continuing operations is Huarong Financial Leasing. In accordance with the requirements from regulatory authorities of the financial asset management company's gradual exit from non-dominant business, the Company is orderly moving forward with the equity transfer of its financial licensed subsidiaries. In the first half of 2022, the Company completed the equity transfer of Huarong Consumer Finance, Huarong Securities, Huarong Xiangjiang Bank. The consumer finance business, securities and futures business and banking services business are no longer included in the Group's financial services segment of continuing operations and constitute discontinued operations.

As at December 31, 2021 and June 30, 2022, the total assets of financial services segment amounted to RMB588,533.1 million and RMB109,271.5 million, respectively; in the first half of 2021 and the first half of 2022, the total income from financial services segment amounted to RMB4,015.6 million and RMB3,216.8 million, respectively, and the profit before tax amounted to RMB976.8 million and RMB675.2 million, respectively.

The Group operates its financial leasing business through Huarong Financial Leasing. Both the operating results and management level of Huarong Financial Leasing have maintained the leading position in the industry.

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

	For the six months ended June 30,	
	2022	2021
	(in millions of RMB)	
Total income	3,215.6	4,015.6
Profit before tax	674.0	977.6

	As at	As at
	June 30,	December 31,
	2022	2021
	(in millions of RMB)	
Total assets	110,021.9	117,982.0
Total equity	18,761.9	18,240.9

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	For the six months ended June 30,	
	2022	2021
Profitability indicators		
Annualized ROAA ⁽¹⁾	0.9%	1.1%
Annualized ROAE ⁽²⁾	5.5%	8.9%
	As at June 30, 2022	As at December 31, 2021
Asset quality indicators		
Distressed asset ratio ⁽³⁾	2.26%	1.83%
Provision coverage ratio ⁽⁴⁾	166.5%	176.4%
Capital adequacy indicators		
Core capital adequacy ratio ⁽⁵⁾	17.1%	15.5%
Capital adequacy ratio ⁽⁵⁾	18.2%	16.6%

- (1) Annualized ROAA equals the annualized net profit for the period divided by the average of total assets as at the beginning and the end of the period.
- (2) Annualized ROAE equals the annualized net profit attributable to equity holders for the period as a percentage of the average balance of equity attributable to equity holders as at the beginning and the end of the period.
- (3) Distressed asset ratio equals the balance of distressed assets divided by finance lease receivables. Distressed assets are defined as those initially recognised finance lease receivables which have objective evidence of impairment as a result of one or more events and such events have had an impact on the expected future cash flows of finance lease receivables that can be reliably estimated.
- (4) Provision coverage ratio equals the balance of allowance for impairment losses divided by the balance of distressed assets.
- (5) Disclosed by the means reported to CBIRC.

The business of Huarong Financial Leasing mainly involves water, environment and public utilities management, manufacturing, transportation, logistics, postal services and other industries. The table below sets forth the components of the finance lease receivables and receivables arising from sales and leaseback arrangements of Huarong Financial Leasing by industry as at the dates indicated.

4. Management Discussion and Analysis

	As at June 30, 2022		As at December 31, 2021	
	Amount	Percentage	Amount	Percentage
(in millions of RMB, except for percentages)				
Manufacturing	14,353.4	16.3%	13,100.8	13.9%
Water, environment and public utilities management	38,022.7	43.2%	43,000.3	45.5%
Transportation, logistics and postal services	8,762.0	10.0%	8,684.6	9.2%
Construction	3,949.0	4.5%	4,785.3	5.1%
Mining	1,319.0	1.5%	1,161.2	1.2%
Leasing and commercial services	6,469.2	7.3%	7,748.7	8.2%
Others	15,132.1	17.2%	16,059.2	16.9%
Total	88,007.4	100.0%	94,540.1	100.00%

4.3.3 Asset Management and Investment Business

In the first half of 2021 and the first half of 2022, the total income from asset management and investment segment was RMB4,840.3 million and RMB-1,062.9 million, respectively, and the loss before tax was RMB4,189.5 million and RMB9,034.4 million, respectively, mainly due to the increase in the loss from fair value changes on other financial assets and liabilities of Huarong International and other subsidiaries for the period.

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

	For the six months ended June 30,	
	2022	2021
(in millions of RMB)		
Trust business		
Total trust income	520.1	566.3
Including: trust commission and fee income	26.3	172.3
International business		
Total income of Huarong International	2,783.8	3,771.7

4. Management Discussion and Analysis

	As at June 30, 2022	As at December 31, 2021
(in millions of RMB)		
Trust business		
Outstanding trust AUM	84,696.0	93,768.1
International business		
Total assets of Huarong International	151,169.6	146,212.8

4.3.3.1 Trust business

The Group is engaged in trust business through Huarong Trust. The business of Huarong Trust mainly involves: (1) acting as a trustee to manage, operate and dispose of trust assets and receiving trust business income; and (2) providing financial advisory and other consulting services and receiving commission and fee income.

As at December 31, 2021 and June 30, 2022, the outstanding trust assets under management were RMB93,768.1 million and RMB84,696.0 million.

On August 16, 2022, the Company entered into the Unlisted State-owned Equity Transaction Contract of Financial Enterprise with an independent third party, China Trust Protection Fund Co., Ltd., in relation to the transfer of equity interests in Huarong Trust with a consideration of RMB6,152.3 million.

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

	As at June 30, 2022	As at December 31, 2021
(in millions of RMB)		
Industry and commerce enterprise	35,597.9	36,378.9
Financial institutions	11,156.6	13,921.5
Securities investment	5,338.5	5,557.5
Infrastructure	11,176.9	13,378.0
Real estate	18,970.8	21,609.9
Others	2,455.3	2,922.3
Total	84,696.0	93,768.1

4. Management Discussion and Analysis

4.3.3.2 International business

The Group conducts its international business mainly through Huarong International and other overseas subsidiaries. As at December 31, 2021 and June 30, 2022, the asset size of Huarong International amounted to RMB146,212.8 million and RMB151,169.6 million, respectively. The total income for the first half of 2021 and the first half of 2022 of Huarong International amounted to RMB3,771.7 million and RMB2,783.8 million, respectively.

4.3.4 Human Resources Management

Human resources management

In the first half of 2022, the Group strived to strengthen the construction of teams of high-quality and professional talents, thus providing a solid talent guarantee for promoting the Company to achieve high-quality development. It strengthened overall planning and continuously improved the team building. The Company has been constantly improving the construction of the organization and personnel mechanism, and improving the positive incentive and restraint mechanism featuring openness, transparency, scientificity and rationality. The Company closely focused on business operation and development, highlighted work priorities, strengthened resource coordination, enhanced training efforts on both a case-by-case and comprehensive basis, continued to innovate training methods and effectively improved the ability of cadres and employees to perform their duties and their professional quality. Caring for cadres and employees, the Company actively responded to employees' concerns, protected employees' individual interests, and constantly enhanced the cohesiveness and combat effectiveness of our team, showing the Company's new atmosphere, new actions and new progress.

Employees

As of June 30, 2022, the Group had a total of 4,577 employees, including 2,517 employees working for the Company and 2,060 employees working for subsidiaries at various levels.

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

The table below sets forth the number of employees of the Group by age as of June 30, 2022.

	Number	Proportion (%)
Aged 35 and below	1,976	43.2%
Aged 36–45	1,442	31.5%
Aged 46–55	788	17.2%
Aged above 56	371	8.1%
Total	4,577	100%

4. Management Discussion and Analysis

The table below sets forth the number of employees of the Group by education level as of June 30, 2022.

	Number	Proportion (%)
Doctoral degree or doctoral candidate, and above	149	3.3%
Master's degree or master candidate	2,153	47.0%
Bachelor's degree or undergraduate	2,043	44.6%
Junior college and below	232	5.1%
Total	4,577	100%

Remuneration policy

The Group's remuneration management is combined with the Company's strategies, business development and talent introduction. It adhered to the efficiency-centric principle and optimized the distribution system where work efficiency links to wages to promote the realization of the Company's operation objectives. The Company adhered to the employee remuneration management mechanism with remuneration based on the post and bonus based on performance, and reasonably allocated employee remuneration according to their post duties, capabilities and performance contribution. The Company continued to strengthen the incentive and restraint mechanism oriented to operation contribution, and established and improved a remuneration management system that was competitive in the market, matched with performance and took into account internal fairness, in accordance with the principle of matching revenue and risk, and coordinating long-term and short-term incentives.

Education and training

In the first half of 2022, the Group strengthened the overall planning of education and training, and continued to improve the hierarchical and classified educational training system. The first is to focus on the Company's central work, comprehensively coordinate the Company's education and training, and formulate and implement annual training plans. The second is to strengthen ideological and political and enterprise culture education and learning, stimulate all the cadres and employees to boost morale, enhance confidence and lift the spirit. The third is to promote the effective upgrading of business training on both a case-by-case and comprehensive basis, increase the coverage and frequency of training in each link of business process, and improve the professional ability and quality of cadres and employees. The fourth is to systematically promote online education and learning, improve the internal and external curriculum systems, and carry out various online learning activities.

4.3.5 No Material Changes

Save as disclosed in this interim report, there are no material events 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 2022, the Company adhered to the general keynote of seeking progress in a stable manner, responded to changes in the situation in a prudent manner, and focused on the priorities of “resolving risks, revitalizing legacy assets, optimizing incremental assets, and consolidating foundation” to accelerate stock risk disposal, prevent asset quality deterioration, perfect the comprehensive risk management system, and improve the system, means and tools of risk management, so as to continuously enhance the quality of risk control.

4.4.1 Comprehensive Risk Management System

Comprehensive risk management refers to processes and methods of, centering on the overall operational objectives, the establishment of a risk governance structure with effective checks and balances, the fosterage of excellent risk culture, the formation and implementation of unified risk management strategies, risk appetite, risk limits and risk management policies, and the adoption of both qualitative and quantitative methods to effectively identify, measure, assess, monitor, report, control or mitigate various risks taken, in order to provide security for achieving the Company’s operational and strategical objectives.

In the first half of 2022, the Company mainly focused on risk resolution, for which it took further measures to improve the risk management system and mechanism, so as to effectively enhance risk prevention and resolution. The Company formulated the Notice on Risk Management and Control in Response to the Impact of the Pandemic to further increase financial support as well as risk prevention and control for industries and enterprises materially affected by the COVID-19 pandemic. The Notice on the Establishment of the Mechanism for Conclusion and Introspection of Risk Projects was formulated to examine the causes of risks throughout the whole process, learn from risk lessons, strengthen risk control awareness and improve management and control capacity. The Notice on the Establishment of the Management Working Mechanism for the Suspension of Project Risks was formulated to timely terminate the launch of projects which are not suitable for further implementation. The Administrative Rules for Full-time Examiners was formulated to promote the establishment of a “specialized, professional and expert-based” review and approval working mechanism. The Measures for Market Risk Management was amended to improve the system for market risk management. The Company further strengthened the guidance of risk appetite, improved the mechanism for project management and control throughout the whole process, implemented risk monitoring and early warning, and enriched risk management tools and methods. The Company promoted the collection and resolution of assets with hidden risks and strengthened the management and control of assets quality to strictly prevent assets quality from deteriorating. The Company solidified liquidity management responsibility to secure its safety of liquidity. The Company strengthened the construction of risk management information system and business lines and enhanced the training and communication among risk lines to provide strong support for risk management.

4. Management Discussion and Analysis

4.4.2 Credit Risk Management

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

In accordance with the regulatory requirements and the actual development, the Company has continuously promoted the construction of credit risk management system, continuously improved the credit risk management system, mechanism construction and tool expansion, and improved the quality of credit risk identification, monitoring, measurement, analysis and reporting by virtue of post-evaluation. At the same time, the Company improved management functions and promoted management efficiency by promoting the development of credit risk management information system.

In the first half of 2022, the Company comprehensively strengthened the management of the whole business process before and after investment, and improved relevant systems and mechanisms. The Company formulated the company authorization plan for 2022, further enriched the dimension of authorization management, implemented prudent and differentiated authorization, and strengthened the corporate headquarters' examination and control of business. The Company actively adapted to the regulatory policy orientation and the development requirements of the main business, and adjusted the limit management mechanism for customer risks. The Company continuously monitored the customer risks, improved the risk early warning mechanism, strengthened the monitoring of customers' financial indicators, public opinion and other aspects through the early warning system, and improved prediction ability of customer risks. The Company continuously monitored asset quality risks, actively responded to internal and external risk challenges, defined short-term and medium and long-term risk control objectives, determined key projects and key units, formulated differentiated and classified management policies, and continuously promoted new risk prevention and control and stock risk resolution. The Company carried out risk investigation of late-stage management and strengthened the inspection and supervision of the implementation of late-stage management of the project. It optimized the internal rating model, gradually promoted the application of internal rating, and improved various information systems of risk management.

In the first half of 2022, the Company actively carried out the disposal and resolution work for assets with hidden risks, strengthened the construction of risk resolution mechanism, implemented centralized disposal of cross projects, continuously enriched and improved the incentive policies for risk resolution assessment, strengthened asset promotion, enhanced the overall planning of risk disposal, and made every effort to push forward the risk disposal of key projects.

4. Management Discussion and Analysis

4.4.3 Market Risk Management

Market risk refers to the risk of loss caused to the Company's business due to adverse changes in market prices, such as interest rates, exchange rates, and stock and commodities prices. The Company's market risk primarily relates to such investment business as stocks and bonds and changes in exchange rates.

In the first half of 2022, the Company continuously enhanced the market risk management, strengthened the tracking analysis and monitoring reports on market changes in stocks, bonds and foreign exchange, provided early warning and reminders for major risks, and improved the market risk management mechanism, conducted market risk stress tests, and put forward measures to strengthen control.

With regard to stock risk, considering the macroeconomic situation, market capital, financial regulatory policies, industrial development trends, corporate profitability, and other factors, the Company comprehensively analyzed and judged the capital market and the development trends of listed companies, conducted compliance and effective management of stock investment, and strictly complied with the regulatory requirements for disposal operations and public information disclosure. Meanwhile, through various means, including real-time market value monitoring, regular stress tests, and improvement of emergent risk disposal mechanism, the Company effectively managed and controlled risks to promote value preservation and appreciation of state-owned assets.

With regard to interest rate risk, the Company continuously improved the interest risk management mechanism, defined the organizational structure and responsibility system, and carried out the measurement and analysis of interest rate risks on a regular basis to continuously enhance its capability to cope with interest rate risks according to the Administrative Measures for Interest Rate Risks of Non-trading Accounts (《非交易賬簿利率風險管理辦法》) and other relevant system requirements.

With regard to exchange rate risk, the Company, operating mainly in China, adopted Renminbi as the recording currency. The foreign exchange funds raised were settled flexibly according to the use of funds and exchange rate fluctuations. Some overseas subsidiaries issued USD bonds and carried out overseas businesses, and relevant investments are mainly stated in USD or HKD linked with the USD exchange rate. The Company regularly monitored its foreign exchange risk exposure, effectively controlled foreign exchange risks mainly by means of currency matching of assets and liabilities, and hedged foreign exchange risks through currency swaps, hedging and other methods.

4. Management Discussion and Analysis

4.4.4 Liquidity Risk Management

Liquidity risk refers to the risk associated with the failure to promptly obtain sufficient funds at a reasonable cost to repay mature debts, perform other payment obligations, and support other funding requirements for normal business development. The Company's liquidity risks arise primarily from the delay in payment by its debtors, mismatch of asset and liability term structure, difficulty in asset monetization, operational loss, lack of quality liquidity reserves, and the inability of financing capacity to meet the needs of business development.

In the first half of 2022, the Company reasonably grasped the guidance of monetary and regulatory policies, closely monitored the market liquidity situation, and strictly carried out risk monitoring and control, and the overall liquidity was sufficient and the liquidity risk was basically under control. The methods for monitoring and controlling liquidity risks of the Company mainly include indicator monitoring, early warning management, stress test and contingency plans. The Company set up and monitored liquidity risk indicators according to regulatory requirements and its actual situation to dynamically monitor, analyze and control liquidity risks; strictly implemented the liquidity risk limit management policy; conducted regular stress tests for liquidity risks, improved hypothetical scenarios and test models; optimized and improved liquidity risk contingency plans, and continuously optimized early-warning management and mitigation mechanisms for liquidity risks.

The Company actively implemented the requirements of the regulatory authorities for liquidity management, adopted a centralized and unified liquidity management mechanism and enhanced the initiative and forward-looking of liquidity management to make sure the mismatch of the terms of assets and liabilities is maintained within an acceptable liquidity risk level. The Company effectively controlled the degree of leverage and guaranteed its long-term liquidity safety through the setup of target leverage ratio complying with regulatory requirements. The Company improved a working capital planning system, refined the way of fund position management, rationalized the scale and structure of provision, and made full use of the internal fund transfer pricing system to speed up turnover of funds and improve the fund utilization efficiency. Besides, the Company constantly expanded financing channels and consolidated multi-term, multi-variety and market-oriented financing methods, which were mainly inter-bank loans and bond issuance, and complemented by interbank borrowing and pledge-style repo, to continuously optimize the financing structure and lengthen the duration of liabilities.

4. Management Discussion and Analysis

4.4.5 Operational Risk Management

Operation risk refers to the risk of losses caused by imperfect or problematic internal procedures, staff and IT systems, and external events, including legal risks.

In the first half of 2022, the Company improved internal systems, strengthened process management and control, conducted identification and evaluation work of operational risk, established Negative List of Project Operation and promoted the realization of the objectives for operational risks management by centering on source management and process control and focusing on risk prevention and quality improvement.

The Company attached great importance to the building of a prevention and control system of legal risks covering all processes, all systems and all directions, continuously improved the legal work system and kept optimizing the legal review process and strengthening contract management, enhanced legal risk prevention and control, promoted the innovation of case management mechanism, and comprehensively prevented and controlled legal risks in business management activities.

The Company continued to improve the prevention mechanism of information technology risks and strengthen the planning and construction of information technology infrastructure to enhance the capability to provide scientific and technological support. The Company was well prepared for network security support in key periods to ensure the safe and stable operation of information system. The Company implemented the network security responsibility system, optimized the network security defense mechanism, organized and carried out network security risk assessment and self-examination, and completed the grading filing of national information security level protection to prevent network security risks.

4.4.6 Reputational Risk Management

Reputational risk refers to the risk of negative comments of relevant interested parties such as customers, employees, Shareholders, investors, media and regulators on the Company resulting from operations, management and other activities or external events.

In the first half of 2022, the Company enhanced the sensitivity and initiative of reputational risk management based on the management principles of proactiveness, prudence, full process and full coverage, identified potential reputational risks in a timely manner, proactively took measures to prevent, control and resolve reputational risks, and established a full process management mechanism for reputational risks covering risk investigation, prevention at the source, public opinion monitoring, hierarchical handling and post-event summary, and an efficient operation system featuring “linkage and coordination between the headquarters and subsidiaries”, forming closed-loop management of “identifying problems — eliminating potential problems — introspection and learning — improving systems and processes — reinforcing execution and supervision”. In the first half of 2022, the reputational risk management work of the Company was effectively implemented, and the overall environment of public opinions was stable, which practically maintained the reputation and brand image of the Company.

4. Management Discussion and Analysis

4.4.7 Internal Audit

The Company has established an independent internal audit department. Under the leadership of the Company's Party Committee, the Board and its Audit Committee, the internal audit department is responsible for independent and objective supervision, evaluation and suggestions on conditions such as financial revenues and expenditures, operations, risk conditions and internal control, and reports to the Party Committee, the Board or the Audit Committee of the Board and the Board of Supervisors of the Company if material problems are discovered during the audits.

In the first half of 2022, the internal audit focused on the Company's overall goal of "transformation" and conscientiously performed its job duties, revised and improved the project follow-up audit system, strengthened business guidance, accelerated the promotion of audit informatization and continuously deepened the construction of internal audit system. The Company carried out routine audits and special audits on its branches and subsidiaries in such aspects as corporate governance, major businesses, financial management, risk management, internal control, etc., and conducted economic responsibility audits of the middle and senior management of the Company with regard to their performance. The Company laid emphasis on the rectification of audit issues, strengthened the application of audit results to continuously improve the comprehensive effect of audit supervision and gave full play to the role of internal audit.

4.4.8 Anti-money Laundering Work

The Company, in compliance with the anti-money laundering laws and regulations, actively fulfilled its statutory obligations of anti-money laundering, and continuously improved its anti-money laundering management system and working mechanism to promote and ensure the effective enforcement of the laws and regulations regarding anti-money laundering and relevant rules of the Company.

In the first half of 2022, the Company completed the submission of the work report on the annual anti-money laundering in time, actively studied and implemented the latest regulatory regulations of anti-money laundering, promoted the preparatory work on self-assessment, and further sorted out the list of customers and business types according to regulatory requirements. The Company made ongoing efforts to strengthen the construction of the anti-money laundering system, further promoted the improvement of system rigidity control and optimization of system process design and continued to conduct in-depth investigations into system functional defects. We conducted anti-money laundering training to enhance anti-money laundering awareness and anti-money laundering risk prevention and control capacities among all staff.

4. Management Discussion and Analysis

4.5 Capital Management

In the first half of 2022, the Company earnestly implemented the spirit of the regulation, adhered to the strategy of “focusing on the core business and returning to the source”, and continuously adjusted and optimized the asset structure and business layout. According to the Capital Management Measures for Financial Asset Management Companies (Trial) (Yin Jian Fa [2017] No. 56) (《金融資產管理公司資本管理辦法(試行)》(銀監發[2017]56號)) and other relevant regulations, the Company continuously deepened the concept of capital constraint and optimized the capital management system to improve its capital position.

As at December 31, 2021 and June 30, 2022, the capital adequacy ratios of the Company were 12.95% and 12.72%, respectively.

As at December 31, 2021 and June 30, 2022, the leverage ratios¹ of the Company were 14.2:1 and 13.0:1, respectively.

4.6 Development Outlook

Looking ahead to the second half of 2022, global economic growth is expected to be downward due to factors such as the COVID-19 pandemic, geopolitical conflicts, and interest rate hikes in major global economies. Major developed economies are expected to face inflationary pressures that will continue to increase under the situation of insufficient economic recovery, while the accelerated tightening of monetary policy may further increase the risk of global economic recession and bring an impact to the economic growth in emerging economies.

With the support of domestic growth stabilization policy and effective control of the recurrence of COVID-19 pandemic, China's economy in the second quarter withstood the pressure to achieve a positive growth, and high-quality development trend continued, but the foundation of economic recovery was not yet solid, and there were still a quantity of uncertainties in the development environment. It is expected that in the second half of 2022, China will accelerate the implementation of a package of policies and measures to stabilize the overall economy, strengthen the macro-policy regulation, further enhance the effectiveness of the active fiscal policy, plan incremental policy tools, continue to do a good job of “ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations” and “ensuring security in jobs, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments”, effectively control key risks, and better give play to monetary policy in aggregate and structure; adhere to the stability as priority, proactively respond, boost confidence, increase support for the real economy with a steady monetary policy, maintain a reasonable and abundant liquidity, stabilize market expectations, and keep the economy running in a reasonable range.

¹ Calculated as per the standard set out in the Capital Management Measures for Financial Asset Management Companies (Trial) (Yin Jian Fa [2017] No. 56).

4. Management Discussion and Analysis

With the increasing trend of macroeconomic stability in China, as well as the continuous deepening of the supply-side structural reform of finance, the external environment of the distressed asset industry will continue to show new favorable changes. In order to further strengthen the reform and risk resolution, the regulatory authorities will strengthen the policy guidance and promote the AMCs to focus on the main responsibility and core business. The industrialization trend of distressed assets will put forward higher requirements and challenges for the AMCs to build core competitiveness, and the structural opportunities emerging from the distressed asset market will bring more opportunities and actions for the AMCs to adjust the main business lines. In this context, AMCs will make an in-depth study of the development trend of the external environment, accurately grasp the direction of regulatory policies, accelerate the transformation and development of the core business, focus on the “large distressed” areas, and actively play the unique role in resolution of the existing risks and financial rescue services.

In the second half of 2022, the Company will still be in an important stage of overcoming challenges and difficulties. In order to further consolidate the development foundation, the Company will resolutely implement the requirements of the CPC Central Committee for “preventing the pandemic, stabilizing the economy and securing the development”, adhere to its main responsibility and core business, insist on righteousness and innovation, actively grasp the new opportunities of the supply-side structural reform of finance under the new development concept, practically undertake the new mission bestowed on the AMCs at the new development stage, nurture new momentum and realize new development in the process of serving the main economic development directions.

5. Changes in Share Capital and Information on Substantial Shareholders

5.1 Changes in Share Capital

As at June 30, 2022, the share capital of the Company was as follows:

Class of Shares	Number of Shares	Approximate percentage to the total issued share capital
Domestic Share(s)	53,242,041,816	66.35%
H Share(s)	27,004,637,231	33.65%
Total	80,246,679,047	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 at June 30, 2022, the Company received notices from the following persons about their disclosable interests or short positions held in the Company's Shares and underlying Shares pursuant to Divisions 2 and 3 of Part XV of the SFO, which were recorded in the register pursuant to Section 336 of the SFO as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held or deemed to be held	Approximate percentage to the same class of share capital of the Company (%) ⁽¹⁾	Approximate percentage to the total share capital of the Company (%) ⁽²⁾
MOF	Domestic Shares ⁽³⁾⁽⁷⁾	Beneficial owner	9,901,084,435 (L)	18.60 (L)	12.34 (L)
	H Shares ⁽³⁾	Beneficial owner	12,376,355,544 (L)	45.83 (L)	15.42 (L)
China Life Insurance (Group) Company	Domestic Shares	Beneficial owner	1,650,000,000 (L)	3.10 (L)	2.06 (L)
	H Shares	Beneficial owner	1,960,784,313 (L)	7.26 (L)	2.44 (L)
Warburg Pincus & Co. ⁽⁴⁾	H Shares	Interest of controlled corporation	2,060,000,000 (L) ⁽⁸⁾	7.63 (L)	2.57 (L)
Warburg Pincus Financial International Ltd ⁽⁴⁾	H Shares	Beneficial owner	2,060,000,000 (L) ⁽⁸⁾	7.63 (L)	2.57 (L)
CITIC Group Corporation	Domestic Shares ⁽⁷⁾	Beneficial owner	18,823,529,411 (L)	35.35 (L)	23.46 (L)
China Insurance Rongxin Private Fund Co., Ltd.	Domestic Shares	Beneficial owner	14,509,803,921 (L)	27.25 (L)	18.08 (L)
China Cinda Asset Management Co., Ltd.	Domestic Shares	Beneficial owner	3,921,568,627 (L)	7.37 (L)	4.89 (L)
Sino-Ocean Group Holding Limited ⁽⁵⁾	H Shares	Interest of controlled corporation	1,656,643,000 (L)	6.13 (L)	2.06 (L)
Ma Wing Ming (馬永明) ⁽⁶⁾	H Shares	Interest of controlled corporation	1,421,504,000 (L)	5.26 (L)	1.77 (L)
Fabulous Treasure Investments Limited ^{(5), (6)}	H Shares	Beneficial owner	1,421,504,000 (L)	5.26 (L)	1.77 (L)

5. Changes in Share Capital and Information on Substantial Shareholders

Note: (L) refers to long position

Notes:

- (1) Calculated based on 53,242,041,816 Domestic Shares or 27,004,637,231 H Shares in issue of the Company as at June 30, 2022.
- (2) Calculated based on a total of 80,246,679,047 Shares in issue of the Company as at June 30, 2022.
- (3) The data is calculated based on the Corporate Substantial Shareholder Notices from the MOF filed with the Hong Kong Stock Exchange on December 1, 2015 and January 22, 2020, and the number of Domestic Shares and H Shares in issue of the Company as at June 30, 2022.
- (4) According to the Corporate Substantial Shareholder Notice from Warburg Pincus & Co., Warburg Pincus Private Equity XI, L.P., Warburg Pincus XI, L.P., WP Global LLC and WP XI International II Ltd filed with the Hong Kong Stock Exchange, respectively, on December 31, 2021, Warburg Pincus Financial International Ltd directly holds 2,060,000,000 H Shares of the Company. As WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP XI International II Ltd, WP Financial L.P., Warburg Pincus International L.P. and Warburg Pincus Financial International Ltd are all corporations directly or indirectly controlled by Warburg Pincus & Co., therefore, for the purpose of the SFO, Warburg Pincus & Co., WP Global LLC, Warburg Pincus XI, L.P., Warburg Pincus Private Equity XI, L.P., Warburg Pincus International Capital LLC, WP XI International II Ltd, WP Financial L.P. and Warburg Pincus International L.P. are deemed to be interested in the long positions held by Warburg Pincus Financial International Ltd.
- (5) According to the Corporate Substantial Shareholder Notice from Sino-Ocean Group Holding Limited filed with the Hong Kong Stock Exchange on June 20, 2022, Fabulous Treasure Investments Limited, Shining Grand Limited and Glory Class Ventures Limited directly hold 1,421,504,000 H Shares, 43,741,000 H Shares and 191,398,000 H Shares of the Company, respectively. As Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Novel Hero Global 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, Shining Grand Limited, Heroic Peace Limited, Fortune Joy Ventures Limited, Sino-Ocean Capital Holding Limited, Oriental Model Limited, Oceanland Global Investment Limited and Glory Class Ventures Limited are all corporations directly or indirectly controlled by Sino-Ocean Group Holding Limited, therefore, for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Novel Hero Global 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 1,421,504,000 H Shares of the Company held by Fabulous Treasure Investments Limited; for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited and Sino-Ocean Land (Hong Kong) Limited are deemed to be interested in the long positions of 43,741,000 H Shares of the Company held by Shining Grand Limited; and for the purpose of the SFO, Sino-Ocean Group Holding Limited, Shine Wind Development Limited, Faith Ocean International Limited, Sino-Ocean Land (Hong Kong) Limited, Heroic Peace Limited, Fortune Joy Ventures Limited, Sino-Ocean Capital Holding Limited, Oriental Model Limited and Oceanland Global Investment Limited are deemed to be interested in the long positions of 191,398,000 H Shares of the Company held by Glory Class Ventures Limited.
- (6) According to the Individual Substantial Shareholder Notices from Ma Wing Ming filed with the Hong Kong Stock Exchange on June 20, 2022, Fabulous Treasure Investments Limited directly holds 1,421,504,000 H Shares of the Company. As Wisdom City Enterprises Limited, SOL Investment Fund GP Limited, SOL Investment Fund LP and Fabulous Treasure Investments Limited are all corporations directly or indirectly controlled by Ma Wing Ming; therefore, for the purpose of the SFO, Ma Wing Ming, Wisdom City Enterprises 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.
- (7) Reference is made to the Company's announcement dated March 28, 2022 in relation to the changes in shareholders' equity interests. The MOF intended to make a capital contribution with 2,407,400,372 domestic shares it held in the Company (representing 3% of the total issued shares of the Company) to the CITIC Group (the "Changes in Equity Interests"). During the Reporting Period, the Changes in Equity Interests have not been completed. The Company will publish an announcement in respect of the progress as and when appropriate.
- (8) The Shares are under pledge for the purpose of financing from the bank.

5. Changes in Share Capital and Information on Substantial Shareholders

5.2.2 Substantial Shareholders

During the Reporting Period, details of the Substantial Shareholders holding more than 5% of class of Shares of the Company are as follows:

MOF

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

CITIC Group Corporation

As a company incorporated in the PRC with limited liability, CITIC Group is a large state-owned comprehensive multinational corporation operating in 5 business sectors: comprehensive financial service, advanced intelligent manufacturing, advanced materials, new consumption and new-type urbanization. The ultimate beneficial owner of CITIC Group is MOF.

China Insurance Rongxin Private Fund Co., Ltd.

China Insurance Rongxin Private Fund Co., Ltd. (“**China Insurance Rongxin Fund**”) is a fund established by China Insurance Investment (Beijing) Co., Ltd. (as the fund manager). The shareholders of China Insurance Rongxin Fund include China Insurance Investment Co., Ltd. and other 17 insurance institutions operating in equity investment with private funds, investment management, asset management and other activities. China Insurance Investment (Beijing) Co., Ltd. is the wholly-owned subsidiary of China Insurance Investment Co., Ltd.

China Cinda Asset Management Co., Ltd.

Established in April 1999, China Cinda Asset Management Co., Ltd. (“**China Cinda**”, formerly known as China Cinda Asset Management Corporation) was a pilot entity designated by the State Council for the reform of financial asset management companies as well as the first PRC financial asset management company trading in the international capital market. The core business of China Cinda is distressed asset management. China Cinda upholds the high-quality development concept of “professional management, efficiency first, and value creation” and aims to further develop its primary responsibility and core business of distressed asset management, prevent and mitigate financial risk, improve the quality and efficiency of supporting the real economy and safeguard financial security.

5. Changes in Share Capital and Information on Substantial Shareholders

China Life Insurance (Group) Company

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

Warburg Pincus LLC

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

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

Sino-Ocean Group Holding Limited

In pursuit of the strategic vision of being the “creator of building health and social value”, Sino-Ocean Group Holding Limited is committed to becoming a pragmatic comprehensive corporation focusing on investment and development while exploring related new businesses. Its core businesses include residential development, real estate development and operation, property services and whole-industrial chain construction services, along with synergic businesses in real estate finance, elderly care services, logistics real estate and data real estate, etc. As a well-recognised and reputed brand of great influence for its consistency in high-quality product and professional service offerings, “Sino-Ocean” was acknowledged as a Well-Known Trademark in China by the Trademark Office of the State Administration for Industry and Commerce in 2013, and awarded “Top 10 Chinese Real Estate Enterprises with Outstanding Brand Value” for several times.

6. Directors, Supervisors and Senior Management

6.1 Basic Information

6.1.1 Directors

As of the publication date of this Interim Report, the Board of Directors of the Company comprised Mr. Liu Zhengjun (chairman), Mr. Liang Qiang and Mr. Wang Wenjie as executive Directors; Ms. Zhao Jiangping, Mr. Zheng Jiangping, Mr. Xu Wei and Mr. Tang Hongtao² as non-executive Directors; and Mr. Tse Hau Yin, Mr. Shao Jingchun, Mr. Zhu Ning and Ms. Chen Yuanling as independent non-executive Directors.

6.1.2 Supervisors

As of the publication date of this Interim Report, the Board of Supervisors of the Company comprised Mr. Hu Jianzhong (chairman) as a Shareholder representative Supervisor; Mr. Cheng Fengchao and Mr. Han Xiangrong as external Supervisors; and Ms. Sun Hongbo and Ms. Guo Jinghua as employee representative Supervisors.

6.1.3 Senior Management

As of the publication date of this Interim Report, the senior management of the Company comprised Mr. Liang Qiang (president), Mr. Pang Xuefeng, Mr. Wang Wenjie, Mr. Xu Yongli, Mr. Chen Yanqing, Mr. Zhu Wenhui, Ms. Yang Pei, Mr. Gao Gan, Mr. Cao Yan and Mr. Wen Jinxiang.

6.2 Changes

6.2.1 Directors

On March 4, 2022, Mr. Liu Zhengjun was nominated as an executive Director of the Company by the Board of the Company. On March 25, 2022, Mr. Liu Zhengjun was elected as an executive Director of the Company as considered and approved by the first extraordinary general meeting of Shareholders for 2022 of the Company. On April 1, 2022, Mr. Liu Zhengjun was elected as the chairman of the Board of the Company by the Board of the Company. According to the relevant regulations of the Company's Articles of Association, Mr. Liu Zhengjun exercises the functions and powers of the legal representative and serves as the chairman of the Strategy and Development Committee of the Board during his term of office as the chairman of the Board. On April 25, 2022, Mr. Liu Zhengjun performed his duties upon the approval of his qualifications as a director by the CBIRC. For details, please refer to the announcements and circulars of the Company published on March 4, 2022, March 10, 2022, March 25, 2022, April 1, 2022 and April 26, 2022.

² Mr. Tang Hongtao was elected as a non-executive Director of the Company as considered and approved by the first extraordinary general meeting of Shareholders for 2022 of the Company on March 25, 2022, and his term of office shall become effective from the date of approval by the CBIRC and is subject to the Company's announcement.

6. Directors, Supervisors and Senior Management

On March 4, 2022, Mr. Xu Wei was nominated as a non-executive Director of the Company by the Board of the Company. On March 25, 2022, Mr. Xu Wei was elected as a non-executive Director of the Company as considered and approved by the first extraordinary general meeting of Shareholders for 2022 of the Company. On April 1, 2022, Mr. Xu Wei was appointed as a member of each of the Strategy and Development Committee and the Related Party Transaction Committee of the Board. On May 11, 2022, Mr. Xu Wei performed his duties upon the approval of his qualifications as a director by the CBIRC. For details, please refer to the announcements and circulars of the Company published on March 4, 2022, March 10, 2022, March 25, 2022, April 1, 2022 and May 16, 2022.

On March 4, 2022, Mr. Tang Hongtao was nominated as a non-executive Director of the Company by the Board of the Company. On March 25, 2022, Mr. Tang Hongtao was elected as a non-executive Director of the Company as considered and approved by the first extraordinary general meeting of Shareholders for 2022 of the Company. On April 1, 2022, Mr. Tang Hongtao was appointed as a member of each of the Strategy and Development Committee and the Audit Committee of the Board. For details, please refer to the announcements and circulars of the Company published on March 4, 2022, March 10, 2022, March 25, 2022 and April 1, 2022.

On April 1, 2022, Mr. Wang Zhanfeng resigned as the chairman of the Board, the executive Director and the chairman of the Strategy and Development Committee of the Board of the Company. His resignation became effective on April 1, 2022. For details, please refer to the announcement of the Company published on April 1, 2022.

On March 1, 2022, Mr. Xu Nuo resigned as the non-executive Director and the member of each of the Strategy and Development Committee, Risk Management Committee and Audit Committee of the Board of the Company. His resignation became effective on March 1, 2022. For details, please refer to the announcement of the Company published on March 1, 2022.

On May 27, 2022, Mr. Zhou Langlang resigned as the non-executive Director and the member of the Strategy and Development Committee of the Board of the Company. His resignation became effective on May 27, 2022. For details, please refer to the announcement of the Company published on May 27, 2022.

6.2.2 Supervisors

On January 27, 2022, Mr. Cheng Fengchao resigned as the external Supervisor and the chairman of the Supervision Committee of the Board of Supervisors of the Company due to change of work. His resignation shall take effect after a new external Supervisor is elected to fill his vacancy at the general meeting of Shareholders. For details, please refer to the announcement of the Company published on January 27, 2022.

6. Directors, Supervisors and Senior Management

6.2.3 Senior Management

On April 1, 2022, the Board of the Company appointed Mr. Zhu Wenhui as the vice president and chief financial officer of the Company. On June 14, 2022, Mr. Zhu Wenhui performed his duties upon the approval of his qualifications as the vice president and chief financial officer by the CBIRC. For details, please refer to the announcements of the Company published on April 1, 2022 and June 17, 2022.

On April 6, 2022, CITIC Group appointed Mr. Cao Yan as the senior management of the Company.

On June 9, 2022, the Board of the Company appointed Mr. Wen Jinxiang as the assistant to the President of the Company. On August 17, 2022, Mr. Wen Jinxiang performed his duties upon the approval of his qualifications as the assistant to the President by the CBIRC. For details, please refer to the announcements of the Company published on June 9, 2022 and August 25, 2022.

6.3 Changes of the Information during the Reporting Period

According to Rule 13.51B of the Listing Rules, the changes of the information of Directors and Supervisors during the Reporting Period are set out below:

In August 2022, China Telecom Corporation Limited published the announcement that Mr. Tse Hau Yin had resigned as an independent non-executive director of China Telecom Corporation Limited, and the resignation shall be effective on the date of election of the proposed independent non-executive directors at an extraordinary general meeting of China Telecom Corporation Limited to be convened.

Save as disclosed above, no other information of Directors or Supervisors of the Company is required to be disclosed according to Rule 13.51B 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 relevant laws, regulations, regulatory documents and the Articles of Association, and in line with its actual situations, the Company deepened the reform of corporate governance, striving to build a corporate governance mechanism that features respective performance of duties and responsibilities, coordinated operations, and effective checks and balances. Efforts were also made to continuously enhance the effectiveness of corporate governance.

During the Reporting Period, the Company continued improving the system, mechanism and culture of corporate governance, unifying the strengthening of Party leadership with the improvement of corporate governance, and integrating Party leadership into all aspects of corporate governance, strictly implemented the resolutions of the general meeting of Shareholders, actively exerted the strategic leading role of the Board of Directors and the supervisory role of the Board of Supervisors, promoted the legal and compliant operation and sustainable and stable development of the Company, expedited investor relations management, strengthened information disclosure management, continuously improved the information transmission mechanism, and protected Shareholders' right to know, so as to treat its domestic and foreign investors on an equal basis, maintain the market value stable and protect the interests of all Shareholders.

7.2 Board

As of the publication date of this Interim Report, the Board of the Company comprised 11 members, including 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors³. The independent non-executive Directors accounted for more than one-third of the Board members.

During the Reporting Period, the Company held eight Board meetings in total, at which 39 resolutions were considered and passed, including 2021 Annual Results Announcement and 2021 Annual Report, Work Report of the President for 2021, appointment of Mr. Zhu Wenhui as the vice president and chief financial officer of the Company, appointment of Mr. Wen Jinxiang as the assistant to the President of the Company, the Company's implementation of the H Share Full Circulation and the Company's fixed assets budget for 2022. Meanwhile, 16 reports were debriefed, including comprehensive risk management for 2021, special audits on related party transactions for 2021, capital management for 2021 and internal capital adequacy assessment for 2021.

7.3 Board of Supervisors

As of the publication date of this Interim Report, the Board of Supervisors of the Company comprised 5 members, including 1 Shareholder representative Supervisor, 2 external Supervisors and 2 employee representative Supervisors.

³ The term of office of Mr. Tang Hongtao shall become effective from the date of approval by the CBIRC and is subject to the Company's announcement.

7. Significant Events

During the Reporting Period, the Board of Supervisors of the Company continuously strengthened the daily supervision of the performance of duties, financial management, internal control and risk management of the Board of Directors, the senior management and their members in accordance with the national laws, regulations, regulatory provisions and the Articles of Association, carried out targeted supervision and put forward work suggestions in close combination with key issues faced by the Company in its transformation and development, continuously improved the standardization and scientific level of supervision, strived to improve the quality and effectiveness of supervision, and safeguarded the legitimate rights and interests of the Company, Shareholders, employees and other stakeholders in accordance with the law.

During the Reporting Period, the Board of Supervisors held 2 meetings in total, at which 8 resolutions were considered and passed and 4 topics were studied.

7.4 Senior Management

During the Reporting Period, the senior management of the Company organized and implemented the Company's management and operation within the scope of authorities delegated by the Articles of Association and the Board of Directors. The Company's senior management actively responded to the complex and severe internal and external situation. With a close focus on the Company's overall goal of "transformation of core business and resolution of risk", the senior management strived to promote the transformation and development of the core business, actively expanded the market, continuously optimized the product structure and business layout, improved the supporting policies and mechanisms, and deepened internal coordination of the Company to contribute to the improvement of the quality of core business development. The senior management made intensified efforts to promote risk resolution and innovate organizational mode, with a focus on key customers and key projects. In addition, the senior management actively disposed of and revitalized inefficient assets, strengthened proactive risk management and promoted risk resolution to realize actual effects. The senior management strived to strengthen internal management, enhance internal control and compliance construction, stabilize corporate liquidity and ensure liquidity safety, focusing on information system construction. The senior management enhanced the Company's transparency, and shaped a good corporate image; performed duties faithfully and diligently, strengthened implementation, and promoted various operations in a smooth and orderly manner.

During the Reporting Period, the Company held 11 presidential office meetings and 66 special meetings to study and review 161 resolutions on the Company's important management and operation.

7.5 Corporate Governance Code

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

7. Significant Events

7.6 Internal Control

7.6.1 Development of Internal Control System

The Company earnestly implemented various regulatory requirements for internal control, continuously improved the internal control organization structure, strengthened system management, strengthened control measures, and continued to optimize the internal control system.

In the first half of 2022, the Company introduced a new version of Management Measures for the System of China Huarong (《中國華融制度管理辦法》) to strengthen the top-level design of the system and consolidate the management foundation. The Company completed the system self-assessment for 2022, formulated and implemented the system improvement plan for this year, further optimized and integrated the system, strengthened the supporting connection, and highlighted the pertinence and guidance. The Company actively promoted the information construction of system management, and boosted the improvement of the digitization level of system review, viewing and management. The Company initiated the self-assessment of the internal control system for 2022 to comprehensively sort out various business and management activities by the corresponding processes and evaluate the applicability of internal control process framework, the rationality of management and control responsibilities, the adequacy of risk identification, and the effectiveness of control measures, to promote the realization of the Company's internal control objectives.

7.6.2 Internal Control Measures for Sanctions Risks

In order to ensure that the Company complies with the commitments to the Hong Kong Stock Exchange as disclosed in the Prospectus that it will not expose the Company or Relevant Persons to sanctions risks, the Company has implemented the following measures:

1. It specified that the Internal Control Compliance Department should take the lead in the prevention and control of sanctions risks in the Company, strengthening the professionalism of related work.
2. The Company established a blacklist database and updated the blacklist information on a daily basis.
3. The Company produced the Due Diligence Questionnaire for Sanctions and the Due Diligence Questionnaire for Export Controls as the basic tools for due diligence of sanctions risks in the units of the Company.
4. The Company produced the Commitment Letter on International Sanctions Risk Control, which was sent to the units of the Company as the basic tool for control of sanctions risks.
5. The Company has engaged lawyers to assist in the assessment of the Company's sanctions risks every six months, and to provide relevant staff with necessary training on sanctions risk knowledge.

7. Significant Events

7.7 Distribution of Profit and Dividend

The Company does not declare any interim dividend for 2022.

7.8 Use of Proceeds

7.8.1 Proceeds from Initial Public Offering of Shares

On October 30, 2015, the Group was listed on the Main Board of the Hong Kong Stock Exchange and the total proceeds from the listing amounted to HK\$19,696.7 million. Upon the approval of the change in use of proceeds at the first extraordinary general meeting of Shareholders of the Company for 2021, the unutilized proceeds of HK\$3,027.6 million as of December 31, 2021 have all been used to provide capital contribution and fund support to major subsidiaries in the first half of 2022. As of June 30, 2022, the proceeds from initial public offering of Shares have all been used.

The actual use of proceeds from initial public offering of Shares was consistent with the committed use of proceeds set out in the Prospectus as well as the use of proceeds as approved at the first extraordinary general meeting of Shareholders of the Company for 2021.

7.8.2 Proceeds from Non-public and Directional Issuance of Domestic Shares and H Shares

The Group completed non-public issuance of Domestic Shares and H Shares on December 30, 2021, and the total proceeds amounted to RMB40,000 million and HK\$2,449 million, respectively. As of June 30, 2022, the proceeds have all been used to replenish the Company's core tier-1 capital.

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

The disposal and revitalization of buy-out equity assets. The Company focused on key areas of deepened reform of state-owned enterprises, and seized the opportunities of enterprise mergers and acquisitions and restructuring to continuously optimize asset liquidity and strive to achieve reasonable gains from equity restructuring. In addition, the Company stepped up efforts for disposing and revitalizing of buy-out equity assets, proactively disinvested from highly competitive industries or reduced such equity assets with limited potential for asset appreciation, with a view to achieving better exit returns.

Market-oriented DES business expansion. The Company closely followed the national strategies and the Company's development plan orientation, strengthened market research and industry analysis, focused on key industries and fields, further optimized investment layout, actively promoted the implementation of the market-oriented DES projects and reserved high-quality resources to better exert the bailout and rescue functions of AMCs, effectively help DES Companies to reduce leverage, stabilize growth and improve efficiency, and at the same time, continuously improve the level of investment returns on the Company's DES business.

7. Significant Events

7.10 Material Litigation and Arbitration

During the Reporting Period, the Company was not involved in any litigation or arbitration which might have material and adverse effects on its business, financial conditions or operating results.

7.11 Major Acquisition and Disposal of Assets and Merger

During the Reporting Period, the equity transfers of Huarong Consumer Finance, Huarong Securities and Huarong Xiangjiang Bank were completed. The equity interests held in Huarong Trust have been listed on Beijing Financial Assets Exchange Co., Ltd. for transfer.

7.12 Implementation of Share Incentive Scheme

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

7.13 Major Connected Transactions

During the Reporting Period, the Company entered into two connected transactions which were required to be disclosed pursuant to Chapter 14A of the Listing Rules, and has performed the approval and announcement procedures of the Board in accordance with the requirements of the Hong Kong Stock Exchange.

1. China CITIC Bank Corporation Limited (“**China CITIC Bank**”) is a subsidiary of CITIC Group, which is a Substantial Shareholder of the Company. In accordance with the relevant regulations on the transfer of non-performing assets of financial institutions, China CITIC Bank listed and transferred the Financial Creditor’s Rights in the Banking Credit Asset Registration and Circulation Center (銀行業信貸資產登記流轉中心), for which public bidding and selection were adopted and bidding rules were formulated. The Company participated in the public bidding at a price of RMB43.33 million, and eventually became the bid winner of the transaction. On March 28, 2022, the Company entered into the Creditor’s Rights Transfer Agreement with China CITIC Bank, and China CITIC Bank transferred the Financial Creditor’s Rights that it legally owned to the Company at a consideration of RMB43.33 million.
2. Hunan Chasing Financial Holding Group Co., Ltd. (“**Hunan Chasing**”) formerly held 19.94% equity in Huarong Xiangjiang Bank indirectly through its subsidiary, and was a Substantial Shareholder of the Company’s subsidiary. The Company transferred its 40.53% equity in Huarong Xiangjiang Bank by way of public listing. The consortium consisting of Hunan Chasing and Central Huijin Investment Ltd. (“**Central Huijin**”) succeeded in the bid for the abovementioned equity at a consideration of RMB11,980,668,000, among which 1,591,163,725 shares (20.53% equity) were transferred to Hunan Chasing at a consideration of RMB6,068,668,300. On June 9, 2022, the Company entered into the Unlisted State-owned Equity Transaction Contract of Financial Enterprise with Hunan Chasing and Central Huijin. On June 30, 2022, the CBIRC Hunan Office has granted an approval for the matters on the equity transfer, and which has been completed on the same day.

7. Significant Events

7.14 Major Contracts and Their Implementation

7.14.1 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.

7.14.2 Material Guarantees

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

7.15 Events after the Reporting Period

References are made to the announcements of the Company dated November 21, 2021, December 30, 2021 and April 20, 2022, in relation to (i) the completion of non-public issuance of Domestic Shares and H Shares by the Company (the “**Issuance**”); (ii) the agreement of the Hong Kong Stock Exchange to grant a temporary waiver to the Company to allow the minimum public float of the Company to be reduced to 18.23% for the period from the completion of the Issuance to August 31, 2022 (the “**Waiver**”); and (iii) the fact that in order to restore the public float to at least 25% of the Company’s total issued Shares as soon as reasonably practicable, the Company has received powers of attorney from certain domestic Shareholders to appoint the Company to transfer certain Domestic Shares of the Company held by them into H Shares in accordance with the relevant provisions, and list and circulate on the Main Board of the Hong Kong Stock Exchange (the “**Full Circulation**”), and to authorize the Board of Directors of the Company or its authorized persons to deal with matters relating to the Full Circulation. As of the date of this interim report, the Full Circulation has not been completed and is expected to be completed on or before December 31, 2022. On August 31, 2022, the Hong Kong Stock Exchange agreed to extend the temporary waiver up to December 31, 2022. For details, please refer to the related announcement of the Company dated August 31, 2022.

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

7.16 Purchase, Sale and Redemption of Listed Securities

In June 2017, the Company issued the tier II capital bonds with an issuing scale of RMB10 billion (the “**Bonds**”) in the national inter-bank bond market in the PRC. According to the relevant terms in the prospectus for the issuance of the Bonds, the Bonds are subject to the redemption right of the issuer, pursuant to which the issuer has the right to redeem the Bonds on the last day of the fifth interest-bearing year, being June 29, 2022.

As of June 29, 2022, the Company had exercised the redemption right to redeem the Bonds in full.

7. Significant Events

7.17 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 (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. The Company has made enquiries to all Directors and Supervisors who all confirmed that they had complied with the Model Code and the requirements therein during the Reporting Period.

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

As of June 30, 2022, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares or underlying Shares of the Company or other associated corporations (within the meaning of Part XV of the SFO) required to be recorded in the register of interests 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.

7.19 Review of the Interim Report

Ernst & Young has reviewed and issued an unqualified review report on the interim condensed consolidated financial information for the six months ended June 30, 2022 prepared by the Company according to IFRSs.

This interim report has been reviewed and approved by the Board and the Audit Committee of the Board.

7.20 Other Matters

Reference is made to the 2021 Annual Results Announcement of the Company dated March 29, 2022 in relation to, among other things, a qualified opinion on the 2021 annual consolidated financial statements of the Group (the “**qualified opinion**”) issued by the Company’s auditor. Supplementary information on the above matters is as follows:

7.20.1 The Details of the Qualified Opinion

In the 2020 Annual Report, the Company’s auditor issued unqualified opinion on the Group’s consolidated financial position as at December 31, 2020, and expressed a disclaimer of opinion on the Group’s consolidated financial performance and consolidated cash flows for the year ended December 31, 2020. This is because the Group performed a comprehensive review and assessment as well as impairment tests on the fair values, credit impairment losses and asset impairment losses as at December 31, 2020

7. Significant Events

of financial assets, inventories, investment properties, and interest in associates and joint ventures listed in Note III.2 to the 2020 financial statements of the Group for the year ended December 31, 2020 and recognised fair value gains and losses, credit impairment losses and impairment losses on other assets in 2020 consolidated statement of profit or loss. The auditor was unable to make a reasonable judgment as to whether any of the associated gains and losses recognised by the Group in 2020 should have been recorded in the consolidated statement of profit or loss and the consolidated statement of comprehensive income of previous years.

As the above matters have a possible effect on the comparability of the current year's figures and the corresponding figures in the consolidated statements of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2021, the auditor's opinion on the consolidated financial statements for the year ended December 31, 2021 is therefore qualified. The auditor clarified in the audit opinion that, except for the possible effect of the matter described in the Basis for Qualified Opinion section, the Group's 2021 consolidated financial statements give a true and fair view of the Group's consolidated financial position as at December 31, 2021 and its consolidated financial performance and consolidated cash flows for the year ended December 31, 2021, which are prepared in accordance with the requirements of the International Financial Reporting Standards issued by the International Accounting Standards Board in all material respects.

7.20.2 The Management's View

As described in Note III.2 to the 2020 financial statements, in recent years, the Group pressed ahead with its "downsizing and risk resolution" strategy by implementing a series of measures such as organizational streamlining, internal organizational adjustment, and intra-Group asset reorganization to address risks, resulting in significant changes in the Group's internal organizational structure, asset preservation mechanism, the structure and condition of risk assets, and management personnel. Due to factors such as the process for identifying and measuring risk assets, technology, and the time required for the preparation of annual report, the Company was unable to extend its comprehensive review and assessment, as well as impairment tests to the fair values, credit impairment losses or asset impairment losses of the aforementioned assets as at December 31, 2019 and as at January 1, 2019. Therefore, all fair value gains and losses, credit impairment losses and impairment provisions calculated based on this comprehensive review and assessment had been recognised in the year ended December 31, 2020.

In August 2021, the auditor issued an unqualified opinion on the Group's consolidated financial position as at December 31, 2020 based on the above circumstances, and expressed a disclaimer of opinion on the consolidated financial performance and consolidated cash flows for 2020. The reason for the disclaimer of opinion is that no reasonable judgment can be made as to whether any of the associated gains and losses recognised by the Group in 2020 should have been recorded in the consolidated statement of profit or loss and the consolidated statement of comprehensive income of previous years. The Company management's understanding of the conclusion of the modified opinion on the consolidated financial performance and consolidated cash flows for 2020 is consistent with that of the auditor.

7. Significant Events

In March 2022, the auditor issued a qualified audit report on the Group's consolidated financial statements for 2021, as the auditor was unable to make a reasonable judgment as to whether any of the impairment losses on assets and losses from fair value changes recognised by the Group in 2020 should have been recorded in the consolidated statement of profit or loss and the consolidated statement of comprehensive income of previous years, and there is a possible effect on the comparability of the current year's figures and the corresponding figures in the consolidated statements of profit or loss, comprehensive income and cash flows for the year ended December 31, 2021. However, the audit opinion on the 2022 annual financial statements will no longer be affected by the matters mentioned above. Except for the possible effect of the aforementioned matters in relation to the qualified opinion, the Group's 2021 consolidated financial statements give a true and fair view of the Group's consolidated financial position as at December 31, 2021 and its consolidated financial performance and consolidated cash flows for 2021, which are prepared in accordance with the requirements of the International Financial Reporting Standards in all material respects.

After the issuance of the 2020 audit report, the Company's management communicated with the auditor regarding the impact on the type of audit opinion on 2021 financial statements of the matters related to the modified opinion on the 2020 financial statements. The Company's management holds the same view as the auditor regarding the basis of qualified opinion on 2021 financial statements due to the matters discussed above, and concurred with the qualified opinion issued by the auditor on the Group's 2021 financial statements.

7.20.3 The Audit Committee's View

On August 26, 2021, at the meeting of the Audit Committee of the Board of Directors of the Company, the auditor reported the type of audit opinion to be issued on the 2020 financial statements and the basis for the audit opinion. The Audit Committee had fully communicated with the auditor regarding the audit opinion, concurred with the type of audit opinion on 2020 financial statements, as well as deliberated on and approved the Proposal for the Company's 2020 Annual Results Announcement and 2020 Annual Report. During this meeting, the Audit Committee and the auditor also had a preliminary communication on the possible effect of matters related to the modified opinion on the 2020 financial statements on the type of audit opinion on the 2021 financial statements.

On March 25, 2022, the meeting of the Audit Committee of the Board of the Company deliberated on and approved the Proposal for the 2021 Annual Results Announcement and the 2021 Annual Report of the Company. The Audit Committee conducted in-depth communication and discussions with the auditor across various aspects such as the type of audit opinion, reasonableness of the impairment and valuation model, liquidity risk, informatization construction, progress of equity transfer of financial subsidiaries and its impact, and tax planning. The auditor addressed the concerns of the Audit Committee and explained the basis for 2021 audit opinion. The Audit Committee has agreed with the auditor's views and has no difference of opinion from the Board of Directors and the auditor.

7.20.4 The Impact of the Non-unqualified Opinion

The qualified audit opinion relates only to the comparability of the current year's figures and the corresponding figures in the consolidated statements of profit or loss, comprehensive income and cash flows for 2021, which will not have an impact on the audit opinion on the consolidated financial statements of the Group for 2022. Details have been set out in the 2021 Annual Report "18.Audit Report and Financial Statements".

8. Review Report and Interim Condensed Consolidated Financial Information

INDEPENDENT REVIEW REPORT AND INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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Independent Review Report



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

Introduction

We have reviewed the interim condensed consolidated financial information of China Huarong Asset Management Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2022 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and 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 this interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made 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*. A review of interim condensed consolidated financial information 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.

Independent Review Report

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong

29 August 2022

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

		For the six months ended 30 June	
	Notes IV	2022 (Unaudited)	2021 (Unaudited)
Continuing operations			
Income from distressed debt assets	2	10,869,438	15,267,983
Fair value changes on distressed debt assets	3	2,877,464	3,584,810
Fair value changes on other financial assets and liabilities	4	(8,819,718)	3,310,947
Interest income	5	5,580,726	7,223,168
Finance lease income		638,129	1,106,604
Gains from derecognition of financial assets measured at amortised cost		209,694	521,619
(Losses)/gains from derecognition of debt instruments at fair value through other comprehensive income		(25,708)	81,548
Commission and fee income	6	160,976	426,287
Net gains on disposals of subsidiaries, associates and joint ventures		675,989	19,647
Dividend income		425,277	457,169
Other income and other net gains or losses	7	2,149,507	1,388,662
Total		14,741,774	33,388,444
Interest expenses	8	(19,178,598)	(21,778,019)
Commission and fee expenses		(130,090)	(78,975)
Operating expenses	9	(2,642,296)	(3,506,890)
Impairment losses under ECL model	10	(16,900,399)	(5,052,433)
Impairment losses on other assets	11	(463,949)	(129,599)
Total		(39,315,332)	(30,545,916)
Change in net assets attributable to other holders of consolidated structured entities		312,423	(1,325,356)
Share of results of associates and joint ventures		229,905	193,247
(Loss)/profit before tax from continuing operations		(24,031,230)	1,710,419
Income tax credit/(expense)	12	2,662,194	(1,974,677)
Loss for the period from continuing operations		(21,369,036)	(264,258)

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	For the six months ended 30 June	
		2022 (Unaudited)	2021 (Unaudited)
Discontinued operations			
Profit after tax for the period from discontinued operations	13	2,759,715	1,888,485
(Loss)/profit for the period		(18,609,321)	1,624,227
(Loss)/profit attributable to:			
Equity holders of the Company		(18,866,359)	158,304
Holders of perpetual capital instruments		418,887	631,502
Non-controlling interests		(161,849)	834,421
		(18,609,321)	1,624,227
(Loss)/earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)	14		
— Basic		(0.235)	0.004
— Diluted		(0.235)	0.004
Loss per share attributable to equity holders of the Company from continuing operations (Expressed in RMB Yuan per share)	14		
— Basic		(0.254)	(0.015)
— Diluted		(0.254)	(0.015)

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	(18,609,321)	1,624,227
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss:		
Actuarial gains on defined benefit obligations	2,491	1,525
Fair value losses on investments in equity instruments at fair value through other comprehensive income	(238,166)	(42,031)
Share of other comprehensive income of associates and joint ventures	—	57
Income tax effect	12,802	5,742
	(222,873)	(34,707)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(2,473,914)	527,224
Fair value changes on hedging instruments designated in cash flow hedges	231,843	101,169
Financial assets measured at fair value through other comprehensive income		
— fair value changes	(2,374,849)	(323,659)
— amounts reclassified to profit or loss upon disposals	148,846	113,149
— impairment provided	1,851,733	798,728
Income tax effect	64,810	(161,563)
	(2,551,531)	1,055,048
Other comprehensive (expense)/income for the period, net of income tax	(2,774,404)	1,020,341
Total comprehensive (expense)/income for the period	(21,383,725)	2,644,568
Total comprehensive (expense)/income for the period attributable to:		
Equity holders of the Company	(21,448,581)	1,081,783
Holders of perpetual capital instruments	418,887	631,502
Non-controlling interests	(354,031)	931,283
	(21,383,725)	2,644,568

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes IV	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Assets			
Cash and balances with central bank	16	23,432	23,956,501
Deposits with financial institutions	17	100,306,636	146,698,257
Placements with financial institutions		4,700,658	19,685,761
Financial assets at fair value through profit or loss	18	305,599,685	351,047,719
Financial assets held under resale agreements	19	60,000	11,044,271
Contract assets		5,903,882	5,735,596
Loans and advances to customers	20	36,288	247,164,003
Finance lease receivables	21	19,023,019	23,554,067
Debt instruments at fair value through other comprehensive income	22	28,699,038	57,203,624
Equity instruments at fair value through other comprehensive income	23	2,857,184	3,139,579
Inventories	24	20,738,648	20,854,078
Debt instruments at amortised cost	25	430,282,694	580,799,434
Interests in associates and joint ventures	26	8,599,865	10,514,845
Investment properties	27	6,836,519	6,854,222
Property and equipment	27	7,640,067	9,621,207
Right-of-use assets		1,478,516	3,502,108
Deferred tax assets		16,575,144	15,612,489
Goodwill		304,908	322,971
Assets held for sale		—	7,301,599
Other assets	28	18,649,043	23,809,451
Total assets		978,315,226	1,568,421,782
Liabilities			
Borrowings from central bank		—	23,147,628
Deposits from financial institutions	29	—	13,656,340
Placements from financial institutions		856,686	4,784,219
Financial assets sold under repurchase agreements	30	1,620,633	30,866,222
Borrowings	31	646,944,269	747,625,462
Financial liabilities at fair value through profit or loss	18	484,189	683,662
Due to customers	32	—	257,208,888
Tax payable	33	4,080,729	1,388,605
Contract liabilities		719,508	401,197
Lease liabilities		710,290	2,049,540
Deferred tax liabilities		384,446	341,556
Bonds and notes issued	34	188,908,533	271,065,213
Liabilities directly associated with the assets held for sale		—	1,740,257
Other liabilities	35	67,483,199	109,478,566
Total liabilities		912,192,482	1,464,437,355

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

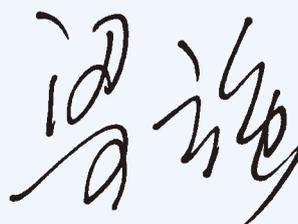
	Notes IV	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Equity			
Share capital	36	80,246,679	80,246,679
Other equity instruments	37	19,900,000	—
Capital reserve		16,434,544	16,431,847
Surplus reserve		8,564,210	8,564,210
General reserve	38	13,415,267	17,888,551
Other reserves		1,301,858	3,906,560
Accumulated losses		(82,064,570)	(67,693,975)
Equity attributable to equity holders of the Company		57,797,988	59,343,872
Perpetual capital instruments		7,128,261	22,377,908
Non-controlling interests		1,196,495	22,262,647
Total equity		66,122,744	103,984,427
Total equity and liabilities		978,315,226	1,568,421,782

The accompanying notes form an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information is authorised for issue by the board of directors and signed on its behalf by:



CHAIRMAN



EXECUTIVE DIRECTOR

Interim Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to equity holders of the Company											Perpetual capital instruments	Non-controlling interests	Total	
	Other Reserves														
	Note IV	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Investment			Accumulated					Subtotal
							revaluation reserve	Translation reserve	Hedging reserve	Others	losses				
As at 1 January 2022 (audited)	80,246,679	—	16,431,847	8,564,210	17,888,551	1,036,951	3,026,448	(99,301)	(57,538)	(67,693,975)	59,343,872	22,377,908	22,262,647	103,984,427	
(Loss)/profit for the period	—	—	—	—	—	—	—	—	—	(18,866,359)	(18,866,359)	418,887	(161,849)	(18,609,321)	
Other comprehensive (expense)/income for the period	—	—	—	—	—	(564,137)	(2,252,419)	231,843	2,491	—	(2,582,222)	—	(192,182)	(2,774,404)	
Total comprehensive (expense)/income for the period	—	—	—	—	—	(564,137)	(2,252,419)	231,843	2,491	(18,866,359)	(21,448,501)	418,887	(354,031)	(21,383,725)	
Capital contribution by other equity instrument holders	37	19,900,000	—	—	—	—	—	—	—	—	19,900,000	—	—	19,900,000	
Redemption of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	—	(9,561,670)	—	(9,561,670)	
Distribution relating to perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	—	(809,065)	—	(809,065)	
Disposals of subsidiaries	—	—	—	—	(4,473,284)	1,931	—	—	—	4,471,353	—	(5,297,799)	(20,712,121)	(26,009,920)	
Realised loss of equity instruments at fair value through other comprehensive income	—	—	—	—	—	(24,411)	—	—	—	24,411	—	—	—	—	
Others	—	—	2,697	—	—	—	—	—	—	—	2,697	—	—	2,697	
As at 30 June 2022 (unaudited)	80,246,679	19,900,000	16,434,544	8,564,210	13,415,267	450,334	774,029	132,542	(55,047)	(82,064,570)	57,797,988	7,128,261	1,196,495	66,122,744	

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to equity holders of the Company										Perpetual	Non-	Total
											capital	controlling	
											instruments	interests	
	Other Reserves												
	Share	Capital	Surplus	General	Investment	Translation	Hedging	Accumulated		Subtotal			
	capital	reserve	reserve	reserve	revaluation	reserve	reserve	Others	losses				
As at 1 January 2021 (audited)	39,070,208	17,241,496	8,564,210	17,842,051	2,288,475	1,593,515	(425,673)	(43,089)	(67,976,466)	18,154,727	25,475,878	20,626,259	64,256,864
Profit for the period	—	—	—	—	—	—	—	—	158,304	158,304	631,502	834,421	1,624,227
Other comprehensive income for the period	—	—	—	—	353,245	467,483	101,169	1,582	—	923,479	—	96,862	1,020,341
Total comprehensive income for the period	—	—	—	—	353,245	467,483	101,169	1,582	158,304	1,081,783	631,502	931,283	2,644,568
Dividends declared	—	—	—	—	—	—	—	—	—	—	—	(521,968)	(521,968)
Distribution relating to perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	(617,037)	—	(617,037)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	15,179	15,179
Change in ownership interests in subsidiaries	—	(6,051)	—	—	—	—	—	—	—	(6,051)	—	—	(6,051)
Realised losses of equity instruments at fair value through other comprehensive income	—	—	—	—	10,094	—	—	—	(10,094)	—	—	—	—
Others	—	(18,228)	—	—	—	—	—	—	—	(18,228)	—	—	(18,228)
As at 30 June 2021 (unaudited)	39,070,208	17,217,217	8,564,210	17,842,051	2,651,814	2,060,998	(324,504)	(41,507)	(67,828,256)	19,212,231	25,490,343	21,050,753	65,753,327

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
(Loss)/profit before tax from continuing operations	(24,031,230)	1,710,419
Profit before tax from discontinued operations	6,751,793	2,585,942
Total non-cash adjustments	20,734,959	10,735,161
Total working capital adjustments	(62,855,401)	18,473,189
Cash (used in)/generated from operations	(59,399,879)	33,504,711
Income tax paid	(1,079,359)	(3,127,583)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	(60,479,238)	30,377,128
INVESTING ACTIVITIES		
Cash receipts from interest income arising from investments other than held for trading	10,226,918	11,212,831
Cash receipts from dividend income	294,865	472,342
Cash receipts from disposals/liquidation of associates and joint ventures	2,960,608	589,561
Cash receipts from disposals of property and equipment and other assets	228,844	344,611
Cash payments for pledge deposits in bank	—	1,037,782
Net cash inflow on acquisitions of subsidiaries	—	3,412
Net cash outflow on disposals of subsidiaries	(4,663,357)	—
Net decrease in investment securities	5,840,222	23,890,284
Cash payments for investments in associates and joint ventures	(2,518)	(1,864,596)
Cash payments for purchases of property and equipment, investment properties and other assets	(311,118)	(261,691)
NET CASH FLOWS FROM INVESTING ACTIVITIES	14,574,464	35,424,536

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	Note IV	
	2022	2021
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
Cash payments for consolidated structured entities	(19,904,582)	(8,165,384)
Issuance of perpetual capital instruments	19,900,000	—
Redemption of perpetual capital instruments	(9,561,670)	—
Proceeds of borrowings of non-financial institution subsidiaries	25,317,375	9,303,754
Repayment of borrowings of non-financial institution subsidiaries	(28,259,543)	(6,922,559)
Repayments of leases liabilities	(352,069)	(473,516)
Cash receipts from bonds and notes issued	71,570,743	30,792,276
Cash payments for transaction costs of bonds and notes issued	—	(5,637)
Cash repayments for bonds and notes redeemed	(84,824,622)	(80,837,583)
Interest paid for bonds and notes issued and other borrowings	(6,227,322)	(7,916,797)
Dividends paid	(64,747)	—
Cash payments for distribution to holders of perpetual capital instruments	(809,066)	(617,037)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(33,215,503)	(64,842,483)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(79,120,277)	959,181
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	179,637,223	140,313,631
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	136,365	(13,006)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	100,653,311	141,259,806
	39	
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	20,838,872	31,309,705
Interest paid	(17,714,981)	(14,335,442)
	3,123,891	16,974,263

The accompanying notes form an integral part of this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

I. GENERAL INFORMATION

China Huarong Asset Management Co., Ltd. (the “Company”) was transformed from the former China Huarong Asset Management Corporation (the “Former Huarong”) which was a wholly-state-owned financial enterprise established in the People’s Republic of China (the “PRC”) by the Ministry of Finance (the “MOF”) on 1 November 1999 as approved by the State Council of the PRC (the “State Council”). On 28 September 2012, the Company was established after the completion of the financial restructuring of the Former Huarong as approved by the State Council. Its registered office is located at No. 8, Finance Street, Xicheng District, Beijing 100033, PRC.

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

The Company was listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on 30 October 2015. The Company and its subsidiaries are collectively referred to as the “Group”.

The principal activities of the Group comprise acquiring and entrusting to manage, invest and dispose of both financial and non-financial institution distressed assets, including debt-to-equity swap assets; bankruptcy management; investments; securities dealing; financial bonds issuance, inter-bank borrowing and lending, commercial financing for other financial institutions; approved asset securitisation business, custody of financial institutions, closing and liquidation of business; consulting and advisory business on finance, investment, legal and risk management; asset and project evaluation; deposits taking from customers, lending to corporates and individuals; clearing and settlement services; financial leasing service; securities and futures services; fund management and asset management services; trust services; real estate and industrial investments and other businesses approved by the CBIRC or other regulatory bodies.

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

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

II. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021.

2. Changes in principal accounting policies

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial information for the six months ended 30 June 2022 are consistent with those applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2021.

The Group has adopted the following amendments for the first time for the current period:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018–2020 Cycle	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41</i>

The adoption of the above standards, amendments and interpretations did not have any significant impact on the operating results, financial position and comprehensive income of the Group’s consolidated financial statements.

3. Comparative data

The comparative statement of profit or loss has been re-presented as if the operation discontinued during the current period had been discontinued at the beginning of the comparative period.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

III. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the interim condensed consolidated financial information 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 applied to the preparation of the Group's consolidated financial statements for the year ended 31 December 2021.

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Segment information

Information relating to business lines is reported to the board of directors of the Company and its relevant management committees, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focusing on the types of goods provided or services delivered.

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

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

Distressed asset management operations

The distressed asset management segment comprises relevant businesses operated by the Company and certain of its subsidiaries, including distressed asset management, debt equity swap asset management, distressed asset management business conducted by subsidiaries, distressed asset-based special situation investment and distressed asset-based property development.

Financial service operations

The financial services segment comprises finance lease service which is mainly carried out by a subsidiary of the Company.

As disclosed in Note IV.13 and Note IV.46, during the six-month period ended 30 June 2022, Xiangjiang Bank Corporation Limited ("Huarong Xiangjiang Bank"), Huarong Securities Co., Ltd. ("Huarong Securities"), and Huarong Consumer Finance Co., Ltd. ("Huarong Consumer Finance") had been disposed of. The businesses of the above subsidiaries had been classified as discontinued operations and were therefore no longer included in the financial services segment. The segment information of the comparative period had been restated accordingly.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Segment information *(continued)*

Asset management and investment operations

The asset management and investment segment comprises relevant businesses operated by the Company and certain of its subsidiaries, mainly including trusts, private equity funds, financial investments, 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.

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

Revenue and assets of the Group are generated primarily from operating units located in Chinese mainland and Hong Kong. There is no significant customer concentration of the Group's business with 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 Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Segment information (continued)

For the six months ended 30 June 2022	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets	10,869,438	—	—	—	10,869,438
Fair value changes on distressed debt assets	2,877,464	—	—	—	2,877,464
Fair value changes on other financial assets and liabilities	(3,099,464)	712	(5,720,966)	—	(8,819,718)
Interest income	2,331,513	2,109,443	2,508,301	(1,368,531)	5,580,726
Finance lease income	—	617,200	20,929	—	638,129
Gains from derecognition of financial assets measured at amortised cost	82,142	—	127,552	—	209,694
Losses from derecognition of debt instruments at fair value through other comprehensive income	(3,016)	—	(22,692)	—	(25,708)
Commission and fee income	135,061	1,179	52,789	(28,053)	160,976
Net gains on disposals of subsidiaries, associates and joint ventures	22,120	—	653,869	—	675,989
Dividend income	321,328	—	69,306	34,643	425,277
Other income and other net gains or losses	430,747	488,234	1,248,037	(17,511)	2,149,507
Total	13,967,333	3,216,768	(1,062,875)	(1,379,452)	14,741,774
Interest expenses	(12,929,553)	(1,596,288)	(5,756,956)	1,104,199	(19,178,598)
Commission and fee expenses	(102,750)	—	(50,552)	23,212	(130,090)
Operating expenses	(1,675,121)	(366,865)	(584,922)	(15,388)	(2,642,296)
Impairment losses under ECL model	(14,724,478)	(461,816)	(1,714,105)	—	(16,900,399)
Impairment losses on other assets	(1,087)	(116,641)	(346,221)	—	(463,949)
Total	(29,432,989)	(2,541,610)	(8,452,756)	1,112,023	(39,315,332)
Change in net assets attributable to other holders of consolidated structured entities	61,962	—	250,461	—	312,423
Share of results of associates and joint ventures	(821)	—	230,726	—	229,905
(Loss)/profit before tax from continuing operations	(15,404,515)	675,158	(9,034,444)	(267,429)	(24,031,230)
Income tax credit	—	—	—	—	2,662,194
Loss for the period from continuing operations	—	—	—	—	(21,369,036)
Profit after tax for the period from discontinued operations	—	—	—	—	2,759,715
As at 30 June 2022					
Segment assets	730,362,274	109,271,577	213,065,261	(90,959,030)	961,740,082
Including: Interests in associates and joint ventures	2,471,556	—	6,128,309	—	8,599,865
Deferred tax assets	—	—	—	—	16,575,144
Total assets	—	—	—	—	978,315,226
Segment liabilities	613,164,981	91,020,567	291,945,255	(88,403,496)	907,727,307
Deferred tax liabilities	—	—	—	—	384,446
Tax payable	—	—	—	—	4,080,729
Total liabilities	—	—	—	—	912,192,482

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Segment information (continued)

For the six months ended 30 June 2021	Distressed asset management	Financial services	Asset management and investment	Elimination	Consolidated
Income from distressed debt assets	15,267,983	—	—	—	15,267,983
Fair value changes on distressed debt assets	3,584,810	—	—	—	3,584,810
Fair value changes on other financial assets and liabilities	2,748,957	2,259	559,731	—	3,310,947
Interest income	4,098,744	2,464,821	2,718,159	(2,058,556)	7,223,168
Finance lease income	—	1,076,596	30,008	—	1,106,604
Gains from derecognition of financial assets measured at amortised cost	162,935	—	358,684	—	521,619
Gains/(losses) from derecognition of debt instruments at fair value through other comprehensive income	100,215	—	(18,667)	—	81,548
Commission and fee income	184,525	—	246,597	(4,835)	426,287
Net gains on disposals of subsidiaries, associates and joint ventures	9	—	19,638	—	19,647
Dividend income	51,844	—	808,400	(403,075)	457,169
Other income and other net gains or losses	845,464	471,925	117,713	(46,440)	1,388,662
Total	27,045,486	4,015,601	4,840,263	(2,512,906)	33,388,444
Interest expenses	(15,828,551)	(2,019,038)	(5,596,640)	1,666,210	(21,778,019)
Commission and fee expenses	(18,173)	—	(64,188)	3,386	(78,975)
Operating expenses	(2,310,689)	(435,454)	(760,733)	(14)	(3,506,890)
Impairment losses under ECL model	(1,999,487)	(533,064)	(2,519,882)	—	(5,052,433)
Impairment losses on other assets	60,794	(51,294)	(139,099)	—	(129,599)
Total	(20,096,106)	(3,038,850)	(9,080,542)	1,669,582	(30,545,916)
Change in net assets attributable to other holders of consolidated structured entities	(1,305,990)	—	(19,366)	—	(1,325,356)
Share of results of associates and joint ventures	123,117	—	70,130	—	193,247
Profit/(loss) before tax from continuing operations	5,766,507	976,751	(4,189,515)	(843,324)	1,710,419
Income tax expense					(1,974,677)
Loss for the period from continuing operations					(264,258)
Profit after tax for the period from discontinued operations					1,888,485
As at 31 December 2021					
Segment assets	802,135,841	588,533,080	254,266,963	(99,428,190)	1,545,507,694
Including: Interests in associates and joint ventures	2,471,696	—	8,043,149	—	10,514,845
Assets held for sale	266,590	7,035,009	—	—	7,301,599
Deferred tax assets					15,612,489
Total assets					1,568,421,782
Segment liabilities	712,139,123	534,850,597	312,475,114	(98,497,897)	1,460,966,937
Liabilities directly associated with the assets held for sale	1,591	1,738,666	—	—	1,740,257
Deferred tax liabilities					341,556
Tax payable					1,388,605
Total liabilities					1,464,437,355

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Income from distressed debt assets

The amount represents interest income arising from distressed debt assets classified as debt instruments at fair value through other comprehensive income (“FVOCI”) and debt instruments at amortised cost, which include loans acquired from financial institutions and distressed debt assets acquired from non-financial institutions (see Notes IV.22 and IV.25).

3. Fair value changes on distressed debt assets

The amount represents fair value changes on distressed debt assets measured at fair value through profit or loss (“FVTPL”) during the period (see Note IV.18).

The fair value changes comprise both realised gains or losses from disposal of distressed debt assets measured at FVTPL and unrealised fair value changes on such assets. Any interest income arising from such assets is also included in fair value changes.

4. Fair value changes on other financial assets and liabilities

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Listed and unlisted shares and funds	(7,305,899)	1,984,630
Derivatives and structured products	(567,952)	(33,592)
Debt instruments	(458,418)	197,659
Trust products	(205,815)	1,182,172
Wealth management products	9,960	71,709
Other investments and financial liabilities	(291,594)	(91,631)
Total	(8,819,718)	3,310,947

The fair value changes comprise both realised gains or losses from disposal/settlement of other financial assets/liabilities measured at FVTPL and unrealised fair value changes on such assets/liabilities. Any interest income arising from such assets is also included in fair value changes.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Interest income

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Debt instruments at amortised cost other than distressed debt assets	2,488,813	3,512,958
Receivables arising from sales and leaseback arrangements	1,942,504	2,272,444
Deposits with financial institutions	860,997	928,466
Debt instruments at FVOCI other than distressed debt assets	102,123	225,780
Placements with financial institutions	86,711	91,493
Others	99,578	192,027
Total	5,580,726	7,223,168

6. Commission and fee income

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Asset management business	85,399	171,610
Securities and futures brokerage business	49,295	82,413
Trust business	26,274	172,260
Fund management business	8	4
Total	160,976	426,287

Relationship between commission and fee income and the information disclosed in the segments:

The Group provides asset management services (excluding trust and fund management) in “Distress asset management” and “Asset management and investment” segments. For securities and futures brokerage and fund management, they are recorded in “Distress asset management” segment. The revenue from trust is recorded in “Asset management and investment” segment as disclosed in Note IV.1.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Other income and other net gains or losses

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Net gains/(losses) on exchange differences	1,292,027	(81,919)
Income arising from operating leases	420,815	584,458
Revenue from the development of properties ⁽ⁱ⁾	96,169	484,839
Government grants	21,463	36,178
Others	319,033	365,106
Total	2,149,507	1,388,662

(i) Revenue from the development of properties is recorded in “Distressed asset management” segment as disclosed in Note IV.1.

8. Interest expenses

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Borrowings	(14,676,810)	(17,043,616)
Bonds and notes issued	(4,367,281)	(4,461,434)
Financial assets sold under repurchase agreements	(24,196)	(16,552)
Placements from financial institutions	(23,677)	(294)
Lease liabilities	(16,509)	(165,979)
Other liabilities	(70,125)	(90,144)
Total	(19,178,598)	(21,778,019)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Operating expenses

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Employee benefits	(939,102)	(1,182,571)
Tax and surcharges	(245,375)	(260,518)
Others	(1,457,819)	(2,063,801)
Including:		
Depreciation of property and equipment	(297,313)	(383,076)
Depreciation of right-of-use assets	(160,551)	(190,168)
Depreciation of investment properties	(123,941)	(91,240)
Cost of properties development and sales	(60,978)	(344,232)
Management fee for realty	(30,475)	(29,233)
Rental for short-term leases	(25,258)	(19,526)
Amortisation	(23,795)	(29,415)
Total	(2,642,296)	(3,506,890)

10. Impairment losses under ECL model

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Debt instruments at amortised cost	(13,652,372)	(3,820,841)
Debt instruments at FVOCI	(2,179,797)	(920,859)
Financial lease receivables	(549,293)	(269,747)
Financial assets held under resale agreements	(284,349)	(49,420)
Loans and advances to customers	(6,344)	187,069
Other financial assets	(228,244)	(178,635)
Total	(16,900,399)	(5,052,433)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Impairment losses on other assets

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Interests in associates and joint ventures	(161,552)	(129,360)
Foreclosed assets	(86,605)	9,560
Others	(215,792)	(9,799)
Total	(463,949)	(129,599)

12. Income tax

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Current income tax		
PRC enterprise income tax	(1,121,021)	(2,381,556)
PRC land appreciation tax	(20,185)	(11,601)
Profits tax of Hong Kong and Macau, China	(25,811)	(19,740)
Deferred income tax	3,829,211	438,220
Total tax credit/(charge) for the period from continuing operations	2,662,194	(1,974,677)
Total tax charge for the period from discontinued operations	(3,992,078)	(697,457)
Total	(1,329,884)	(2,672,134)

The statutory income tax rate applicable to PRC enterprises was 25% for the period (for the six months ended 30 June 2021: 25%).

The preferential income tax rate applicable to PRC enterprises within the scope of the western development area was 15% for the period (for the six months ended 30 June 2021: 15%).

The preferential income tax rate applicable to PRC high-tech enterprises was 15% for the period (for the six months ended 30 June 2021: 15%).

On 21 March 2018, The Inland Revenue (Amendment) (No. 7) Bill 2017 which introduces the two-tiered profits tax rates regime was passed by the Hong Kong Legislative Council.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations

13.1 Huarong Xiangjiang Bank

On 9 June 2022, the Company entered into an Equity Transaction Contract with Hunan Chasing Financial Holding Group Co., Ltd. and Central Huijin Investment Ltd. The Company transferred 40.53% of its equity interests held in Huarong Xiangjiang Bank for an amount of RMB11,981 million. The Equity Transaction was completed in June 2022, Huarong Xiangjiang Bank ceased to be a subsidiary of the Company. The banking business is no longer a part of the Group's businesses, and Huarong Xiangjiang Bank is classified as a discontinued operation.

(1) *The results of Huarong Xiangjiang Bank for the period*

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Total revenue	10,777,491	11,041,307
Total expense	(8,527,396)	(8,684,905)
Profit before tax	2,250,095	2,356,402
Income tax expense	(505,754)	(671,004)
Net profit for the period	1,744,341	1,685,398
Loss on disposal of the discontinued operation	(1,958,854)	—
(Loss)/profit after tax for the period from the discontinued operation	(214,513)	1,685,398

(i) Related party transactions with the Group had been deducted from the above amounts.

(2) *Net cash flows incurred by Huarong Xiangjiang Bank*

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Net cash flow from operating activities	10,911,041	9,631,610
Net cash flow (used in)/from investing activities	(4,430,618)	7,245,315
Net cash flow used in financing activities	(5,553,395)	(13,362,334)
Net cash flows	927,028	3,514,591

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.1 Huarong Xiangjiang Bank *(continued)*

(3) Loss on disposal of the discontinued operation

	For the six months ended 30 June 2022 (Unaudited)
Total consideration	11,980,668
Accumulated other comprehensive income reclassified to the statement of profit or loss	14,128
Less: Net assets disposed of	(11,891,808)
Tax effect of discontinued operations	(2,061,842)
Loss on disposal of the discontinued operation	(1,958,854)

(4) Net cash flows in respect of the disposal of Huarong Xiangjiang Bank

	For the six months ended 30 June 2022 (Unaudited)
Cash consideration received from disposal	11,980,668
Less: balances of cash and cash equivalents disposed of	(16,949,956)
Net cash flows in respect of the disposal	(4,969,288)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.1 Huarong Xiangjiang Bank *(continued)*

(5) Net assets of Huarong Xiangjiang Bank at the date of disposal

	At the date of disposal (Unaudited)
Cash and balances with central bank	22,218,152
Deposits with financial institutions	1,082,206
Placements with financial institutions	8,106,572
Financial assets at fair value through profit or loss	27,236,384
Financial assets held under resale agreements	3,078,211
Loans and advances to customers	252,279,278
Debt instruments at FVOCI	10,746,030
Equity instruments at FVOCI	227,046
Debt instruments at amortised cost	112,682,923
Property and equipment	1,961,188
Right-of-use assets	1,555,616
Deferred tax assets	2,784,933
Other assets	2,911,691
Less: Borrowings from central bank	(22,785,438)
Deposits from financial institutions	(19,042,353)
Placements from financial institutions	(1,507,020)
Financial assets sold under repurchase agreements	(19,514,769)
Due to customers	(280,514,978)
Tax payable	(427,280)
Lease liabilities	(899,272)
Bonds and notes issued	(64,745,763)
Other liabilities	(2,736,019)
Net assets	34,697,338
Attributable to:	
Equity holders of the Company	11,891,808
Non-controlling interests	17,507,731
Perpetual capital instruments	5,297,799

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.2 Huarong Securities

On 27 January 2022, the Company entered into an Equity Transaction Contract with China Reform Capital Co., Ltd. The Company transferred 71.99% of the equity interests held in Huarong Securities for an amount of RMB10,933 million. The Equity Transaction was completed in June 2022, Huarong Securities ceased to be a subsidiary of the Company. The securities business is no longer a part of the Group's businesses, and Huarong Securities is classified as a discontinued operation.

(1) *The results of Huarong Securities for the period*

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Total revenue	1,110,088	995,678
Total expense	(972,323)	(1,133,831)
Change in net assets attributable to other holders of consolidated structured entities	213,441	268,105
Profit before tax	351,206	129,952
Income tax expense	(13,752)	(30,678)
Net profit for the period	337,454	99,274
Profit on disposal of the discontinued operation	2,170,458	—
Profit after tax for the period from the discontinued operation	2,507,912	99,274

(i) Related party transactions with the Group had been deducted from the above amounts.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.2 Huarong Securities *(continued)*

(2) Net cash flows incurred by Huarong Securities

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Net cash flow from/(used in) in operating activities	176,016	(5,225,691)
Net cash flow from investing activities	2,347,357	8,258,613
Net cash flow used in financing activities	(2,908,448)	(2,675,810)
Net cash flows	(385,075)	357,112

(3) Gain on disposal of the discontinued operation

	For the six months ended 30 June 2022 (Unaudited)
	Total consideration
Accumulated other comprehensive income reclassified to the statement of profit or loss	28,455
Less: Net assets disposed of	(7,495,628)
Tax effect of discontinued operations	(1,295,350)
Gain on disposal of the discontinued operation	2,170,458

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.2 Huarong Securities *(continued)*

(4) Net cash flows in respect of the disposal of Huarong Securities

	For the six months ended 30 June 2022 (Unaudited)
Cash consideration received from disposal	10,932,981
Less: balances of cash and cash equivalents disposed of	(11,259,473)
Net cash flows in respect of the disposal	(326,492)

(5) Net assets of Huarong Securities at the date of disposal

	At the date of disposal (Unaudited)
Deposits with financial institutions	11,773,497
Financial assets at fair value through profit or loss	5,063,006
Financial assets held under resale agreements	1,059,723
Loans and advances to customers	3,281,728
Debt instruments at FVOCI	15,548,410
Equity instruments at FVOCI	25,000
Debt instruments at amortised cost	1,298,004
Property and equipment	73,057
Right-of-use assets	249,481
Deferred tax assets	363,973
Goodwill	18,063
Other assets	1,041,792
Less: Financial assets sold under repurchase agreements	(5,787,843)
Financial liabilities at fair value through profit or loss	(3,236)
Tax payable	2,208
Lease liabilities	(234,153)
Bonds and notes issued	(11,045,288)
Contract liabilities	(376)
Other liabilities	(12,270,377)
Net assets	10,456,669
Attributable to:	
Equity holders of the Company	7,495,628
Non-controlling interests	2,961,041

Notes to the Interim Condensed Consolidated Financial Information

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.3 Huarong Consumer Finance

On 27 December 2021, the Company entered into an Equity Transaction Contract with Bank of Ningbo Co., Ltd. The Company transferred 70% of the equity interests held in Huarong Consumer Finance for an amount of RMB1,091 million. The Equity Transaction was completed in May 2022, Huarong Consumer Finance ceased to be a subsidiary of the Company. The consumer finance business is no longer a part of the Group's businesses, and Huarong Consumer Finance is classified as a discontinued operation.

(1) The results of Huarong Consumer Finance for the period

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Total revenue	354,124	637,036
Total expense	(295,986)	(537,448)
Profit before tax	58,138	99,588
Income tax (expense)/credit	(122)	4,225
Net profit for the period	58,016	103,813
Profit on disposal of the discontinued operation	408,300	—
Profit after tax for the period from the discontinued operation	466,316	103,813

(i) Related party transactions with the Group had been deducted from the above amounts.

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For the six months ended 30 June 2022

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.3 Huarong Consumer Finance *(continued)*

(2) Net cash flows incurred by Huarong Consumer Finance

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Net cash flow used in operating activities	(73,236)	(124,671)
Net cash flow (used in)/from investing activities	(622)	704
Net cash flow used in financing activities	(2,333)	(2,799)
Net cash flows	(76,191)	(126,766)

(3) Gain on disposal of the discontinued operation

	For the six months ended 30 June	
	2022	
	(Unaudited)	
Total consideration	1,091,032	
Less: Net assets disposed of	(567,474)	
Tax effect of discontinued operations	(115,258)	
Gain on disposal of the discontinued operation	408,300	

Notes to the Interim Condensed Consolidated Financial Information

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Discontinued operations *(continued)*

13.3 Huarong Consumer Finance *(continued)*

(4) Net cash flows in respect of the disposal of Huarong Consumer Finance

	For the six months ended 30 June 2022 (Unaudited)
Cash consideration received from disposal	1,091,032
Less: balances of cash and cash equivalents disposed of	(458,609)
Net cash flows in respect of the disposal	632,423

(5) Net assets of Huarong Consumer Finance at the date of disposal

	At the date of disposal (Unaudited)
Deposits with financial institutions	458,609
Loans and advances to customers	5,393,157
Property and equipment	905
Right-of-use assets	5,797
Deferred tax assets	134,579
Other assets	75,631
Less: Placements from financial institutions	(945,146)
Financial assets sold under repurchase agreements	(754,634)
Financial liabilities at fair value through profit or loss	(3,534,419)
Deferred tax liabilities	(5,379)
Other liabilities	(18,423)
Net assets	810,677
Attributable to:	
Equity holders of the Company	567,474
Non-controlling interests	243,203

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. (Loss)/earnings per share

The calculation of (loss)/earnings per share attributable to equity holders of the Company is as follows:

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
(Loss)/earnings:		
(Loss)/profit for the period attributable to equity holders of the Company	(18,866,359)	158,304
Continuing operations	(20,384,657)	(576,506)
Discontinued operations	1,518,298	734,810
Number of shares:		
Weighted average number of shares for the period (in thousand)	80,246,679	39,070,208
Basic (loss)/earnings per share (RMB Yuan)	(0.235)	0.004
Diluted (loss)/earnings per share (RMB Yuan)	(0.235)	0.004
Basic loss per share from continuing operations (RMB Yuan)	(0.254)	(0.015)
Diluted loss per share from continuing operations (RMB Yuan)	(0.254)	(0.015)
Basic earnings per share from discontinued operations (RMB Yuan)	0.019	0.019
Diluted earnings per share from discontinued operations (RMB Yuan)	0.019	0.019

15. Dividends

On 30 June 2022, the Company did not declare any dividend for the year ended 31 December 2021. The Company did not declare any interim dividend for the period ended 30 June 2022 (for the six months ended 30 June 2021: Nil).

Notes to the Interim Condensed Consolidated Financial Information

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Cash and balances with central bank

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Cash	122	497,754
Mandatory reserve deposits with central bank ⁽ⁱ⁾	8,743	15,192,316
Surplus reserve deposits with central bank ⁽ⁱⁱ⁾	14,567	8,144,629
Other deposits with central bank	—	121,802
Total	23,432	23,956,501

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

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

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17. Deposits with financial institutions

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Banks ⁽ⁱ⁾	96,239,167	139,523,649
Clearing settlement funds ⁽ⁱⁱ⁾	3,541,158	6,257,730
Other financial institutions	550,706	941,140
Subtotal	100,331,031	146,722,519
Less: Allowance for ECL ⁽ⁱⁱⁱ⁾	(24,395)	(24,262)
Total	100,306,636	146,698,257

(i) The Group maintains bank accounts to hold customers' deposits arising from its brokerage business. As at 30 June 2022, the bank balances and clearing settlement funds held on behalf of customers by the Group amounted to RMB3,482 million (31 December 2021: RMB9,970 million). The Group has recognised the corresponding amount in other liabilities (see Note IV.35).

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

(iii) As at 30 June 2022 and 31 December 2021, the Group's deposits with financial institutions are all in Stage I.

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Financial assets and financial liabilities at FVTPL

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Distressed debt assets	178,637,209	182,087,159
Equity instruments		
— Listed	33,261,688	39,630,654
— Unlisted	19,497,176	21,532,540
Funds	37,599,733	49,095,186
Trust products	8,998,402	11,682,265
Derivatives and structured products ⁽ⁱ⁾	6,112,076	6,348,139
Debt securities		
— Corporate bonds	5,256,735	12,807,916
— Financial institution bonds	300,858	423,360
— Government bonds	—	3,377,495
— Public sector and quasi-government bonds	—	94,516
Wealth management products ⁽ⁱⁱ⁾	4,134,105	5,654,981
Asset management plans	2,872,267	7,864,081
Convertible bonds	1,934,618	2,189,644
Entrusted loans	888,114	884,284
Asset-backed securities	60,978	147,597
Negotiable certificates of deposit	—	378,319
Other debt assets	6,045,726	6,849,583
Total	305,599,685	351,047,719
Financial liabilities mandatorily measured at FVTPL		
Derivatives financial instruments ⁽ⁱⁱⁱ⁾	484,189	332,262
Financial liabilities designated as at FVTPL		
Interest of other holders of consolidated structured entities	—	351,400
Total	484,189	683,662

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Financial assets and financial liabilities at FVTPL *(continued)*

- (i) The Group entered into a series of structured transactions that were managed on the fair value basis. Such structured products were accounted for as financial assets mandatorily measured at FVTPL for the six months ended 30 June 2022 and for the year ended 31 December 2021 according to their investment management strategies or the contractual cash flows were not solely payments of principal and interest.

As at 30 June 2022, included in structured products were credit linked notes of RMB259 million (31 December 2021: RMB1,387 million). Credit linked notes are debt instruments, but their returns can be affected by the credit risk of reference assets.

The Group entered into a number of total return swap arrangements under which the Group pays counterparties interest at a reference interest rate and receives from counterparties the total returns of reference assets. The Group therefore is exposed to default risks of the reference assets. As at 30 June 2022, the fair value and nominal value of these total return swaps amounted to RMB156 million (31 December 2021: RMB1,331 million) and RMB203 million (31 December 2021: RMB1,417 million), respectively.

- (ii) This mainly represents wealth management products issued by banking institutions outside the Group.
- (iii) The Group entered into a series of interest rate swap and cross-currency swap contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to bonds and notes issued denominated in foreign currency. The terms of the derivative contracts have been negotiated to match the terms of the respective designated hedged items and therefore the hedge is considered highly effective. As at 30 June 2022, the Group had no hedging instruments (31 December 2021: RMB307 million and the instruments were included in derivatives financial instruments classified as financial assets at FVTPL).

19. Financial assets held under resale agreements

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
By collateral type:		
Securities	60,000	12,163,715
Bills	—	1,507,991
Subtotal	60,000	13,671,706
Less: Allowance for ECL		
— Lifetime ECL	—	(2,627,435)
Subtotal	—	(2,627,435)
Net financial assets held under resale agreements	60,000	11,044,271

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20. Loans and advances to customers

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	—	125,058,627
Personal loans and advances		
— Personal consumption loans	—	33,715,168
— Mortgages	—	37,562,809
— Loans for business operations	—	17,595,514
— Others	—	2,171
Subtotal	—	88,875,662
Loans to margin clients	779,280	4,463,589
Gross loans and advances to customers measured at amortised cost	779,280	218,397,878
Less: Allowance for ECL		
— 12-month ECL	(139)	(1,073,790)
— Lifetime ECL	(742,853)	(7,034,878)
Subtotal	(742,992)	(8,108,668)
Net loans and advances to customers measured at amortised cost	36,288	210,289,210
Loans and advances measured at FVOCI		
— Discounted bills	—	36,874,793
Net loans and advances to customers	36,288	247,164,003

The movements of expected credit loss on loans and advances during the current period and the prior year are detailed in Note IV.43. (2).

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21. Finance lease receivables

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Minimum finance lease receivables:		
Within 1 year (inclusive)	11,124,875	13,023,298
1 to 5 years (inclusive)	12,769,679	15,220,428
Over 5 years	1,234,157	1,647,459
Gross amount of finance lease receivables	25,128,711	29,891,185
Less: Unearned finance income	(3,054,724)	(3,615,604)
Net amount of finance lease receivables	22,073,987	26,275,581
Less: Allowance for ECL		
— 12-month ECL	(228,673)	(190,654)
— Lifetime ECL	(2,822,295)	(2,530,860)
Subtotal	(3,050,968)	(2,721,514)
Carrying amount of finance lease receivables	19,023,019	23,554,067
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	9,838,603	11,490,160
1 to 5 years (inclusive)	11,157,266	13,341,729
Over 5 years	1,078,118	1,443,692
Total	22,073,987	26,275,581

The movements of expected credit loss on finance lease receivables during the current period and the prior year are detailed in Note IV.43. (2).

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

22. Debt instruments at FVOCI

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Distressed debt assets	20,537,097	23,030,955
Debt securities		
— Public sector and quasi-government bonds	1,393,539	1,752,312
— Corporate bonds	1,101,318	12,992,600
— Government bonds	610,207	10,500,620
— Financial institution bonds	151,672	2,642,473
Entrusted loans ⁽ⁱ⁾	2,395,437	2,409,438
Asset management plans	1,459,518	2,794,928
Debt instruments	934,051	963,403
Trust products	96,947	90,551
Asset-backed securities	19,252	26,344
Total	28,699,038	57,203,624

(i) These are the entrusted loans granted through commercial banks outside the Group.

The movements of expected credit loss on debt instruments at FVOCI during the current period and the prior year are detailed in Note IV.43. (2).

23. Equity instruments at FVOCI

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Listed equity investments	1,645,984	831,405
Unlisted equity investments	1,211,200	2,308,174
Total	2,857,184	3,139,579

(i) The above listed and unlisted equity investments represent equity instruments listed in Chinese mainland or Hong Kong and unlisted equity investments established in Chinese mainland or incorporated in Hong Kong. These investments are not held for trading.

(ii) The Group received dividends of RMB71 million from equity instruments at FVOCI during the current period (for the six months ended 30 June 2021: RMB92 million).

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

24. Inventories

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Property development costs	19,388,459	13,710,171
Properties held for sale	2,291,607	8,086,401
Subtotal	21,680,066	21,796,572
Allowance for impairment losses	(941,418)	(942,494)
Total	20,738,648	20,854,078

25. Debt instruments at amortised cost

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Distressed debt assets		
Loans acquired from financial institutions	36,476,059	31,957,115
Other debt assets acquired from non-financial institutions	247,025,844	277,866,266
Subtotal	283,501,903	309,823,381
Less: Allowance for ECL		
— 12-month ECL	(2,362,645)	(2,820,287)
— Lifetime ECL	(45,075,342)	(37,679,714)
Subtotal	(47,437,987)	(40,500,001)
Carrying amount of distressed debt assets	236,063,916	269,323,380

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For the six months ended 30 June 2022

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

25. Debt instruments at amortised cost *(continued)*

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Other debt assets		
Debt instruments	102,723,060	112,163,632
Receivables arising from sales and leaseback arrangements	66,996,386	69,336,374
Entrusted loans ⁽ⁱ⁾	52,599,820	53,845,625
Trust products	44,855,130	56,594,621
Debt securities	7,296,912	94,677,178
Asset management plans	4,569,594	7,024,465
Asset-backed securities	16,107	1,603,565
Others	2,040,511	2,199,122
Subtotal	281,097,520	397,444,582
Less: Allowance for ECL		
— 12-month ECL	(667,958)	(1,232,407)
— Lifetime ECL	(86,210,784)	(84,736,121)
Subtotal	(86,878,742)	(85,968,528)
Carrying amount of other debt assets	194,218,778	311,476,054
Total	430,282,694	580,799,434

(i) These are the entrusted loans granted through commercial banks outside the Group.

During the six months ended 30 June 2022, the Group disposed of certain financial assets measured at amortised cost, primarily because the Company had to manage its credit risk.

The movements of expected credit loss on debt instruments at amortised cost during current period and the prior year are detailed in Note IV.43.(2).

Notes to the Interim Condensed Consolidated Financial Information

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

26. Interests in associates and joint ventures

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Interests in associates		
Cost of investments in associates	10,768,049	12,689,495
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	(887,336)	(948,507)
Less: Allowance for impairment losses	(3,152,314)	(3,121,883)
Subtotal	6,728,399	8,619,105
Interests in joint ventures		
Cost of investments in joint ventures	6,121,168	5,986,647
Share of post-acquisition profits or losses and other comprehensive income, net of dividends received	(394,518)	(357,929)
Less: Allowance for impairment losses	(3,855,184)	(3,732,978)
Subtotal	1,871,466	1,895,740
Total	8,599,865	10,514,845
Fair value of listed companies	663,309	755,575

During the six months ended 30 June 2022, the Group did not newly invest in associates and joint ventures (for the six months ended 30 June 2021: 2 with an initial cost of RMB1,850 million).

During the six months ended 30 June 2022, the Group disposed of its interests in 3 (for the six months ended 30 June 2021: 2) associates and joint ventures with an aggregate carrying amount of RMB1,952 million (for the six months ended 30 June 2021: RMB49 million) at date of disposal and recognized net gains of RMB654 million (for the six months ended 30 June 2021: RMB20 million).

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

27. Movement of investment properties, property and equipment

For the six months ended 30 June 2022, the Group acquired and disposed of property and equipment with aggregate amounts of RMB247 million at cost and RMB2,267 million at net book value, respectively (for the six months ended 30 June 2021: RMB222 million at cost and RMB133 million at net book value, respectively).

For the six months ended 30 June 2022, the Group transferred a balance of RMB341 million (for the six months ended 30 June 2021: RMB152 million) from inventories to investment properties.

28. Other assets

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Other receivables	22,209,009	23,041,458
Foreclosed assets	3,095,709	4,969,295
Payments in advance	1,038,894	1,418,204
Clearing and settlement receivables	642,306	595,795
Deductible value-added tax	293,240	431,918
Dividends receivable	123,866	71,904
Intangible assets	85,914	573,238
Prepaid expenses	80,381	241,173
Prepaid income tax	62,856	1,139,967
Notes receivable	18,838	14,185
Others	839,827	1,527,981
Subtotal	28,490,840	34,025,118
Allowance for other assets	(9,841,797)	(10,215,667)
Total	18,649,043	23,809,451

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

29. Deposits from financial institutions

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Banks	—	3,186,874
Other financial institutions	—	10,469,466
Total	—	13,656,340

30. Financial assets sold under repurchase agreements

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Bonds	1,620,633	10,669,250
Discounted bills	—	20,196,972
Total	1,620,633	30,866,222

31. Borrowings

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Unsecured loans	617,998,525	715,983,835
Pledged loans	16,011,044	16,314,382
Guaranteed loans ⁽ⁱ⁾	8,875,204	8,861,773
Loans secured by properties	4,059,496	6,465,472
Total	646,944,269	747,625,462

- (i) Among the balances of guaranteed loans, a balance of RMB8,875 million (31 December 2021: RMB8,191 million) was borrowed by subsidiaries of the Company and guaranteed by the Company.

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31. Borrowings *(continued)*

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Carrying amount repayable ⁽ⁱ⁾ :		
Within 1 year (inclusive)	461,004,858	549,497,962
1 year to 2 years (inclusive)	49,161,034	31,488,408
2 years to 5 years (inclusive)	115,342,415	141,553,141
More than 5 years	677,412	1,817,088
Subtotal	626,185,719	724,356,599
Carrying amount of borrowings that contain a repayment on demand clause repayable ⁽ⁱ⁾ :		
Within 1 year (inclusive)	13,599,052	18,604,815
1 year to 2 years (inclusive)	1,057,578	506,025
2 years to 5 years (inclusive)	3,890,200	1,719,703
More than 5 years	2,211,720	2,438,320
Subtotal	20,758,550	23,268,863
Total	646,944,269	747,625,462

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

As at 30 June 2022, the Group failed to comply with certain financial or non-financial conditions stipulated in certain lending and borrowing agreements between banks and non-bank financial institutions, and the relevant amount of these borrowings was RMB7,883 million (31 December 2021: RMB9,551 million). The Group is in dialogue with the relevant institutions actively and these institutions still provide normal banking facilities to the Group and have not yet requested early repayments of borrowings.

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

32. Due to customers

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Demand deposits		
Corporate customers	—	78,644,325
Individual customers	—	23,583,574
Time deposits		
Corporate customers	—	66,441,766
Individual customers	—	61,901,899
Pledged deposits	—	8,271,102
Others	—	18,366,222
Total	—	257,208,888

33. Tax payable

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
PRC enterprise income tax	3,788,689	1,082,985
PRC land appreciation tax	182,178	181,755
Profits tax of Hong Kong, China	109,862	123,865
Total	4,080,729	1,388,605

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

34. Bonds and notes issued

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)	Term	Coupon rate per annum	Interest payment terms
Financial bonds	79,896,777	57,164,428	3–5 years	3.70%–4.77% fixed rate	Interest payable annually
Mid-term U.S. dollar notes	75,791,256	77,550,420	3–30 years	2.13%–5.50% fixed rate	Interest payable semi-annually
Mid-term U.S. dollar notes	12,492,201	18,102,056	3–5 years	3 months LIBOR+1.125%–1.85% floating rate	Interest payable quarterly
Tier II capital bonds	10,214,248	25,673,055	10 years	4.50%–5.00% fixed rate	Interest payable annually
Corporate bonds	6,892,629	8,716,920	1–6 years	3.14%–6.50% fixed rate	Interest payable annually
Mid-term SGD notes	1,935,220	1,883,698	8 years	3.80% fixed rate	Interest payable quarterly
Asset-backed securities	1,686,202	6,299,715	495–938 days	4.18%–4.50% fixed rate	Interest payable semi-annually
Negotiable certificates of deposit	—	56,752,982	0.5–12 months	1.65%–3.77% fixed rate	Interest payable on maturity date
Subordinate bonds	—	8,366,053	3 years	4.60%–5.80% fixed rate	Interest payable annually
Micro bonds	—	6,680,720	3 years	3.60%–3.70% fixed rate	Interest payable annually
Euro bonds	—	3,607,098	5 years	1.625% fixed rate	Interest payable annually
U.S. Dollar bonds	—	255,028	1 year	2.01%–3.10% fixed rate	Interest payable semi-annually
Beneficiary certificates	—	13,040	14 days	6.00% fixed rate	Interest payable on maturity date
Total	188,908,533	271,065,213			

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Other liabilities

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Other payables	18,309,268	21,352,695
Guarantee deposits received from customers	16,305,256	17,537,470
Payables to interest holders of consolidated structured entities	12,133,144	36,670,251
Amounts received in advance ⁽ⁱ⁾	6,802,070	8,284,882
Letter of credit	4,463,865	5,428,937
Margin deposits received from securities customers	3,480,425	3,991,809
Employee benefits payable	2,302,370	4,056,773
Bills payable ⁽ⁱⁱ⁾	853,699	147,336
Amounts due to China Trust Protection Fund	850,000	2,550,000
Sundry taxes payable	430,731	1,020,668
Accounts payable to brokerage clients	137,784	6,263,007
Dividends payable ⁽ⁱⁱⁱ⁾	114,844	191,235
Provisions	18,154	465,761
Others	1,281,589	1,517,742
Total	67,483,199	109,478,566

(i) Amounts received in advance mainly included deposits received in respect of advance payments relating to Company's sales of distressed assets.

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

(iii) As at 30 June 2022, the Group's dividend payable was due to Deutsche Bank AG.

Notes to the Interim Condensed Consolidated Financial Information

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36. Share capital of the Company

	For the six months ended 30 June 2022 (Unaudited)	For the year ended 31 December 2021 (Audited)
Authorised, issued and fully paid		
At the beginning of the period	80,246,679	39,070,208
Issue of shares	—	41,176,471
At the end of the period	80,246,679	80,246,679

	As at 1 January (Audited)	2022 Issuance	As at 30 June (Unaudited)
Registered, issued and fully paid			
Domestic shares	53,242,042	—	53,242,042
H shares	27,004,637	—	27,004,637
Total	80,246,679	—	80,246,679

	As at 1 January (Audited)	2021 Issuance	As at 31 December (Audited)
Registered, issued and fully paid			
Domestic shares	14,026,355	39,215,687	53,242,042
H shares	25,043,853	1,960,784	27,004,637
Total	39,070,208	41,176,471	80,246,679

On 30 December 2021, the Company completed the non-public issuance of 39,215,686 thousand of domestic shares under a specific mandate at RMB1.02 per share and the price was to be paid up in RMB. The Company also completed the non-public issuance of 1,960,784 thousand of H shares under a specific mandate at HKD equivalent to RMB1.02 per share and the price was to be paid up in Hong Kong Dollars. This non-public share issuance had been verified by Ernst & Young Hua Ming LLP on 11 January 2022 with a verification report, Ernst & Young Hua Ming (2022) Yan Zi No. 60098698_A01.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37. Other equity instruments

	As at 1 January (Audited)	2022 Issuance	As at 30 June (Unaudited)
Perpetual Bonds			
2022 undated capital bonds	—	19,900,000	19,900,000
Total	—	19,900,000	19,900,000

With the approvals of relevant regulatory authorities in China, the Company issued RMB19,900 million undated capital bonds (the “bonds”) in the domestic interbank bond market on 29 June 2022 and completed the issuance on 30 June 2022. The denomination of the bonds is RMB100 each, and the annual coupon rate of the bonds for the first five years is 4.34%, which is reset every 5 years. The distribution rate will be reset on each benchmark rate reset date. The reset distribution rate will be determined by the benchmark rate on benchmark rate reset date plus the fixed spread at the time of issuance.

The duration of the bonds is the same as the period of the continuing operation of the Company. Subject to satisfaction of redemption conditions and having obtained prior approval of the CBIRC, the Company may redeem the bonds in whole or in part on each distribution payment date 5 years after the issuance date of the bonds. Upon the occurrence of a Non-Viability Trigger Event, the Company has the right to write down the principal amount of the bonds in whole or in part, without the need for consent of the holders of the bonds. The claims in respect of the bonds, in the event of a Winding-Up of the Company, will be subordinated to the claims of general creditors, and subordinated indebtedness that ranks senior to the bonds; will rank in priority to all classes of shares held by the Company’s shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Company that rank pari passu with the bonds.

The bonds are paid with non-cumulative interest. The Company shall have the right to cancel distributions on the bonds in whole or in part and such cancellation shall not constitute a default. The Company may, at its sole discretion, use the interest from the cancelled distributions of the bonds to meet other obligations as they fall due. The Company shall not make any distributions to the ordinary shareholders, until it resumes the Distribution Payments in whole to the holders of the bonds.

Proceeds raised from the issuance of the bonds, after deduction of transaction costs, were wholly used to replenish the Company’s additional tier 1 capital and to increase its capital adequacy ratios.

Notes to the Interim Condensed Consolidated Financial Information

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

38. General reserve

Starting from 1 July 2012, pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued by the MOF, a financial enterprise is required to maintain a general reserve within equity, through the appropriation of profit determined under the PRC Generally Accepted Accounting Principles, at no less than 1.5% of its risk assets at the end of the reporting period. A financial enterprise is allowed to comply with this requirement over a period of 5 years, if it is not probable to achieve the 1.5% requirement immediately.

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

For the six months ended 30 June 2022, the Group did not transfer any amount to general reserve (for the six months ended 30 June 2021: nil).

39. Cash and cash equivalents

Cash and cash equivalents with original maturity of less than 3 months comprise the following balances:

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Deposits with financial institutions	95,877,966	142,429,301
Placements with financial institutions	4,700,658	19,527,691
Financial assets held under resale agreements	60,000	8,507,283
Balances with central bank	14,565	8,144,022
Cash on hand	122	494,126
Cash at banks and short-term deposits attributable to discontinued operations	—	534,800
Total	100,653,311	179,637,223

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(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Contingent liabilities

Legal proceedings

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 30 June 2022, the total claim amount of pending litigations was RMB6,316 million (31 December 2021: RMB6,037 million) for the Group, and a provision of RMB18.15 million (31 December 2021: RMB70.49 million) for the Group was made based on court judgements 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.

41. Commitments

(1) Credit enhancement

As at 30 June 2022, the Group did not provide credit enhancement for counterparties. (31 December 2021: Nil).

(2) Credit commitments

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Bank bill acceptance	—	18,144,610
Undrawn credit card commitments	—	8,697,633
Letters of credit issued	—	3,140,574
Loan commitments	—	2,854,651
Letters of guarantee issued	—	319,540
Total	—	33,157,008

As at 30 June 2022, the Group had no credit commitment business and there was no impairment allowance for credit commitment (31 December 2021: Impairment allowance of RMB80 million was made for credit commitments).

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For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

41. Commitments *(continued)*

(3) Other commitments

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Contracted but not provided for — Commitments for the acquisition of intangible assets and property and equipment	124,945	116,788

42. Related party transactions

(1) The MOF

As at 30 June 2022, the MOF directly owned 27.76% (31 December 2021: 27.76%) of the 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 had the following balances and entered into the following transactions with the MOF. These transactions were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

The Group had the following balances with the MOF:

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Debt instruments at FVOCI	611,832	5,166,157
Other assets	151,995	152,008
Other payables	12,348	12,348
Debt instruments at amortised cost	—	11,488,140
Financial assets at FVTPL	—	3,049,836

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42. Related party transactions *(continued)*

(1) The MOF *(continued)*

The Group had the following transactions with the MOF:

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Interest income	241,931	241,632
Fair value changes on other financial assets and liabilities	32,813	5,542

(2) Shareholders holding 5% and more than 5% of the Company's share capital

As at 30 June 2022, CITIC Group owned 23.46% of the share capital of the Company (31 December 2021: 23.46%), and China Insurance Rongxin Private Fund Co., Ltd. ("China Insurance Rongxin Fund") owned 18.08% of the share capital of the Company (31 December 2021: 18.08%). Transactions between the Group and these shareholders were carried out under normal commercial terms, in ordinary course of business and priced at market rate.

The Group had the following balances with CITIC Group:

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
	Borrowings	39,899,035
Other liabilities	1,108,972	2,256,288
Deposits with financial institutions	940,763	1,974,425
Bonds and notes issued	501,000	451,000
Other assets	179,589	100,698
Debt instruments at FVOCI	151,187	302,237
Financial assets at FVTPL	38,628	2,412
Financial liabilities at FVTPL	10,517	—
Deposits from financial institutions	—	25,165
Debt instruments at amortised cost	—	9,899
Financial assets sold under repurchase agreements	—	5,000

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For the six months ended 30 June 2022

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42. Related party transactions *(continued)*

(2) Shareholders holding 5% and more than 5% of the Company's share capital *(continued)*

The Group had the following transactions with CITIC Group:

	For the six months ended 30 June 2022 (Unaudited)
Interest expenses	948,634
Interest income	7,539
Operating expenses	608
Commission and fee expenses	115

As at 30 June 2022, the Group had no related party transaction with China Insurance Rongxin Fund (31 December 2021: Nil).

(3) Government related entities

Other than those disclosed above, the Group also entered into transactions with government-related entities. These transactions were entered into under normal commercial terms and conditions.

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

(4) Associates and joint ventures

The Group had the following balances and entered into the following transactions with associates and joint ventures. These transactions were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42. Related party transactions *(continued)*

(4) Associates and joint ventures *(continued)*

The Group had the following balances with associates and joint ventures:

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Debt instruments at amortised cost	2,074,384	2,264,713
Other assets	518,637	524,756
Other liabilities	87,553	85,035
Trade receivables	3,108	8,356
Equity instruments at FVOCI	—	132,076

The Group had the following transactions with associates and joint ventures:

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Interest income	55,826	15,057
Other income and other net gains or losses	5,969	5,969
Operating expenses	261	—

(5) Annuity scheme

In addition to normal contributions into the annuity schemes set up by the Company and certain other subsidiaries of the Group, there were no other related party transactions for the six months ended 30 June 2022.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42. Related party transactions *(continued)*

(6) 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	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Emoluments of key management personnel		
— Salaries and other benefits	2,007	1,791
— Discretionary and performance-related incentive payments	844	996
— Fees	720	722
— Employer's contribution to pension scheme	250	245
Total (before tax)	3,821	3,754

The number of key managers in the current period increased compared to the same period in 2021. The total compensation packages of the above key management personnel for the six months ended 30 June 2022 and 2021 have not yet been finalised in accordance with regulations of the relevant authorities in the PRC.

43. 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 31 December 2021.

The Group performed the assessment of expected credit losses with the reference to forward-looking information and used a number of models and assumptions in the measurement of expected credit losses. These models and assumptions relate to the future macroeconomic situation and the credit status of the borrowers (for example, the possibility of default by the customers and the corresponding loss). The Group assessed the expected credit losses as at 30 June 2022 and comprehensively considered the impacts of current economic conditions and the COVID-19 pandemic on expected credit losses, including performing forward-looking forecasts to key macroeconomic indicators and assessments of scenario weights.

As at 30 June 2022, the expected credit losses comprehensively reflected the Group's credit risk and the expectations for the macroeconomic development of management.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(1) Risk concentration of distressed debt assets at amortised cost and at FVOCI, loans and advances to customers and finance lease receivables

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Distressed debt assets at amortised cost	283,501,903	309,823,381
Finance lease receivables	22,073,987	26,275,581
Distressed debt assets at FVOCI	20,537,097	23,030,955
Loans and advances to customers	779,280	255,272,671
Subtotal	326,892,267	614,402,588
Allowance for ECL		
Distressed debt assets at amortised cost	(47,437,987)	(40,500,001)
Finance lease receivables	(3,050,968)	(2,721,514)
Loans and advances to customers measured at amortised cost	(742,992)	(8,108,668)
Subtotal	(51,231,947)	(51,330,183)
Net carrying amount		
Distressed debt assets at amortised cost	236,063,916	269,323,380
Finance lease receivables	19,023,019	23,554,067
Distressed debt assets at FVOCI	20,537,097	23,030,955
Loans and advances to customers	36,288	247,164,003
Total	275,660,320	563,072,405

As at 30 June 2022, the loss allowance of distressed debt assets at FVOCI was RMB8,945 million (31 December 2021: RMB8,165 million), and there was no loss allowance for loans and advances to customers at FVOCI (31 December 2021: RMB5 million).

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(1) Risk concentration of distressed debt assets at amortised cost and at FVOCI, loans and advances to customers and finance lease receivables *(continued)*

Analysed by geographical area

	As at 30 June 2022		As at 31 December 2021	
	Gross amount	%	Gross amount	%
Western Region	88,154,293	27.0	98,127,221	16.0
Central Region	68,162,116	20.7	329,228,035	53.5
Yangtze River Delta	59,028,016	18.1	66,326,758	10.8
Pearl River Delta	50,322,140	15.4	53,324,804	8.7
Bohai Rim	44,365,684	13.6	49,151,880	8.0
North-eastern Region	14,565,499	4.5	15,935,006	2.6
Overseas	2,294,519	0.7	2,308,884	0.4
Total	326,892,267	100.0	614,402,588	100.0

Note:

Western Region:	Including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Guangxi, Gansu, Qinghai, Xinjiang, Ningxia, Inner Mongolia and Tibet.
Central Region:	Including Shanxi, Henan, Hunan, Hubei, Anhui, Jiangxi and Hainan.
Yangtze River Delta:	Including Shanghai, Jiangsu and Zhejiang.
Pearl River Delta:	Including Guangdong and Fujian.
Bohai Rim:	Including Beijing, Tianjin, Hebei and Shandong.
North-eastern Region:	Including Liaoning, Jilin and Heilongjiang.
Overseas:	Including all regions outside Chinese mainland.

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(1) Risk concentration of distressed debt assets at amortised cost and at FVOCI, loans and advances to customers and finance lease receivables *(continued)*

Analysed by industry

	As at 30 June 2022		As at 31 December 2021	
	Gross amount	%	Gross amount	%
<i>Corporate business</i>				
Real estate	134,512,565	41.1	166,381,601	27.1
Manufacturing	41,352,709	12.7	52,414,311	8.5
Leasing and commercial services	30,659,998	9.4	41,801,832	6.8
Construction	30,180,425	9.2	50,142,490	8.2
Water, environment and public utilities management	28,613,965	8.8	67,515,134	11.0
Wholesale and retail trade	24,726,487	7.6	37,264,448	6.1
Production and supply of power, heat, gas and water	9,875,243	3.0	10,440,230	1.7
Transportation, logistics and postal services	7,068,266	2.2	9,837,710	1.6
Mining	4,697,945	1.4	7,603,760	1.2
Bill to discount	—	—	36,874,793	6.0
Others	14,425,384	4.4	40,787,028	6.6
Subtotal	326,112,987	99.8	521,063,337	84.8
<i>Personal business</i>				
Mortgages	—	—	37,562,809	6.1
Personal consumption loans	—	—	33,715,168	5.5
Loans for business operations	—	—	17,595,514	2.9
Others	—	—	2,171	0.0
Subtotal	—	—	88,875,662	14.5
Loans to margin clients	779,280	0.2	4,463,589	0.7
Total	326,892,267	100.0	614,402,588	100.0

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(2) Credit quality

(i) Loss allowance

The table below summarises the loss allowance as of the period/year end by class of assets.

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Debt instruments at amortised cost	134,316,729	126,468,529
Debt instruments at FVOCI	12,890,309	11,199,494
Finance lease receivables	3,050,968	2,721,514
Loans and advances to customers	742,992	8,113,848
Financial assets held under resale agreements	—	2,627,435
Credit commitments and financial guarantee contracts	—	395,268
Total	151,000,998	151,526,088

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(2) Credit quality *(continued)*

(ii) Movements of loss allowance

The tables below analyse the movements of the loss allowance during the year/period per class of assets.

Loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	2,014,997	1,302,864	4,350,358	7,668,219
Changes in the loss allowance				
— Transfer to Stage 1	107,361	(104,871)	(2,490)	—
— Transfer to Stage 2	(20,569)	30,234	(9,665)	—
— Transfer to Stage 3	(670,088)	(445,408)	1,115,496	—
— Charge for the year	435,732	1,767,412	4,401,748	6,604,892
— Reversal for the year	(695,942)	(329,202)	(477,138)	(1,502,282)
— Write-offs	—	—	(4,857,062)	(4,857,062)
— Transfer to assets of a disposal group classified as held for sale	(92,519)	(45,091)	(108,087)	(245,697)
— Others	(2)	—	445,780	445,778
As at 31 December 2021	1,078,970	2,175,938	4,858,940	8,113,848
Changes in the loss allowance				
— Transfer to Stage 1	231,835	(231,058)	(777)	—
— Transfer to Stage 2	(7,968)	15,653	(7,685)	—
— Transfer to Stage 3	(5,092)	(698,186)	703,278	—
— Charge for the period	231,116	775,606	1,328,714	2,335,436
— Reversal for the period	(413,935)	(174,766)	(170,886)	(759,587)
— Write-offs	—	—	(1,951,913)	(1,951,913)
— Disposals of subsidiaries	(1,114,791)	(1,863,187)	(4,915,214)	(7,893,192)
— Others	4	—	898,396	898,400
As at 30 June 2022	139	—	742,853	742,992

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Credit risk (continued)

(2) Credit quality (continued)

(ii) Movements of loss allowance (continued)

Finance lease receivables

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	296,642	700,545	1,902,511	2,899,698
Changes in the loss allowance				
— Transfer to Stage 1	—	—	—	—
— Transfer to Stage 2	(54,864)	54,864	—	—
— Transfer to Stage 3	(2,536)	(443,523)	446,059	—
— Charge for the year	119,728	403,140	473,770	996,638
— Reversal for the year	(165,687)	(47,315)	(78,112)	(291,114)
— Write-offs	—	—	(892,879)	(892,879)
— Others	(2,629)	—	11,800	9,171
As at 31 December 2021	190,654	667,711	1,863,149	2,721,514
Changes in the loss allowance				
— Transfer to Stage 1	133,174	(133,174)	—	—
— Transfer to Stage 2	(5,457)	37,507	(32,050)	—
— Transfer to Stage 3	(3,048)	(105,778)	108,826	—
— Charge for the period	21,230	362,250	420,207	803,687
— Reversal for the period	(112,750)	(54,003)	(87,641)	(254,394)
— Write-offs	—	—	(245,853)	(245,853)
— Others	4,870	—	21,144	26,014
As at 30 June 2022	228,673	774,513	2,047,782	3,050,968

Notes to the Interim Condensed Consolidated Financial Information

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(2) Credit quality *(continued)*

(ii) Movements of loss allowance *(continued)*

Debt instruments at FVOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	168,847	1,521,690	9,529,597	11,220,134
Changes in the loss allowance				
— Transfer to Stage 1	—	—	—	—
— Transfer to Stage 2	(12,261)	41,574	(29,313)	—
— Transfer to Stage 3	(36,772)	(333,633)	370,405	—
— Charge for the year	57,407	265,662	2,277,934	2,601,003
— Reversal for the year	(67,773)	(620,348)	(552,808)	(1,240,929)
— Others	(2,620)	(31,471)	(1,346,623)	(1,380,714)
As at 31 December 2021	106,828	843,474	10,249,192	11,199,494
Changes in the loss allowance				
— Transfer to Stage 1	—	—	—	—
— Transfer to Stage 2	(18,302)	182,689	(164,387)	—
— Transfer to Stage 3	(57,433)	(401,607)	459,040	—
— Charge for the period	61,955	1,409,498	1,521,337	2,992,790
— Reversal for the period	(10,592)	(243,670)	(558,731)	(812,993)
— Disposals of subsidiaries	(5,519)	—	(156,853)	(162,372)
— Others	90	172	(326,872)	(326,610)
As at 30 June 2022	77,027	1,790,556	11,022,726	12,890,309

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Credit risk *(continued)*

(2) Credit quality *(continued)*

(ii) Movements of loss allowance *(continued)*

Debt instruments at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	4,887,278	5,933,830	122,212,794	133,033,902
Changes in the loss allowance				
— Transfer to Stage 1	217,075	(30,142)	(186,933)	—
— Transfer to Stage 2	(599,329)	1,015,493	(416,164)	—
— Transfer to Stage 3	(1,211,843)	(2,367,937)	3,579,780	—
— Charge for the year	2,235,660	3,078,570	14,387,434	19,701,664
— Reversal for the year	(1,403,450)	(1,577,240)	(6,310,107)	(9,290,797)
— Write-offs	—	—	(3,049,531)	(3,049,531)
— Transfer-in and transfer-out	(71,144)	(81,889)	(11,237,317)	(11,390,350)
— Unwinding of discount on allowance	—	—	(2,067,706)	(2,067,706)
— Exchange differences and other	(1,553)	(4,786)	(462,314)	(468,653)
As at 31 December 2021	4,052,694	5,965,899	116,449,936	126,468,529
Changes in the loss allowance				
— Transfer to Stage 1	26,521	(26,521)	—	—
— Transfer to Stage 2	(341,769)	845,193	(503,424)	—
— Transfer to Stage 3	(711,377)	(2,251,223)	2,962,600	—
— Charge for the period	593,558	1,837,115	13,892,932	16,323,605
— Reversal for the period	(423,755)	(820,250)	(1,481,071)	(2,725,076)
— Write-offs	—	—	(931,619)	(931,619)
— Transfer-out	(4,800)	(811)	(1,883,754)	(1,889,365)
— Unwinding of discount on allowance	—	—	(1,663,305)	(1,663,305)
— Disposals of subsidiaries	(164,183)	—	(3,497,497)	(3,661,680)
— Exchange differences and other	3,714	8,787	2,383,139	2,395,640
As at 30 June 2022	3,030,603	5,558,189	125,727,937	134,316,729

The most significant movements of loss allowances during the reporting period in respect of loans and advances to customers, finance lease receivables, debt instruments at FVOCI and debt instruments at amortised cost arose from disposals of subsidiaries as well as the downgrade of financial assets to Stage 2 or Stage 3 as a result of the deterioration of credit quality of these financial assets.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44. Risk management of distressed assets

The risk of distressed assets includes the potential loss that may arise from counterparty's failure to meet its obligation or changes in market conditions that lead to decline in asset value. The risk of distressed assets can also arise from operational failures due to unauthorised or inappropriate purchases, disposals or management activities, which result in the recoverable amount of the distressed assets being lower than their carrying amounts.

The Group's distressed assets risk arises from distressed debts which the Group initially classifies as financial assets at FVTPL, debt instruments at amortised cost and at FVOCI or equity instruments at FVTPL and at FVOCI.

The type of risk, the risk management of distressed debt assets and assets obtained through debt-to-equity swap, as well as fair value measurement techniques and impairment assessment are the same as those described in the Group's consolidated financial statements for the year ended 31 December 2021.

45. Fair value of financial instruments

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis

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

	As at 30 June 2022			Total
	Level 1	Level 2	Level 3	
Financial assets at FVTPL	29,491,947	11,633,234	264,474,504	305,599,685
Debt instruments at FVOCI	—	3,226,378	25,472,660	28,699,038
Equity instruments at FVOCI	321,233	1,899,029	636,922	2,857,184
Total assets	29,813,180	16,758,641	290,584,086	337,155,907

	As at 30 June 2022			Total
	Level 1	Level 2	Level 3	
Financial liabilities at FVTPL	—	(481,800)	(2,389)	(484,189)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

	As at 31 December 2021			Total
	Level 1	Level 2	Level 3	
Financial assets at FVTPL	35,433,221	37,397,071	278,217,427	351,047,719
Debt instruments at FVOCI	9,417,405	18,768,422	29,017,797	57,203,624
Equity instruments at FVOCI	424,690	2,053,281	661,608	3,139,579
Loans and advances to customers at FVOCI	—	36,874,793	—	36,874,793
Total assets	45,275,316	95,093,567	307,896,832	448,265,715

	As at 31 December 2021			Total
	Level 1	Level 2	Level 3	
Financial liabilities at FVTPL	(20)	(683,038)	(604)	(683,662)

There were no significant transfers between Level 1 and Level 2 within the Group for the six months ended 30 June 2022 and for the year ended 31 December 2021.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

The following table gives information about the fair values of the financial assets and financial liabilities and their fair value hierarchy.

		Fair value as at		Fair value hierarchy
		30 June 2022 (Unaudited)	31 December 2021 (Audited)	
Financial assets				
1)	Financial assets at FVTPL			
	Distressed debt assets	178,637,209	182,087,159	Level 3
	Funds			
	— Listed	176,460	353,583	Level 1
	— Investing in the underlying assets with open or active quotations	1,166,667	10,083,617	Level 2
	— Investing in the underlying assets without open or active quotations	36,256,606	38,657,986	Level 3
	Trust products			
	— Investing in the underlying assets with open or active quotations	123,435	920,232	Level 2
	— Investing in the underlying assets without open or active quotations	8,874,967	10,762,033	Level 3
	Equity instruments			
	— Listed shares			
	— Unrestricted shares	29,315,487	34,855,455	Level 1
	— Unrestricted shares	—	110,941	Level 2
	— Restricted shares	3,946,201	4,664,258	Level 3
	— Unlisted shares	19,497,176	21,532,540	Level 3
	Debt securities			
	— Traded in stock exchanges	—	181,950	Level 1
	— Traded in inter-bank markets	5,251,474	16,218,422	Level 2
	— Traded over the counter	306,119	302,915	Level 3
	Wealth management products			
	— Investing in the underlying assets with open or active quotations	4,134,005	5,654,881	Level 2
	— Investing in the underlying assets without open or active quotations	100	100	Level 3
	Convertible bonds			
	— Listed	—	42,233	Level 1
	— Unlisted	1,934,618	2,147,411	Level 3

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Fair value of financial instruments (continued)

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets	Fair value as at		Fair value hierarchy
	30 June 2022 (Unaudited)	31 December 2021 (Audited)	
1) Financial assets at FVTPL (continued)			
Asset management plans			
— Investing in the underlying assets with open or active quotations	848,080	3,942,537	Level 2
— Investing in the underlying assets without open or active quotations	2,024,187	3,921,544	Level 3
Derivatives and structured products	109,573	88,122	Level 2
Derivatives and structured products	6,002,503	6,260,017	Level 3
Other debt assets			
— Investing in the underlying assets without open or active quotations	6,045,726	6,849,583	Level 3
Entrusted loans	888,114	884,284	Level 3
Negotiable certificates of deposit	—	378,319	Level 2
Asset-backed securities	60,978	147,597	Level 3
Subtotal	305,599,685	351,047,719	
2) Debt instruments at FVOCI			
Distressed debt assets	20,537,097	23,030,955	Level 3
Debt securities			
— Traded in stock exchanges	—	9,417,405	Level 1
— Traded in inter-bank markets	3,207,126	18,411,101	Level 2
— Traded over the counter	49,610	59,499	Level 3
Entrusted loans	2,395,437	2,409,438	Level 3
Asset management plans			
— Investing in the underlying assets with open or active quotations	—	330,977	Level 2
— Investing in the underlying assets without open or active quotations	1,459,518	2,463,951	Level 3
Debt instruments	934,051	963,403	Level 3
Trust products	96,947	90,551	Level 3
Asset-backed securities			
— Investing in the underlying assets with open or active quotations	19,252	26,344	Level 2
Subtotal	28,699,038	57,203,624	

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

	Fair value as at		Fair value hierarchy
	30 June 2022	31 December 2021	
Financial assets	(Unaudited)	(Audited)	
3) Equity instruments at FVOCI			
— Listed equity investments	321,233	424,690	Level 1
— Listed equity investments	1,324,751	406,715	Level 2
— Unlisted equity investments	574,278	1,646,566	Level 2
— Unlisted equity investments	636,922	661,608	Level 3
Subtotal	2,857,184	3,139,579	
4) Loans and advances to customers at FVOCI			
Discounted bills	—	36,874,793	Level 2
Total	337,155,907	448,265,715	
Financial liabilities			
Financial liabilities mandatorily measured as at FVTPL			
— Derivatives financial instruments	—	(20)	Level 1
— Derivatives financial instruments	(481,800)	(331,638)	Level 2
— Derivatives financial instruments	(2,389)	(604)	Level 3
Financial liabilities designated as at FVTPL			
— Interests of other holders in consolidated structured entities	—	(351,400)	Level 2
Total	(484,189)	(683,662)	

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

Valuation methods for financial instruments

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

For Level 2 financial instruments, valuations are generally calculated based on discounted cash flow methods or quoted prices of actively traded underlying assets. For discounted cash flow methods, the most significant inputs are yield curves published by China Central Depository & Clearing Co., Ltd., interest rates publicly available from Shanghai Commercial Paper Exchange and announced expected returns of similar wealth management products sponsored by the same banks, or forward interest rate or exchange rate. Actively traded underlying assets are primarily listed shares or quoted debt instruments. When some of these securities are denominated in currencies other than Renminbi, they are converted at appropriate exchange rates prevailing on the balance sheet dates.

For Level 3 financial instruments, management of the Group obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including income approach, market approach and asset-based 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 including weighted average cost of capital, liquidity discount, price to book ratio, discount rate, etc.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

Valuation methods for financial instruments (continued)

The following table summarises the major valuation information for Level 3 financial instruments:

Business	Valuation technique(s) and key input(s)	Significant unobservable input(s)	The effect of unobservable inputs on fair value
Distressed debt assets	<ul style="list-style-type: none"> Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level 	<ul style="list-style-type: none"> Estimated recoverable amount, estimated recovery date and discount rate in line with estimated risk level 	<ul style="list-style-type: none"> The higher the expected recoverable amount, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.
Unlisted equity instruments	<ul style="list-style-type: none"> Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level Comparable listed company method, comparable transaction cases, etc. Asset-based approach 	<ul style="list-style-type: none"> Estimated recoverable amount, estimated recovery date and discount rate in line with estimated risk level Market multiplier, discount for lack of marketability (DLOM) Adjusted net assets and discount for lack of marketability (DLOM) 	<ul style="list-style-type: none"> The higher the expected recoverable amount, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value. The higher market multiplier, the higher the fair value. The lower the DLOM, the higher the fair value. The higher the adjusted net assets, the higher the fair value. The lower the DLOM, the higher the fair value.
Listed equity instruments (restricted)	<ul style="list-style-type: none"> Option Pricing Model 	<ul style="list-style-type: none"> Stock volatility 	<ul style="list-style-type: none"> The lower the stock volatility, the higher the fair value.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.1 Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

Valuation methods for financial instruments (continued)

The following table summarises the major valuation information for Level 3 financial instruments *(continued)*:

Business	Valuation technique(s) and key input(s)	Significant unobservable input(s)	The effect of unobservable inputs on fair value
Debt securities	<ul style="list-style-type: none"> Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level 	<ul style="list-style-type: none"> Estimated recoverable amount, estimated recovery date and discount rate in line with estimated risk level 	<ul style="list-style-type: none"> The higher the expected recoverable amount, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.
Funds; Trust products; Wealth management products; Asset management plans; Derivatives and structured products, etc.	<ul style="list-style-type: none"> Discounted cash flow, future cash flow is estimated based on the expected recoverable amount, and discounted at an interest rate determined by management based on the best estimate of the expected risk level Comparable listed company method, comparable transaction cases, etc. Asset-based approach 	<ul style="list-style-type: none"> Estimated recoverable amount, estimated recovery date and discount rate in line with estimated risk level Market multiplier, discount for lack of marketability (DLOM) Adjusted net assets and discount for lack of marketability (DLOM) 	<ul style="list-style-type: none"> The higher the expected recoverable amount, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value. The higher market multiplier, the higher the fair value. The lower the DLOM, the higher the fair value. The higher amount of the adjusted net assets, the higher the fair value. The lower the DLOM, the higher the fair value.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Fair value of financial instruments (continued)

45.2 Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL	Debt instruments at FVOCI	Equity instruments at FVOCI	Financial liabilities at FVTPL
As at 1 January 2022	278,217,427	29,017,797	661,608	(604)
Recognised in profit or loss	801,100	1,073,088	—	(1,444)
Recognised in other comprehensive income	—	(3,089,635)	15,200	—
Additions	13,570,918	1,072,387	236,583	(2,389)
Settlements/disposals	(26,954,105)	(2,600,977)	(276,469)	2,048
Transferred out from Level 3	(1,160,836)	—	—	—
As at 30 June 2022	264,474,504	25,472,660	636,922	(2,389)
Changes in unrealised losses for the period included in profit or loss for assets and liabilities held at the end of the period	(5,717,603)	—	—	—

	Financial assets at FVTPL	Debt instruments at FVOCI	Equity instruments at FVOCI	Financial liabilities at FVTPL
As at 1 January 2021	288,993,752	45,006,480	483,968	—
Recognised in profit or loss	(2,676,321)	—	—	—
Recognised in other comprehensive income	—	(90,208)	(8,453)	—
Additions	57,733,830	4,601,106	257,972	(604)
Settlements/disposals	(54,794,734)	(20,499,581)	(71,879)	—
Transferred out from Level 3	(11,039,100)	—	—	—
As at 31 December 2021	278,217,427	29,017,797	661,608	(604)
Changes in unrealised losses for the year included in profit or loss for assets and liabilities held at the end of the year	(1,356,732)	—	—	—

For the six months ended 30 June 2022 and for the year ended 31 December 2021, certain shares were transferred out from Level 3 as they became listed or unrestricted during the period/year.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2022

(Amounts in thousands of Renminbi, unless otherwise stated)

IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.3 Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis

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

	As at 30 June 2022		As at 31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	36,288	36,288	210,289,210	235,348,916
Debt instruments at amortised cost	430,282,694	453,164,453	580,799,434	608,266,110
Total	430,318,982	453,200,741	791,088,644	843,615,026
Financial liabilities				
Borrowings	(646,944,269)	(634,838,729)	(747,625,462)	(696,686,455)
Bonds and notes issued	(188,908,533)	(187,336,894)	(271,065,213)	(266,303,629)
Total	(835,852,802)	(822,175,623)	(1,018,690,675)	(962,990,084)

Notes to the Interim Condensed Consolidated Financial Information

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

45.3 Fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis *(continued)*

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)	Fair value hierarchy	Valuation technique
Financial assets				
Loans and advances to customers	36,288	235,348,916	Level 3	Discounted cash flows
Debt instruments at amortised cost	1,712,612	11,054,274	Level 1	Quoted ask prices in an active market
Debt instruments at amortised cost	9,774,237	99,790,416	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Debt instruments at amortised cost	441,677,604	497,421,420	Level 3	Discounted cash flows
Total	453,200,741	843,615,026		
Financial liabilities				
Borrowings	(634,838,729)	(696,686,455)	Level 3	Discounted cash flows
Bonds and notes issued	(6,947,055)	(11,833,501)	Level 1	Quoted ask prices in an active market
Bonds and notes issued	(130,372,206)	(216,233,091)	Level 2	Quoted prices from China Central Depository and Clearing Co., Ltd.
Bonds and notes issued	(50,017,633)	(38,237,037)	Level 3	Discounted cash flows
Total	(822,175,623)	(962,990,084)		

Notes to the Interim Condensed Consolidated Financial Information

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IV. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

46. Disposal of subsidiaries

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorised/ paid-in capital as at 30 June 2022 (In '000)	Proportion of ownership held by the Group %	Proportion of voting rights held by the Group %	Principal activities
Huarong Consumer Finance ⁽ⁱ⁾	Hefei, PRC	January 2016	RMB900,000	70.00	70.00	Personal consumption loan
Huarong Securities ⁽ⁱⁱ⁾	Beijing, PRC	September 2007	RMB5,840,703	71.99	71.99	Securities
Huarong Xiangjiang Bank ⁽ⁱⁱⁱ⁾	Changsha, PRC	October 2010	RMB7,750,431	40.53	40.53	Banking
Huarong Futures Co., Ltd. ⁽ⁱⁱ⁾	Haikou, PRC	September 1993	RMB320,000	92.50	92.50	Futures broking

- (i) On 17 August 2021, the transfer of equity interest in Huarong Consumer Finance was approved in the Extraordinary General Meeting of Shareholders. On 29 April 2022, Huarong Consumer Finance received the Approval of China Banking and Insurance Regulatory Commission in respect of the Change of Shareholder of Huarong Consumer Finance Co., Ltd. (Yin Bao Jian Fu [2022] No. 281), which approved the transfer of 70% of the equity interests held in Huarong Consumer Finance by the Company to Bank of Ningbo Co., Ltd., and that the amendment procedures to be performed according to the relevant provisions. On 6 May 2022, the Company has completed relevant matters in relation to the transfer of equity interest and ceased to have any equity interests in Huarong Consumer Finance (see Note IV.13.3).
- (ii) On 25 March 2022, the transfer of equity interest in Huarong Securities was approved in the Extraordinary General Meeting of Shareholders. On 23 June 2022, Huarong Securities received the Approval of China Securities Regulatory Commission in relation to the changes in substantial shareholders and actual controller of Huarong Securities Co., Ltd. (Zheng Jian Xu Ke [2022] No. 1324), which approved the transfer of 71.99% of the equity interests held in Huarong Securities by the Company to China Reform Capital Co., Ltd., and that the amendment procedures to be performed according to the relevant provisions. On 24 June 2022, the Company has completed relevant matters in relation to the transfer of equity interest and ceased to have any equity interests in Huarong Securities. In addition, the Company ceased to have any equity interests in Huarong Futures Co., Ltd., a subsidiary of Huarong Securities (see Note IV.13.2).
- (iii) On 29 June 2022, the transfer of equity interest in Huarong Xiangjiang Bank was approved in the Extraordinary General Meeting of Shareholders. On 30 June 2022, Huarong Xiangjiang Bank received the Approval of China Banking and Insurance Regulatory Commission Hunan Office on the Change of Equity of Huarong Xiangjiang Bank (Xiang Yin Bao Jian Fu [2022] No. 174, Xiang Yin Bao Jian Fu [2022] No. 175), which approved the transfer of 40.53% of the equity interests held in Huarong Xiangjiang Bank by the Company to Hunan Chasing Financial Holding Group Co., Ltd., and Central Huijin Investment Ltd., and that the amendment procedures to be performed according to the relevant provisions. On 30 June 2022, the Company has completed relevant matters in relation to the transfer of equity interest and ceased to have any equity interests in Huarong Xiangjiang Bank (see Note IV.13.1).

Notes to the Interim Condensed Consolidated Financial Information

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V. EVENTS AFTER THE REPORTING PERIOD

On 16 August 2022, the Company entered into the Unlisted State-owned Equity Transaction Contract of Financial Enterprise with an independent third party, China Trust Protection Fund Co., Ltd., in relation to the transfer of 76.79% of its equity interests in Huarong International Trust Co., Ltd. with a consideration of RMB6,152 million, which is still subject to deliberation by the general meeting of shareholders and approval of regulators.

VI. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors of the Company on 29 August 2022.



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